RESPONSIBLE GROWTH

Aboitiz Equity Ventures, Inc.
and Subsidiaries

SEC FORM 20 - IS
(Information Statement)

ANNUAL REPORT 2009

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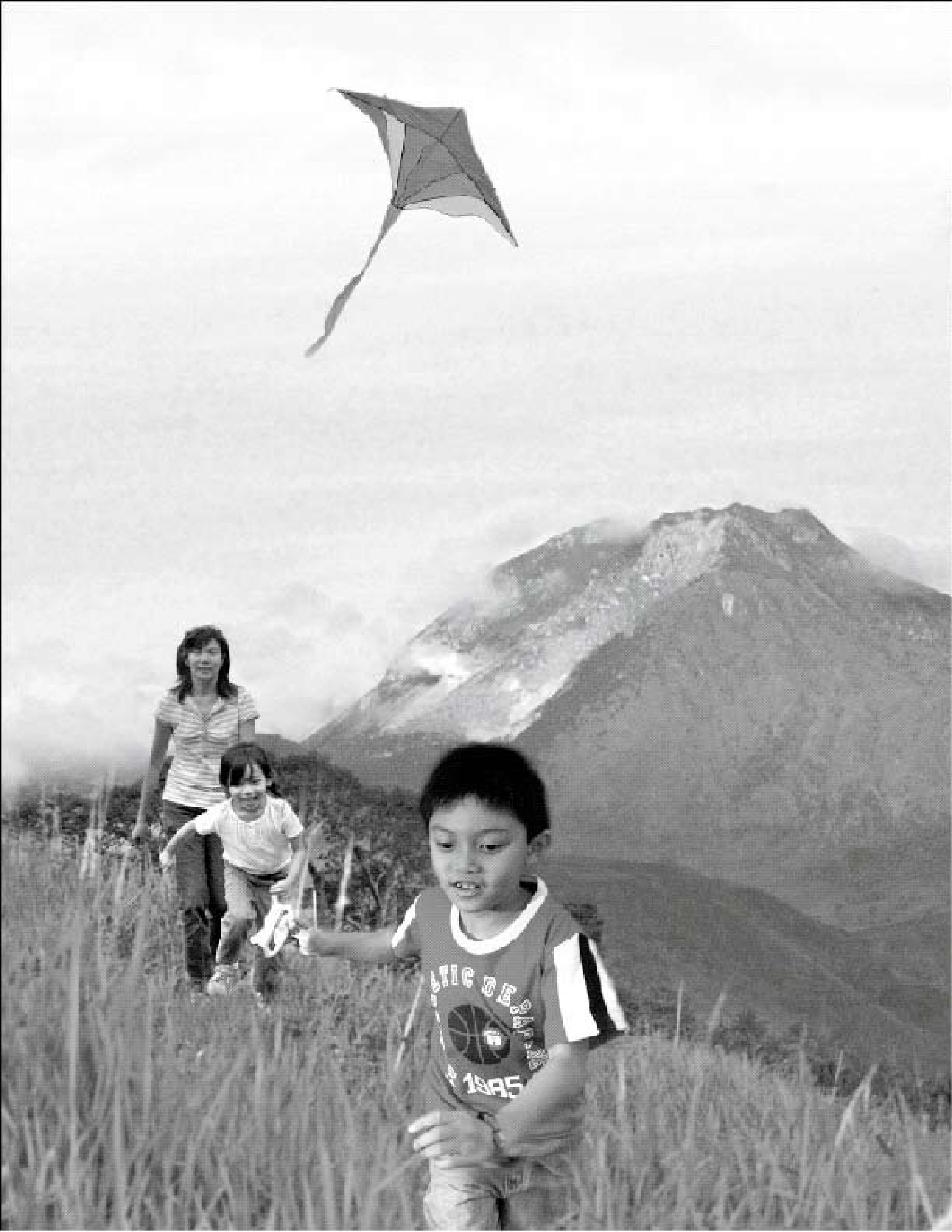


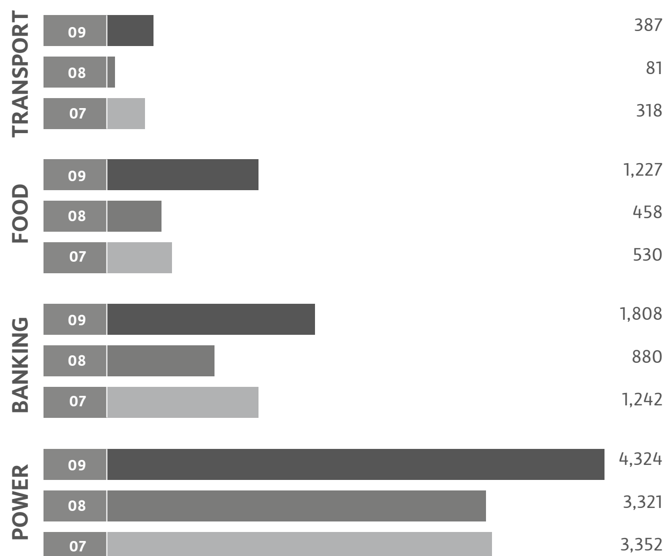
FINANCIAL SUMMARY (In Million Pesos)

	2007 Re-presented*	2008 Re-presented*	2009	% change ('09 vs '08)
For the Year				
Revenues	31,205	35,862	**46,230**	29%
Operating Profit				
Operating profit from ordinary activities	2,902	2,340	**7,527**	222%
Equity in net earnings of associates	3,987	3,625	**4,322**	19%
Other income (charges)	1,178	309	**(688)**	-323%
Income before income tax	8,068	6,275	**11,160**	78%
Provision for income tax	(1,212)	(978)	**(1,206)**	23%
Income before minority interest	6,856	5,297	**9,955**	88%
Minority interest	(1,035)	(1,176)	**(1,648)**	
Net income attributable to Equity Holders of the parent	5,821	4,121	**8,307**	102%
At Year End				
Total Assets	65,908	75,715	**143,281**	89%
Total Liabilities	18,812	29,059	**88,639**	205%
Minority Interest	8,811	8,861	**9,945**	12%
Equity Attributable to Equity Holders of the Parent	38,285	37,795	**44,697**	18%
EBITDA	9,387	8,607	**15,639**	82%
Per Share (in pesos)				
Earnings	1.02	0.73	**1.49**	104%
Book Value	6.72	6.78	**8.09**	19%
Cash Dividend (Common)	0.20	0.61	**0.27**	-56%
Financial Ratios				
Current Ratio	2.42	1.90	**0.79**	
Debt-to-Equity Ratio	0.40	0.62	**1.62**	
Net Debt-to-Equity Ratio	(0.14)	0.08	**1.28**	

* Dec 2007 and 2008 Profit & Loss figures now consider the revenues & expenses of the ATS disposal group due to the aborted ATS sale in 2009.

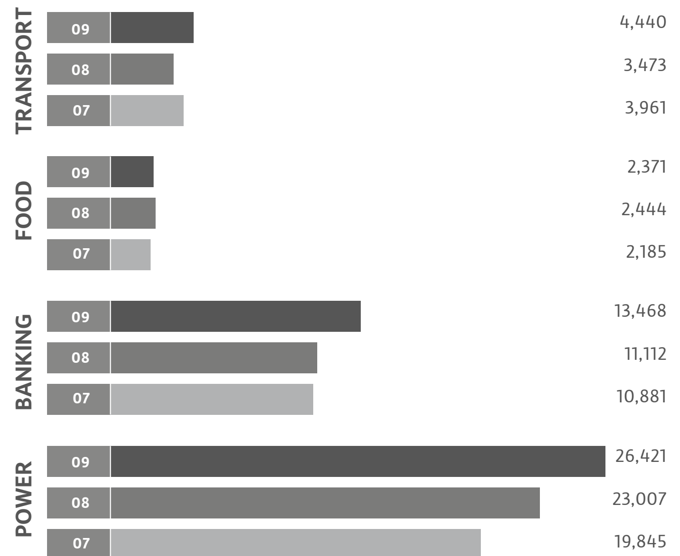
Income Contribution Breakdown

PER BUSINESS SEGMENT (In Million Pesos)



Equity Investment Breakdown

PER BUSINESS SEGMENT (In Million Pesos)



NOTICE AND AGENDA OF ANNUAL MEETING OF STOCKHOLDERS

ABOITIZ EQUITY VENTURES, INC.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Kasambagan, Cebu City 6000, Philippines

NOTICE is hereby given that the Annual Meeting of the Stockholders of ABOITIZ EQUITY VENTURES, INC. will be held on May 17, 2010 at 4:00 p.m. at the Grand Ballroom of the Cebu City Marriott Hotel, Cebu Business Park, Cebu City.

The Agenda of the meeting is as follows:

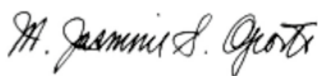
1. Call to Order
2. Proof of Notice of Meeting
3. Determination of Quorum
4. Reading and Approval of the Minutes of the Previous Stockholders' Meeting held last May 18, 2009
5. Presentation of the President's Report
6. Approval of the 2009 Annual Report and Financial Statements
7. Delegation of the Authority to Elect the Company's External Auditors for 2010 to the Board of Directors
8. Ratification of the Acts, Resolutions and Proceedings of the Board of Directors, Corporate Officers and Management in 2009 up to May 17, 2010
9. Approval of the Directors' Compensation and Per Diem for 2010
10. Election of the Members of the Board of Directors
11. Other Business
12. Adjournment

Only stockholders of record at the close of business on April 8, 2010 are entitled to notice and to vote at this meeting. Registration will start at 2:00 p.m. and will end at 4:00 p.m. Kindly present any proof of identification, such as driver's license, passport, company I.D. or SSS/GSIS I.D. Aside from personal identification, representatives of corporate stockholders and other entities should also present a duly sworn Secretary's Certificate or a similar document showing his or her authority to represent the corporation or entity.

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

For those unable to attend the Stockholders' Meeting in Cebu, a Stockholders' Briefing will be conducted in Manila on May 19, 2010, 4:00 p.m., at the Mandarin Ballroom, Mandarin Oriental Hotel, Makati City.

For the Board of Directors.



M. JASMINE S. OPORTO
Corporate Secretary

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

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [✓] Definitive Information Statement

2. Name of Registrant as specified in its charter **ABOITIZ EQUITY VENTURES, INC.**

3. Province, country or other jurisdiction of incorporation or organization **CEBU, PHILIPPINES**
4. SEC Identification Number **CEO2536**

5. BIR Tax Identification Code **003-828-269-V**

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

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

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

   Date : May 17, 2010
   Time : 4 o'clock p.m.
   Place : Grand Ballroom, Cebu City Marriott Hotel
   Cebu Business Park, Cebu City, Cebu

9. Approximate date when the Information Statement is first to be sent or given to security holders
   APRIL 22, 2010

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

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

Authorized Capital Stock: ₱10,000,000,000

Title of Each Class	Par Value	No. of Shares	Authorized Capital Stock
Common	₱1.00	9,600,000,000	₱9,600,000,000
Preferred	₱1.00	400,000,000	₱400,000,000
Total			₱10,000,000,000

No. of Common Shares Outstanding
as of February 28, 2010 5,521,871,821

Amount of Debt Outstanding
as of December 31, 2009 ₱88,617,426,834

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

Yes X No __

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

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of Annual Stockholders' Meeting

Date of meeting	:	**May 17, 2010**
Time of meeting	:	**4 o'clock p.m.**
Place of meeting	:	**Grand Ballroom, Cebu City Marriott Hotel**
Cebu Business Park, Cebu City		
Approximate mailing date of this statement	:	**April 22, 2010**
Complete mailing address of the principal office of the registrant	:	**Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue, Kasambagan Cebu City 6000 Philippines**

Item 2. Dissenter's Right of Appraisal

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

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

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

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

(a) No current director or officer of AEV, or nominee for election as director of AEV or any associate of any of the foregoing persons has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon in the stockholders' meeting, other than election to office and the approval of directors' compensation and per diem. The latter shall benefit the shareholders elected as directors for the ensuing year.

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

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) Class of Voting Shares as of February 28, 2010:

Class of Voting Shares	No. of Shares Entitled to Vote
Common Shares	**5,521,871,821**

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

(b) Record Date: April 8, 2010

All stockholders of record as of April 8, 2010 are entitled to notice and to vote at AEV's Annual Stockholders' Meeting.

(c) Election of Directors and Cumulative Voting Rights

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

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

Section 1, Article II of the amended By-Laws provides that nominations for election of members of the Board of Directors by stockholders must be received by the Corporate Secretary not later than 15 working days prior to the date of the regular annual stockholders' meeting, except as may be provided by the Board of Directors in appropriate guidelines that it may promulgate from time to time in compliance with law.

No discretionary authority to cumulate votes is solicited.

(d) No proxy solicitation is being made.

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

Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of February 28, 2010

Title of Class	Name/Address of Stockholder and Beneficial Owner	Relationship with AEV	Citizenship	No. of Shares and Nature of Ownership (Record or Beneficial)	Percent of Class
Common	**1. Aboitiz & Company, Inc.**[1] Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City 6000	Stockholder	Filipino	2,660,600,915 (Record)	48.18%
Common	**2. PCD Nominee Corp.**	Stockholder	Filipino	582,764,332 (Record)	10.55%
Common	**3. Ramon Aboitiz Foundation, Inc.**[2] 35 Lopez Jaena St., Cebu City	Stockholder	Filipino	420,915,863 (Record)	7.62%
Common	**4. PCD Nominee Corp.**	Stockholder	Non-Filipino	403,286,564 (Record)	7.30%

Aboitiz & Company, Inc. (ACO) is a corporation wholly owned by the Aboitiz family. No single stockholder, natural or juridical, owns 5% or more of the shareholdings of ACO.

(2) Security Ownership of Management as of February 28, 2010 (Record and Beneficial)

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)		Citizenship	Percentage of Ownership
Jon Ramon Aboitiz Chairman, Board of Directors	Common	4,648	Record	Filipino	0.00%
		118,284,672	Beneficial		2.14%
Erramon I. Aboitiz President and Chief Executive Officer	Common	1,000	Record	Filipino	0.00%
		51,779,484	Beneficial		0.94%
Enrique M. Aboitiz Jr. Director	Common	1,190,025	Record	Filipino	0.02%
Roberto E. Aboitiz Director	Common	2,489,548	Record	Filipino	0.05%
	Common	97,707,844	Beneficial		1.77%
Justo A. Ortiz Director	Common	1	Record	Filipino	0.00%
Mikel A. Aboitiz Senior Vice President/Chief Information Officer/ Chief Strategy Officer	Common	1,574,548	Record	Filipino	0.03%
		87,550,734	Beneficial		1.59%
Antonio R, Moraza Director	Common	1,000	Record	Filipino	0.0%
		27,821,343	Beneficial		0.50%

[1] Mr. Erramon I. Aboitiz, ACO President and Chief Executive Officer will vote for the shares of ACO in AEV in accordance with the directive of the ACO Board of Directors.

[2] Mr. Roberto E. Aboitiz, President of the Ramon Aboitiz Foundation, Inc. (RAFI), will vote for the shares of RAFI in AEV in accordance with the directive of the RAFI Board of Trustees.

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)		Citizenship	Percentage of Ownership
Roberto R. Romulo Independent Director	Common	100	Record	Filipino	0.00%
Jose C. Vitug Independent Director	Common	100	Record	Filipino	0.00%
		72,020	Beneficial		0.00%
Stephen G. Paradies Senior Vice President/Chief Financial Officer Corporate Information Officer	Common	22,380,003	Beneficial	Filipino	0.41%
Juan Antonio E. Bernad Senior Vice President	Common	730,351	Record	Filipino	0.01%
Xavier Jose Aboitiz Senior Vice President – Chief Human Resources Officer	Common	1,998,236	Record	Filipino	0.04%
		8,887,914	Beneficial		0.16%
Gabriel T. Mañalac Senior Vice President – Group Treasurer	Common	10,000	Record	Filipino	0.00%
Luis Miguel Aboitiz First Vice President	Common	20,092,133	Record	Filipino	0.36%
M. Jasmine S. Oporto First Vice President – Chief Legal Officer Corporate Secretary/Compliance Officer	Common	2,000	Record	Filipino	0.00%
Horacio C. Elicano First Vice President and Chief Technology Officer	Common	2,000	Record	Filipino	0.00%
Sebastian R. Lacson First Vice President – Chief Reputation Officer	Common	1,200	Record	Filipino	0.00%
Rolando C. Cabrera First Vice President – Chief Risk Management Officer	N/A	0	N/A	Filipino	0.00%
Patrick B. Reyes First Vice President – Corporate Finance	N/A	0	N/A	Filipino	0000%
Melinda R. Bathan Vice President – Controller	Common	12,829	Record	Filipino	0.00%
Narcisa S. Lim Vice President – Human Resources	Common	2,520	Record	Filipino	0.00%
Joseph Trillana T. Gonzales Vice President – Legal and Corporate Services	Common	7,000	Record	Filipino	0.00%
Caroline G. Ballesteros Assistant Vice President – Branding & Corporate Communications	N/A	0	N/A	Filipino	0.00%
Stella Olive A. Sucalit Assistant Vice President – Talent Management	N/A	0	N/A	Filipino	0.00%
Carmela N. Franco Assistant Vice President – Investor Relations	Common	4,680	Record	Filipino	0.00%
Leah I. Geraldez Assistant Vice President – Legal and Corporate Services/Assistant Corporate Secretary	Common	5,000	Record	Filipino	0.00%
Julie Ann T. Diongzon Assistant Vice President – Treasury	N/A	0	N/A	Filipino	0.00%

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)		Citizenship	Percentage of Ownership
Iris Louise R. Dorado Assistant Vice President – Audit	N/A	0	N/A	Filipino	0.00%
Ma. Kristina V. Rivera Assistant Vice President – Human Resources	N/A	0	N/A	Filipino	0.00%
Geraldine Polanco-Onganon Assistant Vice President – Human Resources	N/A	0	N/A	Filipino	0.00%
Christopher M. Camba Assistant Vice President – Human Resources	N/A	0	N/A	Filipino	0.00%
Riella Mae Christa R. Baguio Assistant Vice President – Corporate Finance	N/A	0	N/A	Filipino	0.00%
Ronaldo S. Ramos Assistant Vice President – Business Risk Management	N/A	0	N/A	Filipino	0.00%
Edgar Z. Dapiton Assistant Vice President – Insurance Risk Management	N/A	0	N/A	Filipino	0.00%
Total		**442, 612, 933**			**8.02%**

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

No person holds more than 5% of AEV's common equity under a voting trust or similar agreement.

(4) Changes in Control

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

Item 5. Directors and Executive Officers

(a) (1) Directors for 2009-2010

Below is a list of AEV's directors for 2009-2010 with their corresponding positions and offices held for the past five years. The directors assumed their directorship during AEV's Annual Stockholders' Meeting in 2009, for a term of one year.

JON RAMON ABOITIZ, Chairman – Board of Directors, Board Corporate Governance Committee and Board Strategy Committee

Mr. Jon Ramon Aboitiz, 61 years old, Filipino, has served as Chairman of AEV since January 2009. He was President and Chief Executive Officer of the Company from 1994 until January 2009. He is also Chairman of the Board of Directors of Aboitiz and Company, Inc., Aboitiz Jebsen Bulk Transport Corporation and Aboitiz Transport System (ATSC) Corporation; Vice Chairman of the Board of Directors of Union Bank of the Philippines and Aboitiz Power Corporation; Director of Davao Light & Power Company, Inc., Cotabato Light & Power Company, City Savings Bank, Therma Luzon, Inc., San Fernando Electric Light and Power Co., Inc. and Cotabato Ice Plant, Inc.; President of Aboitiz Foundation, Inc. and Trustee of the Ramon Aboitiz Foundation, Inc. He graduated with a degree of Bachelor of Science in Commerce major in Management from the University of Santa Clara, California, U.S.A.

ERRAMON I. ABOITIZ, Director and President/Chief Executive Officer; Member – Board Corporate Governance Committee, Board Strategy Committee and Board Risk Management Committee

Mr. Erramon I. Aboitiz, 53 years old, Filipino, has served as President and Chief Executive Officer of AEV since January 2009. He has been a Director of AEV since 1994 and was its Executive Vice President and Chief Operating

Officer from 1994 to January 2009. He is also President and Chief Executive Officer of Aboitiz and Company, Inc., and Aboitiz Power Corporation; Chairman of the Board of Directors of Davao Light & Power Company, Inc., San Fernando Electric Light and Power Company, Inc., City Savings Bank, Cotabato Light & Power Company, Mactan Enerzone Corporation, Subic Enerzone Corporation, SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., Aboitiz Renewables, Inc., Manila-Oslo Renewable Enterprise, Inc., Therma Marine, Inc., Visayan Electric Co., Inc., Therma Power, Inc., Aboitiz Energy Solutions, Inc., Aboitiz Land, Inc. and Abovant Holdings, Inc.; Chairman/President and Chief Executive Officer of Cebu Praedia Development Corporation; Chairman and Chief Executive Officer of Balamban Enerzone Corporation; Chairman and Trustee of Aboitiz Foundation, Inc.; Director of AP Renewables, Inc., Union Bank of the Philippines, Southern Philippines Power Corporation, Aboitiz Energy Solutions, Inc., Pilmico Animal Nutrition Corporation, Pilmico Foods Corporation, AEV Aviation, Inc., Aboitiz Transport System (ATSC) Corp., Hijos De F. Escaño, Inc. STEAG State Power, Inc.; and President of Therma Luzon, Inc. He received a Bachelor of Science degree in Business Administration, major in Accounting and Finance from Gonzaga University, Spokane, U.S.A.

ROBERTO E. ABOITIZ, Director, Member – Board Strategy Committee and Board Audit Committee

Mr. Roberto E. Aboitiz, 60 years old, Filipino, has been a Director of AEV since 1994. He served as Chairman of AEV from 2005 until January 2009. He is concurrently a Director and Senior Vice President of Aboitiz and Company, Inc.; Chairman and Chief Executive Officer of Aboitiz Construction Group, Inc.; Chairman of the Board of Directors of Cebu Industrial Park Developers, Inc. and Cebu Industrial Park Services, Inc.; Chairman and President of AEV Aviation, Inc.; Director of City Savings Bank, Cotabato Light & Power Company, Davao Light & Power Company, Inc., Tsuneishi Heavy Industries (Cebu), Inc., Metaphil International, Inc., Aboitiz Transport System (ATSC) Corp. and Visayan Electric Company, Inc. and Trustee of Aboitiz Foundation, Inc. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Behavioral Science.

ENRIQUE M. ABOITIZ, JR., Director, Chairman – Board Risk Management Committee, Member – Board Strategy Committee

Mr. Enrique M. Aboitiz, Jr., 56 years old, Filipino, has served as Director of AEV since 1994. He is also Director and Senior Vice President of Aboitiz and Company, Inc; Director and President/Chief Executive Officer of Aboitiz Transport System (ATSC) Corporation; Director and President of Aboitiz Jebsen Bulk Transport Corporation, and EMS Crew Management Philippines, Inc.; Chairman and President of Jebsens Maritime, Inc.; Chairman of Aboitiz Power Corporation, Filscan Shipping, Inc., General Charterer, Inc., Overseas Bulk Transport, Inc., Scanasia Overseas, Inc., Nor-Phil Ocean Shipping, Inc., Aboitiz One, Inc., Aboitiz One Distribution, Inc., Hapag Lloyd Philippines, Inc., Zoom In Packages, Inc. and Viking International Carriers, Inc.; Director of AP Renewables, Inc., Manila-Oslo Renewable Enterprise, Inc. and Aboitiz Project T.S. Corp. He graduated with a degree of Bachelor of Science in Business Administration (Major in Economics) from Gonzaga University, Spokane, Washington, U.S.A.

JUSTO A. ORTIZ, Director, Member – Board Audit Committee and Board Risk Management Committee

Mr. Justo A. Ortiz, 52 years old, Filipino, has served as Director of AEV since 1994. He is also Chairman and Chief Executive Officer of Union Bank of the Philippines and Director of Aboitiz Transport System (ATSC) Corporation. Prior to his stint in UBP, he was Managing Partner for Global Finance and Country Executive for Investment Banking at Citibank N.A. He graduated magna cum laude with a degree in Economics from Ateneo de Manila University and completed his Masteral units in Business Administration in the same university.

ANTONIO R. MORAZA, Director, Member - Board Risk Management Committee

Mr. Antonio R. Moraza, 53 years old, Filipino, has served as Director of AEV since May 2009. He is currently Executive Vice President and Chief Operating Officer - Power Generation Group of Aboitiz Power Corporation. He is also Chairman of the Board of Directors of AP Renewables, Inc., Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, Cebu Private Power Corporation and East Asia Utilities, Inc.; Chairman and Chief Executive Officer of Hedcor Sibulan, Inc. and Hedcor, Inc.; Vice-Chairman of the Board of Aboitiz Construction Group, Inc., Propriedad Del Norte, Inc. and Aboitiz Land, Inc. He is likewise a Director and Senior Vice President of Aboitiz & Company, Inc.; President and Chief Executive Officer of Abovant Holdings, Inc. and Aboitiz Renewables, Inc.,

President of Manila-Oslo Renewable Enterprise, Inc., SN Aboitiz Power-Benguet, Inc., SN Aboitiz Power-Magat, Inc., Therma Marine, Inc., and Therma Power, Inc.; Director of Tsuneishi Heavy Industries (Cebu), Inc., Visayan Electric Company, Inc., Union Bank of the Philippines, Luzon Hydro Corporation, Southern Philippines Power Corporation, STEAG State Power, Inc., Therma Luzon, Inc., Western Mindanao Power Corporation, Cebu Industrial Park Developers, Inc., Metaphil International, Inc., and Philippine Association of Flour Millers. He holds a degree in Business Management from Ateneo de Manila University and attended the Asian Institute of Management.

MIKEL A. ABOITIZ, Director, Senior Vice President/Chief Information Officer/Chief Strategy Officer, Member - Board Strategy Committee

Mr. Mikel A. Aboitiz, 55 years old, Filipino has served as Director of AEV since May 2009. He has been Senior Vice President and Chief Information Officer of AEV since 2004. He was appointed as Chief Strategy Officer of AEV in February 2009. He is also Senior Vice President - Strategy of Aboitiz and Company, Inc.; President and Chief Executive Officer of City Savings Bank; President and Chief Operating Officer of Cleanergy, Inc.; and Director of Aboitiz Power Corporation, Aboitiz Construction Group, Inc., Aboitiz Land, Inc., Cotabato Light & Power Company, Davao Light & Power Company, Inc., Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, Metaphil International, Inc., AEV Aviation, Inc., Propriedad Del Norte, Inc., Cebu Praedia Development Corporation, Therma Marine, Inc., and Therma Power, Inc. He has a Bachelor of Science degree in Business Administration from Gonzaga University, Spokane, U.S.A

ROBERTO R. ROMULO, Independent Director, Member – Board Corporate Governance Committee, Board Strategy Committee and Board Audit Committee

Mr. Roberto R. Romulo, 71 years old, Filipino has served as Independent Director of AEV since 2002. He is the Chairman of Chartis Philippines Insurance, Inc. (formerly Philam Insurance, Inc.), PETNET, Inc., and Medilink Network Inc. He also holds various board positions in different Philippine corporations including A. Soriano Corporation, Philippine Long Distance Telephone Co. (PLDT), Equicom Savings Bank, MIH Holdings Ltd. (subsidiary of NASPERS in South Africa), United Industrial Corporation, Singapore Land Ltd. and McLarty Associates (formerly, Kissinger McLarty Associates). He is the Executive Director of President Gloria Macapagal Arroyo's International Board of Advisors. He graduated from Georgetown University in 1960 with a Bachelor of Arts in Political Science and completed his Bachelor of Laws degree in 1964 from Ateneo de Manila University.

JOSE C. VITUG, Independent Director, Chairman - Board Audit Committee, Member – Board Corporate Governance Committee

Justice Jose C. Vitug (ret.), 75 years old, Filipino, has served as Independent Director of AEV since 2005. He is a Senior Professor at the Philippine Judicial Academy and Consultant of the Committee on Revision of the Rules of the Supreme Court of the Philippines; Chairman of the Securities Clearing Corporation of the Philippines and the Angeles University Foundation Medical Center; Director of Clark Electric Distribution Corporation; Trustee of the Mission Communications Foundation, Inc.; Dean of the Angeles University Foundation School of Law and a Graduate Professor of the Graduate School of Law of San Beda College. He finished his law degree, cum laude and obtained a Master of Laws and Master of National Security Administration degrees. He was a Fellow of the Commonwealth Judicial Education Institute, Dalhousie University, Halifax, Nova Scotia, Canada.

Nominations for Independent Directors and Procedure for Nomination

The procedure for the nomination and election of the independent directors is in accordance with SRC Rule 38 of the Securities Regulation Code (SRC Rule 38) and AEV's "Guidelines for the Constitution of the Nomination Committee and the Nomination and Election of Independent Directors" (the "Guidelines"). These Guidelines were approved by the AEV Board on February 10, 2003 and disclosed to all stockholders. On December 3, 2003, AEV amended Article II Section 2 of its By-laws to adopt SRC Rule 38.

Nominations for independent director were accepted starting January 1, 2010 as provided for in Section 2 of the Guidelines and the table for nominations was closed on February 15, 2010 as provided for in Section 3 of the Guidelines.

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

In approving the nominations for independent directors, the Board Corporate Governance Committee considered the guidelines on the nominations of Independent Directors prescribed in SRC Rule 38, the Guidelines and AEV's Revised Manual on Corporate Governance.

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

Mr. Roberto R. Romulo, Ret. Justice Jose C. Vitug and Mr. Stephen CuUnjieng are the nominees for Independent Directors of AEV. They are neither officers nor employees of the Company or any of its affiliates, and do not have any relationship with the Company which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Attached as Annexes "A-1" and "A-2" are the Certifications of Qualification of Mr. Romulo and Justice Vitug who are the current independent directors of the Company.

AEV stockholders Maria Sandalo, Jovy Tan and Jose Grego Sitoy have recommended Mr. Roberto R. Romulo, Justice Jose C. Vitug and Mr. Stephen CuUnjieng, respectively, as the Company's independent directors. None of the nominating stockholders have any relation to Mr. Romulo, Justice Vitug nor to Mr. CuUnjieng.

Mr. CuUnjieng, 50 years old, Filipino, has a long and extensive experience in investment banking with a number of major international investment banks. He has led several high profile transactions in the Philippines and Asia and has won seven Deals of the Year awards since 2005. He is currently Senior Adviser to Evercore Partners and Consultant to Macquarie Capital. He is also Adviser to the Board of SM Investments Corporation as well as Director of Manila North Tollways Corporation.

Other Nominees for Election as Members of the Board of Directors

As conveyed to the Corporate Secretary, the following will also be nominated as members of the Board of Directors for the ensuing year 2010-2011:

Jon Ramon Aboitiz
Erramon I. Aboitiz
Roberto E. Aboitiz
Enrique M. Aboitiz, Jr.
Justo A. Ortiz
Antonio R. Moraza

Pursuant to Sec. 1 (par. 2), Art. II of the Amended By-Laws of AEV, nominations for members of the Board of Directors must be submitted in writing to the Board of Directors at least five working days before the regular Annual Stockholders' Meeting on May 17, 2010, or not later than May 10, 2010.

All other information regarding the positions and offices held by the abovementioned nominees are integrated in Item 5 (a) (1) above:

Officers for 2009-2010

Below is a list of AEV officers for 2009-2010 with their corresponding positions and offices held for the past five years. Unless otherwise indicated hereunder, the officers assumed their positions during AEV's annual organizational meeting in 2009 for a term of one year.

ERRAMON I. ABOITIZ, President and Chief Executive Officer

Mr. Erramon I. Aboitiz, 53 years old, Filipino, has served as President and Chief Executive Officer of AEV since January 2009. He has been a Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to January 2009. He is also President and Chief Executive Officer of Aboitiz and Company, Inc., and Aboitiz Power Corporation; Chairman of the Board of Directors of Davao Light & Power Company, San Fernando Electric Light and Power Company, Inc., City Savings Bank, Cotabato Light & Power Company, Mactan Enerzone Corporation, Subic Enerzone Corporation, SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., Aboitiz Renewables, Inc., Manila-Oslo Renewable Enterprise, Inc., Therma Marine, Inc., Visayan Electric Co., Inc., Therma Power, Inc., and Abovant Holdings, Inc.; Chairman/President and Chief Executive Officer of Cebu Praedia Development Corporation; Chairman and Chief Executive Officer of Balamban Enerzone Corporation; Chairman and Trustee of Aboitiz Foundation, Inc.; Director of AP Renewables, Inc., Aboitiz Land, Inc., Union Bank of the Philippines, Southern Philippines Power Corporation, Aboitiz Energy Solutions, Inc., Pilmico Animal Nutrition Corporation, Pilmico Foods Corporation, AEV Aviation, Inc., Aboitiz Transport System (ATSC) Corp., Hijos De F. Escaño, Inc. STEAG State Power, Inc.; and President of Therma Luzon, Inc. He received a Bachelor of Science degree in Business Administration, major in Accounting and Finance from Gonzaga University, Spokane, U.S.A.

STEPHEN G. PARADIES, Senior Vice President/Chief Financial Officer/Corporate Information Officer/Ex-Officio Member – Board Audit Committee and Board Risk Management Committee

Mr. Stephen G. Paradies, 56 years old, Filipino, has been Senior Vice President/Chief Financial Officer/Corporate Information Officer of AEV since 2004. He was Compliance Officer of AEV until November 2005. From 2002 to 2004, he was Senior Vice President and Chief Audit Executive of AEV. He is also Senior Vice President for Finance and a member of the Board of Advisers of Aboitiz and Company, Inc.; Director and President of Misamis Oriental Land Development Corporation; Director and Senior Vice President/Treasurer of Aboitiz Construction Group, Inc.; Director of Union Bank of the Philippines, Union Properties, Inc., International Container Terminal Services, Inc., Pilmico Foods Corporation and Pilmico Animal Nutrition Corporation, City Savings Bank, Therma Luzon, Inc., and Metaphil International, Inc.; Director and Vice President of AEV Aviation, Inc.; Trustee and Treasurer of Aboitiz Foundation, Inc. and Treasurer of Cebu Industrial Park Developers, Inc. and Cebu Industrial Park Services, Inc. He obtained his Bachelor of Science in Business Management from Santa Clara University, California, U.S.A.

MIKEL A. ABOITIZ, Director, Senior Vice President/Chief Information Officer/Chief Strategy Officer, Member - Board Strategy Committee

Mr. Mikel A. Aboitiz, 55 years old, Filipino has served as Director of AEV since May 2009. He has been Senior Vice President and Chief Information Officer of AEV since 2004. He was appointed as Chief Strategy Officer of AEV in February 2009. He is also Senior Vice President - Strategy of Aboitiz and Company, Inc.; President and Chief Executive Officer of City Savings Bank; President and Chief Operating Officer of Cleanergy, Inc.; and Director of Aboitiz Power Corporation, Aboitiz Construction Group, Inc., Aboitiz Land, Inc., Cotabato Light & Power Company, Davao Light & Power Company, Inc., Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, Metaphil International, Inc., AEV Aviation, Inc., Propriedad Del Norte, Inc., Cebu Praedia Development Corporation, Therma Marine, Inc., and Therma Power, Inc. He has a Bachelor of Science degree in Business Administration from Gonzaga University, Spokane, U.S.A.

XAVIER J. ABOITIZ, Senior Vice President /Chief Human Resources Officer/Ex-Officio Member - Board Corporate Governance Committee

Mr. Xavier J. Aboitiz, 50 years old, Filipino, has been Senior Vice President for Human Resources of AEV since 2004. He is also Senior Vice President for Human Resources and a member of the Board of Advisers of Aboitiz & Company, Inc.; Director of CSB Land, Inc., Pilmico Foods Corporation, Aboitiz One, Inc., Aboitiz Project T.S. Corporation and Trustee of Aboitiz Foundation, Inc. Mr. Aboitiz has worked in various capacities in different companies under the Aboitiz Group of companies since 1983. He took up Business Administration – Finance at Gonzaga University, Spokane, U.S.A.

JUAN ANTONIO E. BERNAD, Senior Vice President

Mr. Juan Antonio E. Bernad, 53 years old, Filipino, was Senior Vice President-Electricity Regulatory Affairs of AEV from 2004 until 2007. From 1995 to 2004 he was Senior Vice President and Chief Financial Officer of AEV. He is currently Senior Vice President of AEV and Executive Vice President - Strategy and Regulation of Aboitiz Power Corporation. He is also Director and Executive Vice President - Regulatory Affairs of Davao Light & Power Company, Inc.; Director and Senior Vice President of Visayan Electric Company, Inc.; Director and Vice President of Cebu Praedia Development Corporation; Director of Union Bank of the Philippines, AP Renewables, Inc., AEV Aviation, Inc. and Cotabato Light & Power Company; Chairman of the Board of Trustees of Aboitiz & Company, Inc. Retirement Fund and Trustee of Aboitiz Foundation, Inc. He graduated with a degree of Bachelor of Arts in Economics from Ateneo de Manila and took his Masters in Business Administration at The Wharton School, University of Pennsylvania, U.S.A.

GABRIEL T. MAÑALAC, Senior Vice President - Group Treasurer

Mr. Gabriel T. Mañalac, 53 years old, Filipino, has been Senior Vice President - Group Treasurer of AEV since January 2009. He joined AEV as Vice President for Treasury Services/Treasurer in 1998 and was promoted to First Vice President for Treasury Services/Treasurer of AEV in 2004. He is also Vice President/Treasurer of Davao Light & Power Company, Inc.; Treasurer of Cotabato Light & Power Company and First Vice President/Treasurer of Aboitiz Power Corporation. Mr. Mañalac graduated cum laude with a degree of Bachelor of Science in Finance and Bachelor of Arts in Economics from De La Salle University. He obtained his Masters of Business Administration in Banking and Finance from the Asian Institute of Management and was awarded the Institute's Scholarship for Merit.

LUIS MIGUEL O. ABOITIZ, First Vice President

Mr. Luis Miguel O. Aboitiz, 45 years old, Filipino, joined AEV as Vice President in 1995 and was promoted to First Vice President in 2004. He is also First Vice President and a member of the Board of Advisers of Aboitiz & Company, Inc.; Senior Vice President - Power Marketing and Trading of Aboitiz Power Corporation; Director and Senior Vice President — Business Development of Hedcor, Inc.; Director and Vice President/Treasurer of Aboitiz Renewables, Inc.; Director and Vice President of Therma Marine, Inc., and Therma Power, Inc., Director and Vice President - Open Market Operations of Adventenergy, Inc. and Vice President - Open Market Operations of Aboitiz Energy Solutions, Inc.; Director of Davao Light & Power Company, Inc., Pilmico Animal Nutrition Corporation, Pilmico Foods Corporation, ; Manila-Oslo Renewable Enterprise, Inc., SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., Therma Luzon, Inc., AP Renewables, Inc., Hedcor Sibulan, Inc., Misamis Oriental Land Development Corporation, Southern Philippines Power Corporation, Western Mindanao Power Corporation, STEAG State Power, Inc. and Subic Enerzone Corporation. He graduated at Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering and took his Masters in Business Administration from the University of California at Berkeley, U.S.A.

M. JASMINE S. OPORTO, First Vice President — Chief Legal Officer/Corporate Secretary/Compliance Officer/ Ex-Officio Member - Board Corporate Governance Committee

Ms. M. Jasmine S. Oporto, 50 years old, Filipino, has been Corporate Secretary of AEV since 2004 and Compliance Officer since November 2005. She is concurrently First Vice President - Chief Legal Officer of AEV. She is also Vice President for Legal Affairs of Davao Light & Power Company, Inc.; Corporate Secretary of Aboitiz Power Corporation, Visayan Electric Company, Inc., Therma Power, Inc., Hijos de F. Escaño, Inc., Cebu Private Power Corporation and Luzon Hydro Corporation and Trustee of the Aboitiz & Company, Inc. Retirement Fund. Prior to joining AEV, she worked in various capacities at the Hong Kong office of Kelley Drye & Warren, LLP, a New York-based law firm, and the Singapore-based consulting firm Albi Consulting Pte. Ltd. She obtained her Bachelor of Laws from the University of the Philippines and is a member of both the Philippine and New York bars.

HORACIO C. ELICANO, First Vice President and Chief Technology Officer

Mr. Horacio C. Elicano, 50 years old, Filipino, has been First Vice President and Chief Technology Officer of AEV since January 2009. Before he joined AEV, he was Managing Director of Catapult Communications. He was also Chief Technology Officer of Paysetter International Inc. from May 2001 to January 2007 and of Chikka Asia, Inc., from May 2001 to September 2005. He is a B.S. Electrical Engineering graduate from the University of the Philippines.

SEBASTIAN R. LACSON, First Vice President – Chief Reputation Officer/Ex-Officio Member – Board Corporate Governance Committee

Mr. Sebastian R. Lacson, 39 years old, Filipino, has been First Vice President – Chief Reputation Officer since May 2009. Mr. Lacson was previously the Vice President for Administration of AEV affiliate, Visayan Electric Company, Inc. Before joining the Aboitiz Group, he held various positions in the Union Fenosa Group: he was concurrent Corporate Director of Union Fenosa Panama and Technical Secretary to the Chairman of Union Fenosa Central America, and Financial Analyst – Management Control of Union Fenosa Internacional in Madrid, Spain. He was also Country Managing Director of Euro Pacific Holdings, Manila, and Finance Manager of Lacson & Lacson Insurance Brokers, Inc., Manila. Mr. Lacson graduated from the Ateneo de Manila University with a Bachelor of Arts in Interdisciplinary Studies. He obtained his Masters in Business Administration and Economics at the University of Navarre in Barcelona, Spain.

ROLANDO C. CABRERA, First Vice President – Chief Risk Officer/Ex-Officio Member – Board Audit Committee and Board Risk Management Committee

Mr. Rolando C. Cabrera, 63 years old, Filipino, has been First Vice President – Chief Risk Officer since July 2009. He was Director, Senior Risk Management and Corporate Governance Advisor of KPMG Philippines Manabat Sanagustin & Co. prior to his appointment in AEV. He was formerly the Executive Director and Principal Consultant of RiskWATCH International, Inc., a consulting company which provides risk management, risk assessment, risk treatment, and contingency planning services to various companies from 2001 to 2005, and Business Risk Manager of Fort Bonifacio Development Corporation from 1998 to 2001. He started his career in risk management in 1987 as Risk Manager of San Miguel Corporation. He is the Chairman of the Board and Founding Director of Risk & Insurance Management Association of the Philippines (RIMAP). In 1991, he was awarded a Certificate of Merit in the Search for Risk Manager of the Year by CIGNA Europe in conjunction with Post Magazine. He graduated summa cum laude from San Beda College with a Bachelor of Science in Accountancy. He obtained his Masters in Management from the University of the Philippines., and is a Certified Public Accountant.

PATRICK B. REYES, First Vice President – Corporate Finance

Mr. Patrick B. Reyes, 34 years old, Filipino, has been First Vice President – Corporate Finance since July 2009. Before joining AEV, he was President of Qbitron, a company that provides outsourcing services and management consulting to clients in the US and in the Philippines. He was a Senior Partner in The Ripples Group, a management consulting firm based in Newton, Massachusetts, from 2004 to 2006 and Chief Operating Officer of Citizens Health LLC, a healthcare company based in Boston, Massachusetts from 2002 to 2004. He was also a consultant with the international strategy-consulting firm, Bain & Company, Inc. from 1994 to 2002. Mr. Reyes earned his Bachelor of Science in Management, summa cum laude, from the Boston College Wallace E. Carroll School of Management and his MBA from Harvard University's Graduate School of Business Administration.

MELINDA RIVERA-BATHAN, Vice President – Controller

Ms. Melinda R. Bathan, 50 years old, Filipino, has been Vice President-Controller of AEV since 2004. She was previously Assistant Vice President-Controller of AEV from 1997 until 2004. She is also a Trustee of the Aboitiz & Company, Inc. Retirement Fund. She graduated summa cum laude from St. Theresa's College with a Bachelor of Science degree in Commerce, major in Accounting. She obtained her Masters in Management from the University of the Philippines with honors.

NARCISA S. LIM, Vice President – Human Resources

Ms. Narcisa S. Lim, 46 years old, Filipino, has been Vice President for Human Resources of AEV since August 2008. She was Assistant Vice President for Human Resources of AEV from 2004 to 2008. She is also a Trustee of the Aboitiz & Company, Inc. Retirement Fund. She holds a degree in International Studies from Maryknoll College.

JOSEPH TRILLANA T. GONZALES, Vice President – Legal & Corporate Services

Mr. Joseph Trillana T. Gonzales, 43 years old, Filipino, has been Vice President – Legal of AEV since August 2008. He was previously Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group in May 2007 as Assistant Vice President of the Corporate and Legal Services of Aboitiz & Company, Inc. He is Corporate

Secretary of AP Renewables, Inc. and Assistant Corporate Secretary of Aboitiz Power Corporation. He is a graduate of Bachelor of Arts in Economics and Bachelor of Laws from the University of the Philippines. He also has a Master of Laws degree from the University of Michigan.

CAROLINE G. BALLESTEROS, Assistant Vice President - Branding & Corporate Communications

Ms. Caroline G. Ballesteros, 47 years old, Filipino, has been Assistant Vice President for Branding and Corporate Communications since August 2005. Before joining AEV, she was Corporate Communications Officer – VISMIN at Etelecare Global Solutions, and a TV Host/News Anchor of ABS-CBN, Cebu Regional Station. She graduated summa cum laude, Bachelor of Science in Commerce, major in Accounting from the University of San Jose-Recoletos, Cebu City.

STELLA OLIVE A. SUCALIT, Assistant Vice President - Talent Management

Ms. Stella Sucalit, 47 years old, Filipino, has been Assistant Vice President-Talent Management since January 2010. She was previously Assistant Vice President for Corporate Finance of AEV from 2004 until January 2010. She obtained her Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines.

CARMELA N. FRANCO, Assistant Vice President - Investor Relations

Ms. Carmela N. Franco, 38 years old, Filipino, has been Assistant Vice President for Investor Relations of AEV since 2008. Prior to her stint with AEV, she was connected with San Miguel Corporation as Investor Relations Officer of its Corporate Finance Group and later as Senior Project Analyst of its Corporate Planning Group. She was a Trader, Associate and Credit Analyst of Capital One Equities Corporation & Multinational Investment Bancorporation from 1992 to 1994 and was formerly an Investment Analyst of ING Barings (Phils), Inc. & Kim Eng Securities (Phils), Inc. from 1994 to 1997. She was also an Investment Officer of Standard Chartered Bank from 1998 to 2000 and went on to serve as Project Analyst of Newgate Management, Inc. from 2000 to August 2002. She is a Bachelor of Science in Business Economics graduate (cum laude) from the University of the Philippines.

LEAH I. GERALDEZ, Assistant Vice President - Legal & Corporate Services/Assistant Corporate Secretary

Ms. Leah I. Geraldez, 40 years old, Filipino, has been Assistant Vice President - Legal of AEV since August 2008 and Assistant Corporate Secretary of AEV since 2006. She is also Corporate Secretary of Aboitiz & Company, Inc., City Savings Bank, Balamban Enerzone Corporation, Mactan Enerzone Corporation, Aboitiz Land, Inc., Cebu Industrial Park Developers, Inc., Cebu Industrial Park Services, Inc., Cebu Praedia Development Corporation, AEV Aviation, Inc., Hedcor, Inc., Hedcor Benguet, Inc., Hedcor Sibulan, Inc., Hedcor Tamugan, Inc., Manila-Oslo Renewable Enterprise, Inc., Misamis Oriental Land Development Corporation, Aboitiz Renewables, Inc., Pilmico Foods Corporation, Tsuneishi Heavy Industries (Cebu), Inc., SN Aboitiz Power-Benguet, Inc., and Aboitiz Foundation, Inc. She earned her Bachelor of Arts in Anthropology and Bachelor of Laws from the University of San Carlos.

JULIE ANN T. DIONGZON, Assistant Vice President - Treasury

Ms. Julie Ann T. Diongzon, 40 years old, Filipino, has been Assistant Vice President for Treasury of AEV since January 2009. A B.S. Commerce graduate from the University of San Carlos, she has been with the Aboitiz Group for more than 18 years, holding various accounting and finance positions.

IRIS LOUISE R. DORADO, Assistant Vice President - Audit

Ms. Iris Louise R. Dorado, 29 years old, Filipino, has been Assistant Vice President for Audit since January 2009. She joined the Aboitiz Group in 2007 as Corporate Audit Manager of Aboitiz & Company, Inc. She was previously Region Finance Officer of Monterey Foods Corp. from 2005 to 2007 and Senior Internal Auditor of San Miguel Corporation from 2002 to 2005. A magna cum laude graduate of B.S. Accountancy from the University of San Carlos, she is a Certified Public Accountant (Philippine Institute of Certified Public Accountants), a Certified

Internal Auditor (The Institute of Internal Auditors, Inc. – U.S.A) and a Certified QA Validator (The Institute of Internal Auditors, Inc. – Philippines).

MA. KRISTINA V. RIVERA, Assistant Vice President - Human Resources

Ms. Ma. Kristina V. Rivera, 39 years old, Filipino, has been Assistant Vice President for Human Resources of AEV since January 2009. She has 15 years experience in human resources management with a diverse background in human resource strategic planning, implementation and administration. Before joining the Aboitiz Group in 2003, she was with the PNOC-Energy Development Corporation. She holds Bachelor of Science and Masters degrees in Psychology from the University of the Philippines.

GERALDINE POLANCO-ONGANON, Assistant Vice President - Human Resources

Ms. Geraldine Polanco-Onganon, 39 years old, Filipino, has been Assistant Vice President for Human Resources seconded to the Food Group of AEV since January 2009. She has been with the Aboitiz Group for over 15 years, holding various positions in human resources in different Aboitiz companies. Before she was seconded to FBMA Marine, Inc. as Assistant Vice President – Human Resources in 2005, she was Manager for Human Resources of Aboitiz & Company, Inc. from 2001 to 2005. She is a graduate of A.B. Behavioral Science from the University of Santo Tomas.

CHRISTOPHER M. CAMBA, Assistant Vice President - Human Resources

Mr. Christopher M. Camba, 31 years old, Filipino, has been Assistant Vice President for Human Resources of AEV since January 2009. He joined the Aboitiz Group in 2001 as Corporate Auditor of Aboitiz & Company, Inc. He was assigned to the Human Resources Department of Aboitiz & Company, Inc. in 2004, where he was seconded as Human Resources Manager of Aboitiz Construction Group, Inc. He is a graduate of B.S. Accountancy from the University of San Carlos.

RIELLA MAE CHRISTA D. BAGUIO, Assistant Vice President - Corporate Finance

Ms. Riella Mae Christa D. Baguio, 32 years old, Filipino, has been with the Aboitiz Group for more than 10 years holding various accounting positions. She was Accounting Manager of various companies including Aboitiz and Company, Inc. and Aboitiz Equity Ventures, Inc. from 2005 until her promotion to Assistant Vice President - Corporate Finance in 2010. A magna cum laude graduate of Bachelor of Science in Accountancy from the University of San Carlos, she obtained her Masters in Management major in Business Management from the University of the Philippines - Visayas, Cebu.

RONALDO S. RAMOS, Assistant Vice President - Business Risk Management

Mr. Ronaldo S. Ramos, 31 years old, Filipino, has extensive experience in risk management, audit, internal controls and information security. Before he joined AEV as Assistant Vice President for Business Risk Management in 2010, he was Senior Manager - Risk Advisory Services of KPMG Philippines - Manabat Sanagustin & Co. He was also Operations Auditor of Petron Corporation from August 2002 to March 2006 and Audit and Business Advisory Services of SGV & Co., an affiliate of Ernst & Young Global, from December 1999 to August 2002. He is a graduate of Bachelor of Science in Accountancy from De La Salle University.

EDGAR Z. DAPITON, Assistant Vice President - Insurance Risk Management

Mr. Edgar Z. Dapiton, 51 years old, Filipino, joined AEV as Assistant Vice President - Insurance Risk Management in January 2010. Before joining AEV, he was a consultant for Swiss Reinsurance Company (Swiss Reinsurance) of Zurich, Switzerland. He was also Regional Risk Manager of the Philippine Branch of Swiss Reinsurance for Business Continuity Management (BCM) for Southeast Asia in 1996 to 2003. From 1995 to 1996, he was Head of Risk Management and Underwriting of Citytrust Banking Corporation seconded to the Citytrust Insurance Brokers. He is a of Civil Engineering graduate from Mapua Institue of Technology.

Period in which the Directors and Executive Officers Should Serve

The directors and executive officers should serve for a period of one year.

Terms of Office of a Director

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

The directors, who must be AEV stockholders, are elected annually by stockholders during the Annual Stockholders' Meeting, where at least a majority of the outstanding capital stock should be present in person or by proxy. The directors shall serve for a term of one year and until the election and qualification of their successors.

Any vacancy in the Board of Directors other than by removal or expiration of term may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

(2) Significant Employees

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

(3) Family Relationships

Messrs. Jon Ramon, Roberto and Mikel Aboitiz are brothers and are thus related to each other within the fourth civil degree of consanguinity.

Messrs. Erramon, Enrique Jr. and Xavier Jose Aboitiz are brothers and are thus related to each other within the fourth civil degree of consanguinity. They are also related within the fourth civil degree of consanguinity to Mr. Stephen G. Paradies, who is their first cousin.

(4) Involvement in Certain Legal Proceedings as of February 28, 2010

People of the Philippines vs. Renato Francisco et. al.
(c/o Fuller O' Brien Paint Company, Inc., Reliance St., Mandaluyong City)
Criminal Case No. 35-5784
MTC Branch 66, Makati City
July 19, 2007

On July 23, 2008, the Metropolitan Trial Court (MTC) of Makati issued an Order finding probable cause to hold the alleged directors/stockholders of Fuller O'Brien Paint Company, Inc. (Fuller O'Brien), including Erramon I. Aboitiz, liable for violation of PD No. 1752 or the Pag-Ibig Fund Law, as amended.

Upon motion by Mr. Aboitiz, the MTC reconsidered its order finding probable cause against him. The MTC also directed the Office of the City Prosecutor of Makati to conduct a preliminary investigation against Mr. Aboitiz.

In the preliminary investigation, Mr. Aboitiz alleged that he should be exonerated from the charges filed against him as he was no longer a director of Fuller O'Brien when the alleged violations of the Pag-Ibig Fund Law occurred.

The case is still pending resolution before the Office of the City Prosecutor of Makati.

To the knowledge and/or information of AEV, other than as disclosed above, none of its nominees for election as directors, its present members of the Board of Directors or its executive officers, is presently or during the last five years, been involved in any legal proceeding in any court or government agency in the Philippines

or elsewhere which would put to question their ability and integrity to serve AEV and its stockholders. To the knowledge and/or information of AEV, the above-said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or by the laws of any other nation or country.

(5) Certain Relationships and Related Transactions

AEV and its subsidiaries and associates (the "Group"), in their regular conduct of business, have entered into related party transactions consisting of 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.

Up until December 31, 2008, the Group has service contracts with Aboitiz and Company, Inc. (ACO), the parent company of AEV, for corporate center services rendered, such as human resources, internal audit, legal, treasury and corporate finance, among others. With the transfer of all ACO employees to AEV in January 2009, AEV is now providing these same services and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced on a cost recovery basis, and billed costs are always benchmarked on third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service. This arrangement enables the Group to maximize efficiencies and realize cost synergies.

The Group extends and/or avails temporary interest-bearing advances to and from ACO and certain associates for working capital requirements. These are made to enhance the parent companies' yield on their cash balances. Interest rates are determined by comparing prevailing market rates at the time of the transaction.

ACO and certain associates are leasing office spaces from Cebu Praedia Development Corporation (CPDC), a subsidiary of AEV. Rental rates are comparable with prevailing market prices. These transactions are covered with lease contracts for a period of three years.

No other transaction, without proper disclosure, was undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

AEV employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are surfaced and brought to the attention of management.

Parent Company

The parent and the ultimate parent of AEV is Aboitiz & Company, Inc.

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

No director has resigned nor declined to stand for reelection to the Board of Directors since the date of AEV's last annual meeting because of a disagreement with AEV on matters relating to its operations, policies and practices.

Item 6. Compensation of Directors and Executive Officers

(1) Summary of Compensation Table

Information as to the aggregate compensation paid or accrued to AEV's Chief Executive Officer and other highly compensated executive officers, as well as other directors and officers during the last two completed fiscal years and the ensuing fiscal year are as follows:

Directors and Executive Officers	Period	Salary	Bonus	Other Compensation
Top Highly-Compensated Executives: **Jon Ramon Aboitiz** - Chief Executive Officer in 2008 Chairman of the Board in 2009 **Erramon I. Aboitiz** - Chief Executive Officer in 2008 Chief Executive Officer in 2009 **Roberto E. Aboitiz** - Chairman of the Board in 2008/Director in 2009 **Stephen G. Paradies** - Senior Vice President/Chief Financial Officer **Xavier Jose Aboitiz** - Senior Vice President Chief Human Resources Officer **Patrick B. Reyes** - First Vice President				
All above named officers as a group	Actual 2009	₱21,579,363	₱1,685,000	₱8,109,395
	Actual 2008	₱22,051,500	₱1,846,000	₱6,120,536
	Projected 2010	₱26,098,500	₱1,905,000	₱8,980,713
All other directors and officers as a group unnamed	Actual 2009	₱17,979,577	₱1,393,500	₱9,973,948
	Actual 2008	₱3,983,713	₱261,000	₱5,638,621
	Projected 2010	₱24,570,950	₱1,793,500	₱11,123,745

Except for the regular company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from AEV, the above-mentioned officers do not receive any other compensation in the form of warrants, options, and/or profit sharing.

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

(2) Compensation of Directors

(i) Standard Arrangements

In 2009, all of AEV's directors received a monthly allowance of ₱80,000 except for the Chairman of the Board who received a monthly allowance of ₱120,000. In addition, each director and the Chairman of the Board received a per diem for every Board or Committee meeting attended as follows:

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

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

For 2010 it is proposed that all of AEV's directors shall receive a monthly allowance of ₱80,000, except for the Chairman of the Board who shall receive a monthly allowance of ₱120,000. In addition, each director and the Chairman of the Board shall receive a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱60,000	₱90,000

Type of Meeting	Committee Members	Chairman of the Committee
Committee Meeting	₱50,000	₱60,000

The proposed monthly allowance and per diem of the AEV directors for 2010 will be submitted for the approval of the stockholders during the 2010 Annual Stockholders' Meeting.

(ii) Other Arrangements

Other than payment of a director's allowance and per diem as stated, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

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

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

(4) Warrants and Options Outstanding

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

Item 7. Independent Public Accountant

The accounting firm of Sycip, Gorres, Velayo & Company (SGV) has been AEV's Independent Public Accountant for the last 16 years. Mr. J. Carlitos G. Cruz served as audit partner of AEV for 2009. He replaced Mr. Ladislao Z. Avila, Jr. who served as audit partner for five years from 2004 to 2008. AEV shall comply with the requirements of Sec. 3(b)(iv) of SRC Rule 68 on the rotation of external auditors or signing partners. Representatives of SGV will be present during the annual meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions if needed.

There was no event in the past 16 years where AEV and SGV or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

In its regular meeting last March 3, 2010, the Audit Committee of AEV resolved to submit for the approval of the stockholders during the Annual Stockholders' Meeting a proposal to delegate to the Board of Directors the authority to appoint the Company's external auditors for 2010. The proposal is intended to give the Audit Committee sufficient time to evaluate different auditing firms who may act as AEV's external auditor for 2010.

Item 8. Compensation Plans

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

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

None.

Item 10. Modification or Exchange of Securities

None.

Item 11. Financials and Other Information

None.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

None.

Item 13. Acquisition or Disposition of Property

None.

Item 14. Restatement of Accounts

None.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

1. Approval of the Minutes of the 2009 Annual Meeting of Stockholders (summary of the Minutes attached here with as Annex “B”).
2. Approval of the Annual Report of Management for the year ending December 31, 2009.

Item 16. Matters Not Required to be Submitted

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

The ratification of acts of Management and of the Board of Directors referred to in the Notice of the Annual Meeting refers only to acts done in the ordinary course of business and operations of AEV, some of which have been duly disclosed to the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE) in accordance with law. Ratification is being sought in the interest of transparency and as a matter of customary practice or procedure undertaken at every annual meeting of AEV stockholders.

A summary of Board resolutions approved during the period from February 11, 2009 to March 10, 2010 is provided as follows:

Regular Board Meeting, February 11, 2009

1. Authority of Management to negotiate for the purchase of the interests of the Jebsen Group of Norway within the parameters of the valuation findings
2. Proposed amendments to the Articles of Incorporation and By-Laws for submission to stockholders’ approval during the Annual Stockholders’ Meeting
3. Renewal of the delegated authority to the Board to amend /repeal the By-Laws or adopt new Company By-Laws
4. Delegation of authority to the Nomination and Compensation Committee to pre-screen and shortlist candidates for Board directors
5. Setting of record date for stockholders entitled to vote during the 2009 Annual Stockholders’ Meeting

Special Board Meeting, April 8, 2009

1. Approval of the 2008 Audited Financial Statements

Special Board Meeting, April 15, 2009

1. Approval of Board Committee mandates and composition
2. Approval of the appointment of Mr. Roberto R. Romulo as member of the Board Strategy and Corporate Governance Committees
3. Authority of any one of Stephen G. Paradies, Xavier J. Aboitiz, Luis Miguel Aboitiz, Iker M. Aboitiz and Melissa A. Elizalde, on behalf of the Company to purchase, sell or deal in any manner, motor vehicles of all types
4. Authority of the Company to buy and sell securities

Regular Board Meeting, May 18, 2009

1. Authority of the Company to subscribe one million shares of Pilmico Foods Corporation
2. Availment of institutional products of Union Bank of the Philippines
3. Designation of Mr. Sabin M. Aboitiz as additional signatory of accounts maintained at Banco de Oro Universal Bank
4. Designation of Mr. Sabin M. Aboitiz as additional signatory of accounts maintained at Union Bank of the Philippines

Regular Board Meeting, July 17, 2009

1. Delegation to the Board Audit Committee the authority to review proposal of prospective external auditors for the Company
2. Delegation to the Board Audit Committee the authority to approve and release periodic financial report
3. Approval of the Insider Trading Policy
4. Appointment of Mr. Rolando C. Cabrera as First Vice President/Chief Financial Management Officer
5. Appointment of Mr. Patrick B. Reyes as First Vice President for Corporate Finance
6. Authority to avail of credit facilities with Metropolitan Bank and Trust Company
7. Designation of Mr. Antonio R. Moraza as additional signatory for and on behalf of the Company for accounts maintained in various banks
8. Authority to enter into a Contract of Lease with Skyrise Realty & Development Corporation
9. Authority of the Company to borrow up to ₱1 billion in long-term loans from various banks and financial institutions to refinance existing debts

Regular Board Meeting, September 16, 2009

1. Approval of the incorporation of a captive market insurance company based in Singapore
2. Approval of the Amended Manual on Corporate Governance
3. Approval of the Institute of Corporate Directors (ICD) Corporate Governance Scorecard 2009
4. Approval of the merger of the Corporate Governance Committee with the Board Nomination and Compensation Committee as provided for in the Manual on Corporate Governance
5. Approval of the Amended AEV Internal Audit Charter
6. Ratification of the authority of the Company to extend interest-free stockholders' advances to AEV Aviation, Inc. in the amount of ₱10 million
7. Ratification of the authority of the Company to extend interest-bearing temporary advances to Mactan Enerzone Corporation in the amount of ₱20 million
8. Ratification of the authority of the Company to extend interest-bearing temporary advances to Balamban Enerzone Corporation in the amount of ₱20 million
9. Authority of the Company to avail of long-term loans and derivative transactions with the Hongkong and Shanghai Banking Corporation Limited up to the amount of US$30 million or its equivalent in Philippine peso

Regular Board Meeting, November 19, 2009

1. Ratification of the authority of the Company to extend interest-bearing temporary advances to Hedcor, Inc. in the amount of ₱90 million
2. Authority of the Company to borrow funds for on-lending to City Savings Bank in an amount not exceeding ₱2 billion

3. Authority of Stephen G. Paradies, M. Jasmine S. Oporto, Melinda R. Bathan and Leah I. Geraldez to transact with the Philippine Depository & Trust Corporation (PDTC)

Regular Board Meeting, January 13, 2010

1. Authority of the Company to borrow up to ₱1 billion in long-term loans from various banks and financial institutions to refinance existing debts
2. Authority of the Company to avail of long-term loans and derivative transactions with the Hongkong and Shanghai Banking Corporation Limited up to the amount of US$30 million or its equivalent in Philippine peso
3. Authority of the Company to borrow funds for on-lending to City Savings Bank in an amount not exceeding ₱2 billion

Regular Board Meeting, March 10, 2010

1. Authority of the Company to negotiate for the acquisition of up to 60% of the total outstanding common shares of its affiliate, City Savings Bank, subject to the approval of the Bangko Sentral ng Pilipinas
2. Declaration of cash dividend of Fifty Two centavos per share (₱0.52) to all stockholders of record as of the close of business hours on March 24, 2010, payable on April 16, 2010
3. Setting of April 8, 2010 as the record date for stockholders entitled to vote at the Annual Stockholders' Meeting on May 17, 2010
4. Authority of the Company to borrow up to ₱2 billion in long-term loans from various banks and financial institutions to refinance existing debts (fresh authority)
5. Authority of the Company to avail of long-term loans and derivative transactions with the Hongkong and Shanghai Banking Corporation Limited up to the amount of US$30 million or its equivalent in Philippine, Peso (fresh authority)
6. Authority of Mr. Horacio C. Elicano to sign on behalf of the Company the Migration Memorandum of Agreement between AEV and Alliance End To End Solutions, Inc.
7. Authority of the Company's stock transfer agent, Securities Transfer Services, Inc. (STSI) to issue uncertificated shares

Item 17. Amendment of Charter, Bylaws or Other Documents.

None.

Item 18. Other Proposed Action

None.

Item 19. Voting Procedures

(a) Vote Required for Election

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

Regarding the election of members to the Board of Directors, nominees who receive the highest number of votes shall be declared elected pursuant to Section 24 of the Corporation Code of the Philippines.

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

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

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

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

The method of counting votes shall be in accordance with the general provisions of the Corporation Code of the Philippines. The counting shall be done by representatives from the Office of the Corporate Secretary, who shall serve as members of the Election Committee.

Other than the nominees' election as directors and the proposed 2010 directors' compensation and per diem, no director, executive officer, nominee or associate of the nominees has any substantial interest, direct or indirect by security holdings or otherwise, in any of the matters to be taken up during the meeting. AEV has not received any information that an officer, director or stockholder intends to oppose any action to be taken at the Annual Stockholders' Meeting.

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

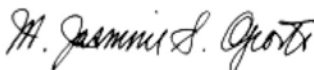
Investor Relations Office
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Kasambagan, Cebu City

Attention: Ms. Carmela N. Franco

This Information Statement and the Annual Report in SEC Form 17-A will also be posted at the AEV website: www.aboitiz.com.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Cebu on April 8, 2010.

ABOITIZ EQUITY VENTURES, INC.
By



M. JASMINE S. OPORTO
Corporate Secretary

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

The registrant, Aboitiz Equity Ventures, Inc. (AEV), is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. Incorporated on September 11, 1989, the company was originally known as Cebu Pan Asian Holdings, Inc. Its name was changed to Aboitiz Equity Ventures, Inc. on December 29, 1993, and its ownership was opened to the general public through an Initial Public Offering (IPO) of its stocks in 1994.

Neither AEV nor any of its subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

(2) Business of Issuer

(i) Products

AEV's core businesses, conducted through its various subsidiaries and affiliates, can be grouped into five main categories as follows: (a) power distribution and generation, (b) financial services, (c) food manufacturing, (d) transport and logistics, and (e) portfolio investments (parent company/others). [Please see Annex "C" hereof for AEV's corporate structure.]

Based on the Securities and Exchange Commission (SEC) parameters of what constitutes a significant subsidiary under Item XX of Annex "B" (SRC Rule 12), the following are AEV's significant subsidiaries: Aboitiz Power Corporation and subsidiaries, Aboitiz Transport System (ATSC) Corporation (hereinafter ATS) and subsidiaries, and Pilmico Foods Corporation and subsidiary.

POWER GENERATION AND DISTRIBUTION

Aboitiz Power Corporation (AP)

Incorporated in 1998, AP is a publicly listed holding company that, through its subsidiaries and affiliates, is a leader in the Philippine power industry and has interests in a number of privately-owned generation companies and distribution utilities. AEV owns 76.4% of the outstanding capital stock of AP as of February 28, 2010,

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired a 20% ownership interest in Visayan Electric Company, Inc. (VECO) in the early 1900s. The Aboitiz Group's direct and active involvement in the power distribution industry can be traced to the 1930s, when Aboitiz and Company, Inc. (ACO) acquired Ormoc Electric Light Company and its accompanying ice plant, Jolo Power Company and Cotabato Light and Power Company (CLP). In July 1946, the Aboitiz Group strengthened its position in power distribution in the Southern Philippines when it acquired Davao Light and Power Company, Inc. (DLP), which is now the third largest privately-owned electric utility in the Philippines in terms of customers and annual gigawatt-hour (GWh) sales.

In December 1978, ACO divested its ownership interests in Ormoc Electric Light Company and Jolo Power Company to allow these companies to be converted into electric cooperatives, which was the policy being promoted by the government of then-President Ferdinand E. Marcos. ACO sold these two companies and scaled down its participation in the power distribution business in order to focus on the more lucrative franchises held by CLP, DLP and VECO.

In response to the Philippines' pressing need for adequate power supply, the Aboitiz Group became involved in power generation, becoming a pioneer and industry leader in hydroelectric energy. In 1978, the Aboitiz Group incorporated Hydro Electric Development Corporation (HEDC). HEDC carried out feasibility studies (including hydrological and geological studies) and hydroelectric power installation and maintenance and also developed hydroelectric projects in and around

Davao City. The Group also incorporated Northern Mini Hydro Corporation (NORMIN) now Cleanergy, Inc. on June 26, 1990, which focused on the development of mini-hydroelectric projects in Benguet province in Northern Luzon. By 1990, HEDC and NORMIN had commissioned and were operating 14 plants with a combined installed capacity of 36 megawatts (MW). In 1996 the Aboitiz Group led the consortium that entered into a build-operate-transfer (BOT) agreement with the National Power Corporation (NPC) to develop and operate the 70-MW Bakun AC hydroelectric plant in Ilocos Sur province.

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

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

In a share swap agreement with AEV last January 20, 2007, AP issued a total of 2,889,320,292 of its common shares in exchange for AEV's ownership interests in the following distribution companies, as follows:

- An effective 54.7% ownership interest in VECO, which is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales and is the largest distribution utility in the Visayas region;
- A 99.9% equity interest in each of DLP and CLP. DLP is the third largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales;
- An effective 64.3% ownership interest in Subic Enerzone Corporation (SEZ), which manages the power distribution system of the Subic Bay Metropolitan Authority (SBMA); and
- An effective 43.8% ownership interest in San Fernando Electric Light and Power Company (SFELAPCO), which holds the franchise to distribute electricity in the City of San Fernando, Pampanga, in Central Luzon, and its surrounding areas.

In February 2007, AP entered into a Memorandum of Agreement with Taiwan Cogeneration International Corporation (Taiwan Cogen) to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone (SBFZ). In May 2007, Redondo Peninsula Energy, Inc. (RP Energy) was incorporated as the project company that will undertake the Subic Coal project.

On April 20, 2007, AP acquired 50% of the outstanding capital stock of East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. (El Paso Philippines). EAUC operates a Bunker C-fired plant with a capacity of 50 MW within the Mactan Export Processing Zone I (MEPZ I) on Mactan Island, Cebu. On the same date, AP also acquired from EAUC 60% of the outstanding common shares of Cebu Private Power Corporation (CPPC) which operates a 70MW Bunker C-fired plant in Cebu City.

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, AP agreed to acquire from its affiliate, Aboitiz Land, Inc. (AboitizLand) a 100% interest in Mactan Enerzone Corporation (MEZ), which owns and operates the power distribution system in the Mactan Export Processing Zone II (MEPZ II) on Mactan Island in Cebu, and a 60% interest in Balamban Enerzone Corporation (BEZ), which owns and operates the power distribution system at the West Cebu Industrial Park-Special Economic Zone (WCIP-SEZ) in Balamban town in the western part of Cebu. AP also consolidated its ownership interest in SEZ by acquiring the combined 25% interest in SEZ held by AEV, SFELAPCO, Okeelanta Corporation (Okeelanta) and Pampanga Sugar Development Corporation (PASUDECO). These acquisitions were made through a share swap agreement which involved the issuance of a total of 170,940,307 common shares of AP issued at the Initial Public Offering price of ₱5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ and SEZ.

In August 2007 AP, together with Vivant Energy Corporation (Vivant) of the Garcia Group, signed a Memorandum of Agreement with Global Business Power Corporation (Global Power) of the Metrobank Group for the construction and operation of a 3x82-MW coal-fired power plant in Toledo City, Cebu. AP together with the Garcia Group formed Abovant Holdings, Inc. (Abovant). AP owns 60% of Abovant. The project, which is being undertaken by Cebu Energy Development Corporation (CEDC), owned by Global Power, Formosa Heavy Industries and Abovant, broke ground in January 2008 and is expected to be completed by the second half of 2010. AP has an effective participation of 26.4% in the project.

On November 15, 2007, AP closed the sale and purchase of a 34% equity ownership in STEAG State Power, Inc. (STEAG Power), owner and operator of a 232-MW coal-fired power plant located at the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. AP won the competitive bid to buy the 34% ownership equity from Evonik Steag (formerly known as Steag GmbH) in August 2007. The total purchase price for the 34% equity in STEAG Power was US$102 million, inclusive of interests.

On November 28, 2007, SN Aboitiz Power-Benguet, Inc. (SNAP-Benguet), which is owned by AP and SN Power, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex consisting of the 75-MW Ambuklao power plant located in Bokod, Benguet and the 100-MW Binga plant located in Itogon, Benguet. The price offered amounted to US$325 million.

On December 17, 2007, AP entered into an agreement to buy the 20% equity of Team Philippines in SEZ for ₱92 million. Together with the 35% equity in SEZ of AP subsidiary DLP, this acquisition brought AP's total equity in SEZ to 100%.

On March 7, 2008, AP bought the 40% equity ownership of Tsuneishi Holdings (Cebu), Inc. (Tsuneishi) in BEZ for approximately ₱178 million. The acquisition brought AP's total equity in BEZ to 100%.

On May 26, 2009, AP Renewables, Inc. (APRI), a wholly owned subsidiary of AP, took over the ownership and operations of its first geothermal assets: the 289-MW Tiwi facility in Albay and the 548-MW MakBan Complex in Laguna (collectively referred to as Tiwi-MakBan) after winning the competitive bid conducted by PSALM on July 30, 2008. The Tiwi-MakBan facilities recorded peak generation of 467 MW in 2009.

Therma Luzon, Inc. (Therma Luzon), a wholly owned subsidiary of AP, won on August 28, 2009 the competitive bid for the appointment of the Independent Power Producer (IPP) Administrator of the 700-MW contracted capacity of the Pagbilao coal-fired power plant in Quezon. It assumed dispatch control of the Pagbilao power plant on October 1, 2009, becoming the first IPP Administrator in the country. As IPP Administrator, Therma Luzon is responsible for procuring the fuel requirements of, and for selling the electricity generated by, the Pagbilao power plant.

AP, through its wholly owned subsidiary, Therma Marine, Inc. (Therma Marine), assumed ownership of Power Barge (PB) 118 and PB 117 on February 6, 2010 and March 1, 2010, respectively, after acquiring the two generation assets from PSALM for US$30 million through a negotiated bid concluded on July 31, 2009. Both of the diesel-powered plants each has a generating capacity of 100 MW. PB 117 is moored at Nasipit, Agusan del Norte and PB 118 at Barangay San Roque, Maco, Compostela Valley.

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

AP is in the process of implementing a corporate reorganization that will put all its renewable energy assets under Aboitiz Renewables, Inc. (ARI), (formerly Philippine Hydropower Corporation) and all its non-renewable generation assets under Therma Power, Inc. (TPI).

Aboitiz Renewables, Inc.

AP, one of the leading providers of renewable energy in the country, holds all its investments in renewable energy through its wholly owned subsidiary, ARI. which owns equity interests in the following generation companies:

- 100% equity interest in AP Renewwables, Inc. (APRI), which owns the Tiwi-MakBan geothermal facilities
- 100% equity interest in Hedcor, which operates 15 mini-hydroelectric plants (plants with less than 10 MW in installed capacity) in Benguet province in Northern Luzon and in Davao City in Southeastern Mindanao with a total installed capacity of 38.2 MW
- 50% equity interest in Luzon Hydro Corporation (LHC), which operates the 70-MW Bakun AC hydroelectric plant in Ilocos Sur province in Northern Luzon
- 50% effective interest in SN Aboitiz Power-Magat, Inc. (SNAP-Magat), which operates the 360-MW Magat hydroelectric plant in Isabela in Northern Luzon
- 50% effective interest in SNAP-Benguet, which operates the 175-MW Ambuklao-Binga hydroelectric power plant complex in Northern Luzon
- 100% equity interest in Hedcor Sibulan, Inc. (Hedcor Sibulan), which is operating the new 42.5-MW Sibulan hydropower project in Santa Cruz, Davao del Sur
- 100% equity interest in Hedcor Tamugan, Inc. (Hedcor Tamugan), which proposes to build a 10 to 15-MW hydropower project along the Tamugan River in Davao City.

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

AP Renewables, Inc

APRI, a wholly owned subsidiary of AP, owns and operates the 289-MW Tiwi geothermal power plant located in Tiwi, Albay and the 458.53-MW Makiling-Banahaw (MakBan) geothermal power plant located in the Laguna and Batangas Provinces (collectively called the Tiwi-MakBan geothermal complex). APRI assumed ownership of Tiwi-MakBan from PSALM on May 26, 2009.

Among the rights and obligations assigned to APRI under the Asset Purchase Agreement (APA) with PSALM are transition supply contracts with various expiring terms and covering an estimate of 480-MW capacity at combined peak. Included among the supply contracts assigned, while not a transition supply contract, is the obligation to supply 9.63% of the monthly load of Manila Electric Company (Meralco). Rates for the transition supply contracts were pegged to NPC Time-of-Use Rates at an annual simple average of ₱3.8966 per kilowatt-hour (kWh). The Energy Regulatory Commission (ERC) on February 16, 2009 provisionally authorized the NPC to increase its basic rates by an average of ₱0.4682/kWh for Luzon. With the adjustment, NPC's new annual average rates is ₱4.16/kWh for Luzon, effective NPC's February 26 to March 25, 2009 billing period.

The APA likewise requires APRI to rehabilitate Units 5 and 6 of the MakBan geothermal power plant at its own cost and expense, which must be accomplished and completed within four years from closing date. APRI is currently in the process of developing a rehabilitation and refurbishment plan. Based on initial estimates, the rehabilitation and refurbishment costs could reach US$140 to 150 million over a period of four years. This rehabilitation and refurbishment plan is expected to improve the geothermal plants' operating capacities.

SN Aboitiz Power-Magat Inc.

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

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

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

SNAP-Magat obtained Board of Investments (BOI) approval of its application as new operator of the Magat Plant with a pioneer status, which entitles it to an income tax holiday.

A portion of the land underlying the Magat plant is in the name of the National Irrigation Administration (NIA). This portion is being leased by SNAP-Magat from NIA under terms and conditions provided under the O&M Agreement. On March 23, 2007, President Arroyo issued a presidential proclamation reserving and granting NPC ownership over certain parcels of public land in Isabela province and instructing the Department of Environment and Natural Resources (DENR) to issue a special patent over the untitled public land on which a portion of the Magat plant is situated. This portion of land, which was titled in 2007, was eventually bought by SNAP-Magat.

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

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

After 25 years of operations without any major rehabilitation works done on the generating units and considering the age and results of technical assessments, SNAP-Magat has embarked on a four-year refurbishment program for all major plant equipment starting 2009 to 2013. The main objective is to put back the lost efficiency and address operational difficulties due to obsolescence. The project will preserve the remaining life and the continuance of its availability for the next 25 years.

SN Aboitiz-Benguet, Inc.

On November 28, 2007, SNAP-Benguet, also a consortium between ARI and SN Power, submitted the highest bid to PSALM for the Ambuklao-Binga Hydroelectric Power Complex, which consists of the 75-MW Ambuklao Hydroelectric Power Plant (Ambuklao Plant) located in Bokod, Benguet and the 100-MW Binga Hydroelectric Power Plant (Binga Plant) located in Itogon, Benguet. The price offered amounted to US$325 million.

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

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

The Ambuklao Plant has been under preservation since 1999 due to damage from the 1990 earthquake. Rehabilitation of the Ambuklao Plant commenced in late 2008 and is expected to be completed by end of 2010. The refurbishment of the Binga Plant is also scheduled to commence in 2010. The projects are expected to increase the capacity of the Ambuklao Plant to 105 MW and of the Binga Plant to 120 MW.

Hedcor, Inc.

Hedcor was originally incorporated on October 10, 1986 by ACO as the Baguio-Benguet Power Development Corporation. ARI acquired its 100% ownership interest in Hedcor in 1998. In 2005, ARI consolidated all of its mini-hydroelectric generation assets, including those developed by HEDC and NORMIN in Hedcor. Hedcor currently owns, operates and/or manages 15 mini–hydro plants of the run–of–river type in Northern Luzon and Davao City in Southeastern Mindanao with a combined installed capacity of 38.2 MW. All the electricity generated from Hedcor's mini-hydro plants are taken up by NPC, APRI, DLP, Philex Mining Corporation (Philex) and Benguet Electric Cooperative (BENECO) pursuant to power purchase agreements with the said offtakers.

During the full years 2008 and 2009, Hedcor's mini-hydroelectric plants generated a total of 170 GWh and 171 GWh of electricity, respectively.

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

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

Luzon Hydro Corporation

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

LHC operates and manages the 70-MW Bakun AC hydro project, which is located within the 13,213 hectare watershed area of the Bakun River in Ilocos Sur province in Northern Luzon. The project is a run–of–river power plant which taps the flow of the neighboring Bakun River to provide the plant with its generating power. The US$150 million project was constructed and is being operated under the government's build–operate–transfer scheme. Energy produced by the plant is delivered and taken up by NPC pursuant to a power purchase agreement (the Bakun PPA) and dispersed to NPC's Luzon Power Grid. Under the terms of the Bakun PPA, all of the electricity generated by the Bakun plant will be purchased by NPC for a period of 25 years from February 2001. The Bakun PPA also requires LHC to transfer the Bakun plant to NPC in February 2026, free from liens and without the payment of any compensation by NPC.

PSALM recently conducted a competitive bid for the appointment of the IPP Administrator of the 70-MW contracted capacity of the Bakun plant.

Hedcor Sibulan, Inc.

Hedcor Sibulan, a wholly owned subsidiary of ARI, is the project company of the Sibulan hydropower project. The project, which started construction in June 25, 2007, entails the construction of two run-of-river hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur. The total project cost is approximately ₱5.1 billion, which includes capital expenditures needed to construct access roads and transmission facilities. The Sibulan project's first unit, a 26MW run-of-river plant, started commercial operations in March 2010, The second unit, a 16.5MW, is expected to commence commercial operations within the second quarter of 2010.

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

The Sibulan Project is registered as a Clean Development Mechanism (COM) project with the United Nations Framework Convention on Climate Change under the Kyoto Protocol. This allows Hedcor Sibulan to sell the Sibulan Project's carbon credits.

Hedcor Tamugan, Inc.

Hedcor Tamugan, a wholly owned subsidiary of ARI, is the project company, which proposes to build the Tamugan hydropower project. Hedcor, the holder of the water rights, entered into a compromise agreement with the Davao City Water District (DCWD) in connection with the Tamugan water rights dispute. The compromise paves the way for the eventual construction of a 10 to 15-MW hydroelectric plant along the Tamugan River. A 27.5-MW hydroelectric plant was originally proposed to be built along the Tamugan River. Given the new project scheme, Hedcor Tamugan will have to conduct studies for engineering design, which is expected to take about a year. The two-year construction period will commence once the design is approved and permits are secured.

Hedcor Tamugan is part of a consortium that won the competitive bidding for the 12-year power supply agreement to supply 400,000,000 kWh per annum of new capacity to DLP. The bid price for the contracted energy was ₱4.0856/kWh delivered, subject to adjustment based on changes to the Philippine consumer price index. All the energy generated by the Hedcor Tamugan power plant will be supplied to DLP pursuant to the power supply agreement signed on March 7, 2007. Despite the lower generating capacity, the required amount of energy under a power supply agreement between the Hedcor consortium and DLP will be met.

Therma Power, Inc.

TPI, a wholly owned holding company of AP, owns equity interests in the following generation companies:

- 100% equity interest in Therma Luzon, the IPP Administrator of the 700-MW contracted capacity of the Pagbilao power plant
- 100% equity interest in Therma Marine, owner and operator of PB 117 and PB 118, barge-mounted power plants, each with a generating capacity of 100 MW
- 26.4% effective interest in CEDC, which is currently constructing a 3x82-MW coal-fired power plant in Toledo City, Cebu
- 50% equity interest in RP Energy, the project company that proposes to build and operate a 300-MW coal-fired power plant in the Redondo Peninsula at the Subic Bay Freeport Zone.

AP is in the process of implementing a corporate reorganization that will put all its non-renewable generation assets under TPI. If completed, TPI will hold AP's ownership interest in STEAG Power, East Asia Utilities Corporation (EAUC), Cebu Private Power Corporation (CPPC), Southern Philippines Power Corporation (SPPC), and Western Mindanao Power Corporation (WMPC).

Therma Luzon, Inc.

Therma Luzon, a wholly owned subsidiary of AP, submitted the highest offer in the competitive bid conducted by PSALM for the appointment of the IPP Administrator of the 700-MW contracted capacity of the Pagbilao coal-fired thermal power plant located in Quezon.

The offer by Therma Luzon resulted in a bid price of US$691 million as calculated in accordance to bid rules. This value represents the present value of a series of monthly payments to PSALM from October 2009 to August 2025 using PSALM discount rates.

On October 1, 2009, Therma Luzon became the first IPP Administrator in the country when it assumed dispatch control of the said contracted capacity of the Pagbilao Plant. As IPP Administrator, Therma Luzon is responsible for procuring the fuel requirements of and selling the electricity generated by the plant, which is being operated by Team Energy under a build-operate-transfer scheme.

Therma Marine, Inc.

Therma Marine, a wholly owned subsidiary of AP, owns and operates PB 117 and PB 118, two power barges each with a generating capacity of 100 MW. The Company assumed ownership of the barges from PSALM on February 6, 2010 and March 1, 2010, respectively. The acquisition followed the successful conclusion of a US$30 million negotiated bid for the

two assets on July 31, 2009. PB 118 is moored at Bgy. San Roque, Maco, in Compostella Valley, and the PB 117 at Nasipit, Agusan del Norte.

Therma Marine signed Ancillary Services Procurement Agreements (ASPA) with the National Grid Corporation of the Philippines (NGCP) for PB 117 and PB 118 to each supply 50 MW of ancillary services consisting of contingency reserve, dispatchable reserve, reactive power support and blackstart capacity for the Mindanao Grid. Therma Marine had been operating the power barges prior to receiving ERC's written provisional authority of the ASPAs. ERC's approval for the ASPAs is needed before NGCP can charge customers for the ancillary services.

The ERC issued a provisional authority for the PB 118 ASPA on March 8, 2010 and made it retroactive to February 6, 2010 in consideration of the ongoing power crisis in Mindanao. PB 117 is currently operating without ERC's provisional authority as its application is still pending before the ERC. However, Therma Marine has applied for retroactive effectivity of PB 117's provisional authority so as not to intensify the power situation in Mindanao.

Therma Marine also has a non-firm commitment to supply 100 MW of ancillary services to NGCP.

STEAG State Power Inc.

AP closed the sale and purchase of the 34% equity ownership in STEAG Power from Evonik Steag on November 15, 2007, following a successful bid in August 2007. The total purchase price for the 34% equity in STEAG Power was US$102 million, inclusive of interests.

Incorporated on December 19, 1995, STEAG Power is the owner and operator of a 232-MW (gross) coal-fired power plant located at the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The coal plant was built under a BOT arrangement and started commercial operations on November 15, 2006. The coal plant is subject of a 25-year power purchase agreement with the NPC, which is backed by a Performance Undertaking issued by the Republic of the Philippines. STEAG Power currently enjoys a 6-year income tax holiday from the BOI.

With its 34% stake in STEAG Power, AP is equity partner with majority stockholder Evonik Steag, Germany's fifth largest power generator, which currently holds 51% equity in STEAG Power. La Filipina Uy Gongco Corporation holds the remaining 15% equity in STEAG Power.

East Asia Utilities Corporation

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

Cebu Private Power Corporation

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

On April 20, 2007, AP acquired from EAUC 60% of the outstanding common shares of CPPC. The remaining 40% of the outstanding common shares is owned by Vivant of the Garcia family of Cebu, who together with AP, are the major shareholders of VECO. VECO owns all the outstanding preferred shares of CPPC, which comprises approximately 20% of CPPC's total outstanding capital stock.

Abovant Holdings, Inc. and Cebu Energy Development Corporation

Incorporated on November 28, 2007, Abovant is a joint venture company formed by Therma Power, Inc. (TPI), a wholly owned subsidiary of AP, and Vivant Integrated Generation Corporation (VIGC) of the Garcia Group, to hold their investments in a new power plant in Toledo City, Cebu. Abovant is 60% owned by AP, through TPI, and 40% owned by VIGC.

Abovant and Global Formosa, a joint venture between Global Power and Formosa Heavy Industries, formed the Cebu Energy Development Corporation (CEDC). CEDC is constructing a new 3x82-MW coal-fired power plant in the existing Toledo Power Station complex in Sangi, Toledo City, Cebu. With Abovant's 44% stake in the project (Global Formosa owns the remaining 56%), AP's effective interest in the plant, which broke ground in January 2008, is approximately 26.4%.

The power plant which will cost approximately US$450 million, is expected to be completed by 2010. The first 82-MW unit began commercial operations in in March 2010, with the second and third units by the second and fourth quarter of 2010, respectively. The power to be generated from the new plant will provide much-needed security to the power supply in the province of Cebu in the coming years. Additional power will be needed with the influx of business process outsourcing companies and new hotels in the province and the presence in the Toledo-Balamban area of large industries such as Atlas Mining Corporation, the shipbuilding facility of Tsuneishi Heavy Industries (Cebu), Inc. and the modular fabrication facility of Metaphil International, Inc.

CEDC had signed a Power Purchase Agreement (PPA) with VECO for the supply of 105 MW for 25 years. It also has a PPA with Mactan Electric Company, Inc. (MECO). It also plans to enter into PPAs, which will provide contracted minimum energy offtake with fuel as pass through, with other possible offtakers.

Southern Philippines Power Corporation

SPPC is a joint venture among AP, Alsing Power Holdings Inc. and Tomen Power (Singapore), Pte Ltd. AP has a 20% equity interest in SPPC, which owns and operates a 55-MW bunker-C fired power plant in Alabel, Sarangani just outside General Santos City in Southern Mindanao.

The SPPC power plant was developed on a build-own-operate basis by SPPC under the terms of an Energy Conversion Agreement (ECA) with the NPC. Under the ECA, NPC is required to deliver and supply the fuel necessary to operate the SPPC power plant during an 18-year cooperation period, which ends in 2016. NPC is also required to take all the electricity generated by the SPPC plant during the cooperation period and pay SPPC on a monthly basis capital recovery, energy, fixed operations and maintenance (O&M) and infrastructure fees as specified in the ECA. During this cooperation period, SPPC is responsible, at its own cost, for the management, operation, maintenance and repair of the SPPC power plant.

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

Western Mindanao Power Corporation

Like SPPC, WMPC is also a joint venture among AP, Alsing Power Holdings Inc. and Tomen Power (Singapore), Pte Ltd. AP has a 20% equity interest in WMPC, which owns and operates a 100-MW bunker-C fired power station located in Zamboanga City, Zamboanga del Sur in Western Mindanao. The WMPC power plant was developed on a build-own-operate basis by WMPC under the terms of an ECA with NPC. Under the ECA, NPC is required to deliver and supply the fuel necessary to operate the WMPC Plant during an 18-year cooperation period which ends in 2015. NPC is also required to take all the electricity generated by the WMPC plant during the cooperation period and pay WMPC on a monthly basis capital recovery, energy, fixed O&M and infrastructure fees as specified in the ECA. During this cooperation period, WMPC is responsible, at its own cost, for the management, operation, maintenance and repair of the WMPC plant.

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

Redondo Peninsula Energy, Inc.

Incorporated on May 30, 2007, RP Energy is a joint venture company owned equally by AP and Taiwan Cogen. It is the project company that proposes to build and operate a 300-MW coal-fired power plant at the Redondo Peninsula in the Subic Bay Freeport Zone (SBFZ).

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

Other Generation Assets

AP's distribution utilities, DLP and CLP, each has its own standby plant. DLP currently maintains the 53-MW Bunker C-fired Bajada stand-by plant, which is capable of supplying 19% of DLP's requirements. CLP maintains a standby 7-MW Bunker C-fired plant capable of supplying approximately 30.5% of its requirements.

Future Projects

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

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

Acquisition of Additional Generation Assets

AP, on its own and/or with strategic partners, plans to participate in the upcoming bids for the privatization of the government's power assets.

AP also intends to participate in PSALM's public auction for the remaining IPP Administrator contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP Administrators.

DISTRIBUTION OF ELECTRICITY

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

With ownership interests in seven distribution utilities (the Distribution Companies), AP is currently one of the largest electricity distributors in the Philippines. Its distribution utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities in Central Luzon, Visayas and Mindanao, with an aggregate land area of approximately 5,095 square kilometers. Collectively, AP's distribution utilities contributed approximately 18% of its net income for 2009. The distribution companies had a total customer base of 685,378 in 2009, 658,318 in 2008 and 636,641 in 2007.

The table below summarizes the key operating statistics of the Distribution Companies for 2009 and the previous two years.

Company	Electricity Sold (MWh)			Peak Demand (MWh)			No. of Customers		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
VECO	1,829,500	1,766,059	1,680,537	336	326	313	304,002	296,003	288,587
DLP	1,459,161	1,370,951	1,331,437	276	248	245	268,708	257,101	247,341
SFELAPCO	421,139	406,022	391,999	80	75	74	79,669	73,600	70,071
CLP	120,186	118,450	117,523	24	23	23	30,171	28,927	27,966
SEZ	372,391	298,050	199,082	97	64	44	2,724	2,585	2,576
MEZ	117,014	141,225	137,233	23	23	22	76	74	75
BEZ	60,376	63,329	56,798	21	15	14	28	28	25
Total	**4,379,768**	**4,164,086**	**3,914,609**	**857**	**774**	**735**	**685,378**	**658,318**	**636,641**

Visayan Electric Company, Inc.

VECO is the second largest electric privately-owned distribution utility in the Philippines in terms of customers and annual MWh sales. VECO supplies electricity to a region covering 672 square kilometers on the island of Cebu with a population of approximately 1.5 million. Its franchise area includes the cities of Cebu, Mandaue, Talisay and Naga, and the municipalities of Minglanilla, San Fernando, Consolacion and Liloan. To date, VECO has 13 substations located in different areas around the cities of Cebu, Mandaue, Naga and the municipality of Consolacion.

VECO, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu Island since 1905. In the early 1900s, the predecessors-in-interest of the Aboitiz Group acquired a 20% interest in VECO's predecessor-in-interest, the Visayan Electric Company, S.A. Since that time, the Aboitiz Group's ownership interest in VECO has increased from 20% to the current beneficial ownership interest of 55.18% held by AP.

In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The term of this franchise was extended by Republic Act No. 6454 for an additional 25 years beginning in 1978 and was conditionally renewed for another 25 years from December 2003, subject to the resolution of an intra-corporate dispute at that time involving AEV, AP's parent company, and Vivant. In September 2005, the Philippine Congress passed Republic Act No. 9339, which extended VECO's franchise to September 2030. VECO's application for the extension of its Certificate of Public Convenience and Necessity (CPCN) was approved by the ERC on January 26, 2009.

In April 2004, AEV and Vivant, which is the holding company of the Garcia family, entered into a Shareholders' Cooperation Agreement that set out guidelines for VECO's day-to-day operations and the relationship among VECO's shareholders, including: restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), board composition and structure, proceedings of directors and shareholders, minority shareholder rights, dividend policy, termination, and non-compete obligations. Under the terms of the agreement, day-to-day operations and management of VECO were initially assumed by AEV and, after AP acquired AEV's ownership interest in VECO in January 2007, by AP. AP and Vivant are each required to place in escrow 5% of the shares in VECO registered in their respective names to guarantee compliance with their respective obligations under the Shareholders' Cooperation Agreement. The escrow shares will be forfeited in the event a shareholder group violates the terms of the Shareholders' Cooperation Agreement, which was adopted as a result of a dispute between AEV and Vivant regarding the management of VECO. Relations between the shareholders of VECO are amicable.

In April 2009, VECO also applied for a petition with the ERC under the return-on-rate base (RORB) ratemaking regime for the adjustment and realignment of its current distribution charge. After the conclusion of the application process which included a series of public consultations, the ERC granted VECO's petition on August 7, 2009 with modifications on the sound value of assets and the revenue requirement. After taking the adjustments into consideration, the average rate adjustment was ₱0.2267 per kWh. The rate adjustment was implemented starting September 10, 2009.

VECO entered its reset period at yearend 2008 under the Performance-Based Rate-Setting Regulation (PBR) and has received a final determination on its PBR application from ERC. VECO will be submitting its rate design proposals based on the final determination by April 2010. It is expected that final PBR approvals will allow VECO to enter the 4-year regulatory period on July 1, 2010.

Davao Light & Power Company, Inc.

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

AP currently has an ownership interest of 99.93% in DLP, which was organized on October 29, 1929. DLP's original franchise, which covered Davao City, was granted in November 1930 by the Philippine Legislature and was for a period of 50 years. In 1976, the National Electrification Administration (NEA) extended DLP's franchise for Davao City to November 2005 and granted DLP franchises for the City of Panabo and the municipalities of Carmen and Santo Tomas in Davao del Norte province. In September 2000, the Philippine Congress passed Republic Act No. 8960, which granted DLP a franchise over its current franchise area for a period of 25 years, or until September 2025. The Aboitiz Group acquired its ownership interest in DLP in 1946.

DLP has a 150-MVA and a new 2x50-MVA substation drawing power at 138 kV. In 1998, it entered into a 10-year power purchase agreement with NPC, which had been extended until 2015 by a separate contract signed in 2005 by the parties. DLP's power purchase agreement with NPC allows the delivery of most of DLP's power requirements through DLP's 138 kV lines. As a result, in taking delivery of electricity from NPC, DLP is able to bypass the NGCP connection assets and avoid having to pay corresponding wheeling fees to NGCP, thereby allowing DLP to cut its operating costs.

DLP also has a 53-MW Bunker C-fired standby plant (the Bajada Plant), which is capable of supplying 19% of DLP's electricity requirement.

In February 2007, DLP awarded to the Hedcor Consortium (composed of Hedcor, ARI, Hedcor Sibulan, and Hedcor Tamugan) a 12-year supply contract of 400,000,000 kWh per year of new capacity. The price differential between the Hedcor Consortium's winning bid price of ₱4.0856 per kWh and the next lowest bid was approximately ₱1.0129 per kWh. Over the life of the supply contract, the differential will amount to approximately ₱4.9 billion at current peso value, representing significant savings for DLP customers.

DLP decided to secure the new supply contract in anticipation of the full utilization of the existing contracted energy supply under the 10-year contract with the NPC for 1,238,475 MWh and the 12-year contract with Hedcor.

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

DLP entered its reset period in January 2009 under the PBR and has received a final determination on its PBR application from ERC. DLP will be submitting its rate design proposals based on the final determination by April 2010. It is expected that the final PBR approvals will allow DLP to enter the 4-year regulatory period on July 1, 2010.

By end of December 2009, DLP had a low systems loss of 8.12% which is below the government's is 8.5% cap set for private distribution utilities effective January 2010.

Cotabato Light & Power Company

CLP supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, both in Maguindanao province in Mindanao. Its franchise area covers approximately 191 square kilometers and has a population of 350,692. In 2009, it has a manpower complement of 58 full-time employees and a number of contractual employees serving a customer base of 30,171, composed of residential, commercial, industrial and flat rate customers.

CLP was formally incorporated in April 1938. Its original 25-year franchise was granted in June 1939 by the Philippine Legislature. In 1961 the Philippine Congress passed Republic Act No. 3217 which was further amended by Republic Act No. 3341 extending CLP's franchise until June 1989. In August 1989, NEA extended CLP's franchise for another 25 years, which will expire in August 2014. AP owns 99.93% of CLP.

CLP has three substations of 10 MVA, 12 MVA and 15 MVA and is served by two 69 kV transmission lines, which provide redundancy in case one transmission line fails. CLP's distribution voltage is 13.8 kV. It has a stand by 7-MW Bunker C-fired plant capable of supplying approximately 30.5% of its franchise area requirements. The existence of a standby power plant, which is capable of supplying electricity in cases of supply problems with NPC and for the stability of voltage, whenever necessary, is another benefit to CLP's customers.

Although a relatively small utility, CLP's corporate relationship with DLP allows the former to immediately implement benefits from the latter's system developments.

The ERC issued its final determination on CLP's application for approval of its annual revenue requirement and performance incentive scheme under the PBR scheme covering the second year of the 4-year regulatory period. CLP's 4-year regulatory period commenced on April 1, 2009 and will end on March 30, 2013.

On April 15, 2009, the ERC approved CLP's application for translation of its approved annual revenue requirement for the first regulatory year into applicable rates per customer class. CLP implemented the approved rates on May 1, 2009, a month after the start of the first regulatory year. The resulting under recovery from the one-month lag will be reflected and recovered in the next regulatory year's rate translation application.

CLP received approval for its new rates covering the second regulatory period that will commence on April 1, 2010.

Managing systems loss was a challenge for CLP with its systems loss in 2009 reaching 10.36%, which was above the then, 9.5% loss cap set by ERC. With systems loss for 2010 capped even lower at 8.5%, CLP will proactively act on lowering its systems loss through various measures most of which is aimed to address pilferage, the primary cause of its high systems loss.

San Fernando Electric Light and Power Co. Inc.

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

SFELAPCO was incorporated on May 17, 1927. In 1961, the Philippine Congress passed Republic Act No. 3207, which granted SFELAPCO a franchise to distribute electricity for a period of 50 years or until June 2011 within the franchise area described above. Republic Act No. 9967 extending SFELAPCO's franchise for another 25 years from the date of its approval lapsed into law on February 6, 2010.

On November 11, 2009, SFELAPCO signed a Power Supply Agreement (PSA) with APRI. Under the PSA, APRI will supply the additional energy required by SFELAPCO that cannot be supplied by NPC from December 25, 2009 to September 25, 2010. Thereafter, APRI will then be the sole provider of power to SFELAPCO until December 25, 2012.

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

AP has an effective interest of 43.78% in SFELAPCO.

Subic Enerzone Corporation

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

SEZ's authority to operate the SBFZ power distribution system was granted by the SBMA pursuant to the terms of Republic Act No. 7227 (The Bases Conversion and Development Act of 1992), as amended. As a company operating within the SBFZ, SEZ is not required to pay the regular corporate income tax of 32% and instead pays a preferential tax of 5% on its gross income in lieu of all national and local taxes.

Following the acquisition of AP in January 2007 of the 64.3% effective ownership interest of AEV in SEZ, AP entered into another agreement on June 8, 2007 to acquire the combined 25% equity stake in SEZ of AEV, SFELAPCO, Okeelanta, and PASUDECO.

On December 17, 2007, AP bought the 20% equity of Team Philippines in SEZ for ₱92 million. Together with the 35% equity in SEZ of AP subsidiary DLP, this acquisition brought AP's total equity in SEZ to 100%.

In September 2008, SEZ acquired the 100 MVA Subic Substation from the NGCP. The substation has a 230/69/13.8kV power transformer supplying power to the Subic Bay Industrial Park, Binictican and Kalayaan housing areas, Cubi, Naval Magazine, and Grande Island in the SBFZ.

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

SEZ is part of the fourth batch of private utilities expected to enter PBR. It is in the process of conducting asset review with the ERC for its PBR application and is expected to obtain final approval of its rate application under the PBR in time for the scheduled implementation on October 1, 2011.

Mactan Enerzone Corporation

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

On June 8, 2007, AP entered into an agreement to acquire AboitizLand's 100% equity stake in MEZ represented by 8,754,443 common shares of MEZ. Pursuant to the agreement, AP acquired AboitizLand's ownership interest in MEZ valued at ₱609.5 million in exchange for AP's common shares issued at the initial public offering price of ₱5.80 per share. MEZ sources its power from NPC pursuant to a Contract to Supply Electric Energy. Under the supply contract, NPC is required to provide power to MEZ up to the amount of contracted load, which is based on the projections provided by MEPZ II locators under their respective Power Service Contracts with MEZ.

Balamban Enerzone Corporation

BEZ was incorporated in January 2007 when Cebu Industrial Park Developers, Inc. (CIPDI), a joint venture between AboitizLand and Tsuneishi Holdings, spun off the power distribution system of the West Cebu Industrial Park (WCIP-BEZ).

WCIP-BEZ is a special economic zone for light and heavy industries owned and operated by CIPDI. The park, which is located in Balamban, Cebu, is home to the shipbuilding and ship repair facilities of Tsuneishi Heavy Industries (Cebu), Inc. as well as the modular fabrication facility of Metaphil International, Inc.

On May 4, 2007, CIPDI declared a property dividend to its stockholders in the form of its equity in BEZ. On June 8, 2007, AP entered into an agreement to acquire AboitizLand's 60% equity stake in BEZ represented by 4,301,766 common shares of BEZ. Pursuant to the agreement, AP acquired AboitizLand's ownership interest in BEZ valued at ₱266.9 million in exchange for AP's common shares issued at the initial public offering price of ₱5.80 per share.

On March 7, 2008, AP purchased Tsuneishi Holdings' 40% equity in BEZ for approximately ₱178 million. The acquisition brought AP's total equity in BEZ to 100%.

RETAIL ELECTRICITY AND OTHER RELATED SERVICES

One of the objectives of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. In particular, when Open Access and Retail Competition under the Rules and Regulations to Implement the Electric Power Industry Reform Act of 2001 (EPIRA) (Republic Act No. 9136) is fully implemented, large-scale customers will be allowed to obtain electricity from Retail Electricity Suppliers licensed by the ERC.

Aboitiz Energy Solutions, Inc. (AESI)

AESI, a wholly owned subsidiary of AP, holds a license to act as a Retail Electricity Supplier (issued on December 6, 2006) and a license to act as a Wholesale Aggregator (issued on January 26, 2007). AESI intends to take advantage of its affiliation with the Aboitiz Group in marketing its power to Open Access customers.

AP also offers a range of electricity-related services through AESI. These services are designed to help AESI customers improve the efficiency, cost and reliability of their electric equipment and optimize their electricity consumption.

AESI's main electricity-related service is power factor improvement. One of the metering parameters measured for utility, commercial, and industrial customers is power factor. A low power factor load increases losses in a power distribution system and results in increased cost for electrical energy use. Under the current rate scheme of the NGCP, a customer drawing power from NGCP transmission facilities is granted a discount on transmission charges if its power factor is greater than 90% and is penalized if its power factor is less than 85%. Most large utilities like Meralco also provide a similar incentive. AESI helps customers increase their power factors through the installation of capacitor banks in their electrical system. Customer contracts with AESI are for periods of at least two years, and AESI is paid a percentage of the cost savings that a customer is able to obtain from power factor improvements. Customers for this service include electric cooperative companies, such as the Agusan del Norte Electric Cooperative and the Davao Del Norte Electric Cooperative, and various industrial and commercial establishments, including shopping malls operated by the SM Group, the largest mall operator in the Philippines.

Electric cooperatives which are part of the customer base of AESI's power factor improvement services are also potential customers of AP's generation companies. Improving the power factors of these cooperatives and reducing their costs should also improve their creditworthiness, increasing their attractiveness as customers of AP's generation facilities.

FINANCIAL SERVICES

AEV's financial services group is composed of two companies: (1) Union Bank of the Philippines (UBP), a leading universal bank in the country, and (2) City Savings Bank (CSB), a thrift bank based in Cebu City.

Union Bank of the Philippines

UBP was founded in 1968 as a savings bank and was granted its commercial banking license by the Bangko Sentral ng Pilipinas (BSP) in 1982. In 1992, UBP received its license to operate as a universal bank. In 1994, it successfully acquired and

merged with the International Corporate Bank, widening its business scope and presence in the Philippines. That same year, UBP embarked on a comprehensive corporate restructuring program through investments in technology, creation of new products and the development of online banking capabilities, all of which have become the bank's competitive strengths.

As part of its growth strategy, UBP acquired the International Exchange Bank (iBank) in June 2006. The acquisition and merger of iBank catapulted UBP to being the 7th largest in terms of assets, 7th largest in terms of loans and 9th largest in terms of deposits among private domestic commercial banks per BSP data as of September 2006. The merger strengthened its position as a top-tier universal bank with the necessary scale and enhanced product offerings to compete in the industry.

In April 2007, UBP undertook a follow-on offering of 90 million new common shares which allowed the bank to raise additional equity of over ₱5.1 billion. The purpose of the offering was to raise the Bank's equity to strengthen its capital adequacy ratio, in anticipation of Basel II requirements and further enhance its financial flexibility.

UBP issued 10-year unsecured subordinated notes eligible as Lower Tier 2 capital at 7.375% per annum in October 2009. It capped its offering at ₱3.75 billion following its strong performance on the first nine months of 2009. Proceeds of the offering were used to increase and strengthen capital base, and to support business expansion plans.

As of end-December 2009, AEV beneficially holds 38.66% of UBP. Other major shareholders of UBP are Insular Life Assurance Company, Ltd. and the Social Security System.

As a universal bank, UBP provides a broad range of services such as commercial, retail and corporate banking products and services such as loan and deposit products, cash management services, trust banking services, consumer finance, treasury activities and electronic banking products to high-end corporate segments, middle market, retail customers, and major government institutions.

UBP is focused on meeting changes in customer needs through technological advancements and seeks to remain at the forefront of technology-based banking in the Philippines. UBP believes that the use of technology and its operational structure has enabled it to capture and secure a loyal customer base as well to achieve high levels of efficiency and productivity. As part of its future growth strategy, UBP aims to establish itself as a leading multi-product financial services bank in the Philippines by increasing its share of the banking business for all market segments by providing a full range of financial products and services.

UBP has received various awards for its achievements. In 2001, it received the "Excellence in Retail Banking Award" from The Asian Banker for being the best retail bank in the Philippines. In December 2002, it was voted by Euromoney as being one of "The 10 Best Managed Companies in Asia in 2002". In January 2003, it was also voted by AsiaMoney as being "Among the 5 Best Managed Companies in the Philippines in 2002". In 2004, UBP won the excellence in credit card management award in the Philippines, which is the highest award for excellence in products and processes in retail banking in Asia. In 2005, UBP was cited as the Most Outstanding Credit Card Company by the Consumer League of the Philippines Foundation Inc. In the same year, its official website, "unionbankph.com" was awarded the Best in Functionality and Interactivity award at the BAIPHIL Web Awards, and the Best Banking and Finance Website award as well as the People's Choice for Banking and Finance at the Philippine Web Awards. UBP was honored for the sixth time by the Social Security System in the Balikat ng Bayan Awards for 2005 as the Best Participating Financial Institution in Housing Loans. In February 2008, UBP received the Financial Insights Innovation Award from Financial Insights for its Business-to-Government (B2G) Payments, in recognition to the bank's leadership in technology renovations. That same year, UBP was awarded the ISO 9001:2000 Quality Management System (QMS) Certification for its entire centralized backroom operations by TUV Rheinland, as a testament to the Bank's commitment to maintain compliant, accurate, timely and problem-free service delivery. For three years in a row since 2007, UBP received various distinctions from Visa International for its exemplary achievements in its credit and debit card businesses. In October 2009, UBP was awarded the Best Credit Card Product Innovation for its Omnipass Visa and Best Debit Card for EON CyberCard, both under the National Awards Category, at the Lafferty Group's Southeast Asian Payment Card Awards. Both awards reflect the voice of the consumer, having been based on cardholders' experience in terms of the cards' features and benefits, services, product conditions and brand value. In December 2009, UBP received a Product Innovation Partnership award from J.P. Morgan Chase Bank for its active participation in its auto-convert product, an innovation of J.P. Morgan's FX remittance worldwide payment service.

City Savings Bank

CSB, a thrift bank, was incorporated on December 9, 1965 and was originally known as Cebu City Savings and Loan Association. It was the first of its kind to be organized under the "Savings and Loan Association Act", otherwise known as Republic Act 3779. CSB began its business with a mission to serve the ordinary working men and women in the areas where it operates.

From one branch built in 1966, CSB now has 23 branches and extension offices in the Visayas and Mindanao. Three full branches and three extension offices are located in the Cebu province while other branches and extension offices are located in the cities and municipalities of Ormoc, Calbayog, Tacloban, Iloilo, Bacolod, Roxas, San Carlos, Davao, Tagum, Sogod in Southern Leyte, Catarman in Northern Samar, Kabankalan, Antique, Tanjay, Cagayan de Oro, Tagbilaran and Ubay.

CSB offers traditional deposit products such as savings and time deposit accounts. Its 1-5 year time deposits offer high interest rates and monthly earnings that can easily satisfy the depositors' daily needs. The deposit products include the regular savings account, student savings account, and the Kaugmaon savings account. The regular savings account allows minimum deposits for as low as ₱500, while the student savings is intended primarily to encourage students to save money and learn the value of saving. In 2009, CSB launched its CSB ACCESS which is the new ATM product under the BANCNET network.

CSB also extends loans to individuals who are normally too small for commercial banks to handle. Majority of its loans are intended for public school teachers and government employees. CSB carries with it over 44 years of experience in teachers' lending, with salary loans for public school teachers as its main loan product since its incorporation. The salary loan is pursuant to the Department of Education's (DepEd) Automatic Payroll Deduction System (APDS).

CSB currently employs a total of over 300 employees, serving over 90,000 borrowers and counts on the strong patronage of its more than 56,000 depositors all over the Visayas and Mindanao areas. It has total capital funds of over ₱800 million and total resources of over ₱6 billion. It also has one of the best operating efficiencies in the thrift banking industry and the lowest past due ratio. Its capital adequacy ratio has always been way above the BSP requirement at 10%.

In its regular meeting on March 10, 2010, the AEV Board of Directors approved the proposal to acquire up to 60% ownership of its affiliate CSB. Pilmico Foods Corporation (Pilmico), a wholly owned subsidiary of AEV, will acquire the remaining 40% of the CSB equity.

AEV currently owns approximately 34% of CSB. The combined purchase by AEV and Pilmico is valued at approximately P1.36 billion. The planned acquisition is also conditional upon AEV's obtaining the necessary Monetary Board approval for the transaction.

FOOD MANUFACTURING

AEV's food manufacturing group is presently made up of Pilmico and its subsidiary, Pilmico Animal Nutrition Corporation (PANC).

In the last quarter of 2006, Pilmico divested its holdings in Pilmico-Mauri Foods Corporation, a former joint venture with Associated British Foods Plc engaged in the manufacture of yeast and specialty baking products.

Pilmico Foods Corporation

Pilmico is one of the country's largest manufacturers of flour and is ranked among the top three domestic flour producers in terms of sales.

Incorporated on August 8, 1958, Pilmico started out as a joint venture among the Aboitiz Group, the Lu Do Group, the Soriano Group and the Pillsbury Group of the United States. The Lu Do, Soriano and Pillsbury Groups eventually sold off their holdings to AEV.

Pilmico is primarily engaged in the manufacture of wheat flour and wheat by-products. As a flour miller, Pilmico brings into the market a variety of brands such as “Sun Moon Star”, “Sunshine”, “Glowing Sun”, “Kutitap”, “Gold Star” and “Megastar”. Aside from these basic all-purpose baking flour brands, Pilmico also offers a high-end cake flour under the “Wooden Spoon” brand. Pilmico products are distributed nationwide through external distributors and dealers located in major cities like Manila, Davao, Iloilo, Bacolod, Iligan and Cebu. These distributors handle sales to bakeries, restaurant chains, hotels, and other large end-users. It imports both soft and hard wheat, the main raw materials for its products, from the United States and Canada.

On September 1, 2008, Pilmico commenced commercial operations of its new 115,000 metric ton (MT) feedmill located within its flour mill complex in Iligan City, Lanao del Norte. New grains silos with capacity of 27,000 MT were also completed in September 2008. Pilmico expects to further generate cost savings with the completion and operation of the feedmill and grains silos. Enhancements in its cost structure are expected as savings should be incurred in (1) freight costs as the new capacity will be closer to its customers in the Visayas-Mindanao region; and (2) input costs due to proximity to sources of raw materials, particularly corn, in the Northern Mindanao region.

As its new feedmill in Iligan is nearing full utilization, Pilmico plans to expand its capacity by adding another production line. Once completed and operational, total capacity is seen to improve by 94%. Construction is expected to commence by first quarter of 2010, with target completion date by June 2010.

Pilmico is in the process of completing the requirements for an ISO certification of its Iligan feedmill. It aims to obtain said certification by 2011. The same is being done for PANC’s Tarlac feedmill.

Pilmico Animal Nutrition Corporation

To diversify from the cyclical nature of its existing products, Pilmico also entered the swine production and animal feeds businesses in 1997 through PANC, formerly a joint venture with Tyson International Holding Company, a subsidiary of Tyson Foods, Inc., and PM Nutrition Company, Inc., an affiliate of Purina Mills, Inc. In January 1999, PANC began commercial operations of its feed milling plant, and started its swine operations in the second half of that year.

In October 2002, PANC became a wholly owned subsidiary of Pilmico following Pilmico’s acquisition of its partners’ equity. This strengthened Pilmico’s focus and core competence in the feed milling industry. PANC’s products are sold under the “Farmer’s Edge” brand.

PANC’s new grower-finisher farm in Aranguren, Tarlac started commercial operations in January 2009. This increased the company-owned farm capacity by 67% to 12,000 heads of market hogs. The new nucleus farm in Sto. Rosario, Tarlac began operations in November 2009. This nucleus farm project will increase sow capacity by 1,700 heads, or by 35% from current levels.

PANC’s third grower-finisher farm in Capas, Tarlac is expected to commence commercial operations by the first quarter of 2010. This will increase capacity of the company-owned farms by 60%. PANC is evaluating the construction of a fourth grower-finisher farm, which is expected to increase total capacity by another 38%.

In November 2008, PANC began the construction of a biogas system in its breeder, nucleus and new grower-finisher farm facilities in Tarlac. Once Operational, PANC expects to make its farms’ operations almost power self-sufficient with the conversion of hog waste to electricity.

TRANSPORT

AEV’s transport business is made up of two groups: (a) Aboitiz Transport System (ATSC) Corporation or ATS (formerly, William, Gothong and Aboitiz, Inc. or WG&A, Inc.) and its subsidiaries; and (b) Accuria, Inc. (formerly, Aboitiz Transport System, Inc.), a holding company for all transport-related businesses of AEV outside of ATS.

Aboitiz Transport System (ATSC) Corporation

ATS is in the business of providing solutions for the movement of people and products. The company operates through its subsidiaries, Aboitiz One, Inc. (100%), Supercat Fast Ferry Corporation (100%), Aboitiz Jebsen Bulk Transport Corporation (62.5%), Aboitiz Jebsen Manpower Solutions, Inc. (62.5%), Jebsen Maritime, Inc. (62.5%), Jebsen Management (BVI) Ltd (50.0%) and MCC Transport Philippines, Inc. or MCCP (33%). ATS provides products and services to its customers through different brand names such as “2GO” for its cargo and logistics service and “SuperFerry”, “Cebu Ferries” and “SuperCat” for its passenger business.

ATS is the result of the 1995 merger of the three biggest shipping companies in the Philippines at that time: William Lines of the Chiongbian family, Carlos A. Gothong Lines of the Gothong family, and Aboitiz Shipping Corporation. In September 2002, the three major owners of the company finalized an agreement for the Aboitiz Group to buy out the Chiongbian and Gothong groups for a total cash value of about ₱5.40 billion.

Today, ATS’s businesses can be grouped into the following:

1. Airfreight forwarding and courier delivery services
2. Containerized and rolling cargo services
3. Global transport and distribution solutions
4. Supply chain solutions
5. Inter–island passenger transport and cargo liner services
6. Sea-based as well as land-based manpower recruitment and training
7. Ship management services

ATS links the major ports and principal cities of the Philippines through a route network of over 20 ports of call. As of March 2, 2010, the Company has a fleet of 21 company-owned (including MCCP-owned vessels) and two chartered vessel with a combined Gross Registered Tonnage (GRT) of approximately 126,123 metric tons (MT), total passenger capacity of approximately 17,606 passengers, and aggregate cargo capacity of approximately 6,014 twenty-foot equivalent units (TEUs).

ATS’s extensive presence throughout the country is carried out through its branch operations and agency networks. These are located primarily in Manila, Cebu, Dumaguete, Tagbilaran, Bacolod, Iloilo, Coron, Puerto Princesa, General Santos, Zamboanga, Cotabato, Davao, Cagayan de Oro, Iligan, Ozamis, Nasipit, Tacloban, Ormoc and Jagna.

PORTFOLIO INVESTMENTS (PARENT COMPANY/OTHERS)

AEV’s portfolio investments include holdings in real estate through Cebu Praedia Development Corporation (CPDC) and aviation through AEV Aviation, Inc. (AAI).

AEV Aviation, Inc.

AAI holds AEV’s aviation assets, including the corporate aircraft and accompanying support facilities. Incorporated on October 9, 1990, it was originally known as Spin Realty Corporation, and was reorganized in late 1998 when the newly acquired AEV corporate aircraft was placed under its holdings.

To date, AAI has five employees, one pilot-in-command, one co-pilot, one aircraft mechanic supervisor, and two aircraft mechanics. Their task is to provide air transport for AEV’s corporate officers within the Philippine archipelago.

Cebu Praedia Development Corporation

CPDC is the holding company for AEV’s real estate properties. It was incorporated on October 17, 1997 but began operations only in December 1999. To date, its major property holdings include the commercial building block located at 110 Legazpi Street, Makati City that serves as the office of AEV and its subsidiaries and associates in Metro Manila, and AEV’s corporate headquarters located at Gov. Manuel Cuenco Avenue in Cebu City.

(ii) Sales

Comparative amounts of consolidated revenues, profitability and assets are as follows:

	2009	2008	2007[4]
Gross Income	46,230	35,862	31,205
Operating Income	7,527	2,340	2,902
Total Assets	143,281	75,715	65,908

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

The operations of AEV and its subsidiaries are based largely in the Philippines. With the acquisition by ATS of the other transport businesses of the Aboitiz Group, a portion of AEV's consolidated revenues was generated from the international operations of certain subsidiaries.

Comparative amounts of revenue contribution by business grouping[5] are as follows:

	2009		2008		2007	
Power Distribution & Generation	23,174	50%	12,243	34%	11,312	36%
Food Manufacturing	11,048	24%	10,689	29%	8,629	27%
Transport	11,824	25%	12,869	35%	11,056	35%
Parent & Portfolio	541	1%	523	1%	668	2%
Total Revenues	**46,588**	**100%**	**36,323**	**100%**	**31,665**	**100%**
Less: Eliminations	358		460		460	
Net Revenues	**46,230**		**35,862**		**31,205**	

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

[4] 2008 and 2007 Profit and Loss figures are re-presented to consider the aborted sale of ATS investments in 2009. The results of operations of the disposal group previously presented as held for sale are now re-presented and included in income from continuing operations.

[5] Percentages refer to the business group's share in net revenue for a given year. The financial services group is not included in the table since UBP and CSB are not consolidated companies, and therefore, their revenues do not form part of "Net Revenues" reflected in the consolidated income statement. Instead, the financial services sector's contribution to registrant's net income is reported under the account "Share in Net Earnings of Associates". For additional details on the income contribution of all business segments/groups to AEV, please refer to Business Segment Information of the Notes to the Consolidated Financial Statement.

(iii) Distribution Methods of the Products or Services

POWER GENERATION AND DISTRIBUTION

AP's generation companies sell their electricity either through the WESM or through bilateral power supply agreements with NPC, private distribution utilities or other large end-users.

Currently, SNAP-Magat also has an ASPA with NGCP as ancillary service provider to the Luzon Grid. As an ancillary service provider, SNAP-Magat nominates its available capacity for ancillary service to NGCP (system operator). If NGCP accepts the nominated ancillary capacity, it will then provide a notice of ancillary service schedule to SNAP-Magat.

Majority of AP's generation companies have transmission service agreements with NGCP for the transmission of electricity to the designated delivery points of their customers, while others built their own transmission lines to directly connect to their customers. In some instances, where the offtaker is NPC, it takes delivery of the electricity from the generation facility itself.

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

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

FINANCIAL SERVICES

UBP delivers its products and services through multiple channels: 175 branches and 202 ATMs nationwide as of December 31, 2009, a call center and Internet bank, www.unionbankph.com.

CSB has 23 branches and extension offices all over the Visayas and Mindanao areas serving over 90,000 borrowers and more than 56,000 depositors. CSB also has five ATMs under the BANCNET network.

FOOD MANUFACTURING

Pilmico products are distributed nationwide through external distributors and dealers located in major cities like Manila, Davao, Iloilo, Bacolod, Iligan and Cebu.

TRANSPORT

(iv) New Product/Services

AEV and its subsidiaries do not have any publicly announced new product or service to date.

(v) Competition

On the parent company level, AEV has no direct competitor. However, for reference purposes, other holding and management companies listed in the PSE can be used for comparison.

On the subsidiary and affiliate level, competition may be described as follows:

Generation Business

With the ongoing privatization of NPC-owned power generation facilities and the establishment of WESM, AP's generation facilities located in Luzon, the Visayas and Mindanao will face competition from other power generation plants that supply electricity to the Luzon, Visayas and Mindanao Grids. In particular, SNAP-Magat, SNAP-Benguet, APRI and Therma Luzon are expected to face competition from leading multinationals such as Marubeni Corporation and Korea Electric Power Corporation, as well as Filipino-owned independent power producers (IPPs) such as First Gen Corporation, DMCI Holdings, Inc, and San Miguel Energy Corporation.

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

Distribution Business

Each of AP's distribution companies currently has an exclusive franchise to distribute electricity in the areas covered by each franchise.

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

FINANCIAL SERVICES

UBP intends to grow its lending business as it accesses more collateral business and builds its consumer business. The Bank continues to apply appropriate risk management techniques to different types of risk exposures. It also plans to expand its branch network from its total of 175 operational branches as of end-December 2009 with the opening of 18 new branches in key strategic areas in the next 18 months. It continues to leverage on its leading position in technology-driven products and services.

CSB competes with other similar thrift banks and rural banks, such as First Consolidated Bank of Bohol and One Network Bank of Mindanao, that operate in Cebu and the neighboring islands of Bohol, Samar, Leyte, Panay, Negros, and Mindanao. It also competes with private lending institutions accredited by the DepEd on APDS that offer the same products and services.

CSB's strategy is to strengthen its capabilities as a provider of financial services to people of moderate means, such as the public school teachers, other public servants, and the ordinary working class. It also aims to solidify its leadership position in the Visayas and Mindanao by protecting and developing its existing market and pursuing branch expansions.

As part of its diversification strategy, CSB plans to expand its market for salary loans to cover selected civil servants and employees of private companies. In 2010, it is expanding its operations in Luzon, where the market for teachers' loans is double the combined size of those in Visayas and Mindanao. A pilot office will be established in Calamba, Laguna to study the culture and borrowing behaviors in the Luzon area before full blast expansion will be done in that region.

TRANSPORT

ATS competes primarily with other major inter-island shipping companies, namely: Sulpicio Lines, Inc., Negros Navigation Company, Inc., Lorenzo Shipping Corporation, and Solid Lines Corporation. It also competes with major airlines for its passenger business. It has maintained its leadership in the shipping industry despite heavy competition.

FOOD MANUFACTURING

There is a relatively high degree of competition in the domestic flour milling industry. However, because of freight and distribution costs within the Philippine archipelago, flour companies have a competitive advantage in the areas proximate to their milling plants. Pilmico's flourmill is located in Iligan City in Northern Mindanao. The only other flour miller operating in Mindanao is Universal Robina, which has a plant in Davao.

(vi) Purchase of Raw Materials and Supplies

As a holding company, AEV's primary business is not dependent on the availability of certain raw materials or supplies. Acquisition and/or purchases of raw material requirements are done at the subsidiary or affiliate level.

Generation Companies

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

Under the APA between APRI and PSALM for the Tiwi-MakBan geothermal complex, the management and operation of the steam fields which supply steam to Tiwi-MakBan remains with Chevron Geothermal Philippines Holdings, Inc. (Chevron). The steam supply arrangement between APRI and Chevron is currently governed by a Transition Agreement which provides for the reimbursement of capital expenditures and operating expenses, as well as payment of service fees, by APRI to Chevron.

The Transition Agreement is to be effective no more than four years from the date of the turnover of Tiwi-MakBan to APRI and will be replaced by a Geothermal Resource Service Contract (GRSC) when Chevron becomes a Philippine corporation, and after the rehabilitation of Makban units 5 and 6. Under the GRSC, APRI will no longer pay service fees or reimburse Chevron for capital expenditures and operating expenses. Instead, the price of steam shall be linked to the Barlow Jonker and Japanese Public Utilities (JPU) coal price indices. As a result, the steam cost structure under GRSC will shift from a largely fixed to a full variable cost.

AP's oil-fired plants use Bunker C fuel to generate electricity. EAUC and CPPC each have a fuel supply agreement with Petron, while SPPC and WMPC get fuel supplies from NPC pursuant to their respective ECAs with NPC. Therma Marine is in the process of entering into a long-term fuel supply agreement where the price of fuel is expected to be linked to the Mean of Platts Singapore (MOPS).

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

Therma Luzon has no long-term coal supply contract at present but has existing supply contracts to meet the Pagbilao plant's coal requirements until December 2010. While Therma Luzon's objective is to enter into long-term coal supply agreements, it wants to first establish more Indonesian coal sources to give it flexibility in its coal sourcing and allow it to purchase competitively-priced coal in the market.

Distribution Companies

The bulk of electricity volume AP's distribution companies sell is purchased from NPC, rather than from AP's own generation companies. The following distribution companies purchase electricity from the generation companies: DLP from Hedcor, SFELAPCO from APRI, and VECO from CPPC and CEDC. Each of the distribution companies has bilateral agreements in place with NPC for the purchase of electricity, which set the rates for the purchase of NPC's electricity. The following table sets out material terms of each distribution company's bilateral agreements with NPC:

Distribution Company	Term of Agreement with NPC	Contract Energy (MWh per year)	Take or Pay	Pricing Formula
VECO	Five years and three months; expiring in December 2010	1,310,766	Yes	ERC-approved NPC rate + ERC-approved adjustments
DLP	10 years; expiring in December 2015	1,238,475	Yes	ERC-approved NPC rate + ERC-approved adjustments
SFELAPCO	Five years; expiring on September 25, 2010	193,500	Yes	ERC-approved NPC rate + ERC-approved adjustments
CLP	10 years; expiring in December 2015	116,906	Yes	ERC-approved NPC rate + ERC-approved adjustments
SEZ	Three years; expiring in March 2011	90,000	Yes	Average generation rate of ₱3.4742/kWh and franchise and benefit tax ₱0.0245
BEZ	N/A	N/A	N/A	N/A
MEZ	10 years; expiring in September 2015	114,680	Yes	ERC-approved NPC rate + ERC-approved adjustments

The rates at which DLP and SFELAPCO purchase electricity from Hedcor are established pursuant to the bilateral agreements that are executed after the relevant generation company has successfully bid for the right to enter into a PPA with either DLP or SFELAPCO. These agreements are entered into on an arm's-length basis and on commercially reasonable terms and must be reviewed and approved by the ERC. In addition, ERC regulations currently restrict distribution companies from purchasing more than 50% of their electricity requirements from affiliated companies, such as the generation companies. Hedcor Sibulan is expected to start supplying DLP with the electricity generated from its Sibulan plants in the first half of 2010 pursuant to the Hedcor consortium's 12-year PSA to supply 400,000,000 kWh per annum of new capacity.

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

In September 2009, VECO entered into a PSA with CEDC for the supply of 105 MW for 25 years to address VECO's long-term power supply requirement. CEDC is building 3x82-MW coal-fired power plant. The first 75- MW unit was switched on in March 2010 and all the power generated by this unit is delivered to VECO. The second and third units are expected to be operational by the second half of 2010.

Meanwhile, to mitigate the power shortage in 2010, VECO's largest customer, CEMEX Philippines, agreed to supply 10 MW to VECO during peak hours for one year.

The provisions of the distribution companies' PPAs are governed by ERC regulations. The main provisions of each contract relate to the amount of electricity purchased, the price, including adjustments for various factors such as inflation indexes, and the duration of the contract. Under current ERC regulations, distribution companies can purchase up to 90% of their electricity requirements using bilateral contracts.

Meanwhile, DLP and CLP each has its own standby plant. DLP currently maintains the 53-MW Bunker C-fired Bajada standby plant which is capable of supplying 19% of DLP's requirements. CLP maintains a standby 7-MW Bunker C-fired power plant capable of supplying approximately 30.5% of its requirements.

Each of AP's distribution companies has entered into a transmission service contract with NGCP for the use of NGCP's transmission facilities in the distribution of electric power from the Grid to its customers. These distribution utilities have

negotiated agreements with NGCP in connection with the amount and form of security deposit they will provide NGCP to secure their obligations under their transmission services contracts.

Food Companies

AEV's food subsidiaries import wheat, soybean meal, and other grains mostly from various suppliers in the United States and Canada.

Transport Companies

Transport subsidiaries obtain materials, parts and supplies from local suppliers at competitive rates. Fuel and lubricants are purchased from a major fuel provider.

(vii) Customers

As a holding company providing management services, AEV's principal customers are its subsidiaries and associates.

Power Generation and Distribution

Close to 70% of the total electricity generated by the generation companies are either sold to private distribution utilities or the NPC pursuant to long-term bilateral power supply agreements. The bilateral agreements with NPC are supported by NPC's credit, which in turn is backed by the Philippine government. The remaining 30% of the total electricity generated by AP's generation companies is sold through the WESM.

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

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

Financial Services

CSB is highly dependent on its salary loan product offered to public school teachers; this has grown to comprise more than 95% of CSB's total loan portfolio, and over 95% of CSB's total interest income as of December 2009. As of end-December 2009, CSB's total salary loans to teachers amounted to ₱4.80 billion or 98% of the total loan portfolio of ₱4.9 billion.

As an institution engaged in lending to public school teachers for over 44 years, CSB has developed an in-depth understanding and expertise in teachers' lending. It has established an efficient collection system and maintains a minimal non-performing loan experience as demonstrated by its low NPL ratio of 0.88% as of December 2009. Consequently, the BSP has provided CSB with a CAMELS rating of 4 in the last five years in a scale of 1 to 5, with 5 being the highest. The composite rating of 4 indicates a stable bank capable of withstanding unfavorable outside factors or influences. Certain weaknesses are well within the Capability of the Board or senior management to correct in the normal course of operation. Risk management policies are satisfactory relative to the institution's size, complexity and risk profile.

In addition, CSB is protected under the Thrift Banks Act of 1995, otherwise known as Republic Act No. 7906. Thrift banks are allowed to extend loans to government employees and collect the same through automatic or direct payroll deductions. This reduces the risk of default on salary loans extended to this sector.

Other Subsidiaries and Affiliates

AEV's other subsidiaries and affiliates have a wide and diverse customer base. As such, the loss of any one customer will have no material adverse impact on its subsidiaries and affiliates.

(viii) Transactions With and/or Dependence on Related Parties

AEV and its subsidiaries and associates (the Group), in their regular conduct of business, have entered into related party transactions consisting of 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.

The Group has service contracts with ACO, the parent company of AEV, for corporate center services rendered, such as human resources, internal audit, legal, treasury and corporate finance, among others. These services are obtained from ACO to enable the Group to realize cost synergies. ACO maintains a pool of highly qualified professionals with business expertise specific to the businesses of the AEV Group. Transactions are priced on a cost recovery basis. In addition, transaction costs are always benchmarked on third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service.

The Group extends and/or avails of temporary interest-bearing advances to and from ACO and certain associates for working capital requirements. These are made to enhance the parent companies' yield on their cash balances. Interest rates are determined by comparing prevailing market rates at the time of the transaction.

ACO and certain associates are leasing office spaces from CPDC, a subsidiary of AEV. Rental rates are comparable with prevailing market prices. These transactions are covered with lease contracts for a period of three years.

No other transaction, without proper disclosure, was undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect), or any member of his immediate family was involved or had a direct or indirect material interest.

AEV employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest surface and brought to the attention of management.

(ix) Patents, Copyrights, Franchises and Government Approvals

As a holding company, AEV does not own or possess patents, copyrights, franchises, or other similar rights. However, the businesses of AEV's utility subsidiaries – power and transport – are dependent on government franchises granted them.

AEV's power distribution subsidiaries either have congressional franchises and certificate/s of public convenience issued by the ERC or its predecessor, or Philippine Economic Zone Authority (PEZA) licenses for the distribution companies operating within special economic zones.

AP's generation companies, as well as DLP and CLP, which own generation facilities, are required under the EPIRA to obtain a Certificate of Compliance (COC) from the ERC for its generation facilities. They are also required to comply with technical, financial, and environmental standards provided in existing laws and regulations in their operations.

The business of supplying electricity is currently being undertaken solely by franchised distribution utilities. However, once Retail Competition and Open Access starts, the supply function will become competitive. Like power generation, the business of supplying electricity is not considered a public utility operation under the EPIRA. However, it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the Contestable Market, other than distribution utilities within their franchise areas, to obtain a license from the ERC in accordance with the ERC's rules and regulations. In preparation for the implementation of Retail Competition and Open Access, AP's wholly owned subsidiary AESI obtained a license to act as a Retail Electricity Supplier (issued on December 6, 2006) and a license to act as a Wholesale Aggregator (issued on January 26, 2007).

ATS, for its part, is accredited by the Maritime Industry Authority (MARINA) as a domestic shipping enterprise/entity. The MARINA accreditation is a prerequisite for the granting of franchises for individual vessels' operations. ATS vessels have been issued Certificates of Public Convenience/Provisional Authorities to operate in specified routes.

As banking institutions, the business operations of UBP and CSB are regulated by the BSP, the SEC, and the Philippine Deposit Insurance Commission (PDIC). CSB, as an accredited lender institution under DepEd's APDS, also has to comply with the policies issued by the DepEd with regard to the setting of interest rate and other fees on loans being lent out to public school teachers.

AEV's food subsidiary Pilmico owns the trademarks for its various flour products such as "Wooden Spoon", "Sun Moon Star", "Sunshine", "Glowing Sun", "Kutitap", and "Megastar". PANC owns the trademarks for products such as "Pork Solutions" and "Poultry Solutions".

As of the date of this report, these subsidiaries and affiliates have the necessary government approvals, franchises, permits or licenses necessary to always strive to maintain a track record of quality services, and comply with government regulations to justify and ensure renewal of such franchises or accreditations.

(x) Effect of Existing or Probable Governmental Regulations

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone, and continues to undergo, significant restructuring. Through the EPIRA, the Government has begun to institute major reforms with the goal of fully privatizing all sectors of the power industry. Among the provisions of the EPIRA which have or will have considerable impact on AP's businesses are the following:

Wholesale Electricity Spot Market

The WESM, a spot market for the buying and selling of electricity, is a mechanism established by the EPIRA to facilitate competition in the production and consumption of electricity. It aims to: (a) provide incentives for the cost-efficient dispatch of power through an economic merit order; (b) create reliable price signals to assist participants in weighing investment options; and (c) protect a fair and level playing field for suppliers and buyers of electricity, wherein prices are driven by market forces.

The WESM provides a venue whereby generators may sell power and at the same time, suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. Although generators are allowed under the WESM to transact through bilateral contracts, these contracts will have to be "offered" to the market for the purpose of determining the appropriate merit order of generators. Settlement for bilateral contracts will, however, occur outside the market between the contracting parties. Traded electricity, not covered by bilateral contracts will be settled through the market on the basis of the market clearing prices for each of the trading periods.

Retail Competition and Open Access

The EPIRA likewise provides for a system of Open Access to transmission and distribution wires, whereby Transco, its concessionaire, NGCP and any distribution utility may not refuse use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges. Conditions for the commencement of the Open Access system are as follows:

(a) Establishment of the WESM;
(b) Approval of unbundled transmission and distribution wheeling charges;
(c) Initial implementation of the cross subsidy removal scheme;
(d) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
(e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

The Government expects retail competition and open access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and end-users who comprise the contestable market have already been identified. The WESM for the Visayas began trial operations sometime in 2007. Open access in Luzon and the Visayas will commence once preconditions thereto as provided under the EPIRA have been complied with. In Mindanao, a truly competitive environment required by retail competition is not expected to exist prior to at least 2011 because the largest generating asset owned by NPC in Mindanao cannot by law be privatized for at least 10 years from passage of EPIRA.

Upon implementation of open access, the various contracts entered into by utilities or suppliers may potentially be "stranded". Stranded contract costs refer to the excess of the contracted costs of electricity under eligible contracts over the actual selling price of the contracted energy under such contracts in the market.

Interim Open Access/Power Supply Option Program

Power industry players filed a petition with the ERC docketed as ERC Case No. 2008-026 RC entitled "In the Matter of the Petition for Approval of Interim Open Access (IOA) in the Luzon and Visayas Grid to implement an open access prior to satisfaction of conditions laid down under the EPIRA." The ERC approved this application with modifications emphasizing the voluntary nature of the proposed IOA where the choice of whether or not to participate in the IOA is left to the distribution utility and its eligible customers. The ERC ruled that considering the primary and ultimate goal of the IOA is to provide large end-users additional options for power supply, it would instead consider the proposal as the "Power Supply Option Program" (PSOP).

On January 25, 2010, the ERC promulgated Resolution No. 01, Series of 2010, otherwise known as "A Resolution Adopting the Rules for the Power Supply Option Program" (the PSOP Rules). The PSOP Rules provide regulatory framework for the implementation of the PSOP, including guidelines on the eligibility of potential participants to the PSOP, the manner of entry and exit of these participants, and the treatment of existing contracts during the implementation. The implementation of the PSOP within a franchise area is a voluntary act on the part of the distribution utility. Thus, only eligible customers within the franchise areas of eligible distribution utilities are allowed to participate in the program. The implementation of the PSOP is limited only to Luzon. Once the ERC declares the establishment of actual open access and retail competition, the PSOP and all contracts and transactions related thereto, other than the resolution of obligations and disputes arising therefrom, automatically terminate upon commencement date of open access and retail competition as determined by the ERC.

Under the PSOP Rules, PSOP customers will consist of end—users with a monthly average peak demand of at least one MW for the past 12 months prior to the PSOP implementation with a requirement for the threshold level of one 1 MW being retained throughout the duration of the PSOP. No aggregation of the demand requirements of end-users will be allowed. Only eligible suppliers (ES) as defined in the Rules are allowed to participate in the PSOP. Among these are (i) generation companies, including NPC-successor generating companies, that are within the mandated market cap; (ii) NPC-IPPs in relation to capacity not covered by contracts; (iii) IPP Administrators with respect to the uncontracted energy which is subject to their administration and management; and (iv) NPC/PSALM, upon compliance with the market share limitation under Section 45 of the EPIRA. To be considered as ES, a license as Retail Electricity Supplier (RES) must have been secured from the ERC.

The PSOP shall commence 90 days after completion of either one of the following conditions, whichever comes earlier: the transfer of the operations of the Calaca NPC generation asset or its equivalent in terms of capacity, or the privatization of at least 70% of the total capacity of NPC generation assets in Luzon and the Visayas. ES shall provide all power requirements of its customers, except for energy related to distribution system losses, energy imbalances as defined in the WESM Rules and line rental.

Unbundling of Rates and Removal of Subsidies

The EPIRA mandates the unbundling of distribution and wheeling charges from retail rates with such unbundled rates reflecting the respective costs of providing each service. The EPIRA also states that cross subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines there will be material adverse effect upon the public interest or an immediate, irreparable, and adverse financial effect on a distribution utility.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate set by the ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users will be exempt from the cross-subsidy removal for a period of 10 years, unless extended by law.

Implementation of the Performance-Based Rate-Setting Regulation

On December 13, 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates (RDWR) for privately-owned distribution utilities entering PBR for the second and later entry points that sets out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the RORB that has historically determined the distribution charges paid by the Distribution Companies' customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor.

For each year during the regulatory period, a distribution utility's distribution charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time of restoration to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

The ERC issued its final determination on CLP's application for approval of its annual revenue requirement and performance incentive scheme under the PBR scheme covering the second year of the 4-year regulatory period. CLP's 4-year regulatory period commenced on April 1, 2009 and will end on March 30, 2013.

On April 15, 2009, the ERC approved CLP's application for translation of its approved annual revenue requirement for the first regulatory year into applicable rates per customer class. CLP implemented the approved rates last May 1, 2009, a month after the start of the first regulatory year. The resulting under recovery from the one-month lag will be reflected and recovered in the next regulatory year's rate translation application.

CLP received approval for its new rates covering the second regulatory period that commenced on April 1, 2010.

VECO entered its reset period at yearend 2008 under the PBR and has received a final determination on its PBR application from ERC. VECO will be submitting its rate design proposals based on the final determination by April 2010. It is expected that final PBR approvals will allow VECO to enter the 4-year regulatory period on July 1, 2010.

DLP entered its reset period in January 2009 under the PBR and has received a final determination on its PBR application from ERC. It will be submitting its rate design proposals based on the final determination by April 2010. It is expected that final PBR approvals will allow DLP to enter the 4-year regulatory period on July 1, 2010.

For SFELAPCO and SEZ, the reset process began on October 1, 2009. During the 18 months prior to the PBR start date for each distribution company, it will undergo a regulatory reset process through which the PBR rate control arrangements are established based on documents submitted by the distribution company with the ERC, ERC resolutions, and consultations with the distribution company and the general public.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA directs the President of the Philippines to reduce the royalties, returns and taxes collected from the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation.

Proposed Amendments to the EPIRA

Since the enactment of the EPIRA, members of the Philippine Senate and House of Representatives have proposed amendments to the EPIRA. Some of the proposed amendments are discussed below.

(a) Disallow recovery of stranded contract costs;
(b) Require transmission charges, wheeling charges, connection fees, and retail rates to be approved by the ERC only after due notice and public hearing participated in by all interested parties;
(c) Exclude from the rate base the following items that Transco and the distribution utilities charge the public: corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over-adequate assets and facilities, and amount of all deposits as a condition for rendition and continuation of service;
(d) Prohibit cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials, or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials, or directors within the fourth civil degree of consanguinity;
(e) Prohibit distribution utilities under a bilateral electric power supply contract from sourcing more than 33% of its total electric power supply requirements from a single generation company or from a group of generating companies wholly owned or controlled by the same interests. On the effectiveness of the proposed law, any distribution utility that has contracts which exceed the allowable 33% limit will be directed to desist from further awarding additional electric power supply contracts with any generation company or group of generating companies wholly owned or controlled by the same interests, until its present electric power supply requirements, when added to the proposed additional electric power supply contract or contracts with any generation company or group of generating companies wholly owned or controlled by the same interests shall comply with the 33% limit.

The Renewable Energy Act of 2008

Republic Act No. 9513, the Renewable Energy Act of 2008 (RE Law), is a landmark legislation and is said to be the most comprehensive renewable energy law in Southeast Asia. The RE Law was signed into law by President Gloria M. Arroyo on December 16, 2008 but took effect on January 31, 2009.

The RE Law's declared policy is to encourage and develop the use of renewable energy resources of the country to reduce the country's dependence on fossil fuels and lower overall costs of energy, and also reduce, if not prevent harmful emissions into the environment to promote health and a sustainable environment.

The RE Law imposes a government share on existing and new RE development projects at a rate of 1% of gross income from the sale of renewable energy and other incidental income from generation, transmission and sale of electric power and a rate of 1.5% of gross income for indigenous geothermal energy. Micro-scale projects for communal purposes and non-commercial operations with capacity not exceeding 100 kW will not be subject to the government share.

More importantly, the RE Law offers fiscal and non-fiscal incentives to RE developers of RE facilities, including hybrid systems, subject to a certification from the Department of Energy (DOE), in consultation with the BOI. These incentives include income tax holiday for the first seven years of operation; duty-free importations of RE machinery, equipment and materials effective within 10 years upon issuance of certification, provided, said machinery, equipment and materials are directly, exclusively and actually used in RE facilities; special realty tax rates on equipment and machinery not exceeding 1.5% of the net book value; net operating loss carry-over; corporate tax rate of 10% after the 7th year; accelerated depreciation; zero-percent value-added tax on sale of fuel or power generated from emerging energy sources and purchases of local supply of goods, properties and services of RE facilities; cash incentives for RE developers for missionary electrification; tax exemption on carbon emission credits; tax credit on domestic capital equipment and services. All fiscal incentives apply to all RE capacities upon effectivity of the RE Law. RE producers are also given the option to pay Transco transmission and wheeling charges on a per kilowatt-hour basis and are given priority dispatch. RE producers are likewise exempted from the universal charge imposed under the EPIRA. In addition, the RE Law provides a financial assistance program from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

New ERC Regulation on Systems Loss Cap Reduction

Under ERC Resolution No. 17, Series of 2008, which amends the systems loss cap adopted by Republic Act No. 7832 (Anti-Pilferage of Electricity and Theft of Electric Transmission Lines/Materials Act of 1994), the actual recoverable systems loss of distribution utilities was reduced from 9.5% to 8.5%. The new systems loss cap was implemented in January 2010.

Under the new regulation, actual company use of electricity shall be treated as an expense of the distribution utilities in accordance with the following rules: for distribution utilities that are yet to enter PBR, the actual use shall be treated as operation and maintenance in their PBR applications; for distribution utilities that are already under PBR, the actual use shall be treated as operation and maintenance in their subsequent reset.

(xi) Research and Developmental Activities

AEV and its subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by its subsidiaries and affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

(xii) Compliance with Environmental Laws

In the normal course of business, AEV's power, food and transport companies are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations, such as the Clean Air Act (Republic Act No. 8749), address, among other things, air emissions, wastewater discharges, the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions and employee exposure to hazardous substances. These said companies have incurred, and are expected to continuously incur operating costs to comply with such laws and regulations. However, these costs and expenses cannot be segregated or itemized as these are embedded in, and are part and parcel of the companies' overall system, in compliance with both industry standards and the government's regulatory requirements.

ATS follows the regulations embodied in the 1973 International Convention for the Prevention of Pollution from Ships as modified by the protocol of 1978 (MARPOL 73/78). The said convention has various technical measures intended to control oil spillage and other forms of marine pollution.

Producing clean and renewable energy is a cornerstone of AEV's power generation business. Its power generation subsidiaries operate run-of-river hydroelectric power plants and recently, a geothermal power operation that produce minimal, if any, ecological disturbance. The combined generation capacity from the different renewable energy projects of AP qualifies it as a leading generator of renewable energy in the Philippines. AP is dedicated to enhancing its Cleanergy brand as it remains steadfast in its commitment to make clean energy available to all Filipinos. The Renewal Energy Act subjects AP to new and evolving measures and ushers in new opportunities for the company as it sets competitive challenges. The Renewable Portfolio Standard supports the growth of renewable energy in the Philippines. The Renewable Energy Market, Green Energy Option and Net Metering will redefine the competitive landscape of the energy business.

As a signatory of the Kyoto Protocol, the Philippines can participate in greenhouse gas emission reduction through the Clean Development Mechanism (CDM). The Sibulan Project of Hedcor Sibulan is a registered CDM project, able to prevent carbon emissions measured in tons of CO2. The project is expected to generate carbon credits that can eventually be traded in the carbon market. Plans are also in place to register as a CDM project the rehabilitation and refurbishment of the Ambuklao and Binga plants of SNAP-Benguet. AP continues to explore CDM possibilities in its projects.

Albeit the Philippines does not have carbon emission limits, AP companies have embarked on a carbon emission inventory as a baseline volume against which future emissions management programs will be compared with. This greenhouse gas inventory tool will eventually be scaled up to other Aboitiz companies to enable a groupwide inventory system. While there are no specific laws on carbon emissions in the Philippines, the climate change issue is slowly gaining ground as a priority concern for the government.

PANC has developed a biogas generation system that is undergoing validation with the intent to be registered as a CDM project. The biogas system provides environmental benefits as an energy source since carbon emission is prevented through avoidance of energy generated by non-renewable sources.

AP has started a greenhouse gas inventory among its different subsidiaries and affiliates to measure and monitor emissions generated from their business operations. Mitigating measures such as tree planting have been adopted. In 2009, a simultaneous tree planting activity was done by the different companies in the Group. Nationwide, trees were planted in one day that will sequester an equivalent of 450 tons of carbon dioxide. It was the first time that such measures were adopted in the Group. These trees were declared in UN's Billion Tree Program. Certifications issued for the trees will be used by some Aboitiz companies to comply with the stipulations of the environmental impact statements for the projects and conform to the requirements under the environmental compliance certificate.

Each of the hydroelectric power projects of AP is subject to a mandated watershed management plan intended to maintain the integrity of the renewable resource used to generate electricity. This plan enables a company to adopt a watershed with the commitment to reforest and sustain its healthy vegetative state. The hydroelectric companies also continue to monitor the quality of water systems that they tap. Watershed management is also a serious consideration for geothermal power given its location and the ecosystem that exist therein.

(xiii) Employees

As of February 28, 2010, AEV has a total of 184 employees composed of executives, managers, supervisors, administrative, and clerical staff. There is no existing collective bargaining agreement covering AEV employees.

Business Unit	Number of Employees					Unionized Employees	Expiry of CBA
	Total	Executives	Managers	Supervisors	Rank & File		
Aboitiz Equity Ventures, Inc.	184	31	22	17	114	N/A	N/A
Aboitiz Transport System (ATSC) Corporation	2,102	43	238	387	1,434	N/A	N/A
Pilmico Foods Corporation	126	8	14	24	80	21	May 31, 2009
Aboitiz Power Corporation	72	29	10	3	30	N/A	N/A

(xiv) Major Risk/s Involved in the Business of AEV and its Significant Subsidiaries

Through prudent management and investment decisions, AEV constantly strives to minimize the risks it might encounter in the businesses in which it is involved. However, certain risks are inherent to specific industries that are not within the direct control of AEV or its investee companies. Of note are the following:

Power Industry Regulations. For the distribution sector, the phasing in of the PBR by the ERC to determine power rates will affect AEV's distribution utilities. In the present rate-making environment, the ERC allows a maximum 12% RORB before tax. Under PBR, utilities will be allowed an after-tax return based on a weighted average cost of capital (WACC), which should be consistently determined across the industry. Rate adjustments will be allowed throughout every 4-year regulatory period to take into account inflation.

Exchange Rate Fluctuations/Volatility in Price of Fuel. Certain investee companies, specifically Pilmico and ATS, are engaged in businesses whose raw material requirements and purchases are paid for in U.S. dollars. An untoward depreciation of the Philippine peso vis-à-vis the U.S. dollar could have an adverse effect on these investee companies' operating costs. Conversely, an appreciation of the local currency against the dollar would potentially be beneficial to these investee companies, and subsequently to AEV. Furthermore, a significant proportion of ATS' total cost is made up of its fuel needs. An increase in the price of imported bunker or diesel fuel will directly translate into an increase in the operating cost of its vessels.

Consolidation in the Local Banking Industry. Unless it can adequately increase/raise its resource base and capitalization to compete with the newly merged industry players, or otherwise pursue a selective growth strategy, banks such as AEV's investee, UBP, might be marginalized out of the banking sector.

Political and Economic Factors. AEV is a holding company that, through its investee companies, is engaged in power generation and distribution, banking and financial services, transportation, and food production, among other business activities. The results of operations of the investee companies have historically been influenced to a certain extent by the political and economic situation in the Philippines. In the past, the country experienced periods of slow or negative economic growth. Any future political or economic instability may have an adverse effect on the business and results of operations of the Company or its investee companies.

Environmental Compliance. AEV or its investee companies are required to comply with environmental regulations governing the operation of its projects, including the transport, storage and disposal of fuel as well as air, water and noise emissions and proper management and disposal of wastes. The adoption of new laws or regulations, or changes in the interpretation or application of existing laws or regulations could require AEV or its investee companies to make additional material expenditures on environmental compliance. AEV's ability to operate the projects in a cost-effective manner could be materially adversely affected.

AEV or its investee companies have taken necessary steps to ensure full compliance with all existing DENR standards with regard to emissions and waste disposal and ecosystem management. In the event of any increased costs due to the adoption of new laws or regulations, or changes in the interpretation or application of existing laws or regulations, AEV's power projects are afforded varying rights under the power purchase agreements to negotiate for tariff adjustments. With respect to those projects that sell power based on NPC's grid rate, changes in environmental laws will also impact NPC's cost of production. These costs production should ultimately be reflected through an adjustment in NPC's tariff.

Except for the items discussed above, there were no trends, events or uncertainties as of December 31, 2009 that could pose as significant risks to AEV's various businesses and/or are expected to adversely impact on the operating performance of its investee companies.

Working Capital

For 2009, AEV derived its working capital mainly from the steady cash flow generated and contributed by its subsidiaries and associates.

Item 2. Properties

The office space occupied by AEV belongs to a wholly-owned subsidiary. As a holding company, AEV does not utilize significant amounts of office space.

On a consolidated basis, the 2008 total property, plant and equipment of AEV were valued at ₱8.956 billion as compared to ₱80.565 billion for 2009. The breakdown, as follows:

Property, Plant and Equipment as of December 31,2009 & 2008

	2009	2008
Power, Plant and Equipment	₱ 65,338,368	₱ 3,511,445
Transmission and Distribution Equipment	4,553,427	4,442,990
Machinery and Equipment	3,664,635	1,957,486
Buildings, Warehouses and Improvements	2,914,865	1,659,486
Office Furniture, Fixtures and Equipment	2,294,647	1,398,360
Transportation Equipment	795,628	980,719
Land	369.100	240,158
Leasehold Improvements	570,596	343,023
Ships in Operation and Improvements	5,879,220	5,113,280
Containers	1,473,737	1,537,335
Handling Equipment	1,288,727	1,246,093
Flight Equipment	351,988	364,344
Ships Under Refurbishment and Construction in Progress	4,827,987	2,607,697
Others	366,428	276,108
	94,689,351	25,678,524
Less: Accumulated Depreciation and Amortization	14,124,359	12,527,760
	80,564,992	13,150,764
TOTAL	**₱80,564,992**	**₱ 8,956,267**

Note: Values for the above table are in Thousand Pesos

Locations of Principal Properties and Equipment of AEV subsidiaries are, as follows:

SUBSIDIARY	DESCRIPTION	LOCATION/ADDRESS	CONDITION
Cotabato Light & Power Company	Industrial land, buildings/plants eqpt. & machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light & Power Company	Industrial land, buildings/plants eqpt. & machineries	P. Reyes Street, Davao City; Bajada, Davao City	In use for operations
Pilmico Foods Corporation	Industrial land, buildings/plants eqpt. & machineries	Kiwalan Cove, Dalipuga Iligan City	In use for operations
HEDCOR, Inc.	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet; Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet, Bakun, Benguet	In use for operations
HEDCOR Sibulan, Inc.	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	Under construction
Cebu Private Power Corporation	Bunker C thermal power plant	Cebu City, Cebu	In use for operations
East Asia Utilities Corporation	Bunker C thermal plant	Lapu-lapu City, Mactan, Cebu	In use for operations

SUBSIDIARY	DESCRIPTION	LOCATION/ADDRESS	CONDITION
AP Renewables, Inc.	Geothermal power plants	Tiwi, Albay Caluan, Laguna Sto. Tomas, Batangas	In use for operations
Therma Marine, Inc.	Barge-mounted diesel power plants	Nasipit, Agusan del Norte Barangay San Roque, Maco, Compostela Valley	In use for operations
Aboitiz Transport System Corp.	Passenger & cargo ships Containers	In transit	In use for operations
	Cargo handling equipment	Eva Macapagal Super Terminal, Manila South Harbor; Cebu International Port	In use for operations
Pilmico Animal Nutrition Corporation	Industrial land, building/plant equipment & machineries	Barangay Sto. Domingo II, Capas, Tarlac	In use for operations

Item 3. Legal Proceedings

AEV and its subsidiaries and affiliates are involved in various legal actions, most of which occur in the ordinary course of business. However, AEV does not expect that the results of any of these actions will have a material effect on Company's financial position.

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

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

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

(1) AEV's common shares are traded on the Philippine Stock Exchange.

The high and low closing stock prices of AEV's common shares for each quarter within the past two years and first quarter of 2010 were as follows:

	2010		2009		2008	
	High	Low	High	Low	High	Low
First Quarter	14.00	9.00	6.40	5.30	7.50	6.30
Second Quarter	NA	NA	6.90	5.50	7.30	6.50
Third Quarter	NA	NA	7.50	6.10	7.70	6.20
Fourth Quarter	NA	NA	9.30	7.50	7.00	5.00

As of February 28, 2010, AEV has 11,138 shareholders. Common shares outstanding as of the same date totaled 5,521,871,821. The closing price of AEV common shares as of April 8, 2010 is ₱13.75 per share.

(2) The top 20 stockholders of AEV as of February 28, 2010 are as follows:

	STOCKHOLDERS	NATIONALITY	COMMON SHARES	PREFERRED SHARES	TOTAL SHARES	PERCENT-AGE
1	Aboitiz & Company, Inc.	Filipino	2,660,600,915	0	2,660,600,915	48.18%
2	PCD Nominee Corporation	Filipino	582764,332	0	582,363,692	10.55%
3	Ramon Aboitiz Foundation, Inc.	Filipino	420,915,863	0	420,915,863	7.62%
4	PCD Nominee Corporation	Other Alien	403,286,564	0	403,270,964	7.30%
5	Sanfil Management Corporation	Filipino	116,790,211	0	116,790,211	2.12%
6	Lekeitio & Company, Inc.	Filipino	91,876,977	0	91,876,977	1.66%
7	Tricanaya Development Corporation	Filipino	82,099,033	0	82,099,033	1.49%
8	INXS Holdings Corporation	Filipino	79,315,677	0	79,315,677	1.44%
9	La Filipina Uy Gongco Corporation	Filipino	65,452,000	0	65,452,000	1.19%
10	Chanton Management & Development Corporation	Filipino	62,118,484	0	62,118,484	1.12%
11	Midcita Management & Development Corporation	Filipino	59,800,893	0	59,800,893	1.08%
12	Bauhinia Management, Inc.	Filipino	51,779,484	0	51,779,484	0.94%
13	Windemere Management Corporation	Filipino	47,666,352	0	47,666,352	0.86%
14	Donya 1 Management Corporation	Filipino	43,136,359	0	43,136,359	0.78%
15	Aboitiz Equity Ventures, Inc. Retirement Fund	Filipino	40,930,592	0	40,930,592	0.74%
16	Morefund Management & Development Corporation	Filipino	40,000,000	0	40,000,000	0.72%
17	Anso Management Corporation	Filipino	34,369,707	0	34,369,707	0.62%
18	Teresita or John Carcovich	Filipino	33,463,510	0	33,463,510	0.61%
19	Triabo Development Corporation	Filipino	31,932,639	0	31,932,639	0.58%
20	John Carcovich	Filipino	29,708,268	0	29,708,268	0.54%
	SUBTOTAL		**4,978,007,860**	**0**	**4,978,007,860**	**90.15%**
	Other Stockholders		543,863,961	150,000,000	693,863,961	9.85%
	TOTAL SHARES		**5,521,871,821**	**150,000,000**	**5,671,871,821**	
	NET ISSUED AND OUTSTANDING SHARES		**5,521,871,821**	**150,000,000**	**5,671,871,821**	**100.00%**

(3) The cash dividends declared by AEV to common stockholders from fiscal year 2009 to the first quarter of 2010 are shown in the table below:

	2010	2009	2008 Regular	2008 Special
Amount of Dividend Per Share	₱0.52	₱0.27	₱0.31	₱0.30
Total Amount of Cash Dividend Declared	₱2,871,373,346.92	₱1,505,234,372.67	₱1,765,325,882.51	₱1,708,379,886.30

In a special meeting held on January 11, 2007, the AEV Board of Directors approved the policy of distributing at least one-third of its previous year's earnings as cash dividends to its stockholders for subsequent years.

(4) On November 28, 2006, AEV signed an Issue Management and Underwriting Agreement with BPI Capital Corporation (BPI Capital) as Issue Manager for the issuance of 150 million cumulative, non-voting, non-participating, non-convertible, five-year (Series "E") and seven -year (Series "F") redeemable preferred shares at the offer price of ₱10.00 per share, or for a total offering price of ₱ 1.5 billion. BPI Capital was the lead underwriter, PCI Capital Corporation, co-lead underwriter and First Metro Investment Corporation, BDO Capital & Investment Corporation, Multinational Investment Bancorporation, Citicorp Capital Philippines, Inc. and Union Bank of the Philippines were underwriters for the offer. AEV paid the amount of ₱7.5 million as underwriting commission, excluding of taxes for the issuance of the preferred shares.

On December 6, 2006, AEV exercised its early redemption option over its Series "B" and "C" preferred shares at 105% of the face value plus accrued interest, and simultaneously issued new Series "E" and "F" preferred shares. Part of the proceeds from the issuance of new Series "E" and "F" preferred shares were used to finance the redemption of the Series "B" and "C" preferred shares. The Series "E" and "F" preferred shares were issued to qualified buyers only pursuant to Sec. 10.1 (l) of the Securities Regulation Code. Below is the list of subscribers to the Series "E" and "F" preferred shares:

Subscriber's Name	Purchaser Qualification	Shares Purchased	% to Total Preferred Shares Issued
Union Bank of the Philippines	Qualified Buyer	5,000,000	3.33%
First Metro Investment Corporation	Qualified Buyer	6,400,000	4.27%
Metrobank Trust Banking as Trustee	Qualified Buyer	600,000	0.40%
Metrobank Trust Banking as Investment Manager for Private Education Retirement Annuity	Qualified Buyer	500,000	0.33%
Pioneer Life, Inc.	Qualified Buyer	300,000	0.20%
Multinational Investment Bancorporation	Qualified Buyer	4,700,000	3.13%
Equitable PCI Bank Trust as Trustee for Various Accounts	Qualified Buyer	7,500,000	5.00%
UCPB Trust Banking Division FAO Various Trust Accounts	Qualified Buyer	1,000,000	0.67%
Perla Compania de Seguros, Inc.	Qualified Buyer	200,000	0.13%
Cibeles Insurance Corporation	Qualified Buyer	300,000	0.20%
Mapfre Insular Insurance Corporation	Qualified Buyer	5,000,000	3.33%
SM Prime Holdings, Inc.	Qualified Buyer	10,000,000	6.67%
The Insular Life Assurance Co., Ltd.	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Investment Manager for PERAA	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Trustee for Various Trust Accounts	Qualified Buyer	21,400,000	14.27%
BPI AMTG as Trustee for Various Trust Accounts	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Investment Manager for Ayala Fixed Income Fund, Inc.	Qualified Buyer	4,100,000	2.73%
BPI AMTG as Investment Manager for Ayala Fixed Income Fund, Inc.	Qualified Buyer	18,000,000	12.00%
PCI Capital Corporation	Qualified Buyer	7,000,000	4.67%
Knights of Columbus Fraternal Association of the Philippines	Qualified Buyer	3,000,000	2.00%
Beneficial PNB Life Insurance Co., Inc.	Qualified Buyer	3,000,000	2.00%

Subscriber's Name	Purchaser Qualification	Shares Purchased	% to Total Preferred Shares Issued
PCI Capital Corporation	Qualified Buyer	2,000,000	1.33%
Equitable PCI Bank Trust Banking	Qualified Buyer	15,000,000	10.00%
BDO Capital & Investment Corp.	Qualified Buyer	5,000,000	3.33%
	TOTALS	**150,000,000**	**100.00%**

Series "A" and "D" were redeemed on December 6 and 13, 2009, respectively. AEV's outstanding preferred shares as of December 31, 2009 and 2008 consist of (1) Series "E" with fixed dividend rate of 8.25% per annum; and (2) Series "F" with fixed dividend rate of 8.5% per annum.

AEV shall redeem the preferred shares at the end of the corresponding agreed periods from issue dates (final redemption dates) regardless of the existence of unrestricted retained earnings or other amounts legally available for the payment of dividends in such period, provided that the issuer has, after redemption, sufficient assets in the books to cover debts and liabilities inclusive of capital stock, and subject to the Issuer's compliance with the applicable laws, rules and regulations, and SEC requirements.

The final redemption dates are, as follows: (1) December 2011 for series "E"; and (2) December 2013 for series "F". The preferred shares shall be redeemed through cash payment of 100% of the issue price plus all accrued and unpaid cash dividends on the final redemption date.

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

The following discussion and analysis of the Company's consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying schedules and disclosures set forth elsewhere in this report. AEV and its subsidiaries are sometimes referred to as the "Group".

Accounting for Disposal Group

Considering the planned sale of the Company's investment in ATS in 2009, the December 2008 assets and liabilities of ATS Group, except Aboitiz Jebsen Group, were presented separately as held for sale in the 2008 consolidated financial statements of AEV, and the results of operation of this disposal group were reflected under discontinued operations. On April 30, 2009, the prospective buyer, KGLI-NM, informed the Company that it will not proceed with the purchase. With the termination of the sale, the December 2009 assets, liabilities and profit and loss accounts of ATS Group are now reflected on a line-by-line consolidation basis in the 2009 consolidated financial statements, and the 2008 and 2007 consolidated income statements are re-presented to include the results of operations of the disposal group in income from continuing operations.

Key Performance Indicators

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

1. **EQUITY IN NET EARNINGS OF INVESTEES.** Equity in net earnings (losses) of investees represents the group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates profitability of the investments and investees' contribution to the Group's consolidated net income.

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

2. **EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from

operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts and to finance its capital expenditure and working capital requirements.

3. **CASH FLOW GENERATED.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. **CURRENT RATIO.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt paying ability. The higher the ratio, the more liquid the Group.

5. **DEBT-TO-EQUITY RATIO.** Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

Key Performance Indicators for 2009 and 2008 are as follows:

	Dec 31/2009	Dec 31/2008
EQUITY IN NET EARNINGS OF INVESTEES	4,321,679	3,631,338
EBITDA	15,639,274	8,607,000
CASH FLOW GENERATED:		
Net cash provided by operating activities	11,785,904	2,027,018
Net cash used in investing activities	(26,735,726)	(7,402,511)
Net cash provided by (used in) financing activities	4,655,667	2,961,164
Net Decrease in Cash & Cash Equivalents	(10,294,155)	(2,414,329)
Cash & Cash Equivalent, Beginning	16,037,473	17,986,518
Cash & Cash Equivalent, End	5,582,228	16,037,473
CURRENT RATIO	0.79	1.90
DEBT-TO-EQUITY RATIO	1.62	0.62

Note: Amounts in thousands except financial ratio data.

All the key performance indicators exceeded management's expectations during the year under review.

Despite the anticipated downward trend of LHC net income as a result of its declining capacity fee rate structure and the non-recurrence of 2008 provision reversals, and the lower income contribution of STEAG Power due to the decrease in coal margins, equity in net earnings of investees registered a 19% year-on-year (YOY) increase. This improvement was attributed to the strong performance of the bank associates which generated higher net interest margins , trading gains and other non-interest revenues during the current year The spike in their income contributions more than offset the decrease in equity earnings from the two power associates.

The 82% increase in EBITDA was attributable to the rise in equity earnings of associates and the robust gross profit generated by the Group as a result of higher revenues and effectively-controlled costs and expenses. The fresh gross margin contributions of the newly-acquired subsidiaries, APRI and Therma Luzon, also significantly enhanced this growth in EBITDA.

Current ratio declined and debt-to-equity ratio increased from year-end 2008 levels mainly due to AP's deployment of funds and issuance of additional fixed-rate notes and retail bonds to finance its various investing activities in 2009.

Despite today's challenging economic environment and external market volatilities, management teams across the Group continue to effectively handle and monitor their respective operating performances and financial requirements. This results in the generation of positive cash inflows from operations and raising of the needed funds to finance various investments and projects, and still registering healthy financial ratios in the process. This strong financial position enables the Group to deliver higher value directly to its shareholders while continuing to invest in its growth opportunities.

Year ended December 31, 2009 vs. Year ended December 31, 2008

Results of Operations

For the year 2009, AEV posted a consolidated net income of ₱8.31 billion, a 102% YOY increase, which translated to a ₱1.49 in earnings per share. This record performance was driven by robust income contributions of all the industry groups, with the power group still accounting for the lion's share at 56%, followed by the banks at 23%, the food group at 16% and the transport group at 5%.

In 2009, the group generated a non-recurring income of ₱961 million, which includes (1) a foreign exchange net gain of ₱380 million at the parent and subsidiary levels; (2) a ₱575 million reversal of impairment provision and a ₱58 million revenue from the forfeited option money booked by AEV parent in consideration of the aborted sale of its investment in ATS; (3) a ₱78 million share in the reversal of NPC charges for ancillary services to two of AP's generation companies, and (4) an P84 million share in the gains booked by ATS on the sale of a vessel and its logistics business, net of the P178 million one-off costs incurred in the acquisition of the Tiwi-Makban geothermal power plants and the Pagbilao IPP Administrator contract, and the ₱36 million goodwill impairment in one of transport group's investments.

Sans one-off gains, AEV's consolidated recurring net income was still strong at ₱7.34 billion, up 50% YOY from ₱4.9 billion.

For the year 2009, income contribution by AP and its subsidiaries amounted to ₱4.32 billion, recording a 30% YOY increase.

The power generation business recorded a 68% YOY expansion in earnings contribution to AEV, from ₱2.11 billion to ₱3.56 billion. This strong showing was mainly due to the 167% YOY increase in total attributable power sales, from 1,728 GWh to 4,619 GWh. The expansion mainly came from the improved generation of the hydro assets, which resulted from the higher rainfall during the year and the full-year operation of the 100-MW Binga hydro power plant. In addition, the Tiwi-Makban geothermal power plants, which were turned over in May 2009, and the Pagbilao coal-fired power plant, which AP took over its dispatch control on October 1, 2009, contributed a combined energy sales of 2,653 GWh, accounting for 58% of the total sales for the year.

As of yearend 2009, AP's attributable capacity was at 1,745 MW, posting a 202% YOY increase. The growth was due to the turnover of the Tiwi-Makban geothermal plants in May 2009, which recorded peak generation of 467 MW during the year, and the turnover of the dispatch control over the 700-MW contracted capacity of the Pagbilao plant.

Likewise, the power distribution business posted a 5% YOY increase in its income contribution, from ₱1.14 billion to ₱1.2 billion. Electricity sales for the year grew by 6% YOY, from 3,142 GWh to 3,322 GWh. Improvement in electricity consumption growth rates, complemented with enhancements in operating efficiencies, offset the impact of the under recovery of cost of purchased power by these distribution utilities in March 2009. The attributable power consumption of residential and non-residential customers improved by 7% and 5%, respectively. The group's customer base still grew with the residential segment increasing by 5% and the non-residential inching up by 1%.

Income contribution from the financial services group registered a hefty 106% YOY improvement, from previous year's ₱880 million to ₱1.81 billion. UBP ended the period with an earnings contribution of P1.71 billion, up by 103% YOY, while CSB contributed earnings of ₱96 million, up by 163% YOY.

A 109% YOY increase in UBP's net income from ₱2.07 billion in 2008 to ₱4.32 billion in 2009, coupled with the increase in AEV's equity ownership to 38.66%, led to the higher contribution. Interest income for the year increased by 14% YOY to ₱11.89 billion, mainly due to the 30% YOY expansion in interest earnings on loans and receivables to ₱6.99

billion. The bank's loan portfolio recorded an 11% YOY increase to ₱100.7 billion, as lending to all market segments, i.e. corporate, middle market and consumer, expanded. With the additional interest earnings from investments and trading securities improving by 13% YOY to ₱3.96 billion, net interest income rose by 10% YOY, from ₱5.88 billion to ₱6.46 billion, despite the 20% increase in interest expense brought about by the hike in deposit liabilities and bills payable. Higher net securities trading and foreign exchange gains led to a 95% YOY increase in other income from ₱3.01 billion to ₱5.88 billion. Meanwhile, other expenses only grew by 16% YOY as UBP continued to implement cost containment and efficiency improvements.

The 163% YOY increase in CSB's contributed earnings of ₱96 million was attributed mainly to the bank's loan volumes expansion for the period which translated to a 67% spike in interest income. It ended the year with a total loan book of ₱4.9 billion, up by 41% from ₱3.5 billion in 2008.

The transport group shored in an income contribution of ₱387 million, a marked improvement over last year's ₱81 million. This was mainly attributed to the ₱2 billion reductions in ATS's consolidated operating expenses that resulted from lower fuel costs, its single largest expense. The average fuel price in 2009 was lower by 36% YOY. The decrease in operating expenses more than made up for the ₱1 billion drop in consolidated revenues resulting from the loss of one of its ships and the subsequent temporary suspension of all its roro-passenger vessels in September 2009, the typhoons which negatively affected operations during the last quarter of the year, and the decline in its international chartering business.

Income contribution from Pilmico and its subsidiaries, amounted to ₱1.2 billion, up by 168% YOY. Increase in sales volume in the flour business more than offset the decline in its average selling prices, resulting to a 25% YOY improvement in income contribution. Growth in operating margins, resulting from higher sales volume and lower freight and raw material costs, led to the 2707% YOY jump in the feeds business' income contribution. The swine business' earnings contribution likewise improved by 13% YOY due to operating efficiencies that resulted to higher margins, despite the 11% YOY decline in sales volume.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

For the year 2009, AEV's consolidated net income attributable to equity holders registered a 102% growth, reaching ₱8.31 billion from ₱4.12 billion in 2008.

Operating profit for the current year amounted to ₱7.53 billion, a 222% increase from the ₱2.34 billion generated in 2008. This improvement was brought about by the ₱10.37 billion increase in consolidated revenues, which more than offset the ₱5.18 billion increase in costs and expenses. All the industry groups recorded higher operating margins during year under review.

The power subsidiaries reported a combined 230% YOY increase in operating margins resulting from the 89% growth in consolidated revenues which surpassed the corresponding hike in costs and expenses. Improvement in revenues (₱23.2 billion vs ₱12.2 billion) was largely due to the fresh contributions of APRI, which took over operations of the Tiwi-MakBan geothermal power plants in May 2009, and Therma Luzon, which assumed dispatch control of the Pagbilao plant as an Independent Power Producer (IPP) Administrator. The combined revenues from these plants accounted for almost 90% of the increase in AP's consolidated revenues. The rest of the increase could be attributed to the spike in revenues of the distribution utilities brought about by kWhr sales growth and higher passed-on costs of purchased power. The 67% rise in consolidated costs and expense (₱17.7 billion vs ₱10.6 billion) was mainly due to the incremental operating costs of APRI and Therma Luzon the higher costs of purchased power of distribution subsidiaries resulting from the approved NPC rate increase in March 2009.

The food group reported a 94% YOY increase in operating margins as the ₱360 million increase in revenues was complemented by a ₱503 million decrease in costs and expenses. The 3% rise in sales (₱11.0 billion vs ₱10.7 billion) was largely attributed to the improved selling prices of feeds and higher sales volume of both flour and feeds. The 5% decline in costs and expenses (₱9.7 billion vs ₱10.2 billion) was brought about by the decrease in raw material and freight costs of feeds and the operating efficiencies of the swine business.

The transport group registered a 1230% increase in operating margins, from a ₱44 million loss during the previous year to ₱497 million profit in 2009. This turnaround performance was achieved on the back of a 12% drop in costs and expenses

(₱11.3 billion vs ₱12.9 billion) which more than compensated for the 8% decline in revenues (₱11.8 billion vs ₱12.9 billion). The decrease in costs and expenses was mainly due to the drop in fuel prices. The dip in consolidated revenues was due to lower freight and passage revenues resulting from the slowdown of its international charter business, the loss of one ship and the temporary suspension of vessels in September 2009, and the devastating typhoons which hampered operations in the fourth quarter.

Share in net earnings of associates registered a 19% YOY improvement (₱4.32 billion vs ₱3.62 billion) primarily due to the substantial increase in the income contribution of the bank associates. The banks generated higher net interest margins, trading gains and other non-interest revenues during the current year. The increase in AEV's equity ownership in UBP from 36.34% to 38.66% also contributed to the growth. This improvement more than made up for the decline in earnings contribution of certain power associates brought about by the drop in the Japanese Power Utilities Index (JPU) which resulted in the decrease of STEAG's JPU-indexed coal margins, and LHC's declining capacity fee rate structure and the non-recurrence of 2008 provision reversals that negatively affected its 2009 bottomline.

The overall growth in consolidated operating profit was further boosted by the 395% increase in other income (₱2.11 billion vs ₱426 million) resulting from (1) the Company's reversal in the first quarter 2009 of the ₱575 million impairment provision set up in 2008 to adjust the carrying amount of the assets of ATS and the recognition as revenue of the ₱83 million forfeited option money resulting from the termination of the planned sale of its ATS investment in April 2009, and the (2) ₱560 million net foreign exchange gains, the bulk of which was recognized by Therma Luzon in the restatement of its future minimum dollar payments to PSALM as part of its IPPA agreement. This increase in other income was offset by the (1) 20% decrease in interest income (₱517 million vs ₱645 million) due to lower cash balances; (2) the 335% spike in finance expense (₱3.31 billion vs ₱761 million) attributed to higher average debt level in 2009; and (3) the 23% rise in provision for income tax (₱1.2 billion vs ₱978 million) resulting from higher taxable income generated during the current year.

The 40% increase in net income attributable to minority interests was mainly due to the growth in the power and transport groups' net income, 24% and 23%, respectively.

AEV's consolidated comprehensive income attributable to equity holders rose by 111%, from ₱4.09 billion in 2008 to ₱8.65 billion in 2009. This was mainly due to the increase in both net income (₱8.31 billion vs ₱4.12 billion) and other comprehensive income (₱346 million income vs ₱29 million loss). The rise in other comprehensive income was a result of the ₱235 million share in net unrealized gains on AFS investments of UBP, a significant improvement from the ₱434 million share in net unrealized losses booked in 2008, as market conditions favorably affected the bank's mark-to-market valuation of its investment securities. This was partially offset by the decline in the share of cumulative translation adjustments (₱102 million in 2009 vs ₱409 million in 2008) of power associates using functional currency accounting. With the US dollar depreciation in 2009, these power associates recognized lower foreign currency translation adjustments in 2009 compared to those in 2008 when the US dollar appreciated.

Changes in Registrant's Resources, Liabilities and Shareholders Equity

Assets

Compared to yearend 2008 levels, consolidated assets increased by 89% to ₱143.28 billion as of December 31, 2009, due to the following:

a. Inclusive of the disposal group as of yearend 2008, Trade and Other Receivables increased by 70% from ₱4.49 billion to ₱7.63 billion, primarily due to the newly-consolidated receivables of APRI and Therma Luzon and the higher non-trade receivables of the transport group.

b. Inclusive of the disposal group as of yearend 2008, Property, Plant & Equipment (PPE) registered an increase of 512%, from ₱13.15 billion to ₱80.56 billion, primarily due to the ₱19.35 billion purchase of the Tiwi-MakBan geothermal power plants, the ₱44.52 billion finance lease acquisition of the Pagbilao coal-fired power plant, and the additional ₱1.91 billion costs incurred in the ongoing construction of the 42.5-MW Sibulan hydropower plant in Davao del Sur. The transport group's PPE also increased with the purchase of two freighters, two fast crafts and one roro-passenger vessel totalling ₱1.94 billion, reduced by the disposal of certain assets with a combined book value of ₱410 million.

c. Inclusive of the disposal group as of yearend 2008, Investments and Advances totalled ₱38.57 billion, up by 18% from yearend 2008 level of ₱32.64 billion. This increase was mainly attributed to the following: (1) purchase of ₱297 million worth of UBP shares; (2) capital infusion into CEDC, the project company for the 3X82-MW coal plant in Toledo City, Cebu, and into MORE, the holding company of SNAP-Magat and SNAP-Benguet, amounting to ₱1.34 billion and P353 million, respectively; (3) recognition of a ₱235 million share in unrealized valuation gains on UBP's AFS investments and a ₱347 million increase in gain on dilution resulting from the purchase of additional UBP shares; and (4) increase in accumulated equity earnings resulting from the recording of a ₱4.32 billion share in associates' net earnings and the receipt of ₱1.12 billion cash dividends from certain associates.

d. Inclusive of the disposal group as of yearend 2008, pension asset was up 111% to P106 million mainly due to actuarial adjustments that increased the pension asset of one of AP's distribution subsidiaries.

e. Inclusive of the disposal group as of yearend 2008, Deferred Income Tax Assets increased by 19% (P514 million vs ₱433 million) mainly due to the unrealized foreign exchange losses on dollar cash holdings and net operating loss carryover (NOLCO) recognized by AP parent during the current year, both of which required a corresponding deferred income tax asset set up.

f. Inclusive of the disposal group as of yearend 2008, goodwill increased by 45%, from ₱1.25 billion to ₱1.81 billion, due to the reversal in 2009 of the ₱575 million impairment provision recorded by AEV parent on its ATS investment in 2008. Said reversal was made to adjust the carrying amount of the transport assets in consideration of the terminated sale of ATS. With this reversal, the ₱560 million goodwill in ATS was effectively reinstated in 2009.

g. Inclusive of the disposal group as of yearend 2008, Other Noncurrent Assets increased by 72% to ₱2.04 billion mainly due to the prepaid rental recorded by APRI on its advance lot rental payment to PSALM and the build-up of unused VAT inputs generated from the Sibulan plant construction.

The above increases were partially offset by the following decreases:

a. Cash & Cash Equivalents stood at ₱5.58 billion, 65% lower than the ₱16.04 billion reported as at yearend 2008 which was inclusive of the disposal group's funds amounting to ₱860 million. This decrease was mainly due to AEV's purchase of ₱297 million worth of UBP shares and AP's ₱1.34 billion capital infusion into Abovant to fund its Cebu coal project and ₱9.1 billion extension of stockholder's advances to APRI to fund the purchase of the Tiwi-Makban geothermal plants.

b. Inclusive of the disposal group as of yearend 2008, Inventories decreased by 2% (₱3.27 billion vs ₱3.34 billion) mainly due to lower wheat inventory carried by Pilmico as of end of year under review, partially offset by the increase in power group's supplies & materials and coal inventories resulting from the first-time consolidation of the inventories of APRI and Therma Luzon.

Liabilities

Inclusive of the ₱551 million loan of the disposal group as of yearend 2008, consolidated short-term bank loans increased by 11% (₱9.04 billion vs ₱8.16 billion) while long-term liabilities increased by 435% (P66.46 billion vs ₱12.41 billion). This substantial surge in debt was due to (1) AP parent's net availment of ₱952 million short-term loans and its issuance of additional ₱8.0 billion fixed-rate bonds and notes to fund the purchase of the Tiwi-Makban geothermal plants for ₱19.5 billion, ₱11.6 billion of which was financed through debt; (2) Therma Luzon's recording of a ₱45.59 billion obligation under finance lease related to the acquisition of the Pagbilao plant; (3) Hedcor Sibulan's additional ₱1.85 billion loan draw down to finance the construction of its 42-MW hydro plant, and (4) the Transport group's incremental short-term borrowings of ₱562 million to finance its capital expenditures. These increases were partially offset by the payment of close to ₱1.25 billion long-term loan amortizations due in 2009 and the food group's ₱739 million prepayment of its short-term loans using internally-generated funds.

Inclusive of the ₱3.02 billion payables of the disposal group as of yearend 2008, trade and other payables increased by 61% from ₱6.68 billion to ₱10.74 billion, mainly due to the first-time consolidation of APRI and Therma Luzon trade payables and accruals.

The first-time recognition of a ₱16.48 million derivative liability represented the booking of the unrealized mark-to-market losses on the foreign currency forwards entered into by AP parent and Therma Marine.

Income tax payable increased by 366% due to the higher current income tax provisions recorded by subsidiaries during the year under review.

Customer deposits was higher by 13% mainly due to the growth in the customer base of DLP as well as the new deposits recorded in APRI from its bilateral contracts.

Deferred income tax liabilities decreased by ₱16 million, mainly due to the reversal of a portion of this liability that was set up on previous year's unrealized foreign exchange gains that were realized during the current year.

Equity

Equity attributable to equity holders of the parent increased by 18% from yearend 2008 level of ₱37.79 billion to ₱44.70 billion, mainly due to (1) the ₱6.80 billion increase in Retained Earnings, resulting from the ₱8.31 billion net income recorded and offset by the ₱1.51 billion cash dividends paid to common stockholders; (2) the ₱235 million increase in Share in Unrealized Gains on AFS Investments and Underwriting Accounts of an associate resulting from the improvement in the market prices of these financial instruments as of the end of the current year; and (3) ₱353 million increase in Gain on Dilution account resulting from AEV's recognition of its additional share in UBP's accumulated prior periods' earnings as it increased its ownership in UBP. These increases were partially offset by the additional ₱464 million worth of treasury shares acquired by the Company in 2009.

Material Changes in Liquidity and Cash Reserves of Registrant

In 2009, the group continued to support its liquidity mainly from cash generated from operations and dividends received from associates. External borrowings were also a source of liquidity.

Compared to the cash inflow in 2008, consolidated cash generated from operating activities in 2009 increased by ₱9.76 billion to ₱11.78 billion. This increase was largely a result of a higher net income generated during the current year, the lower funds used in financing food group's inventory build-up and the rise in trade payables.

Net cash used in investing activities reached ₱26.74 billion (versus ₱7.40 billion last year) as business acquisitions were higher in 2009.

Net cash provided by financing activities during the current year was ₱4.66 billion, compared to the ₱2.96 billion in 2008. This increase in generated cash was mainly from the proceeds of the loans availed by the power group, partially offset by the cash used in the payment of cash dividends and interest.

For the year ended 2009, net cash outflows were higher than cash inflows, resulting to a 65% decrease in cash and cash equivalents, from ₱16.04 billion in December 2008 to ₱5.58 billion in December 2009.

Financial Ratios

Lower cash balances and higher short-term debt accounted for the decrease in current ratio, from 1.9:1 as of Dec. 2008 to 0.8:1 as of Dec. 2009. Higher total debt level in 2009 resulted in the increase in debt-to-equity ratio from 0.6:1 as of Dec. 2008 to 1.6:1 as of Dec. 2009, and in net debt-to-equity ratio at 1.3x (versus yearend 2008's 0.1x).

Outlook for the Upcoming Year/Known Trends, Events, Uncertainties which may have Material Impact on Registrant

Notwithstanding external and uncontrollable economic and business factors that affect its businesses, AEV believes that it is in a good position to benefit from the opportunities that may arise in the current year. Its sound financial condition, coupled with a number of industry and company specific developments, should bode well for AEV and its investee companies. These developments are as follows:

Power (Generation Business)

1. Continued Growth in the Company's Attributable Capacity

AP ended the year 2009 with a total attributable generating capacity of 1,745 MW, recording a 202% YOY expansion from end-2008 level of 578 MW. The capacity growth was mainly due to the following:

- In May 2009, the Tiwi-Makban geothermal plants were turned over to APRI. The facilities are the Company's first geothermal assets. Based on 2009 operations, the Tiwi-Makban geothermal plants' peak generation was recorded at 467 MW.

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

In 2010 and moving forward, AP's attributable capacity is seen to further increase as the following events take place:

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

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

  AP acquired both power barges on July 31, 2009 via a successfully concluded negotiated bid with PSALM. The total purchase price for both barges is US$30 million. Therma Marine has Ancillary Services Procurement Agreements with the NGCP involving 100 MW (out of the total 200 MW) of generating capacity.

- Completion of Greenfield and Brownfield projects

  Construction work on the 42.5-MW run-of-river hydropower plant in Barangay Sibulan, Sta. Cruz, Davao del Sur by AP's 100%-owned subsidiary Hedcor Sibulan is expected to be completed in 2010. The facilities, which comprise two cascading hydropower generating facilities tapping the Sibulan and Baroring rivers, are expected to generate an estimated 212 million kWh of clean and emissions-free energy annually. The commercial operation of the first plant, which has a capacity of 26 MW, started in March 2010, while the second plant, with a capacity of 16.5 MW, is expected to commence in May 2010.

  The 3x82-MW coal-fired power plant in Toledo City, Cebu, which is a joint venture with Metrobank Group's Global Business Power Corporation and Cebu-based Vivant of the Garcia Group, is scheduled for completion in 2010. The first 82 MW-unit started to generate and deliver power to the Visayas grid in March 2010. The second and third 82-MW units are expected to commence commercial operations by second and fourth quarters of 2010, respectively. AP has an effective participation of 26% in the project.

  The Company, together with its partner SN Power, is pursuing the programmed rehabilitation of both the 75 MW Ambuklao and 100 MW Binga hydro facilities. Rehabilitation of the former is expected to be completed by 2010, with the first unit coming on stream by third quarter of 2010, while the second and third units by the last quarter of 2010. Total capacity is expected to increase to 105 MW. Rehabilitation works on Binga will commence after, performing works on one unit per year. Completion of rehabilitation of all four units is expected by 2014, which should enhance generating capacity by 20%, to 120 MW.

2. Greenfield Projects

AP wholly owned subsidiary Hedcor Tamugan is planning to build a 10 to 15-MW hydro plant along the Tamugan River following the compromise between Hedcor, Inc. and the Davao City Water District (DCWD) on the Tamugan water rights dispute. Further discussion with the DCWD led to the revision of the project's design and plant size. Hedcor Tamugan has submitted a proposal for a 15-MW hydropower plant, in lieu of the contested proposal for a 27.5-MW hydropower plant. Given the new project scheme, Hedcor Tamugan will have to conduct studies for engineering design (one year). Once approved and permits are secured, the two-year construction period will commence. Despite the lower generating capacity, the required amount of energy under a power supply agreement between the Hedcor consortium (of which Hedcor Tamugan is a part of) and DLP will be met.

Hedcor is also conducting feasibility studies for potential hydropower projects located in both Luzon and Mindanao. Based on current findings, Hedcor sees the potential of building 5-50 MW plants in the identified areas. The feasibility studies are expected to be completed in two years. Once permits are secured, another two years will be needed for the actual construction of the hydro facilities.

On February 17, 2007, AP entered into a Memorandum of Agreement with Taiwan Cogen, a Taipei-based generation company, to collaborate in the building and operation of a 300 MW coal-fired power plant in the Subic Bay Freeport Zone. On May 30, 2007, RP Energy was incorporated as the 50:50 joint venture company for this project. The project is estimated to cost approximately US$500 million. AP together with its partner Taiwan Cogen has put the Subic coal project on hold for further review as the Company continues to assess the changes to the demand in the Luzon Grid following the global financial crisis.

3. Participation in the Government's Privatization Program for its Power Assets

With more than 70% of NPC assets bidded out and awarded, the Company continues to closely evaluate the investment viability of the remaining power generation assets that PSALM intends to auction off.

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

Power (Distribution Business)

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

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

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

VECO and DLP are part of the third group (Group C) of private distribution utilities expected to enter PBR. Both VECO and DLP entered their respective reset periods in end 2008 and are expected to enter the 4-year regulatory period by July 1, 2010.

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

In April 2009, VECO also applied for a petition with the ERC under the RORB ratemaking regime for the adjustment and realignment of its current distribution charge. After the conclusion of the application process, which included a series of public consultations, the ERC granted VECO's petition on August 7, 2009 with modifications on the sound value of assets and the revenue requirement. After taking the adjustments into consideration, the average rate adjustment was ₱0.2267 per kWh. The rate adjustment was implemented starting September 10, 2009.

In September 2009, SFELAPCO filed a rate increase application with the ERC under the RORB rate-making methodology, which is still pending at present. The average rate adjustment applied for is ₱0.3980/kilowatt-hour.

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

AP will participate in the bid to privatize the Olongapo Public Utilities Department (Olongapo PUD), which is tasked with the operation and maintenance of the electric, light and power systems of Olongapo City, Zambales. The bidding is scheduled to take place in May 2010. In 2008, the Olongapo PUD sold 139 GWh of electricity to approximately 41,000 customers. Average peak demand in 2008 was at 28.6 MW.

Market and Industry Developments

1. Power Supply Option Program and the Open Access and Retail Competition

On March 1, 2010, the Power Supply Option Program (PSOP) for the Luzon grid was implemented, particularly in the franchise areas of distribution utilities that have volunteered participation in said program. Under the PSOP, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a Retail Electricity Supplier (RES) license from the ERC. Eligible suppliers shall include the following:

- Generation companies that own, operate or control 30% or less of the installed generating capacity in a grid and/or 25% or less of the national installed capacity

- NPC-Independent Power Producers with respect to capacity which is not covered by contracts

- IPP Administrators with respect to the uncontracted energy which is subject to their administration and management

- RES duly licensed by the ERC

The PSOP will end upon the implementation of open access and retail competition, which will take effect once NPC is able to privatize 70% of its IPP contracts. All contracts entered into by entities participating in the PSOP shall be terminated. The industry participants, in accordance with the rules and policies of the open access scheme, shall enter into new contracts.

This development presents a big opportunity for AP, as it has two wholly owned subsidiaries, AESI and Advent Energy, Inc., that are licensed retail suppliers, which can enter into contracts with eligible contestable customers, both under the PSOP and the open access regime. Moreover, AP's generation assets that have uncontracted capacity will be able to have direct access to eligible contestable customers through AP's licensed RES. These assets are the Magat, Ambuklao and Binga hydropower plants, Tiwi-Makban geothermal facilities, and the Pagbilao coal plant, via its IPPA contract. However, some of these plants have transition supply contracts with Meralco, a participating entity under the PSOP. Any capacity that will be contracted through the PSOP with existing Meralco customers could result to volume reductions in these generation assets' transition supply contracts.

Capital-Raising Activities

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

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

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

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

Financial Services

UBP's initiatives on strengthening its customer franchise will be at the forefront as it continues to give priority to customer satisfaction through enhanced retail focus and stronger sales management approach. UBP will continue to invest in technology, partnerships and continue to rationalize, re-deploy and expand its branch network in strategic areas to maximize growth channels with respect to both deposits and loan accounts. Through research and development of quality and innovative products and services, UBP aims to protect its competitive edge in providing technology-based banking solutions.

UBP will continue to focus on improving the performance of its earning assets portfolio, with loan asset acquisition in the corporate, commercial and consumer sectors. It will implement a disciplined asset allocation built on good governance and effective risk management to ensure momentum of recurrent income stream.

UBP will likewise continue to enhance operating efficiencies through cost containment efforts and improvements in its business processes.

In October 2009, UBP issued 10-year unsecured subordinated notes eligible as Lower Tier 2 capital, bringing in fresh, long-term funds to its capital base. The bank capped its offering at ₱3.75 billion, following its strong performance for the first nine months of 2009. Its stronger balance sheet provides cushion for trading and lending risks. Capital adequacy ratio further strengthened to 16.1% as of end-2009 from 12.9% in 2008, which was above the minimum requirement of 10%. UBP made a ₱2 billion provision for impairment losses in 2009, which resulted to loan loss reserves of 103% at end-2009, versus end-2008's 86%.

CSB will continue to strengthen its market position in its present niche by further improving its products and services. Improvements in its systems to enhance operating efficiency will continue to be pursued to ensure customer satisfaction. Other government employees, aside from public school teachers, and private company employees will also be tapped. CSB plans to expand its branch network by putting up new branches and extension offices in areas outside of its present coverage.

In March 2009, CSB issued 5-year peso-denominated corporate fixed rate notes in the aggregate amount of ₱1 billion via private placement to primary institutional lenders. Proceeds of the issuance had been utilized to augment the bank's long-term funding base and support its long-term asset growth objectives.

On March 10, 2010, the AEV Board of Directors approved the proposal to acquire up to 60% ownership of CSB, with the remaining 40% equity to be acquired by Pilmico. AEV currently owns approximately 34% of CSB. The combined purchase by AEV and Pilmico is valued at approximately ₱1.36 billion. The planned acquisition is also conditional upon AEV's obtaining the necessary Monetary Board approval for the transaction.

Food Manufacturing

As its new feedmill in Iligan is nearing full utilization, Pilmico plans to expand its capacity by adding another production line. Once completed and operational, total capacity is seen to increase by 94%. Construction is expected to commence by first half of 2010, with completion and commercial operations targeted by June 2010 and July 2010, respectively.

The company is in the process of completing the documentation for the ISO certification of its Iligan feedmill. It aims to obtain said certification by 2011. The same is being done for the PANC Tarlac feedmill. PANC is a wholly owned subsidiary of Pilmico.

For its swine business, PANC's third grower-finisher farm in Capas, Tarlac is expected to commence commercial operations by the second quarter of 2010. This will increase the capacity of company-owned farms by 60%. PANC is evaluating the construction of a fourth grower-finisher farm, which is expected to further increase total capacity by another 38%.

The construction of PANC's biogas system for its Tarlac farms has been completed and is currently undergoing test runs. Once operational, PANC expects to make its farms' operations almost power self-sufficient with the conversion of hog waste to electricity.

Transport

ATS continues to keep its position as a leading provider of integrated transport and supply chain solutions in the country. It aims to keep its position by having a strong balance sheet. In 2009, it funded all its capital expenditures internally. It purchased various container ships, fast crafts and ropax vessels with minimal increase in debt.

ATS will proceed with the rationalization and refleeting of its assets to increase operating efficiencies and improve earning capacity. Last year, it sold one of its ropax vessels, Lady of Medjugorje, and a passenger fast craft, while adding Cebu Ferries 2 (with 40 TEUs and 892 pax capacity), two fast craft vessels (with 310 pax capacity each) and two container ships (with freighter capacity of 1,048 TEUs each). In February 2010, ATS purchased two new ropax vessels with a total capacity of 400 TEUs and 2,000 passengers.

Its passenger business will continue to move forward with its low-cost carrier business model, enabling it to compete effectively with low-cost airlines. Moreover, Supercat's operations were expanded via the servicing of new routes, e.g. Bacolod/Iloilo.

Focus will remain on building the ATS's value-added business.

In 2009, 100%-owned Aboitiz One, Inc. formed a joint venture with Kerry Logistics Network Limited of Hong Kong (KLN) for an international freight forwarding business. KLN is the leading Asia-based provider of logistics services and supply chain solutions. It operates in over 300 cities globally, 23 countries worldwide and serves over 127 cities throughout mainland China. The joint venture company, Kerry-Aboitiz Logistics, Inc. (KALI), aims to offer innovative, cost-effective and reliable services on international air and sea freight and cargo forwarding, cargo consolidation and as a breakbulk agent. With the global clout of KLN and the domestic dominance of ATS, KALI is poised to provide better service to its clients.

Aboitiz Jebsen Bulk Transport Corporation (Abojeb) currently stands as one of the largest manning agents in the Philippines with more than 8,000 crew in the pool and more than 5,000 crew onboard the more than 340 ships the company is presently manning. Ship management has presently 26 ships under full ship management and the strategy is to expand this activity further.

ATS will continue to strengthen its team and organization, keeping its people and systems flexible. ATS today is leaner and more prepared than ever to take on challenges and opportunities that will come its way.

Adoption of Philippine Interpretation IFRIC 12, Shift from Cost to Fair Value Model in Accounting for Investment Properties and Accounting for Disposal Group

In 2008, certain power subsidiaries and associates adopted IFRIC 12, a new accounting standard in accounting for service concession arrangements, while AEV shifted to Fair Value Method in accounting for the Group's investment properties. The 2007 and 2006 financial statements were restated to retroactively apply the adoption of this new accounting standard and the shift to the fair value model.

With the planned sale of the Company's investment in ATS in 2009 and in compliance with new accounting standards, the 2008 net income and assets and liabilities of the ATS Group, except Aboitiz Jebsen Group, are reported separately as a disposal group held for sale (refer to notes nos. 1 and 14 of the attached consolidated financial statements). To be comparative with 2008 financials, the consolidated income statements for 2007 and 2006 have been reformatted to also reflect the net income of the disposal group under a separate account "Net income for the year from disposal group".

Key Performance Indicators

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

1. EQUITY IN NET EARNINGS OF INVESTEES. Equity in net earnings (losses) of investees represents the group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates profitability of the investments and investees' contribution to the Group's consolidated net income.

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

2. EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION (EBITDA). The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts and to finance its capital expenditure and working capital requirements.

3. CASH FLOW GENERATED. Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. CURRENT RATIO. Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt-paying ability. The higher the ratio, the more liquid the Group.

5. DEBT-TO-EQUITY RATIO. Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

Key Performance Indicators for 2008 and 2007 (Restated) are as follows:

	Dec 31/2008	Restated Dec 31/2007
EQUITY IN NET EARNINGS OF INVESTEES	3,631,338	3,987,803
EBITDA	8,607,000	9,369,083
CASH FLOW GENERATED:		
Net cash provided by operating activities	2,027,018	4,492,855
Net cash used in investing activities	(7,402,511)	(7,052,267)
Net cash provided by (used in) financing activities	2,961,164	13,335,684
Net Increase (Decrease) in Cash & Cash Equivalents	(2,414,329)	10,776,272
Cash & Cash Equivalent, Beginning	17,986,518	8,009,957
Cash & Cash Equivalent, End	16,037,473	18,568,226
CURRENT RATIO	1.90	2.47
DEBT-TO-EQUITY RATIO	0.62	0.40

Note: Amounts in thousands except financial ratio data.

All the key performance indicators were within management's expectations during the period under review.

2008 equity in net earnings of investees registered a 9% YOY drop mainly due to the anticipated decline in earnings of the banking associates. Lower trading gains and other non-interest revenues of UBP and decrease in the profit margins of CSB resulted in the decline of their income contributions.

The decline in the 2008 EBITDA was attributable to the decrease in the operating margins of subsidiaries and in the share of net earnings of associates. Increase in cost of power purchased or generated for AP, higher fuel prices for transport, and rise in costs of raw materials and freight for food resulted in the decrease of the operating margins of these industry groups.

Despite the challenging economic environment and external market volatilities, the Group has consistently managed its cashflows and operations effectively, generating positive cash inflows from operations and registering healthy financial ratios. This strong financial position enables the Group to deliver higher value directly to its shareholders, while continuing to invest in its growth opportunities.

The government, through NPC and the PSALM, is expected to continue to auction off power generation assets. AEV's power subsidiary, AP, is currently evaluating the investment viability of these assets and intends to participate in the upcoming bidding process.

Year ended December 31, 2008 vs. Year ended December 31, 2007

Results of Operations

AEV and subsidiaries posted a consolidated net income of ₱4.12 billion, a 29% decline from the previous year's restated net income of ₱5.82 billion. This translates to an earnings per share of ₱0.73 for 2008. Ownership dilution in AP and lower earnings contributions of parent and its operating units accounted for the marginal decline in earnings performance for the year.

On a recurring basis, the Group registered a consolidated net income of P4.90 billion, a 3% decrease from last year's ₱5.04 billion. For 2008, the Group recorded a non-recurring net loss of ₱775 million, which includes (1) a foreign exchange net loss of ₱403 million at parent and subsidiary levels; (2) a ₱575 million loss due to a booked asset impairment provision in anticipation of the sale of ATS in 2009; (3) a ₱198 million share in the reversal of provisions made by a power associate due to an arbitration settlement; (4) a ₱43 million share in a subsidiary's project cost write-off, and (5) a ₱48 million share in gains on asset sale and insurance claims made by ATS.

AP accounted for the bulk of AEV's income at 70%. This was followed by the banking, food and transport groups with contributions of 18.6%, 9.7% and 1.7% of total, respectively.

Despite AEV's ownership dilution in AP, the power group continued to be AEV's main earnings contributor for the year with its income contribution of ₱3.32 billion, recording a slight marginal decline from last year's ₱3.35 billion. When adjusted for non-recurring items, the group recorded a 30% YOY income growth, from ₱2.74 billion in 2007 to ₱3.57 billion in 2008.

The power generation business shored in the bulk of AP's income contribution to AEV. The business ended the period with net earnings contribution of ₱2.11 billion, up by 3% YOY. With adjustments for one-offs, net income contribution grew by 72% YOY, from ₱1.42 billion in 2007 to ₱2.43 billion in 2008. This strong showing can be mainly attributed to the incremental earnings contributions from 2007 acquisitions, with major contributions coming from the 232-MW STEAG coal power plant. Total power sold for the period recorded a 70% YOY expansion, from 1,018 GWh to 1,728 GWh. The increase was brought on by the full-year contributions of the 2007 acquisitions. The takeover and operation of the 100-MW Binga hydro power plant in July 2008 has likewise resulted to the increase in the Group's generation output. Higher rainfall during the year resulted to higher capacity factors for most of the hydro plants as well.

On the other hand, the power distribution group's kilowatt-hour electricity sales for the period grew by 13% YOY, from 2,790 GWh to 3,142 GWh. Aside from the incremental volume sales from the 2007 acquisitions, expansion in SEZ's industrial segment accounted for the strong growth of the distribution group, with power demand increasing mainly due to the operation of the Hanjin shipyard. On an organic basis, the group recorded a growth of 7% YOY. Despite robust volume growth recorded, the power distribution business contributed net earnings of ₱1.14 billion to AEV, a 12% YOY decline. This decrease in income contribution was mainly due to AEV's ownership dilution in AP, coupled with increased fixed operating expenses resulting from 2008's high inflationary environment.

The financial services group contributed net earnings of ₱880 million in 2008, recording a 29% YOY decline from previous year's ₱1.24 billion. UBP ended the period with an earnings contribution of ₱843 million, 28% lower than the previous year's ₱1.18 billion, while CSB contributed earnings of ₱37 million, down by 42% from the same period last year.

Considering both continuing and discontinued operations, the transport group ended the year with an income contribution of ₱81 million, vis-à-vis last year's earnings contribution of ₱318 million. On a recurring basis, stripping off AEV's share of ATS's non-recurring gains amounting to ₱313 million and ₱48 million in 2007 and 2008, respectively, the transport group's earnings performance expanded by more than six times, from ₱5 million in 2007 to ₱33 million in 2008. The strong showing of its freight revenues and improved value-added business accounted for the growth in recurring income.

Income contribution from AEV's non-listed food subsidiary, Pilmico, amounted to ₱458 million, a 13% decrease from the previous year. Despite a 23% increase in revenues, the flour business recorded a 27% YOY decline in earnings contribution. In the meantime, the company's swine and feeds business recorded a 62% YOY earnings expansion, which resulted from favorable prices and robust volume sales.

Material Changes in Line Items of Registrant's Income Statement

Consolidated net income attributable to equity holders decreased by 29%, from the restated ₱5.82 billion in 2007 to ₱4.12 billion in 2008.

Gross profit for the year from continuing operations amounted to ₱2.51 billion, a 20% decline from the ₱3.13 billion posted last year. The 16% or ₱3.27 billion hike in costs and expenses more than offset the 11.5% or ₱2.66 billion growth in consolidated revenues. All the industry groups registered YOY decreases in gross profit.

Power subsidiaries reported a combined 12% or ₱247 million decrease in operating margins resulting from an increase in costs and expenses which more than offset the increase in revenues. The ₱931 million spike in revenues generated mostly by the Enerzone companies and CPPC was offset by the ₱1.18 billion hike in costs and expenses resulting from higher cost of CPPC's generated power and of power purchased by SEZ, MEZ and BEZ.

The food group reported a 24% drop in margins (₱729 million vs ₱957 million) as revenues increased only by ₱2.06 billion while costs and expenses rose by ₱2.29 billion. The 24% boost in sales was attributed to better selling prices in its flour business, strong volume sales for its swine business and favorable prices for both swine and feeds businesses. Higher costs of raw materials and freight resulted in a 30% increase in operating costs.

Share in net earnings of associates registered a 9% decrease (₱3.63 billion vs ₱3.99 billion) primarily due to the decrease in income contribution of the banking group. UBP ended the period with an earnings contribution of ₱843 million, 28% lower than the previous year's ₱1.18 billion. Other income decreased by 21% (₱3.01 billion vs ₱3.82 billion) substantially due to the extraordinarily huge income generated from trading and sale of assets in 2007 which was not duplicated in 2008. Provision for impairment losses also increased by 127% (₱860 million vs ₱380 million) as the bank continues to build-up its provisioning this year. The drop in other income and the increase in provisions more than offset the 21.63% or ₱1.05 billion increase in net interest income resulting from higher asset yields and lower funding costs. Likewise, CSB reported a 42% YOY decrease in income contributions from ₱63 million in 2007 to ₱37 million in 2008 mainly due to lower net interest margins and increased manpower costs.

The overall decline in consolidated gross profit from continuing operations was further driven by the 38% decrease (₱632 million vs ₱1.02 billion) in interest income. The Company generated lower interest earnings in 2008 as its cash balances dipped due to payment of higher cash dividends. This increase in interest income was offset by the 15% decrease in finance expense, from ₱844 million in 2007 to ₱721 million in 2008, resulting from lower average debt level in 2008. The provision for income tax decreased by 8% as a result of the lower taxable income reported by the Group.

Net income from disposal group represents the net earnings of the ATS Group, except the Aboitiz Jebsen Group. AEV's share in the net income of the disposal group decreased by 91%, from ₱337 million in 2007 to ₱31 million in 2008. This decline was mainly due to lower non-recurring gains generated during the year under review. AEV's share of the group's one-off gains amounted to ₱48 million in 2008, an 85% decrease from last year's ₱313 million gains from sale of three vessels. At the operating level, the disposal group recorded negative margins of ₱173 million in 2008, a 24% improvement from last year's ₱227 million. While the group still generated negative margins due to the rise in the cost of fuel, its single biggest expense, it recorded an improvement in 2008 as a result of the ₱2 billion increase in revenues. The strong showing of the company's freight revenues and improved value-added business accounted for this topline growth.

The ₱231 million increase in net income attributable to minority interests was mainly due to AEV's ownership dilution in AP, from 100% during the first semester of 2007 and 73% during the second half of 2007 to 76% in 2008, as a result of AP's initial public offering in July 2007 and the additional purchase of AP shares by AEV in 2008.

Changes in Registrant's Resources, Liabilities and Shareholders Equity

Assets

Compared to yearend 2007 levels, consolidated assets increased 15% to ₱75.71 billion as of December 31, 2008, due to the following:

a. Trade and other receivables decreased by 32% from ₱4.25 billion to ₱2.88 billion due to the reclassification made in 2008 of the disposal group's receivables, amounting to ₱1.62 billion, from this account to "Assets of disposal group classified as held for sale" account. Adding back the disposal group's receivables, the 2008 trade and other receivables registered a 6% increase over the 2007 level, primarily due to higher trade receivables resulting from the spike in revenues of the transport and food groups.

b. Inclusive of the disposal group, inventories increased by 117% (₱3.34 billion vs ₱1.54 billion) mainly due to higher wheat inventory carried by Pilmico as of yearend 2008.

c. Other Current Assets decreased by 22% from ₱1.64 billion to ₱1.28 billion due to the reclassification made in 2008 of the disposal group's similar assets, amounting to ₱628 million, from this account to "Assets of disposal group classified as held for sale" account. Inclusive of the disposal group, 2008's other current assets registered a 17% increase over the 2007 level, substantially due to higher unapplied VAT input taxes and accumulation of unutilized prepaid taxes. These prepaid taxes represent creditable taxes withheld by customers and can be used as payment of future income taxes.

d. Property, plant & equipment (PPE) registered a decrease of 13% from ₱10.31 billion to ₱8.96 billion due to the reclassification made in 2008 of the disposal group's PPE, amounting to ₱4.19 billion, from this account to "Assets of disposal group classified as held for sale" account. Inclusive of the disposal group, the 2008 PPE increased by 28% over the 2007 level, primarily due to the power group's acquisition of utility equipment and the ongoing construction of the 42.5-MW Sibulan hydropower plant in Davao del Sur. The food group's PPE also registered a substantial increase in 2008 due to the construction of the Iligan feedmill plant, additional silos and the nucleus and grower-finisher farms in Tarlac.

e. Intangible asset - service concession right increased by 29% from ₱662 million to ₱854 million, mainly due to new capital expenditures incurred by SEZ and MEZ. These capex are now recorded under this account following their adoption of IFRIC 12.

f. Investment properties increased by 25% from ₱245 million to ₱307 million, substantially due to the acquisition of a piece of land and additional commercial condominium units by CPDC.

g. Inclusive of the disposal group, investments and advances totalled ₱32.64 billion, up by 26% from the yearend 2007 level of ₱25.98 billion. This increase was mainly attributed to the following: i) infusion of ₱3.39 billion for additional equity in Manila-Oslo Renewable Enterprise, Inc. (MORE), which was in turn invested into SNAP-Benguet for the acquisition of the Ambuklao-Binga hydropower complex; ii) infusion of ₱279 million in equity into RP Energy; iii) extension of stockholder's advance amounting to ₱1.47 billion to CEDC, the project company for the 3X82-MW coal plant in Toledo City, Cebu; and iv) increase in accumulated equity earnings resulting from the recording of ₱3.62 billion share in associates' net earnings, and the receipt of ₱2.59 billion cash dividends from associates.

h. Other non-current assets decreased by 47% to ₱275 million due to the reclassification made in 2008 of the disposal group's similar assets, amounting to ₱341 million, from this account to "Assets of disposal group classified as held for sale" account. Inclusive those of the disposal group, 2008's other non-current assets registered a 17% increase over the 2007 level, substantially due to higher refundable deposits made in 2008.

The above increases were partially offset by the following decreases:

a. Cash & cash equivalents stood at ₱15.76 billion, 15% lower than the ₱18.57 billion reported at yearend 2007 due to the reclassification made in 2008 of disposal group's funds, amounting to ₱860 million, from this account to "Assets of disposal group classified as held for sale" account. Adding back those of the disposal group, the 2008 cash and cash equivalents registered a decrease of only 11% over the 2007 level. This decrease was mainly due to the Company's payment of a higher cash dividend to common shareholders in 2008.

b. Inclusive of the disposal group, available-for-sale investments decreased by 21% to ₱81 million mainly due to the sale of certain investments in 2008.

c. Inclusive of the disposal group, goodwill decreased by 20%, from ₱1.57 billion to ₱1.25 billion. The reduction was due to the ₱575 million impairment provision recorded by AEV parent on its ATS investment in 2008. This decline was partially offset by the additional ₱235 million goodwill recognized in 2008 on the acquisition of a new transport subsidiary, ScanAsia Overseas, Inc.

Liabilities

Inclusive of the ₱551 million loan of the disposal group, consolidated short-term bank loans increased by ₱4.52 billion due to the additional loan availment by the following: 1) transport group with an availment of ₱570 million to finance its working capital requirements; 2) power group with an increase of ₱1.45 billion due to the availment of loans to fund working capital requirements and the upward restatement of AP parent's dollar-denominated debt as a result of the weakening of the peso; and 3) food group with an availment of ₱1.45 billion mainly to finance its inventory build-up.

Likewise, long-term liabilities increased by 70% or ₱5.12 billion compared to the 2007 yearend level, principally due to the following: 1) issuance of ₱3.89 billion fixed-rate notes by AP parent in December 2008; 2) Hedcor Sibulan's availment of a ₱1.72 billion long-term debt to finance the construction of its 42.5-MW hydropower project; and 3) SEZ's refinancing of its long-term debt. This increase was partially offset by the prepayment of debt at the AEV parent level and the loan amortization payments by the transport and food groups.

Inclusive of the ₱3.02 billion payables of the disposal group, trade and other payables increased by 7% to ₱6.68 billion. This rise in payables was mainly due to advances made by subsidiary Abovant from other shareholders to fund infusions into CEDC.

Customers' deposits posted an increase of 14% or ₱199 million from last year mainly due to new connections in the CLP, DLP, and SEZ franchise areas.

Income tax payable decreased by 41% due to lower income tax provisions recorded by subsidiaries during the current year.

Equity
Equity attributable to equity holders of the parent decreased by 1% from the yearend 2007 level of ₱38.28 billion to ₱37.79 billion, due to the following:

a. Share in unrealized gains on AFS investments and underwriting accounts decreased by ₱434 million due to the decline in the market prices of these financial instruments as of the end of the current year.

b. Acquisition of minority interest decreased by ₱287 million, representing the premium paid by the group in acquiring the additional 40% interest in BEZ.

c. Treasury shares increased by ₱831 million as AEV parent started buying back its own shares in 2008.

The above decreases were partially offset by the following increases:

a. Retained earnings increased by ₱647 million as at December 31, 2008, mainly due to the recording of the ₱4.12 billion net income for the year, offset by the payment of ₱3.47 billion in cash dividends by AEV parent to its common shareholders.

b. Share in cumulative translation adjustments of associates improved by 97% due to the depreciation of the Philippine peso in December 2008, from ₱41.28 as of December 31, 2007 to ₱47.52. The power generating associates, which adopt the US dollar functional currency financial reporting, recorded considerable foreign exchange adjustments in generating their 2008 financial statements under the peso presentation currency. These foreign exchange adjustments are booked under the Cumulative Translation Adjustments account.

Financial Ratios

Lower cash balances accounted for the decrease in current ratio, from 2.47:1 as of December 2007 to 1.93:1 as of December 2008. Higher debt level in 2008 resulted to increases in debt-to-equity ratio from 0.40:1 as of December 2007 to 0.62:1 as of December 2008, and in net debt-to-equity ratio from -0.15:1 as of December 2007 to 0.15:1 as of December 2008.

Material Changes in Liquidity and Cash Reserves of Registrant

For the year ended 2008, the Group continues to support its liquidity mainly from cash generated from operations and dividends received from associates. External borrowings are also a source of liquidity. When opportunity arises, the group raises capital or disposes of certain assets to strengthen its cash position and be financially prepared to partake in major investment projects.

Consolidated cash generated from operating activities decreased by 55%, from ₱4.49 billion in 2007 to ₱2.03 billion in 2008. This decrease was largely a result of lower net income generated during the current year and to higher funds used in financing the food group's inventory build-up.

The current year ended with a ₱7.54 billion net cash used in investing activities, compared to the ₱7.05 billion used during the previous year. The increase was mainly due to higher capital expenditures made in 2008.

Net cash provided by financing activities in 2008 was ₱3.1 billion, compared to the ₱13.33 billion in 2007. The treasury share sale made by the AEV parent in January 2007 and the AP IPO proceeds in July 2007 added ₱5.94 billion and ₱9.96 billion, respectively, to cash. These transactions, net of the ₱1.14 billion cash dividends paid, resulted in a higher net cash generated in 2007. In 2008 the ₱9.28 billion short-and long-term loan proceeds, net of the ₱3.47 billion cash dividends and P831 million treasury shares acquisition, resulted in lower net cash generated.

For the year ended 2008, net cash outflows were higher than cash inflows, resulting to a 11% decrease in cash and cash equivalents, from ₱18.57 billion in December 2007 to ₱16.62 billion in December 2008.

Key Performance Indicators for 2007 and 2006 are as follows:

	Dec 31/2007	Dec 31/2006
EQUITY IN NET EARNINGS OF INVESTEES	3,987,803	2,114,710
EBITDA	9,369,083	6,994,795
CASH FLOW GENERATED:		
Net cash provided by operating activities	4,492,855	3,115,646
Net cash used in investing activities	(7,052,267)	2,578,536
Net cash provided by (used in) financing activities	13,335,684	(2,109,140)
Net Increase (Decrease) in Cash & Cash Equivalents	10,776,272	3,585,041
Cash & Cash Equivalent, Beginning	8,009,957	4,622,676
Cash & Cash Equivalent, End	18,568,226	8,009,957
CURRENT RATIO	2.47	2.07
DEBT-TO-EQUITY RATIO	0.40	0.72

Note: Amounts in thousands except financial ratio data.

Year ended December 31, 2007 vs. Year ended December 31, 2006

Results of Operations

AEV's consolidated net income for the year 2007 rose by 52% to ₱5.82 billion from ₱3.84 billion in 2006. Earnings per share improved to ₱1.02 from ₱0.78 for the comparative period in review.

The Group's record performance was driven by robust income contributions from the power and banking groups, accounting for 61% and 23% of consolidated income, respectively. The food group continued to be a stable source of earnings with a 10% income share, while the transport group's sustained profit performance resulted to a 6% contribution.

For 2007, the Group had a non-recurring income of ₱783 million, which includes (1) a foreign exchange net gain of ₱470 million at parent and subsidiary levels, and (2) a ₱313 million share in gains on asset sale made by its subsidiary ATS. On a recurring basis, AEV's net income of ₱5 billion in 2007 still recorded a robust growth of 37% YOY.

Despite AEV's ownership dilution in AP, the power group continued to be AEV's main earnings contributor for the year with its income contribution growing by 47% YOY, from ₱2.26 billion to ₱3.33 billion. Higher electricity sales by the power distribution group led to an 11% improvement in income contribution, from ₱1.16 billion to ₱1.29 billion. On an

organic basis, the group's kilowatt-hour electricity sales improved by 7%, from 2,507 GWh to 2,673 GWh. Electricity sales in 2007 further increased to 2,790 GWh, considering the sales contribution of the new acquisitions made during the year (i.e., 100% ownership in MEZ, 60% ownership in BEZ and an additional 36% ownership in SEZ.

Meanwhile, the power generation business shored in ₱2.03 billion in income contribution, an 88% growth from last year's ₱1.08 billion, as total net generated power attributable to the group grew by 176%, from 369 GWh to 1,018 GWh. This was attributed to the increase in the group's generating capacity with the acquisition of 50% of SNAP-Magat that owns and operates the 360-MW Magat hydropower plant in Isabela, 60% of CPPC and 50% of EAUC that owns and operates a 70-MW thermal power plant and a 50-MW thermal power plant in Cebu, respectively, and 34% of STEAG that owns and operates a 232-MW coal-fired plant in Misamis Oriental in Mindanao.

The financial services group contributed net earnings of ₱1.24 billion in 2007, 11% higher than the previous year's ₱1.12 billion due to the strong showing of both UBP and CSB.

Led by the strong performance of 77%-owned ATS, the transport group ended the year with a net income contribution of ₱318 million, a 124% improvement over last year's share of P142 million. ATS's enhanced operating performance, gains on asset sale and lower financing costs resulted to a net income of ₱420 million, a 113% improvement versus last year's ₱197 million.

Income contribution from AEV's 100%-owned non-listed food subsidiary Pilmico amounted to ₱530 million, 4% higher than last year's ₱510 million. Higher selling prices for flour, coupled with improved mill operating efficiencies, enabled the flour business to achieve a 24% YOY expansion in operating income. Meanwhile, the group's feed business and swine operations recorded a 19%YOY growth in combined revenues.

Material Changes in Line Items of Registrant's Income Statement

Consolidated net income attributable to equity holders increased by 52% due to the following:

- Gross profit from continuing operations for 2007 amounted to ₱3.13 billion, a 22% increase over the ₱2.57 billion posted in 2006. The ₱4.98 billion increase in consolidated revenues more than offset the ₱4.41 billion hike in costs and expenses.

  The power and food groups reported an improvement in margins due to the increase in sales during the year under review. Power distribution subsidiaries reported a 26% increase in GWh sold which translated to an 11% spike in revenue. Likewise, generation subsidiaries recorded a 244% increase in sales, 67% of which came from the fresh revenue contribution of newly-acquired subsidiary CPPC. On a consolidated level, power revenues increased by 30% to ₱11.31 billion and operating margins improved by 19% to ₱2.14 billion.

  The 17% boost in sales for the food group, from ₱7.35 billion in 2006 to ₱8.63 billion in 2007 was attributed to better selling prices and higher sales volume in its flour, feeds and swine businesses. Upgraded and more efficient milling operations, which countered the impact of higher input costs for both flour and feeds, also contributed to the 12% growth in operating margins, from ₱763 million in 2006 to ₱852 million in 2007.

- Share in net earnings of associates registered a remarkable 83% increase primarily due to the fresh income contributions of newly-acquired power generation associates (i.e., SNAP-Magat, EAUC and STEAG Power). These associates, which all posted positive bottomlines, started contributing to AEV's consolidated income during the second half of 2007. The group's share in income of these associates amounted to ₱1.77 billion, making up 44% of total equity earnings.

  The income contribution of banking associates UBP and CSB further enhanced share in net earnings. Their combined earnings contribution jumped by 11% to ₱1.24 billion in 2007. UBP recorded higher revenues across its businesses as average levels of its loan portfolio and deposits with other banks increased and yielded better returns. Higher gains on asset foreclosures and the sale of selected non-performing loans, and its growing revenue from its trust business also enhanced operating margins. As a result, UBP's operating income increased by 15% to ₱8.58 billion and net income rose by 21% to ₱2.9 billion, of which ₱1.18 billion

was contributed to AEV. Meanwhile, AEV's non-listed thrift bank CSB ended the year with a ₱194 million net income, 40% higher than the previous year. The 44% YOY growth in loan portfolio and a 61% increase in deposits boosted its profitability.

- Other income declined to ₱173 million, 18% lower than last year's ₱212 million. This was mainly due to higher foreign exchange losses incurred in 2007 resulting from the restatement of AP's dollar funds based on the US dollar exchange rate at yearend of US$1=₱41.28 versus 2006's US$1=₱49.045.

- The overall improvement in consolidated operating income from continuing operations was further boosted by the 311% increase in interest income, which more than offset the 19% increase in finance expense. Higher average cash balances maintained at AEV parent company and AP parent company levels and the decrease in average debt and interest rates accounted for this improvement. Provision for income tax increased by 74% as a result of the higher taxable income reported by the group.

  The ₱901 million increase in net income attributable to minority interests was mainly due to AEV's ownership dilution in AP, from 100% to 73.44%, as a result of the AP initial public offering in July 2007.

- Net income for the year from the disposal group increased by 228%, from ₱103 million in 2006 to ₱437 million in 2007. This can be attributed to a 66% surge in ATSC's other income, from ₱531 million in 2006 to ₱880 million in 2007. The expansion was mainly due to gains realized from the sale of three vessels and containers in 2007.

  Despite operating at a reduced capacity with the sale of three vessels and the dry docking of majority of its fleet, both the continuing operations and disposal groups of ATS registered a 5% growth in consolidated revenues. This topline improvement was attributed to robust freight revenues coupled with increased service fees generated from its supply chain management services. Costs and expenses correspondingly increased by 5% due to higher charter hire costs from the international chartering business and the rise in overhead costs resulting from the acquisition of a new subsidiary, SuperCat Fast Ferry Corporation, and an additional ownership in Refrigerated Transport Services, Inc. and Reefer Van Specialist, Inc. As a result, the transport group reported negative operating margins during the year under review.

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

Assets
Compared to yearend 2006 levels, consolidated assets increased by 60%, from ₱41.17 billion in December 2006 to ₱65.91 billion in December 2007, due to the following:

a. Cash & cash equivalents stood at ₱18.57 billion, 132% higher than the P8.01 billion reported at yearend 2006. This increase was mainly due to undisbursed AP IPO proceeds. At year-end 2007, AP reported a consolidated cash of ₱13.29 billion. Said increase was partially offset by the decrease in AEV parent's cash holdings when it made an additional ₱4.12 billion capital infusion into AP and paid back its ₱1.89 billion advances from AP in April 2007, and prepaid ₱1.47 billion of its long-term debt. With these disbursements, AEV fully utilized its ₱5.93 billion proceeds from the sale of its treasury shares in January 2007 and used part of its available cash balance at the beginning of the year. AP then utilized these funds to finance its acquisition of CPPC, MORE and EAUC during the same period.

b. Trade and other receivables reached ₱4.25 billion, up by 16% from ₱3.66 billion last year, largely due to the ₱602 million advances made in 2007 to contractors related to the construction of a new hydro power plant in Davao.

c. Other current assets increased by 49% from ₱1.10 billion to ₱1.64 billion, substantially due to higher unapplied VAT input taxes and accumulation of unutilized prepaid taxes by ATS and parent company. These prepaid taxes represent creditable taxes withheld by customers and creditable senior citizen discounts which can be used as payment of future income taxes by these companies.

d. Property, plant & equipment (PPE) and investment properties registered a combined increase of 8% from ₱9.80 billion to ₱10.56 billion, substantially due to the first-time consolidation of the plant and equipment of newly-acquired subsidiaries CPPC, MEZ and BEZ; the construction of the Sibulan hydro plant, and the acquisition of additional investment properties in 2007.

e. Investments and advances totalled ₱25.98 billion, up by 88% from the yearend 2006 level of ₱13.83 billion. This substantial increase was attributed to the following: the acquisition of MORE, EAUC and STEAG Power for a total consideration of ₱9.21 billion; ecognition of a ₱661 million gain on dilution in UBP, which was partially offset by a negative ₱629 million share in the cumulative translation adjustments of associates; and the increase in the carrying value of existing investments due to the recording of ₱3.99 billion in share in net earnings, net of the ₱968 million cash dividends received from these investees during the year under review.

f. Goodwill increased by 103%, from ₱776 million to ₱1.57 billion, due to the additional goodwill recognized in 2007 on the acquisition of new power associates MEZ and BEZ. This transaction was treated as a business combination involving entities under common control of ACO, and such control is not transitory. Thus, the acquisition was booked under the pooling-of-interests method.

g. Pension assets increased by ₱63 million due to the first-time consolidation of the pension assets of the newly-acquired subsidiaries in 2007.

The above increases were partially offset by the following decreases:

a. Asset classified as held for sale decreased by 100%. This represents ATS's SuperFerry 17 vessel which was sold per Memorandum of Agreement (MOA) dated November 13, 2006. The vessel was eventually delivered to the buyer on May 10, 2007.

b. Inventories declined by 5% from ₱1.62 billion to ₱1.54 billion, due to the lower wheat inventory carried by Pilmico.

c. Deferred income tax asset decreased by ₱89 million, mainly due to the reversal of a deferred tax asset related to previous year's unrealized foreign exchange losses which was realized during the year under review.

Liabilities

Consolidated short-term bank loans increased by ₱2.82 billion primarily due to the loan availment by AP to finance its STEAG Power acquisition in 2007. On the other hand, long-term liabilities decreased by 25% or ₱2.38 billion compared to 2006 year-end level, due to prepayment of debt. With its positive cashflows, ATS further reduced its interest-bearing debt by ₱1.81 billion during the period under review. The parent company also prepaid some of its long-term debt.

Trade and other payables rose by 35% from ₱4.63 billion to ₱6.25 billion mainly due to the assumption of a ₱878 million debt by AP in its acquisition of EAUC, and the consolidation of the payables of newly-acquired subsidiaries.

Customers' deposits was up by 22%, from ₱1.13 billion to ₱1.38 billion, due to the increase in the power distribution group's customer base and adjustments in required amounts of deposits to comply with the Magna Carta and the Distribution Service and Open Access Rules (DSOAR).

Income tax payable increased by ₱63 million due to higher income tax provisions recorded by subsidiaries during the current year.

Equity

Equity attributable to equity holders of the parent reached ₱38.29 billion, up by 65% from the yearend 2006 level of ₱23.17 billion. The upsurge was substantially due to the sale by registrant of all its treasury shares. The ₱4.45 billion net gains generated from this sale was credited to additional paid-in capital, registering a 332% increase.

Retained earnings amounted to ₱22.14 billion as of December 31, 2007, compared to ₱17.46 billion as of December 31, 2006. This improvement reflects the positive operating performance of the group, generating ₱5.82 billion in net income, which resulted in a 27% overall increase in retained earnings, despite the ₱1.14 billion cash dividend distribution.

Equity further increased due to the recognition of a ₱5.02 billion gains on dilution in AP and UBP as a result of AP's IPO in July 2007, and AEV's waiver of its preemptive right to subscribe to the new shares issued by UBP. During the period under review, AEV opted for the conservative approach of recognizing these dilution gains directly in equity instead of recording them as part of the consolidated net income.

The ₱529 million decrease in share in cumulative translation adjustments of associates was due to the further appreciation of the Philippine peso, from ₱49.045 as of December 31, 2006 to ₱41.28 in December 2007. The power generating associates, which adopt the US dollar functional currency financial reporting, recorded considerable foreign exchange adjustments in generating their 2007 financial statements under the peso presentation currency. These foreign exchange adjustments are booked under the cumulative translation adjustments account.

The share in unrealized gains on AFS investments and underwriting accounts increased by ₱90 million due to the improvement in the market prices of these financial instruments as of the end of the current year.

Acquisition of minority interest amounting to ₱83 million represents the premium paid by the group in acquiring the additional 36% interest in SEZ.

The ₱7.67 billion increase in minority interests was mainly due to AEV's ownership dilution in AP, from 100% to 73.44%, as a result of AP's IPO in July 2007.

Financial Ratios

Higher cash balances due to the unspent AP IPO proceeds accounted for the increase in current ratio, from 2.05:1 as of yearend 2006 to 2.47:1 as of December 2007. On the other hand, the increase in equity complemented by a decrease in consolidated liabilities further improved debt-to-equity ratios, from 0.69:1 as of December 2006 to 0.40:1 as of December 2007.

Material Changes in Liquidity and Cash Reserves of Registrant

For the year 2007, the group continues to support its liquidity mainly from cash generated from operations and dividends received from associates. External borrowings are also a source of liquidity. When opportunity arises, it raises capital or disposes of certain assets to strengthen its cash position and be financially prepared to partake in major investment projects.

Consolidated cash generated from operating activities increased by 44%, from ₱3.12 billion in 2006 to ₱4.49 billion in 2007. This increase was largely a result of higher income generated by the group.

The current period ended with a ₱7.05 billion net cash used in investing activities, compared to the ₱2.58 billion net cash provided during the previous year. This was mainly due to the higher investment acquisitions made and lesser cash dividends received from associates in 2007, as compared to those of the previous year.

Net cash provided by financing activities jumped by 732% to ₱13.34 billion, compared to the ₱2.11 billion net cash used in 2006. The treasury share sale made by the AEV parent in January 2007 and the AP IPO in July 2007 added ₱5.94 billion and ₱9.96 billion to cash, respectively. This increase was partially reduced by the bigger cash dividends paid by AEV during the current year.

For the year ended December 2007, net cash inflows were higher than cash outflows, resulting to a 132% increase in cash and cash equivalents, from ₱8.01 billion in December 2006 to ₱18.57 billion in December 2007.

Item 7. Information on Independent Accountant and Other Related Matters

External Audit Fees and Services

The external audit and consultancy fees of the Registrant for the years 2009 and 2008 were as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Audit Fees	₱336,000.00	₱369,600.00
Audit-Related Fees	–	–
Tax Fees	–	–
Consultancy Fees	–	–
Total	**₱336,000.00**	**₱369,600.00**

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

Audit services of external auditors for the years 2009 and 2008 were pre–approved by the Audit Committee. The Committee had also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

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

The accounting firm of Sycip, Gorres, Velayo & Company (SGV) has been AEV's Independent Public Accountant for the last 16 years. Mr. J. Carlitos G. Cruz served as audit partner of AEV for 2009. He replaced Mr. Ladislao Z. Avila, Jr. who served as audit partner for five years from 2004 to 2008. AEV shall comply with the requirements of Sec. 3(b)(iv) of SRC Rule 68 on the rotation of external auditors or signing partners. Representatives of SGV will be present during the annual meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions if needed.

There was no event in the past 16 years where AEV and SGV or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

In its regular meeting on March 3, 2010, the AEV Audit Committee resolved to submit for the approval of stockholders during the Annual Stockholders' Meeting a proposal to delegate to the Board of Directors the authority to appoint the Company's external auditors for 2010. The proposal is intended to give the Audit Committee sufficient time to evaluate different auditing firms who may act as AEV's external auditor for 2010.

PART III – CORPORATE GOVERNANCE

AEV has a Manual of Corporate Governance (the Manual) and Code of Ethics and Business Conduct (the Code) to guide the attainment of its corporate goals and strategies. To ensure compliance, copies of the Manual and the Code were disseminated to the Board of Directors, management and employees of AEV. Company-wide orientations on the Manual and the Code were conducted as well.

AEV has in place a performance evaluation system for corporate governance. The Compliance Officer regularly monitors and evaluates compliance by the Board of Directors, management and employees with the Manual. Together with the Human Resources Department, the Compliance Officer also ensures the implementation of AEV's rule against conflict of interests and the misuse of inside and proprietary information throughout the organization.

Corporate governance is further fostered by the Board's active role in reviewing and approving corporate goals and strategies set by management as well as in monitoring and evaluating management performance in meeting such

corporate goals. The different Board committees, which report regularly to the Board, are crucial to maintaining Board oversight in key management areas.

There are no major deviations from the Manual as of the date of this report.

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

Board Attendance

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

In 2009, the Board held eight regular and special meetings. Below is a summary of the attendance of the Directors:

DIRECTORS	SPECIAL AND REGULAR BOARD MEETINGS 2009							
	5-Jan	11-Feb	8-Apr	15-Apr	18-May	17-Jul	16-Sep	19-Nov
Jon Ramon Aboitiz	Present	Present	Present	Present	Present	Present	Present	Present
Roberto E. Aboitiz	Present	Present	Present	Present	Present	Present	Absent	Present
Enrique M. Aboitiz, Jr.	Absent	Present	Absent	Absent	Present	Present	Present	Present
Erramon I. Aboitiz	Present	Present	Present	Present	Present	Present	Present	Present
Justo A. Ortiz	Present	Present	Absent	Present	Present	Present	Present	Present
Mikel A. Aboitiz (Elected on May 18, 2009 as Director	-	-	-	-	-	Present	Present	Present
Antonio R. Moraza (Elected on May 18, 2009 as Director)	-	-	-	-	-	Present	Present	Absent
Roberto R. Romulo (Independent Director)	Present	Absent	Present	Present	Present	Present	Absent	Present
Jose C. Vitug (Independent Director)	Present	Present	Present	Present	Present	Present	Present	Present
Total No. of Directors Present	6	6	5	6	7	9	7	8

Corporate Governance Initiatives

During its regular meeting on February 11, 2009, the AEV Board of Directors approved the creation of additional Board committees and the consolidation of existing ones. The reorganization aims to (a) enhance the role of the Board of Directors in governance, (b) better represent and protect the interests of all stakeholders of the Company, (c) ensure compliance with regulatory standards and provide appropriate information and updates.

In the Amended Manual on Corporate Governance submitted to the SEC on September 24, 2009, the Investor Relations Committee was dissolved and the Board Nominations and Compensation Committee merged with the Board Corporate Governance Committee. It is now called the Board Corporate Governance Committee.

The mandate as well as the composition of each Board committee are described below:

- **The Board Corporate Governance Committee** shall represent the Board in discharging its responsibility relating to issues around the Group's governance principles and guidelines, nomination of persons into Board and Group senior leadership roles and the various compensation matters. The Committee does not have decision-making authority, except in certain circumstances as described in the Manual or where on the extent that such authority is expressly delegated by the Board.

  Chairman: Jon Ramon Aboitiz, Members: Erramon I. Aboitiz, Roberto R. Romulo, Jose C. Vitug, *Ex-Officio Members:* M. Jasmine S. Oporto, Sebastian R. Lacson, Xavier J. Aboitiz

- **The Board Audit Committee** shall represent the Board in discharging its responsibility related to audit matters for the Group. The Committee does not have decision-making authority, except in certain circumstances as described in the Manual or where such authority is expressly delegated by the Board.

  Chairman: Joce C. Vitug, Members: Roberto R, Romulo, Roberto E. Aboitiz, Justo A. Ortiz, *Ex-Officio Members:* Stephen G. Paradies, Rolando C. Cabrera

- **The Board Strategy Committee** shall represent the Board in discharging its responsibility relating to issues around the Group's business strategy and direction. In the case of the AEV Board Strategy Committee, this relates specifically to those Aboitiz Group companies in which AEV is a direct investor, even if that investment is made in another publicly listed entity, and even if the Board of that entity has a Board committee with similar duties and responsibilities.

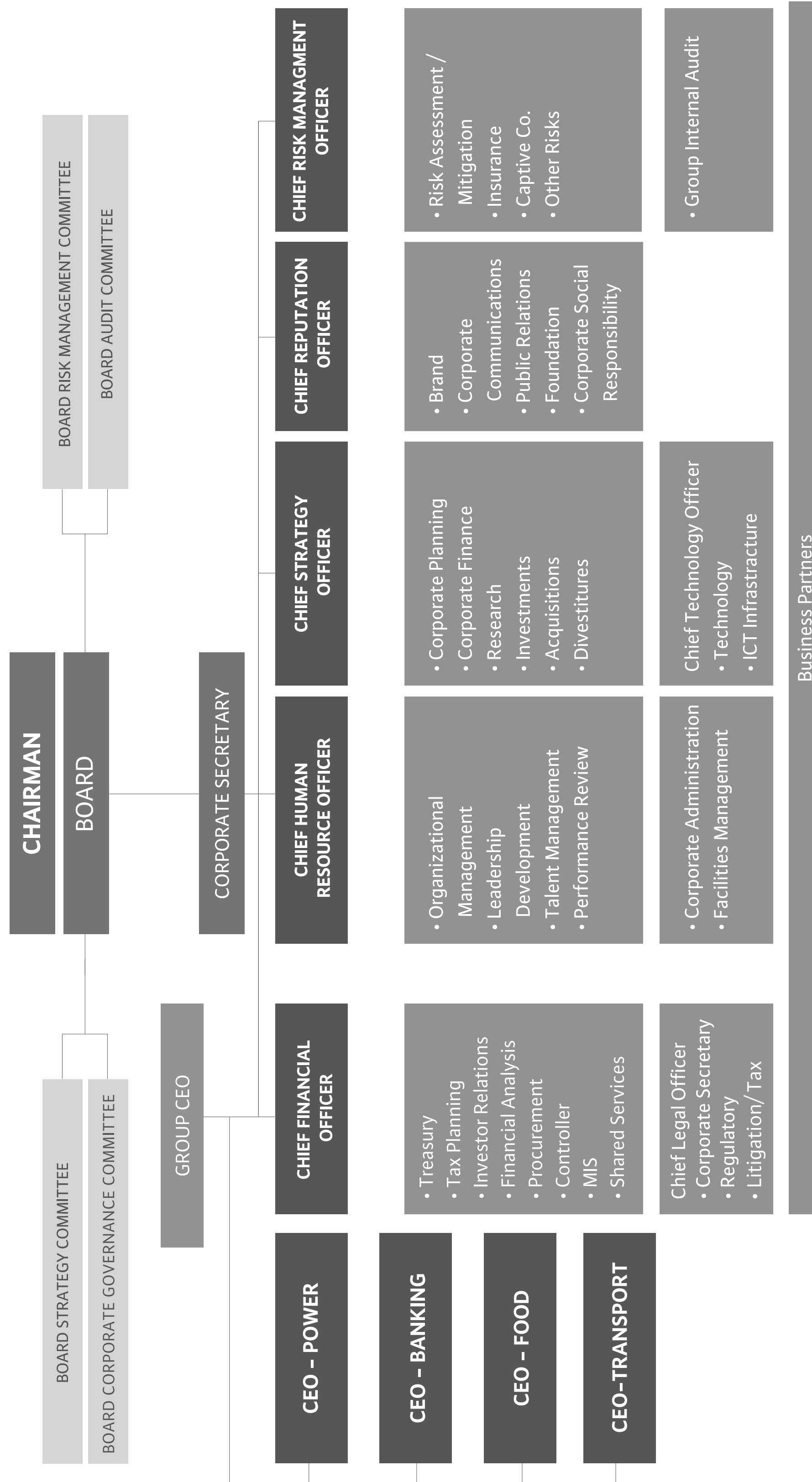
  The AEV Board Strategy Committee seeks to attain a constructive, cooperative relationship with such other Board and relevant Board committees. The Committee does not have decision-making authority, except in certain circumstances, as described in the Manual or to the extent that such authority is expressly delegated by the Board from time to time.

  Chairman: Jon Ramon Aboitiz, Members: Erramon I. Aboitiz, Roberto E. Aboitiz, Roberto R. Romulo, Enrique M. Aboitiz Jr.,
  Ex-Officio Member: Mikel A. Aboitiz

- **The Board Risk Management Committee** shall represent the Board in discharging its responsibility relating to risk management related matters around the Group. The Committee does not have decision-making authority, except in certain circumstances as described in the Manual or to the extent that such authority is expressly delegated by the Board.

  Chairman: Enrique M. Aboitiz Jr., Members: Erramon I. Aboitiz, Justo A. Ortiz, Antonio R. Moraza, *Ex-Officio Members:* Stephen G. Paradies, Rolando C. Cabrera

The AEV Board of Directors also approved the realignment and updating of the AEV Organizational Structure with respect to the following key Offices and Officers:



ANNEX "A-1"

CERTIFICATION OF INDEPENDENT DIRECTORS

I, ROBERTO R. ROMULO, Filipino, of legal age, and a resident of 9C Urdaneta Apartments 6735 Ayala Avenue, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of Aboitiz Equity Ventures (AEV) .

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Chartis Insurance Philippines (formerly Philam Insurance Company, Inc.)	Chairman	June 2000 to present
PETNET	Chairman	Feb 2006 to present
A. Soriano Corporation	Board of Directors	April 1998 to present
PLDT	Advisory Board	March 2001 to present
Romulo Asia Pacific Advisory, Inc. (formerly Romulo & Navarro)	Chairman & CEO	Dec 1995 to present
Carlos P. Romulo Foundation for Peace and Development Inc.	Chairman	1996 to present
Foundation for Information Technology, Education and Development, Inc. (FIT-ED)	Chairman	1998 to present
Philippine Foundation for Global Concerns, Inc. (PFGC)	Chairman	1996 to present
Zuellig Family Foundation	Chairman	June 2008 to present
Asia Europe Foundation of the Philippines	Chairman	1997 to present
MediLink Network	Chairman	Sep 1999 to present
Equicom Savings Bank	Board of Directors	Jan 2008 to present
Foreign Boards		
United Industrial Corporation Limited (Singapore)	Board member	2001 to present
Singapore Land Limited	Board member	Jan 2003 to present
MIH Holdings Limited (British Virgin Islands)	Board member	Jan 2003 to present
McLarty Associates	Member of the Board of Counsellors	Jan 2007 to present

1. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of AEV as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the corporate secretary of AEV of any changes in the abovementioned information within five days from its occurence.

Done, this ______ day of ____________, at ____________

ROBERTO R. ROMULO
Affiant

SUBSCRIBED AND SWORN to before me this _____ day of APR 0 8 2010 at MAKATI CITY, affiant personally appeared before me and exhibited to me his/her Community Tax Certificate No. 01497642 issued at Makati City on January 11, 2010.

Doc. No. 129;
Page No. 27;
Book No. IX;
Series of 2010.

MA. ESMERALDA R. CUNANAN
Notary Public
Until December 31, 2011
Appt. No. M-36 (2010-2011) Attorney's Roll No.34562
PTR No. 2087669/1-04-2010/Makati City

ANNEX "A-2"

CERTIFICATION OF INDEPENDENT DIRECTORS

I, JOSE C. VITUG, Filipino, of legal age and a resident of 373 Matienza Street, San Miguel, Manila, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of –

   a) Aboitiz Equity Ventures (AEV), Inc.,
   b) ABS-CBN Broadcasting Corporation

2. I am affiliated with the following companies or organizations:

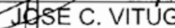
Company/Organization	Position/Relationship	Period of Service
Supreme Court	Consultant Committee on the Revision of the Rules of Court Chairman, Sub Committees on E-commerce and Notarial Rules	Indefinite
Securities Clearing Corporation of the Philippines	Chairman	One year term
Angeles University Foundation	Chairman, AUF Medical Center	Three year term
Angeles University Foundation	Dean, College of Law	Indefinite

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Aboitiz Equity Ventures, Inc., and ABS-CBN Broadcasting Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the corporate secretary of Aboitiz Equity Ventures, Inc., and ABS-CBN Broadcasting Corporation of any changes in the abovementioned information within five days from its occurrence.

Done, this MAR 29 2010 day of ______, at PASIG CITY.



JOSE C. VITUG

SUBSCRIBED AND SWORN to before me this MAR 29 2010 day of ______ at PASIG CITY, affiant personally appeared before me and exhibited to me his/her Community Tax Certificate No. 16810614 issued at ______ on March 2, 2009.

Doc. No. 156;
Page No. 33;
Book No. XI;
Series of 2010;

ATTY. EUGENE JUDE [illegible] ALABANZA
NOTARY PUBLIC
PASIG, PATEROS, TAGUIG, AND SAN JUAN
ISSUED ON JUNE 21, 2009 AT PASIG CITY
UNTIL DECEMBER 31, 2010
ROLL NO. 36[illegible]/IBP NO. 76856[illegible]/01/05/09 RSM CHAPTER
PTR NO. 5100022/01/05/09 PASIG CITY
8TH FLOOR LOPEZ BLDG., ORTIGAS AVENUE, PASIG CITY

ANNEX "B"

SUMMARY OF THE MINUTES OF THE 2009 AEV ANNUAL STOCKHOLDERS' MEETING

The meeting was called to order on May 18, 2009 at 4:00 p.m. by the President/Chief Executive Officer and Chairman of the meeting, Jon Ramon Aboitiz.

The Corporate Secretary certified that Notices for the meeting were duly sent out to all stockholders of record as of April 8, 2009, and that such Notice was also published in several national and Cebu newspapers of general circulation. The Secretary also certified that a quorum was present as of 3:50 p.m., representing 73% of the total shares outstanding and entitled to vote, or more than 2/3 of such total shares.

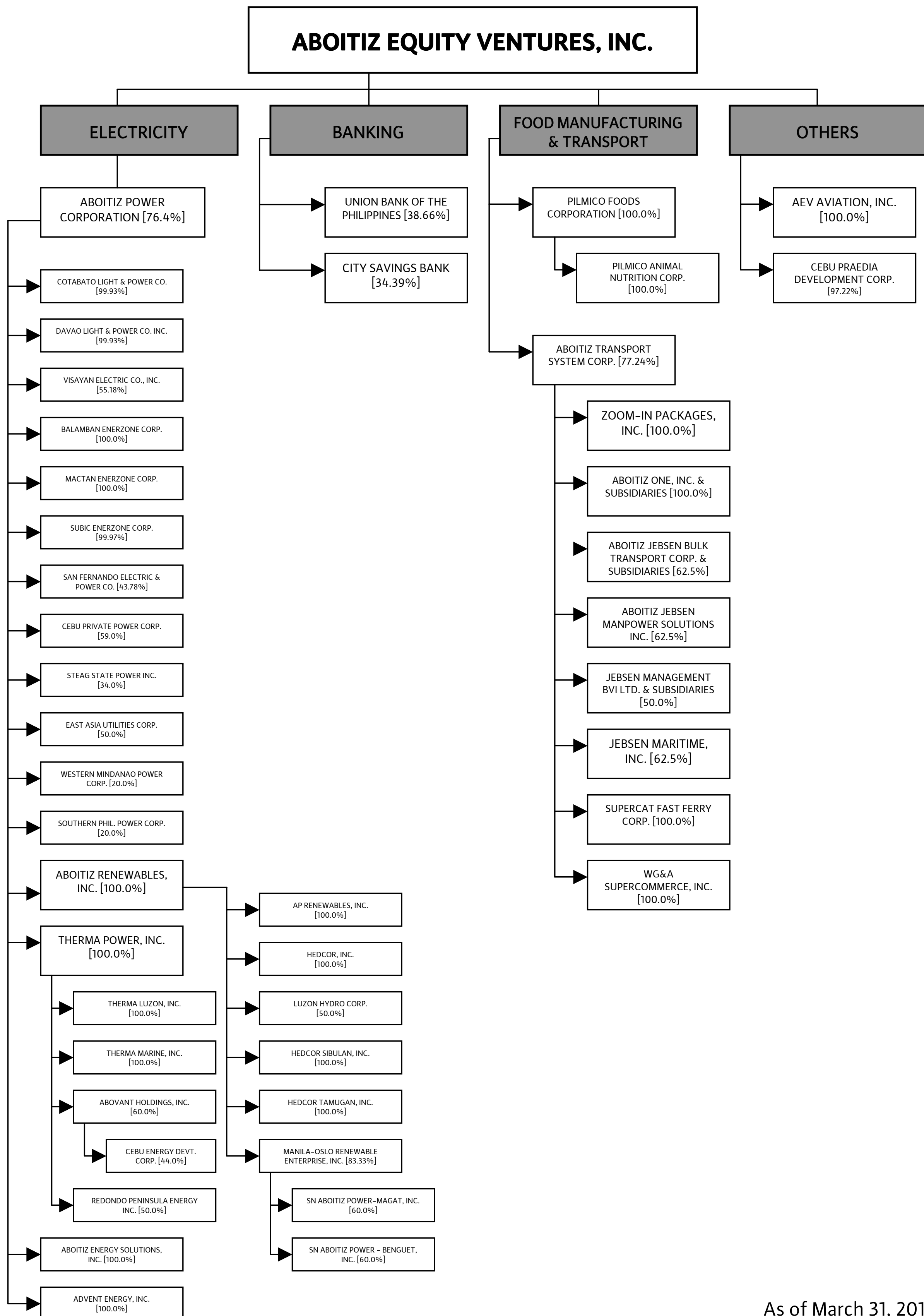
The reading of the minutes of the previous stockholders' meeting was dispensed with but such minutes were duly approved.

The body passed the following resolutions:

1. Approval of the Corporation's Annual Report and Audited Financial Statements as of December 31, 2008;
2. Ratification of all acts, resolutions, agreements, contracts and investments of the Board of Directors, management and corporate officers for the year 2008, as well as all other acts up to May 18, 2009;
3. Delegation of the authority to elect the Company's external auditor for 2009 to the Board of Directors;
4. Election of Roberto E. Aboitiz, Jon Ramon Aboitiz, Erramon I. Aboitiz, Enrique M. Aboitiz Jr., Justo A. Ortiz, Antonio R. Moraza, Mikel A. Aboitiz, Roberto R. Romulo and Jose C. Vitug as directors of the Corporation. Mr. Romulo and Justice Vitug (ret.) are the Corporation's independent directors.
5. Approval of the Directors' compensation and per diem for 2009

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

ANNEX "C"



As of March 31, 2010

The Audit Committee Report to the Board of Directors

The Audit Committee's roles and responsibilities are embodied in the Audit Committee Charter approved by the Board of Directors. It provides assistance to the Board of Directors in fulfilling the Board's oversight responsibility to the shareholders relating to: (a) the quality and integrity of the Company's accounting, auditing, legal, ethical and regulatory compliance; (b) risk management; (c) financial reporting practices and (d) corporate governance. Any proposed changes to the Audit Committee Charter are referred to the Board for approval.

Membership

As of December 31, 2009, the Audit Committee is composed of four members-two Independent Directors and two Executive Directors.

Justice Jose C. Vitug (Ret.) (Independent Director) chairs the Committee and is ably assisted by Roberto R. Romulo (Independent Director), Justo A. Ortiz (Executive Director) and Roberto E. Aboitiz (Executive Director). Ex-officio members of the Committee are Stephen G. Paradies, AEV Chief Finance Officer and Rolando C. Cabrera, Chief Risk Management Officer.

Meetings

Four regular meetings were held during the year: March 5, May 4, July 29, and October 29, 2009. One special meeting was convened in December 7, 2009 to discuss internal audit highlights and administrative matters. In these meetings, the Chief Financial Officer, Chief Risk Management Officer, Controller and Corporate Audit head were also present.

Financial Reports

On a high level basis, the Committee reviewed, discussed and endorsed for the approval of the Board the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of the Company and its subsidiaries, including the results of operations upon prior review and discussion with Management, internal auditors and SGV & Co., the independent auditor of the Company. These activities were performed in the following context:

- That Management has the primary responsibility for the financial statements and the financial reporting process; and
- That SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards;

Independent Auditors

The overall scope and audit plan of SGV & Co. was reviewed and approved. The terms of engagement were also reviewed.

The Committee also discussed with SGV & Co. the results of SGV's audits and its assessment of the overall quality of the financial reporting process. SGV & Co. also presented the effects of changes in relevant accounting standards and presentation of financial statements that impact the reported results.

The Committee also approved the delegation of the appointment of the Company's external auditors for 2010 to the Board of Directors.

Internal Auditors

The Committee also reviewed and approved the annual audit program of the Internal Audit Team of the Company. Included in this review is the adequacy of resources, competencies of staff and effectiveness of the internal audit function.

Further, the Committee reviewed the reports of the internal auditors. The internal auditors reporterd that internal controls were adequate and satisfactory. In their assessment, there is already a natural awareness within business units to continually improve on the culture of accountability and control ownership.

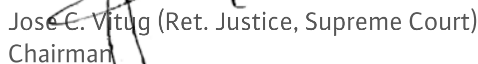
It is also the Internal Audit Team's assessment that the control design is effective and aligned with business needs and with the Company's goals and objectives. Operational efficiency and timeliness of information, on the other hand, remain the focus of its recommendations.

As scheduled, the Committee likewise reviewed, approved, and endorsed the revised Internal Audit Charter, focusing mainly of internal audit's commitment to quality via its Quality Assurance and Improvement Program.

Risk Management

In keeping with its charter, the Committee reviewed and discussed the rollout and implementation of the Enterprise Risk Management (ERM) initiative and internal audit's role in ERM in strengthening governance, risk management and control. The hiring of the Chief Risk Management Officer and the creation of a Risk Management team and its sub-teams, including Business Risk and Insurance Risk Management, gave impetus to the initiative.

In behalf of the Committee,



Jose C. Vitug (Ret. Justice, Supreme Court)
Chairman

SECURITIES & EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

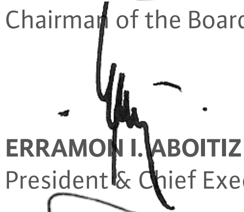
The management of Aboitiz Equity Ventures, Inc. is responsible for all information and representations contained in the consolidated financial statements of Aboitiz Equity Ventures, Inc. and subsidiaries for the years ended December 31, 2009 and 2008. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statement before such statements are approved and submitted to the stockholders of the company.

Sycip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

JON RAMON M. ABOITIZ
Chairman of the Board



ERRAMON I. ABOITIZ
President & Chief Executive Officer

STEPHEN G. PARADIES
Senior Vice President – Chief Finance Officer

Republic of the Philippines)
City of Cebu) S.S.

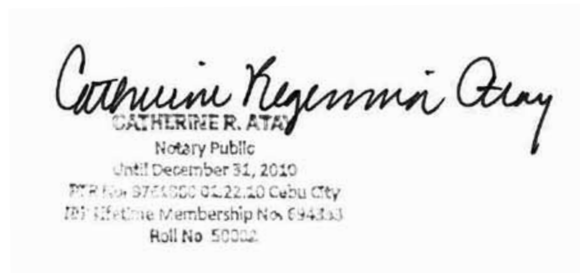
Before me, a notary public in and for the city named above, personally appeared:

Name	Passport No.	Date/Place Issued
Jon Ramon M. Aboitiz	XX4393111	August 18, 2009, Manila
Erramon I. Aboitiz	XX1560733	July 7, 2008, Manila
Stephen G. Paradies	ZZ202455	January 18, 2007, Manila

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this _____ day of ___April 13, 2010____2010.

Doc. No. __199_;
Page No.__40__;
Book No.__V11__;
Series of 2010.



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.

We have audited the accompanying consolidated financial statements of Aboitiz Equity Ventures, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes. We did not audit the 2009, 2008 and 2007 financial statements of the following subsidiaries: Aboitiz Energy Solutions, Inc., AEV Aviation, Inc., Cebu Praedia Development Corporation, Mactan Enerzone Corporation and Balamban Enerzone Corporation; and the 2008 and 2007 financial statements of Philippine Hydropower Corporation and Subsidiaries, which statements reflect total assets and total revenues of 5.7% and 9.5% of the consolidated assets as of December 31, 2009 and 2008, respectively; and total revenues of 4.4%, 6.3% and 5.4% of the consolidated revenues in 2009, 2008 and 2007, respectively. Also, we did not audit the 2009, 2008 and 2007 financial statements of the following associates: City Savings Bank, Pampanga Energy Ventures, Inc., Hijos de F. Escano, Inc., East Asia Utilities Corporation and STEAG State Power, Inc.; and the 2009 and 2008 financial statements of Union Bank of the Philippines, the investments in which represent 15.3% and 24.4% of the total consolidated assets as of December 31, 2009 and 2008, respectively, and the Group's share in net earnings represents 27.9%, 40.3% and 4.8% of the consolidated net income for 2009, 2008 and 2007, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Aboitiz Equity Ventures, Inc. and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

J. Carlitos G. Cruz
Partner
CPA Certificate No. 49053
SEC Accreditation No. 0072-AR-2
Tax Identification No. 102-084-648
PTR No. 2087522, January 4, 2010, Makati City

April 6, 2010

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue, Cebu City

We have audited the accompanying consolidated financial statements of Aboitiz Equity Ventures, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes. We did not audit the 2009, 2008 and 2007 financial statements of the following subsidiaries: Aboitiz Energy Solutions, Inc., AEV Aviation, Inc., Cebu Praedia Development Corporation, Mactan Enerzone Corporation and Balamban Enerzone Corporation; and the 2008 and 2007 financial statements of Philippine Hydropower Corporation and Subsidiaries, which statements reflect total assets and total revenues of 5.7% and 9.5% of the consolidated assets as of December 31, 2009 and 2008, respectively; and total revenues of 4.4%, 6.3% and 5.4% of the consolidated revenues in 2009, 2008 and 2007, respectively. Also, we did not audit the 2009, 2008 and 2007 financial statements of the following associates: City Savings Bank, Pampanga Energy Ventures, Inc., Hijos de F. Escano, Inc., East Asia Utilities Corporation and STEAG State Power, Inc.; and the 2009 and 2008 financial statements of Union Bank of the Philippines, the investments in which represent 15.3% and 24.4% of the total consolidated assets as of December 31, 2009 and 2008, respectively, and the Group's share in net earnings represents 27.9%, 40.3% and 4.8% of the consolidated net income for 2009, 2008 and 2007, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

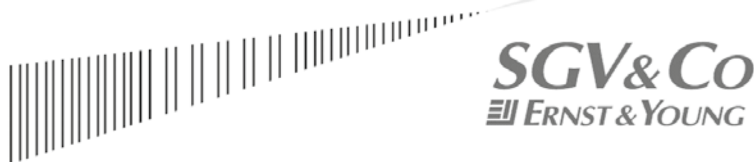
Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Aboitiz Equity Ventures, Inc. and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

J. Carlitos G. Cruz
Partner
CPA Certificate No. 49053
SEC Accreditation No. 0072-AR-2
Tax Identification No. 102-084-648
PTR No. 2087522, January 4, 2010, Makati City

April 6, 2010



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue, Cebu City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Equity Ventures, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated April 6, 2010. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

J. Carlitos G. Cruz
Partner
CPA Certificate No. 49053
SEC Accreditation No. 0072-AR-2
Tax Identification No. 102-084-648
PTR No. 2087522, January 4, 2010, Makati City

April 6, 2010

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱5,582,228**	₱15,177,219
Trade and other receivables (Note 5)	**7,634,835**	2,884,534
Derivative asset (Note 33)	**846**	–
Inventories (Note 6)	**3,268,720**	2,992,557
Other current assets (Notes 7 and 8)	**1,918,068**	1,279,106
	18,404,697	22,333,416
Assets of disposal group classified as held for sale (Note 14)	**–**	8,630,385
Total Current Assets	**18,404,697**	30,963,801
Noncurrent Assets		
Investments in and advances to associates (Note 10)	**38,568,422**	32,629,427
Property, plant and equipment (Notes 12 and 18)	**80,564,992**	8,956,267
Intangible asset - service concession rights (Notes 2, 3 and 13)	**882,308**	854,193
Investment properties (Notes 3 and 26)	**306,611**	306,611
Available-for-sale (AFS) investments	**84,935**	52,921
Pension asset (Note 27)	**105,507**	10,538
Deferred income tax assets (Note 28)	**514,530**	88,146
Goodwill (Note 11)	**1,812,783**	996,006
Other noncurrent assets (Notes 8 and 15)	**2,036,023**	856,701
Total Noncurrent Assets	**124,876,111**	44,750,810
TOTAL ASSETS	**₱143,280,808**	₱75,714,611

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 16)	**₱9,035,038**	₱7,609,099
Trade and other payables (Notes 17, 31 and 35)	**10,745,734**	3,657,928
Derivative liabilities (Note 33)	**16,476**	–
Dividends payable	**38,711**	12,502
Income tax payable	**457,223**	91,675
Current portions of:		
Obligations under finance lease (Notes 12 and 20)	**2,277,216**	–
Long-term debt (Note 18)	**722,867**	558,478
Long-term obligation on		
Power Distribution System (PDS) (Notes 2 and 3)	**40,000**	40,000
Payable to preferred shareholder of a subsidiary	**11,263**	9,194
Redeemable preferred shares (Note 21)	**–**	626,000
	23,344,528	12,604,876
Liabilities of disposal group classified as held for sale (Note 14)	**–**	3,739,563
Total Current Liabilities	**23,344,528**	16,344,439

(Forward)

	December 31	
	2009	2008
Noncurrent Liabilities		
Noncurrent portions of:		
Obligations under finance lease (Notes 12 and 20)	**₱43,340,516**	₱–
Long-term debt (Note 18)	**18,223,835**	9,200,019
Redeemable preferred shares (Note 21)	**1,520,176**	1,500,000
Long-term obligations on PDS (Notes 2 and 3)	**247,460**	251,816
Payable to preferred shareholder of a subsidiary	**76,767**	88,030
Customers' deposits (Note 19)	**1,786,681**	1,581,255
Pension liability (Note 27)	**55,631**	34,122
Deferred income tax liabilities (Note 28)	**43,003**	59,329
Total Noncurrent Liabilities	**65,294,069**	12,714,571
Total Liabilities	**88,638,597**	29,059,010
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 21)	**5,694,600**	5,694,600
Additional paid-in capital (Note 21)	**5,791,324**	5,791,324
Net unrealized gain on AFS investments	**15,647**	3,496
Cumulative translation adjustments	**(1,302)**	1,444
Share in cumulative translation adjustments of associates (Note 10)	**88,118**	(14,007)
Share in net unrealized losses on AFS investments of an associate (Note 10)	**(64,734)**	(304,420)
Equity balance of disposal group classified as held for sale (Note 14)	**–**	422
Gain on dilution (Notes 2 and 10)	**5,376,176**	5,023,252
Acquisition of minority interest (Note 1)	**(500,177)**	(361,446)
Retained earnings (Note 22)	**29,592,607**	22,790,973
Treasury stock at cost (Note 21)	**(1,295,163)**	(830,657)
	44,697,096	37,794,981
Minority Interests (Note 2 and 39)	**9,945,115**	8,860,620
Total Equity	**54,642,211**	46,655,601
TOTAL LIABILITIES AND EQUITY	**₱143,280,808**	₱75,714,611

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
REVENUES			
Sale of:			
Power and electricity (Notes 23, 35 and 36)	**₱23,174,265**	₱12,108,415	₱10,976,493
Goods	**11,905,238**	9,773,827	7,968,414
Freight (Note 31)	**5,761,343**	4,745,872	6,914,399
Passage	**2,237,812**	5,295,015	2,690,677
Service fees (Note 35)	**1,480,707**	2,254,144	1,072,832
Fair value of swine (Note 8)	**878,230**	955,161	660,950
Others (Note 31)	**792,359**	729,814	921,643
	46,229,954	35,862,248	31,205,408
COSTS AND EXPENSES			
Cost of purchased power (Note 35)	**13,030,852**	6,625,385	6,303,902
Operating expenses (Notes 24, 35 and 36)	**12,024,445**	13,313,668	11,985,612
Cost of goods sold (Notes 6 and 24)	**10,546,379**	10,391,350	7,079,864
Overhead and terminal expenses (Note 24)	**3,101,504**	3,191,431	2,933,681
	38,703,180	33,521,834	28,303,059
OPERATING PROFIT	**7,526,774**	2,340,414	2,902,349
Share in net earnings of associates (Note 10)	**4,321,679**	3,624,976	3,987,277
Interest income (Notes 4 and 31)	**516,737**	644,627	1,053,695
Interest expense (Notes 31 and 32)	**(3,152,095)**	(592,794)	(764,930)
Dividends on redeemable preferred shares (Note 21)	**(161,596)**	(168,575)	(162,906)
Other income – net (Notes 26 and 32)	**2,108,740**	425,869	1,052,220
INCOME BEFORE INCOME TAX	**11,160,239**	6,274,517	8,067,705
PROVISION FOR INCOME TAX (Note 28)	**1,205,715**	977,999	1,211,633
NET INCOME	**₱9,954,524**	₱5,296,518	₱6,856,072
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱8,306,868**	₱4,120,886	₱5,820,893
Minority interests (Notes 2 and 39)	**1,647,656**	1,175,632	1,035,179
	₱ 9,954,524	₱5,296,518	₱6,856,072
EARNINGS PER SHARE (Note 29)			
Basic and diluted, for net income for the year attributable to ordinary equity holders of the parent	**₱1.494**	₱0.734	₱1.022

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	**₱8,306,868**	₱4,120,886	₱5,820,893
Minority interests (Note 2)	**1,647,656**	1,175,632	1,035,179
	9,954,524	5,296,518	6,856,072
OTHER COMPREHENSIVE INCOME			
Share in movement in unrealized valuation gains (losses) on AFS investments of an associate	**235,345**	(429,874)	90,277
Share in movement in cumulative translation adjustments of associates	**133,495**	611,608	(696,057)
Movement in unrealized valuation losses on AFS investments	**(236)**	(21,741)	(1,412)
Movement in cumulative translation adjustments	**(3,382)**	12,038	(4,746)
Total other comprehensive income (loss)	**365,222**	172,031	(611,938)
Income tax effect on other comprehensive income	**–**	–	–
Total other comprehensive income (loss), net of tax	**365,222**	172,031	(611,938)
TOTAL COMPREHENSIVE INCOME	**₱10,319,746**	₱5,468,549	₱6,244,134
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱8,653,213**	₱4,092,192	₱5,378,808
Minority interests (Note 39)	**1,666,533**	1,376,357	865,326
	₱10,319,746	₱5,468,549	₱6,244,134

See accompanying Notes to Consolidated Financial Statement.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attribute to equity holders of the parent												
	Capital Stock Common (Note 21)	Additional Paid-in Capital (Note 21)	Net Unrealized Gain on AFS Investments	Cumulative Translation Adjustment	Share in Cumulative Translation Adjustments of Associates (Note 10)	Share in Net Unrealized Losses on AFS Investments and Underwriting Accounts of an Associate (Note 10)	Gain on Dilution (Note 2 and 10)	Acquisition of Minority Interest (Note 2)	Retained Earnings (Note 22)	Treasury Stock (Note 21)	Total	Minority Interests (Note 2)	Total
Balances at December 31, 2006	₱5,694,600	₱1,341,245	₱16,058	(₱4,189)	₱105,904	₱39,519	₱–	₱–	₱17,461,820	(₱1,485,025)	₱23,169,932	₱1,137,287	₱24,307,219
Total comprehensive income	–	–	190	(3,666)	(528,886)	90,277	–	–	5,820,893		5,378,808	865,326	6,244,134
Change in minority interests (Note 39)	–	–	–	–	–	–	–	–	–	–	–	6,838,941	6,838,941
Sale of treasury shares (Note 21)	–	4,450,079	–	–	–	–	–	–	–	1,485,025	5,935,104	–	5,935,104
Gain on dilution (Notes 1 and 10)	–	–	–	–	–	–	5,023,252	–	–	–	5,023,252	–	5,023,252
Acquisition of minority interests (Notes 2 and 39)	–	–	–	–	–	–	–	(83,147)	–	–	(83,147)	(30,281)	(113,428)
Cash dividends – ₱0.20 per share (Note 22)	–	–	–	–	–	–	–	–	(1,138,920)	–	(1,138,920)	–	(1,138,920)
Balances at December 31, 2007	₱5,694,600	₱5,791,324	₱16,248	(₱7,855)	(₱422,982)	₱129,796	₱5,023,252	(₱83,147)	₱22,143,793	₱–	₱38,285,029	₱8,811,273	₱47,096,302

	Attributable to equity holders of the parent													
	Capital Stock Common (Note 21)	Additional Paid-in Capital (Note 21)	Net Unrealized Gain on AFS Investments	Cumulative Translation Adjustment	Share in Cumulative Translation Adjustments of Associates (Note 10)	Share in Net Unrealized Losses on AFS Investments of an Associate (Note 10)	Equity Balances of Disposal Group Classified as Held for Sale (Note 14)	Gain on Dilution (Notes 2 and 10)	Acquisition of Minority Interest (Note 1)	Retained Earnings (Note 22)	Treasury Stock (Note 21)	Total	Minority Interests (Note 2)	Total
Balances at December 31, 2007	₱5,694,600	₱5,791,324	₱16,248	(₱7,855)	(₱422,982)	₱129,796	₱–	₱5,023,252	(₱83,147)	₱22,143,793	₱–	₱38,285,029	₱8,811,273	₱47,096,302
Total comprehensive income	–	–	(12,752)	9,299	408,975	(434,216)	–	–	–	4,120,886	–	4,092,192	1,376,357	5,468,549
Movement in share in equity balances of disposal group	–	–	–	–	–	–	422	–	–	–	–	422	–	422
Acquisition of minority interests (Notes 2 and 39)	–	–	–	–	–	–	–	–	(278,299)	–	–	(278,299)	133,977	(144,322)
Acquisition of treasury shares (Note 21)	–	–	–	–	–	–	–	–	–	–	(830,657)	(830,657)	–	(830,657)
Changes in minority interests (Note 39)	–	–	–	–	–	–	–	–	–	–	–	–	(1,460,987)	(1,460,987)
Cash dividends – ₱0.61 per share (Note 22)	–	–	–	–	–	–	–	–	–	(3,473,706)	–	(3,473,706)	–	(3,473,706)
Balances at December 31, 2008	₱5,694,600	₱5,791,324	₱3,496	₱1,444	(₱14,007)	(₱304,420)	₱422	₱5,023,252	(₱361,446)	₱22,790,973	(₱830,657)	₱37,794,981	₱8,860,620	₱46,655,601

	Attributable to equity holders of the parent													
	Capital Stock Common (Note 21)	Additional Paid-in Capital (Note 21)	Net Unrealized Gain on AFS Investments	Cumulative Translation Adjustment	Share in Cumulative Translation Adjustments of Associates (Note 10)	Share in Net Unrealized on AFS Investments of an Associate (Note 10)	Equity Balances of Disposal Group Classified as Held for Sale (Notes 2 and 14)	Gain on Dilution (Notes 2 and 10)	Acquisition of Minority Interest (Note 2)	Retained Earnings (Note 22)	Treasury Stock (Note 21)	Total	Minority Interests (Note 2)	Total
Balances at January 1, 2009	₱5,694,600	₱5,791,324	₱3,496	₱1,444	(₱14,007)	(₱304,420)	₱422	₱5,023,252	(₱361,446)	₱22,790,793	(₱830,657)	₱37,794,981	₱8,860,620	₱46,655,601
Re-representation of reserve of disposal group	–	–	–	–	529	4,342	(422)	–	(4,449)	–	–	–	–	–
Balances at January 1, 2009 as re-presented	5,694,600	5,791,324	3,496	1,444	(13,478)	(300,078)	–	5,023,252	(365,895)	22,790,973	(830,657)	37,794,981	8,860,620	46,655,601
Total comprehensive income	–	–	12,151	(2,746)	101,596	235,344	–	–	–	8,306,868	–	8,653,213	1,666,533	10,319,746
Acquisition of minority interests (Notes 2 and 39)	–	–	–	–	–	–	–	–	(134,282)	–	–	(134,282)	128,522	(5,760)
Gain on dilution	–	–	–	–	–	–	–	352,924	–	–	–	352,924	–	352,924
Changes in minority interests (Note 39)	–	–	–	–	–	–	–	–	–	–	–	–	(710,560)	(710,560)
Acquisition of treasury shares (Note 21)	–	–	–	–	–	–	–	–	–	–	(464,506)	(464,506)	–	(464,506)
Cash dividends - ₱0.27 per share (Note 22)	–	–	–	–	–	–	–	–	–	(1,505,234)	–	(1,505,234)	–	(1,505,234)
Balances at December 31, 2009	**₱5,694,600**	**₱5,791,324**	**₱15,647**	**(₱1,302)**	**₱88,118**	**(₱64,734)**	**₱–**	**₱5,376,176**	**(₱500,177)**	**₱29,592,607**	**(₱1,295,163)**	**₱44,697,096**	**₱9,945,115**	**₱54,642,211**

See accompanying Notes to Consolidated Financial Statements

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱11,160,239**	₱6,274,517	₱8,067,705
Adjustments for:			
Interest expense (Note 32)	**3,313,691**	761,369	927,836
Depreciation and amortization (Note 24)	**2,675,239**	1,730,975	1,823,993
Unrealized valuation losses on derivatives	**15,630**	–	–
Loss (gain) on sale of: (Note 26)			
AFS investments	**(296)**	74	(2,732)
Property, plant and equipment	**(29,973)**	2,661	(750,348)
Investment in subsidiary and associate	**(52,500)**	15,051	–
Dividend income (Note 26)	**(6,795)**	(11,356)	(512)
Provision for (recovery of) decline in value of various assets, project costs and others	**(14,693)**	(58,162)	4,514
Unrealized foreign exchange losses (gains)	**(22,633)**	63,011	75,543
Interest income	**(516,737)**	(644,627)	(1,053,695)
Reduction (increase) in carrying amount of goodwill and property, plant and equipment in disposal group (Note 14)	**(574,789)**	574,789	–
Share in net earnings of associates (Note 10)	**(4,321,679)**	(3,624,976)	(3,987,276)
Unrealized valuation gain on investment property – net	**–**	(7,014)	–
Operating income before working capital changes	**11,624,704**	5,076,312	5,105,028
Decrease (increase) in:			
Trade and other receivables	**(3,382,220)**	(562,573)	(446,279)
Inventories	**299,034**	(1,795,073)	161,770
Other current assets	**(11,013)**	(237,625)	(161,379)
Increase in:			
Trade and other payables	**3,979,173**	322,064	518,044
Customers' deposits	**201,690**	197,162	253,611
Net cash generated from operations	**12,711,368**	3,000,267	5,430,795
Service fees paid	**(40,000)**	(40,000)	(40,000)
Income and final taxes paid	**(885,464)**	(933,249)	(897,941)
Net cash flows from operating activities	**11,785,904**	2,027,018	4,492,854
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received (Note 10)	**1,132,476**	2,376,648	968,761
Interest received	**571,133**	641,564	1,051,760
Acquisition of a subsidiary, net of cash acquired (Note 10)	**(4,800)**	(301,985)	(96,309)
Additions to intangible asset – service concession rights	**(70,259)**	(227,401)	(77,101)
Increase in			
Other noncurrent assets (Notes 15 and 35)	**(1,048,212)**	(42,162)	(19,017)
Investment properties	**–**	(54,172)	(57,058)

(Forward)

	Years Ended December 31		
	2009	2008	2007
Proceeds from sale of:			
Property, plant and equipment	**₱421,152**	₱199,809	₱2,588,199
Investments in subsidiary	**57,300**	–	–
AFS investments	**7,524**	1,462	11,322
Investments in associates	**–**	46,674	3,986
Additions to:			
Investments in and advances to associates (Note 10)	**(2,014,843)**	(5,494,332)	(8,217,825)
Property, plant and equipment (Note 12)	**(25,787,197)**	(4,548,616)	(3,145,870)
Net cash flows used in investing activities	**(26,735,726)**	(7,402,511)	(6,989,152)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments of):			
Long-term debts	**9,172,113**	5,266,164	(2,883,402)
Bank loans	**981,859**	4,010,899	2,967,298
Redeemable preferred shares	**(626,000)**	–	–
Changes in minority interests (Note 39)	**(577,327)**	(1,059,836)	(528,422)
Acquisition of minority interests (Note 1)	**(218,642)**	(135,296)	(63,113)
Reissuance (acquisition) of treasury shares (Note 21)	**(464,506)**	(830,657)	5,935,104
Cash dividends paid (Note 22)	**(1,505,234)**	(3,473,706)	(1,138,920)
Interest paid	**(2,017,867)**	(679,948)	(908,874)
Payments of:			
Obligations under finance lease	**(57,659)**	(105,386)	(32,075)
Payable to preferred shareholder of a subsidiary	**(31,070)**	(31,070)	(31,070)
Proceeds from the initial public offering of a subsidiary (Note 1)	**–**	–	9,956,045
Net cash flows from financing activities	**4,655,667**	2,961,164	13,272,571
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(10,294,155)**	(2,414,329)	10,776,273
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(161,090)**	465,284	(218,004)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**16,037,473**	17,986,518	7,428,249
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱5,582,228**	₱16,037,473	₱17,986,518

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Par Value, and When Otherwise Indicated)

1. Corporate Information

Aboitiz Equity Ventures, Inc. (the Company) was incorporated and is domiciled in the Republic of the Philippines. The Company and its subsidiaries (collectively referred to as the "Group") are engaged in various business activities mainly in the Philippines, including power generation and distribution, food manufacturing, banking and financial services and transportation (see Note 30). The Company is the publicly-listed holding and management company of the Group. The registered office address of the Company is Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City. The parent and the ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

The consolidated financial statements of the Group as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009, were authorized for issue by the Board of Directors (BOD) of the Company on April 6, 2010.

Planned Sale of Investment in Aboitiz Transport System Corporation in 2008
On September 23, 2008, the Company together with ACO entered into a Memorandum of Agreement (MOA) with KGLI-NM Holdings Inc. (KGLI-NM). The MOA stated that KGLI-NM will purchase all of the shareholdings of the Company and ACO in Aboitiz Transport System (ATS) Corporation and its subsidiaries (ATS Group) on a per share purchase price to be computed based on ATS Group's equity value of ₱5.0 billion or equivalent to ₱2.044 per share. The final terms of the sale was subject to the due diligence audit and the execution of a definitive share purchase agreement between the parties. The Company owns 1,889,489,607 common shares of ATS while ACO owns 390,322,384 common shares of ATS, representing 77.24% and 15.96 %, respectively, of ATS's total outstanding capital stock.

The planned acquisition by KGLI-NM would have included all the shipping and logistics businesses of ATS Group except for the following subsidiaries: Aboitiz Jebsen Bulk Transport Corporation (AJBTC) and Subsidiaries, Jebsen Maritime, Inc. (JMI), Aboitiz Jebsen Manpower Solutions, Inc. (AJMSI) and Jebsen Management Limited (JMBVI) and Subsidiaries (collectively called "Aboitiz Jebsen Group").

On December 19, 2008, the Company, together with ACO, accepted the Term Sheet offered by KGLI-NM for the acquisition by KGLI-NM of 49% equity stake in ATS instead of the total buy-out proposed in the MOA signed by the parties on September 23, 2008. The 49% equity stake shall have included the 7% equity stake of the public in ATS. Under that agreement, which was expected then to have closed on or before April 30, 2009, the purchase price would be based on a total equity value of ATS Group in the amount of ₱4.5 billion or equivalent to ₱1.84 per share. Accordingly, the Aboitiz Jebsen Group would have been acquired by the Company and ACO on or before April 30, 2009. The agreement also gave KGLI-NM an option to acquire the remaining 51% equity stake of the Company and ACO in ATS anytime from May 1, 2009 to 30, 2009 at the same price of ₱1.84 per share plus a premium of nine and a half percent (9.5%) annualized price per share calculated from April 30, 2009 to September 30, 2009, or to date of acquisition.

On March 31, 2009, the Company and ACO, received from KGLI-NM a notice that KGLI-NM would exercise its option under the Term Sheet to acquire at least US$30.0 million worth of common shares of ATS owned by the Company and ACO. The actual number of shares to be acquired by KGLI-NM would be determined based on the dollar exchange rate on closing date, which was expected to occur on April 30, 2009. KGLI-NM further informed the Company and ACO that its intention to proceed with the purchase of US$30 million worth of ATS shares from the Company and ACO was without prejudice to KGLI-NM's right under the Term Sheet to acquire the remaining ATS shares.

On April 30, 2009, KGLI-NM informed the Company and ACO that it will not proceed with the purchase of the ATS shares, citing constraints in the debt markets. In view of this, the Term Sheet dated December 19, 2008 as well as the MOA dated September 23, 2008 were deemed terminated. Likewise, the ₱82.9 million deposit paid by KGLI-NM

to the Company was deemed forfeited in accordance with the provisions of the Term Sheet and recorded as other income in 2009 (see Note 26). Thereafter, the Company and ACO announced that their holdings in ATS shares are no longer for sale to any third party.

Power Segment Reorganization in 2007

Prior to the reorganization as discussed in more detail below, Aboitiz Power Corporation (AP) and its subsidiaries and associates were primarily engaged in power generation and the sale of their generated power to their various customers.

On January 16, 2007, AP entered into a share exchange (Exchange) arrangement with the Company wherein the Company transferred its ownership shares in the following power distribution companies in exchange for approximately 2,889 million shares of AP (herein referred to as Reorganization):

	Transferred	
	% Ownership	Number of Shares
Davao Light & Power Company, Inc. (DLP)	99.91%	299,729,524
Cotabato Light & Power Company, Inc. (CLP)	99.91%	150,689,118
Pampanga Energy Ventures, Inc. (PEVI)	42.84%	12,996,191
Visayan Electric Company, Inc. (VECO)	43.03%	3,291,719
Aboitiz Energy Solutions, Inc. (AESI)	100.00%	3,000,000
Subic Enerzone Corporation (SEZ)	20.00%	2,000,000
San Fernando Electric Light &Power Co., Inc. (SFELAPCO)	20.29%	540,809
Hijos de F. Escano, Inc. (HIJOS)	46.66%	13,340

The Reorganization was undertaken by the Group to consolidate its power generation and distribution assets and operations in AP and allow the Group to enhance efficiencies and competitiveness.

The Exchange was approved by the Philippine Securities and Exchange Commission (SEC) on May 3, 2007.

As a result of the above Reorganization, all the power distribution companies as mentioned above have been transferred to AP.

On June 8, 2007, as part of the reorganization of the power segment, AP agreed to acquire from Aboitiz Land, Inc. (ALI), an affiliate under common control, a 100% ownership interest in Mactan Enerzone Corporation (MEZ) and a 60% ownership interest in Balamban Enerzone Corporation (BEZ). The transaction was treated as a business combination involving entities under common control of ACO, and such control is not transitory. The acquisition involves the issuance of 151,112,722 AP shares of stock in exchange for the shares of stock of MEZ and BEZ owned by ALI. The exchange was approved by the SEC on January 10, 2008. Acquisition costs of MEZ and BEZ amounted to ₱609,532 and ₱266,921, respectively.

On July 16, 2007, AP successfully completed the Initial Public Offering (Offering) of 1,787,664,000 common shares including the exercised greenshoe options of 48,533,565 common shares, in the Philippines. The total proceeds from the Offering amounted to ₱9,956,045. As a result of the Offering, the equity interest of the Company in AP was reduced from 100% to 73.44%. Gain on dilution amounted to ₱4,362,041 and is recognized in the 2007 consolidated statement of changes in equity.

On various dates in 2007, AP acquired from the minority 40% interest in SEZC. The acquisition was accounted for as an acquisition of a minority and the excess of the consideration over the Group's share in the net book value of ₱84,543 is recognized in the 2007 consolidated statement of changes in equity.

On March 7, 2008, AP purchased Tsuneishi Holdings (Cebu), Inc.'s 40% equity in BEZ for a cash consideration of approximately ₱178.0 million or an excess of ₱152.0 million over the carrying value of the minority interest acquired. The excess was recognized as an acquisition of minority interest in 2008 (presented as a separate line item in the consolidated statements of changes in equity. This increased AP's ownership in BEZ to 100%.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments, AFS investments and investment properties which are measured at fair value, and agricultural produce and biological assets which are measured at fair value less estimated point-of-sale costs. The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except for earnings per share and exchange rates and as otherwise indicated.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS which the Group has adopted starting January 1, 2009:

Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the consolidated statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

Amendments to PFRS 7, *Financial Instruments: Disclosures*

The amendments to PFRS 7 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy, presented by class, for all financial instruments remeasured at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements on contractual undiscounted maturity analysis for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The liquidity risk and fair value measurement disclosures are presented in Notes 32 and 33 to the consolidated financial statements, respectively.

PFRS 8, *Operating Segments*

PFRS 8 replaced PAS 14, *Segment Reporting,* upon its effective date. PFRS 8 adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and the company will provide explanations and reconciliations of the differences. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14 but with the addition of the segment "financial services". PFRS 8 disclosures are shown in Note 30 to the consolidated financial statements, including the related revised comparative information.

Adoption of the following new, revised and amended PFRS and Philippine Interpretations and improvements to PFRS did not have any significant impact to the Group. Additional disclosures were included, where applicable.

New and Revised Standards and Interpretations

- PAS 23, *Borrowing Costs (Revised)*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Amendments to Standards and Interpretations

- PAS 32, *Financial Instruments: Presentation, and* PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1, *First-time Adoption of PFRS, and* PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives, and* PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*

Improvements to PFRS

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 18, *Revenue*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Property*
- PAS 41, *Agriculture*

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2009

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations from have significant impact on its consolidated financial statements.

Effective in 2010

Revised PFRS 3, *Business Combinations, and Amendments to* PAS 27*, Consolidated and Separate Financial Statements*

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes in PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Amendments to PFRS 2, *Share-based Payments - Group Cash-settled Share-based Payment Transactions*

The amendments to PFRS 2, *Share-based Payments,* effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
The amendment to PAS 39, *Financial Instruments: Recognition and Measurement,* effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Philippine Interpretations IFRIC 17, *Distributions of Non-Cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Improvement to PFRS Effective 2010
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payments*
    - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
    - Clarifies that the disclosures required with respect to noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segments*
    - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
    - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Cash Flow Statements*
    - Explicitly *states that only* expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
    - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*
    - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
    - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
    - Clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
    - The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
    - Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect comprehensive income.

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

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
    - States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table.

		Percentage of Ownership					
		2009		2008		2007	
	Nature of Business	**Direct**	**Indirect**	Direct	Indirect	Direct	Indirect
Aboitiz Power Coporation (AP)							
and Subsidiaries	Power	**76.40%**	**–**	76.03	–	73.44	–
Aboitiz Energy Solutions, Inc. (AESI)	Power	**–**	**100.00**	–	100.00	–	100.00
Subic Enerzone Corporation (SEZC)	Power	**–**	**100.00**	–	100.00	–	100.00
Philippine Hydropower Corporation							
(PHC) and Subsidiaries ***	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor, Inc. (formerly Benguet							
Hydropower Corporation, HI)	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor Tamugan (formerly Hydro							
Specialists, Inc.)	Power	**–**	**100.00**	–	100.00	–	100.00
Hedcor Sibulan, Inc. (HSI)	Power	**–**	**100.00**	–	100.00	–	100.00
Cleanergy, Inc. (formerly Northern							100.00
Mini Hydro Corporation , CI)	Power	**–**	**100.00**	–	100.00	–	99.97
Hydro Electric Development							
Corporation (HEDC)	Power	**–**	**99.97**	–	99.97	–	100.00
Mactan Enerzone Corporation (MEZ)	Power	**–**	**100.00**	–	100.00	–	99.91
Cotabato Light & Power Co., Inc. (CLP)	Power	**–**	**99.93**	–	99.91	–	99.92
Davao Light & Power Co., Inc. (DLP)	Power	**–**	**99.93**	–	99.92	–	60.00
Cebu Private Power Corporation (CPPC)	Power	**–**	**60.00**	–	60.00	–	60.00
Balamban Enerzone Corporation (BEZ)	Power	**–**	**100.00**	–	100.00	–	–
Abovant Holdings, Inc. (AHI)	Power	**–**	**60.00**	–	60.00	–	–
AP Renewables, Inc. (APRI)	Power	**–**	**100.00**	–	100.00	–	–
Therma Power, Inc. (TPI)	Power	**–**	**100.00**	–	100.00	–	–
Therma Power Visayas, Inc. (TPVI)	Power	**–**	**100.00**	–	100.00	–	–
Therma Luzon, Inc. (TLI)	Power	**–**	**100.00**	–	–	–	–
Therma Marine, Inc. (Therma Marine)*	Power	**–**	**100.00**	–	–	–	–
Therma Mobile, Inc. (Therma Mobile)*	Power	**–**	**100.00**	–	–	–	–
Therma Pagbilao, Inc. *	Power	**–**	**100.00**	–	–	–	–
Adventenergy, Inc. (AI) *	Power	**–**	**100.00**	–	100.00	–	–
Pilmico Foods Corporation (PILMICO)	Food manufacturing						
Pilmico Animal Nutrition Corporation		**100.00**	**–**	100.00	–	100.00	–
(PANC; formerly Fil-Am Foods, Inc.)	Food manufacturing						
Aboitiz Transport System Corp. (ATS		**–**	**100.00**	–	100.00	–	100.00
and Subsidiaries)	Transportation	**77.24**	**–**	77.24	–	77.24	–
Supercat Fast Ferry Corporation (SFFC)	Transportation	**–**	**100.00**	–	100.00	–	100.00
WG & A Supercommerce, Inc. (WSI)	Transportation	**–**	**100.00**	–	100.00	–	100.00
Zoom In Packages, Inc. (ZIP)	Transportation	**–**	**100.00**	–	100.00	–	100.00
Aboitiz One, Inc. (AOI) and Subsidiaries	Courier, logistics						
	and forwarding services	**–**	**100.00**	–	100.00	–	100.00
Aboitiz Jebsen Bulk Transport							
Corporation (AJBTC) and Subsidiaries	Ship management	**–**	**62.50**	–	62.50	–	62.50
Jebsen Maritime, Inc. (JMI)	Manpower services	**–**	**62.50**	–	62.50	–	62.50
Aboitiz Jebsen Manpower							
Solutions, Inc. (AJMSI)	Manpower services	**–**	**62.50**	–	62.50	–	62.50
Jebsen Management (BVI)							
Limited (JMBVI) and Subsidiaries**	Shipping	**–**	**50.00**	–	50.00	–	50.00
AEV Aviation, Inc. (AEV Aviation)	Service	**100.00**	**–**	100.00	–	100.00	–
AEV Properties, Inc.*	Real estate	**100.00**	**–**	100.00	–	100.00	–
Cebu Praedia Development							
Corporation (CPDC)	Real estate	**88.27**	**8.96**	88.27	8.91	88.27	8.60
Cotabato Ice Plant, Inc.	Manufacturing	**–**	**100.00**	–	100.00	–	100.00
Fil-Agri Holdings, Inc.	Holding company	**–**	**100.00**	–	100.00	–	100.00

**No commercial operations*
***Incorporated in the British Virgin Islands. Functional currency is United States (US) dollars.*
****On March 23, 2010, the SEC approved the change of corporate name of PHC to Aboitiz Renewables, Inc.*

Except for JMBVI, all the subsidiaries were incorporated in the Philippines.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority Interests

Minority interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Transactions with minority interests are accounted for using the entity concept method, whereby transactions with minority interest are accounted for as transactions with equity holders. On acquisitions of minority interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals to minority interest is also recognized directly in equity.

Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated balance sheet consist of cash on hand and with banks and short-term deposits with an original maturity of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. For financial liabilities, the Group also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value

The fair value of investments held that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where

there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets held for trading and financial assets designated upon initial recognition as FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset or financial liabilities at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial instruments included in this classification are the Group's derivative asset and derivative liability (see Note 33).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date.

Financial assets included in this classification are the Group's cash in banks and cash equivalents, trade and other receivables and restricted cash (see Note 33).

HTM investments
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After the initial measurement, held to maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are impaired, as well as through the amortization process.

As of December 31, 2009 and 2008, the Group has no HTM investments.

AFS investments
Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the other comprehensive income and in equity as "Net unrealized gains on AFS investments". When the investment is disposed of, the cumulative gains or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Unquoted equity securities are carried at cost, net of impairment.

The Group's AFS investments as of December 31, 2009 and 2008 include investments in quoted and unquoted shares of stock.

Other financial liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Included in other financial liabilities are the Group's debt and other borrowings (bank loans and long-term debts), obligations under finance lease, trade and other payables, customers' deposits, dividends payable, long-term obligation on PDS, payable to preferred shareholder of a subsidiary, and redeemable preferred shares (see Note 33).

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been

incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments
In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in consolidated statement of income.

Derivative Financial Instruments
Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at FVPL, unless designated as effective hedge. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract.

An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the consolidated statement of income.

As of December 31, 2009, the Group has freestanding derivatives in the form of non-deliverable foreign currency forward contracts entered into to hedge its foreign currency risks (see Note 33). The Group, however, has no bifurcated embedded derivatives as of December 31, 2009.

Financial Guarantee Contracts
Financial guarantee contracts issued by the parent company to its subsidiaries are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified subsidiaries fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the ability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognized less cumulative amortization.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Classification of Financial Instruments Between Debt and Equity
Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Redeemable Preferred Shares (RPS)
The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income. On issuance of the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on redemption.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Wheat grains and other raw materials	-purchase cost on a first-in, first-out basis;
Finished goods	-cost of direct materials, labor and a portion of manufacturing overhead based on normal operating capacity but excluding borrowing costs;
Fuel and lubricants	-first-in, first-out method;
Materials, parts and supplies	-weighted average method

NRV of wheat grains and other raw materials, work in process and finished goods is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV of fuel and lubricants and parts and supplies is the current replacement costs.

Agricultural Activity
Agricultural produce
Agricultural produce (swine) are measured at fair value less estimated point-of-sale costs at point of harvest.

Biological assets
Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs except when, on initial recognition, market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such cases, those biological assets are measured at accumulated costs less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such biological assets becomes reliably measurable, those biological assets are measured at fair value less estimated point-of-sale costs.

Gains or losses arising on initial recognition of a biological asset (for market hogs and piglets) at fair value less estimated point-of-sale costs and from changes in their fair values less estimated point-of-sale costs are included in the consolidated statement of income for the period in which they arise.

Biological assets measured at fair value less estimated point-of-sale costs continue to be measured as such until disposed. Expenditures on biological assets subsequent to initial recognition, excluding the costs of day-to-day servicing, are capitalized.

Bearer (i.e., breeders) biological assets are stated at cost less any accumulated depreciation and any impairment losses. Bearer biological assets are depreciated over three (3) years.

Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized or separately tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associates. The consolidated statement of income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Business Combination and Goodwill

Business combinations are accounted for using the purchase accounting method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entities. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Business combination of entities under common control is accounted for using a method similar to pooling of interest. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation adjustments and goodwill is recognized in the consolidated statement of income.

Impairment of goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PAS 14, Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property, Plant and Equipment

Except for land, property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred and the recognition criteria are met. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred. Land is stated at cost less any accumulated impairment in value.

Ships under refurbishment include the acquisition cost of the ships, the cost of ongoing refurbishments and other direct costs. Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use. Borrowing costs that are directly attributable to the refurbishment of ships and construction of property and equipment are capitalized during the refurbishment and construction period. Ships under refurbishment and construction in progress are not depreciated until such time the relevant assets are complete and available for use.

Except for flight equipment of certain subsidiaries, depreciation of the Group's property, plant and equipment and assets under finance leases is calculated on a straight-line basis over the useful lives of the assets or the terms of the co-operation period (see Note 36) or lease in case of power plant equipment of CPPC and leasehold improvements, respectively, whichever is shorter as follows:

	Number of Years	
Category	**2009**	2008
Buildings, warehouses and improvements	**10 – 30**	10 – 30
Power plant and equipment	**9 – 40**	9 – 25
Transmission and distribution equipment		
Poles and wires	**30**	30
Other components	**12**	12
Distribution transformers and substation equipment		
Power transformers	**30**	30
Other components	**12**	12
Machinery and equipment	**10 – 20**	10 – 20
Transportation equipment (excluding flight equipment)	**3 – 6**	3 – 6
Ships in operation and improvements (excluding drydocking costs)	**15 – 30**	15 – 30
Drydocking costs	**2 ½ – 7**	2 ½ – 7
Containers (including units acquired under finance lease arrangements)	**5 – 7**	5 – 7
Handling equipment	**5 – 7**	5 – 7
Office furniture, fixtures and equipment	**3 – 10**	3 – 10
Leasehold improvements	**3 – 10**	3 – 10
Others	**3 – 10**	3 – 10

Drydocking costs, consisting mainly of replacement of steel plate of the ships' hull and related expenditures, are capitalized as a component of "Ships in operation." Steel components are depreciated over 7 years or the remaining life of the vessel whichever is shorter. Other components are depreciated over 2 ½ years. When drydocking costs occur prior to the end of this period, the remaining unamortized balance of the previous drydocking cost is derecognized in the consolidated statement of income.

Flight equipment is depreciated based on estimated number of flying hours.

The depreciable cost of ships in operation excludes residual value based on the estimated scrap value of the ship's hull.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each financial year-end.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria satisfied.

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of Philippine Interpretation IFRIC 12. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This Interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts,* and PAS 18, *Revenues,* for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service).

In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Intangible Asset - Service Concession Right

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value of the construction services. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the estimated useful economic life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life is 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset - service concession right are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Investment Properties

Investment properties, which pertain to land and buildings, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property,

the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Noncurrent Assets Classified as Held for Sale
Noncurrent assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction expected to be completed within one (1) year from the date of classification, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Noncurrent assets held for sale are stated at the lower of carrying amount and fair value less costs to sell and depreciation of such assets ceases. Liabilities associated with these assets are presented separately in the consolidated balance sheet.

If there are changes to a plan of sale, and the criteria for the asset or disposal group to be classified as held for sale are no longer met, the Group ceases to classify the asset or disposal group as held for sale and it shall be measured at the lower of:

- its carrying amount before the asset was classified as held for sale adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

The Group includes any required adjustment to the carrying amount of a noncurrent asset or disposal group that ceases to be classified as held for sale in the consolidated statement of income from continuing operations in the period in which the criteria for the asset or disposal group to be classified as held for sale are no longer met. The Group presents that adjustment in the same caption in the consolidated statement of income used to present a gain or loss recognized, if any.

If the Group ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

Software Development Costs
Software development costs are initially recognized at cost. Following initial recognition, the software development costs are carried at cost less accumulated amortization and any accumulated impairment in value.

The software development costs is amortized on a straight-line basis over its estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software development costs is available for use. The amortization period and the amortization method for the software development costs are reviewed at each financial year-end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the software development costs.

Impairment of Nonfinancial Assets
Property, plant and equipment, intangible assets, investment properties and investments in associates, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent

of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Treasury Shares

The Group's own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Foreign Currency Transactions

The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of JMBVI and Subsidiaries, a subsidiary, and Luzon Hydro Corporation (LHC), STEAG State Power, Inc. (STEAG), Western Mindanao Power Corporation (WMPC) and Southern Philippines Power Corporation (SPPC), associates, is the United States Dollar. As at the reporting date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of the subsidiary and associate, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of income.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sales
Revenue from sale of power and electricity is recognized in the period in which actual capacity is generated and earned and upon distribution of power to customers. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services
Freight, passage and service revenues are recognized when the related services are rendered. Customer payments for which services have not yet been rendered are classified as unearned revenue under "Trade and other payables" in the consolidated balance sheet.

Rental income
Rental income arising from operating leases is accounted for on a straight-line basis over the related lease terms.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Interest income
Interest income is recognized as it accrues taking into account the effective yield on the asset.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Pension Benefits
The Group has defined benefit pension plans, which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in

the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Borrowing Costs

Borrowing costs generally are expensed as incurred. Borrowing costs, including foreign exchange differences arising from foreign currency borrowings that are regarded as an adjustment of interest costs, are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of net operating loss carryover (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward benefits of NOLCO and excess of MCIT over RCIT can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales tax
Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share
Basic earnings per common share are computed by dividing net income for the year attributable to the common shareholders of the parent by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared.

Diluted earnings per share amounts are calculated by dividing the net income for the year attributable to the common shareholders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive common stock equivalents.

Operating Segments
For management purposes, the Group is organized into five major operating segments (power, food manufacturing, transportation, financial services and parent company/others) according to the nature of the products and the services provided. The Group's identified operating segments are consistent with the segments reported to the BOD which is the Group's Chief Operating Decision Maker (CODM). Financial information on operating segments is presented in Note 30.

3. Summary of Significant Accounting Judgments and Estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Noncurrent assets classified as held for sale
On December 19, 2008, the Company, together with ACO, accepted the Term Sheet offered by KGLI-NM for the acquisition of ATS Group subject to the terms and conditions that the Aboitiz Jebsen Group will be sold to the Company and ACO on or before April 30, 2009.

Management considered the investments in ATS Group as qualified to be classified as held for sale as of December 19, 2008 for the following reasons:

- ATS Group is available for immediate sale and can be sold to KGLI-NM in its current condition;
- the Board has planned to sell ATS Group according to the terms of MOA; and
- the Board expects the sale of ATS Group to be completed within one year from December 19, 2008.

As of December 31, 2009, all of the above factors are not present as the planned sale did not push through and the Company and ACO announced that their holdings in ATS shares are no longer for sale to any third party. The investment no longer qualifies to be classified as held for sale and therefore was reverted to 'Investments in and advances to subsidiaries and associates' account in the balance sheet.

For more details on the disposal group refer to Notes 1 and 14.

Determining functional currency
Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of the companies in the Group has been determined to be the Philippine peso, except for certain subsidiaries and associates whose functional currency is the US dollar. The Philippine peso is the currency of the primary economic environment in which the companies in the Group operate and it is the currency that mainly influences the sale of power, goods and services and the costs of power, manufacturing and selling the goods and the rendering of services.

Service concession arrangements - Companies in the Group as Operators
Based on management's judgment, the provisions of IFRIC 12 apply to the SEZC's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA) and MEZ's Built-Operate-Transfer agreement with Mactan Cebu International Airport Authority. SEZC and MEZ's service concession agreements were accounted for under the intangible asset model. The Company's associates, LHC and STEAG, have also determined that the provisions of IFRIC 12 apply to their power purchase agreements with National Power Corporation (NPC). LHC and STEAG's service concession agreements were accounted for under the intangible and financial asset model, respectively. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

Finance lease - Group as the lessee
In accounting for its Independent Power Producer Administration Agreement (IPP Administration Agreement) with Power Sector Assets and Liabilities Management Corporation (PSALM), the Group has made a judgment that the IPP Administration Agreement is an arrangement that contains a lease. The Group has made a judgment that it has substantially acquired all the risks and rewards incidental to ownership of the power plant. Accordingly, the Group accounted for the agreement as a finance lease and recognized the power plant and finance lease obligation at the present value of the agreed monthly payments to PSALM (see Notes 9, 20 and 32).

The power plant is depreciated over its estimated useful life as there is reasonable certainty that the Group will obtain ownership by the end of the lease term. As of December 31, 2009, the carrying value of the power plant amounted to ₱44.5 billion (see Notes 12 and 20).

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Biological assets
In applying PAS 41, Agriculture, the Group has made a judgment that market-determined prices or values of bearers and growing stocks are not available and for which alternative estimates of their fair values are clearly unreliable and, accordingly, measured such biological assets at accumulated cost less any accumulated depreciation and accumulated impairment losses. These biological assets amounted to ₱320,040 as of December 31, 2009 and ₱283,570 as of December 31, 2008 (see Note 8).

Determining fair value of customers' deposits
In applying PAS 39, *Financial Instruments: Recognition and Measurement,* on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot be reasonably and reliably estimated for purposes of an alternative valuation technique in establishing their fair values since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits amounted to ₱1,786,681 and ₱1,581,255 as of December 31, 2009 and 2008, respectively (see Notes 19 and 33).

Estimation Uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

Acquisition accounting
The Group accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and the liabilities assumed be recorded at the date of acquisition at their respective fair values.

The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined.

The judgments made in the context of the purchase price allocation can materially impact the Group's future results of operations. Accordingly, for significant acquisitions, the Group obtains assistance from third party valuation specialists. The valuations are based on information available at the acquisition date.

Estimating allowance for impairment losses on receivables
The Group maintains allowance for impairment on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses would increase the Group's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, non-moving account receivables, accounts of defaulted agents and accounts from closed stations.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility. Allowance for impairment losses as of December 31, 2009 and 2008 amounted to ₱397,115 and ₱338,469, respectively. Trade and other receivables, net of valuation allowance, amounted to ₱7,634,835 and ₱4,505,209 as of December 31, 2009 and 2008, respectively (see Note 5).

Estimating allowance for inventory obsolescence

The Group estimates the allowance for inventory obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for inventory obsolescence would increase recorded expenses and decrease current assets. As of December 31, 2009 and 2008, allowance for inventory obsolescence amounted to ₱54,100 and ₱74,900, respectively. The carrying amount of the inventories, net of valuation allowance, amounted to ₱3,268,720 and ₱3,337,222 as of December 31, 2009 and 2008, respectively (see Note 6).

Estimating allowance for impairment losses on investments in and advances to associates

Investments in and advances to associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The cash flows are derived from the projection for the next five years as well as the terminal value at the end of five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected cash inflows and the growth rates. The carrying amounts of the investments in and advances to associates amounted to ₱38,568,422 and ₱32,641,784 as of December 31, 2009 and 2008, respectively. The allowance for impairment losses amounted to ₱28,995 as of December 31, 2009 and 2008 (see Note 10).

Deferred income tax assets and liabilities

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has deferred income tax assets amounting to ₱514,530 and ₱444,310 as of December 31, 2009 and 2008, respectively (see Note 28).

As of December 31, 2009, the Group has unrecognized deferred income tax asset and liability on the temporary difference of ₱27.8 million and ₱441.8 million, respectively as the management expects that the temporary difference will be realized or will reverse during the income tax holiday (ITH) period.

Pension benefits

The determination of the Group's obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 27 - Pension Benefit Plans and include, among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PAS 19, *Employee Benefits,* actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Group's pension and other post-employment obligations. Pension expense amounted to ₱63,964, ₱77,321 and ₱44,596 in 2009, 2008 and 2007, respectively. The Group's pension liability amounted to ₱55,631 and ₱34,122 as of December 31, 2009 and 2008, respectively. Pension assets amounted to ₱105,507 and ₱10,538 as of December 31, 2009 and 2008, respectively (see Note 27).

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations

could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2009 and 2008, the net book values of property, plant and equipment amounted to ₱80,564,992 and ₱8,956,267, respectively (see Note 12).

In 2007, management extended the estimated useful life of Super Ferry 2, one of the ships in operation, by five (5) years. Also, the estimated useful life of the steel component of each of the vessels was revised from two and one half (2.5) years to seven (7) years or the remaining useful life of the related vessel whichever is shorter. The extension is based on management's assessment of the period within which the benefits of using the asset is expected to be realized, after the extensive improvements done to the asset. The change in estimated useful life has reduced depreciation expense by ₱9 million in 2007.

Estimating useful lives of intangible asset - service concession rights
The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is twenty-five (25) years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contract at the end of the original contract term.

Estimating residual value of property, plant and equipment
The residual value of the Group's property, plant and equipment is estimated based on the amount that the entity would obtain from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates.

Assessing impairment of AFS investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Fair value of AFS investments amounted to ₱84,935 and ₱52,921 as of December 31, 2009 and 2008, respectively. Impairment losses recognized in 2009, 2008 and 2007 amounted to nil, ₱5,300 and nil, respectively.

Assessing impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2009 and 2008 amounted to ₱1,812,783 and ₱1,252,469, respectively (see Note 11).

Fair value of consumable biological assets
The Group determines the most reliable estimate of fair value of its consumable biological assets. Fair value reflects the most recent market transaction price provided that there has been no significant change in economic circumstances between the date of transaction and balance sheet date. Point-of-sale cost is estimated based on recent transactions and is deducted from the fair value in order to measure the biological assets at balance sheet date. Fair value of consumable biological assets amounted to ₱275,522 and ₱255,120 as of December 31, 2009 and 2008, respectively (see Note 8).

Impairment of nonfinancial assets
The Group assesses whether there are any indicators of impairment for nonfinancial assets at each reporting date. These nonfinancial assets (property, plant and equipment, intangible asset -service concession rights and investment property) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Certain impairment indicators are present. Determining the recoverable amount of property, plant and equipment and intangibles asset - service concession rights, which require the determination of future

cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment and intangible asset - service concession rights are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheet and consolidated statement of income. As of December 31, 2009 and 2008, the aggregate net book values of these assets amounted to ₱85,147,579 and ₱11,671,170, respectively (see Notes 7, 8, 12, 13 and 15). The Group recognized impairment on its property, plant and equipment amounting to nil and ₱14,243 in 2009 and 2008, respectively (see Note 12).

Fair value of financial instruments
PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect net income or loss and equity. The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in more detail in Note 33.

Fair value of investment properties
The fair value of investment properties is determined based on valuations performed by experienced and competent appraisers as of the statement of condition date. Any gain or loss from a change in the fair value of each investment property is included in the consolidated statement of income in the year in which the change arises.

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements as of December 31, 2009 and 2008.

4. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	**₱3,947,769**	₱1,832,882
Short-term deposits	**1,634,459**	14,204,591
	5,582,228	16,037,473
Cash and cash equivalents included in the disposal group classified as held for sale (see Note 14)	**–**	860,254
	₱5,582,228	₱15,177,219

Cash in banks earn interest at prevailing bank deposit rates. Short-term deposits are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Interest income earned from cash and cash equivalents including restricted cash (see Note 13) amounted to ₱403,641 in 2009, ₱520,609 in 2008 and ₱573,361 in 2007.

5. Trade and Other Receivables

	2009	2008
Trade receivables		
Power	**₱3,712,394**	₱790,141
Transport services	**2,062,890**	1,960,694
Food manufacturing	**816,731**	993,611
Holding and others	**795**	22,962
	6,597,810	3,767,408
Insurance and other claims	**223,656**	41,524
Others	**1,215,484**	1,034,746
	8,031,950	4,843,678
Less allowance for impairment losses	**(397,115)**	(338,469)
	7,634,835	4,505,209
Trade and other receivables included in the disposal group classified as held for sale - net of allowance for impairment losses of ₱299,727 (see Note 14)	**–**	1,620,675
	₱7,634,835	₱2,884,534

Trade receivables are non-interest bearing and are generally on 10 - 30 day terms.

For terms and conditions relating to related party receivables, refer to Note 31.

Receivables from insurance and other claims pertain mainly to ATS's claims for reimbursement of losses against insurance coverage for hull, machinery and cargo damages and personal accidents.

Other receivables substantially comprise various outstanding claims.

The rollforward analysis of allowance for impairment losses is presented below:

December 31, 2009

	Trade receivables						
	Transport Services	Power	Food manufacturing	Holding and others	Insurance and other claims	Others	Total
At beginning of year	₱267,224	2,941	₱30,644	₱–	₱10,824	₱26,836	₱338,469
Provisions (see Note 24)	30,129	137,595	8,058	–	–		175,782
Reversals	(60,884)	(34,366)	(7,116)	–	–	(5,157)	(107,523)
Changes through the consolidated statement of income	(30,755)	103,229	942	–	–	(5,157)	68,259
Allowances used to cover write-offs	(2,973)	–	–	–	(3,305)	(3,335)	(9,613)
At end of year	**₱233,496**	**₱106,170**	**₱31,586**	**₱–**	**₱7,519**	**₱18,344**	**₱397,115**

December 31, 2008

	Trade receivables				Insurance and other claims	Others	Total
	Transport Services	Power	Food manufacturing	Holding and others			
At beginning of year	₱263,564	₱2,403	₱31,133	₱–	₱11,401	₱28,093	₱336,594
Allowance from acquired subsidiaries	2,042	–	–	–	–	–	2,042
Provisions (see Note 24)	9,292	1,076	3,793	–		964	15,125
Reversals	(12,011)	(538)	(878)	–	(348)	(2,221)	(15,996)
Changes through the consolidated statement of income	(2,719)	538	2,915	–	(348)	(1,257)	(871)
Allowances used to cover write-offs	4,337	–	(3,404)	–	(229)	–	–
	267,224	2,941	30,644	–	10,824	26,836	338,469
Allowance for impairment losses included in the disposal group classified as held for sale (see Note 14)	(267,224)	–	–	–	(10,824)	(21,679)	(299,727)
At end of year	₱–	₱2,941	₱30,644	₱–	₱–	₱5,157	₱38,742

6. Inventories

	2009	2008
At cost:		
Materials, parts and supplies	**₱1,110,639**	₱355,495
Wheat grains and other raw materials	**1,007,994**	2,009,036
Fuel and lubricants	**119,496**	89,542
Finished goods	**68,648**	106,789
At NRV:		
Materials, parts and supplies	**872,482**	613,082
Purchases in transit	**82,120**	163,278
Raw materials	**7,341**	–
	3,268,720	3,337,222
Inventories included in the disposal group classified as held for sale (see Note 14)	**–**	344,665
	₱3,268,720	₱2,992,557

The cost of inventories recognized as part of costs of goods sold in the consolidated statements of income amounted to ₱10,546,379, ₱10,391,350 and ₱7,079,864 in 2009, 2008 and 2007, respectively.

Allowance for inventory obsolescence on materials, parts and supplies amounted to ₱54,100 and ₱74,900 as of December 31, 2009 and 2008, respectively.

7. Other Current Assets

	2009	2008
Prepaid expenses	**₱923,286**	₱773,839
Biological assets (see Note 8)	**275,522**	255,120
Input value added taxes (VAT)	**518,442**	440,406
Others	**200,818**	437,690
	1,918,068	1,907,055
Other current assets included in the disposal group classified as held for sale (see Note 14)	**–**	627,949
	₱1,918,068	₱1,279,106

8. Biological Assets

	2009	2008
Consumables		
Market hogs at fair value less estimated point of sale costs	**₱176,852**	₱180,280
Piglets at fair value less estimated point of sale costs	**63,743**	52,124
Growing stocks at cost	**34,927**	22,716
	275,522	255,120
Bearers - net of accumulated depreciation of ₱30.0 million in 2009 and ₱25.6 million in 2008 (see Note 15)	**44,518**	28,450
	₱320,040	₱283,570

The Group's biological assets include bearers and consumables.

Bearers are measured at accumulated cost less any accumulated depreciation and any accumulated impairment losses. The Group uses this method of measurement because market-determined prices and values are not available and alternative estimates of fair values are determined to be unreliable.

Fair values of consumable biological assets measured at fair value less estimated point-of-sale costs are determined based on average market selling prices at year-end.

The reconciliation of changes in the carrying amount follows:

	2009	2008
At beginning of year	**₱255,120**	₱254,291
Additions	**725,575**	793,662
Sales at fair value	**(878,230)**	(955,161)
Transfer to breeding herd	**(34,807)**	(19,986)
Increase in fair value (see Note 26)	**207,864**	182,314
At end of year	**₱275,522**	₱255,120

Consumable biological assets are included in "Other current assets" account while bearers are included in "Other noncurrent assets" account in the consolidated balance sheets (see Note 15).

9. Business Acquisitions

a. Acquisitions of CPPC, East Asia Utilities Corporation (EAUC) and STEAG

On April 20, 2007, AP acquired 60% ownership in CPPC from EAUC and 50% ownership in EAUC from El Paso Philippines Energy Company, Inc. CPPC was purchased at a price of ₱178,066 in cash. The total cost of the EAUC acquisition amounted to ₱1,009,143, composed of a cash consideration of ₱130,765 and assumption of liabilities of ₱878,378.

On November 15, 2007, AP acquired 34% ownership in STEAG from Evonik Industries, Inc. The total cost of the STEAG acquisition amounted to ₱4,400,611, which is composed of cash consideration of ₱4,378,783 (US$101,561 at US$1 = ₱43.12) and costs directly attributed to the acquisition amounting to ₱21,828.

From the dates of acquisition up to December 31, 2007, CPPC, EAUC and STEAG have contributed ₱119,430, ₱45,267 and ₱69,607, respectively, to the net income of the Group.

b. Acquisition of Scanasia Overseas, Inc. (SOI)

On June 3, 2008, AOI acquired 100% ownership in SOI, a company engaged in the business of sales, marketing, warehousing and transportation of temperature-controlled and ambient food products to its customers in the Philippines.

The fair value of the identifiable assets and liabilities of SOI as at the date of acquisition were:

	Fair value recognized on acquisition	Previous carrying value
Cash and cash equivalents	₱148,246	₱148,246
Trade and other receivables	119,070	119,070
Merchandise inventory	68,651	68,651
Prepayments and other current assets	64,822	64,822
Property, plant and equipment	11,009	11,009
	411,798	411,798
Trade and other payables	223,096	223,096
Other liabilities	65,282	65,282
	288,378	288,378
Net assets	123,420	₱123,420
Goodwill arising from acquisition	250,450	
Total consideration satisfied by cash	₱373,870	
Cash flow on acquisition:		
Net cash acquired with the subsidiary	₱148,246	
Cash paid	(373,870)	
Net cash outflow	(₱225,624)	

From the date of acquisition up to December 31, 2008, SOI has contributed ₱14.6 million to the net income of the Group.

c. Acquisition of the 747 Megawatt (MW) Tiwi-MakBan Geothermal Power Plant ("Tiwi-MakBan Power Plant")

In August 2008, PSALM issued the Notice of Award and Certificate of Effectivity to APRI, an AP subsidiary, officially declaring it as the winning bidder for the 289 MW Tiwi Geothermal Power Plant located in Tiwi, Albay and the 458 MW Makiling-Banahaw (MakBan) Geothermal Plant located in Laguna and Batangas Provinces.

On May 25, 2009, following the completion of the conditions precedent and the execution of the respective Certificates of Closing, the control and possession of the purchased assets were successfully turned over and transferred by PSALM to APRI. APRI started the commercial operations of the Tiwi-MakBan Power Plant on May 26, 2009.

APRI accounted for the purchase of the Tiwi-MakBan Power Plant under the purchase method.

The provisional fair value of the identifiable assets of the Tiwi-MakBan Power Plant as at the date of acquisition follows:

APRI accounted for the purchase of the Tiwi-MakBan Power Plant under the purchase method.

The provisional fair value of the identifiable assets of the Tiwi-MakBan Power Plant as of the date of acquisition follows:

	Fair value recognized on acquisition
Property, plant and equipment	
Steam field assets	₱11,910,223
Machinery and equipment	6,106,985
Electrical equipment	1,290,397
Other land improvements	150,779
Buildings	509,858
Inventories	237,774
Deferred income tax liability	(7,242)
Total consideration	₱20,198,774

No complete comparable information is available with respect to the carrying amounts of each of the assets acquired in the books of PSALM immediately before the acquisition.

The accounting for the business combination in 2009 was determined provisionally as APRI has incomplete information as of report date with respect to possible recognition of intangible assets and deferred income tax assets arising from the acquisition. The accounting for the business combination will be finalized within the one (1) year period from acquisition as allowed by PFRS 3.

The total cost of the business combination was ₱20,198,774, consisting of the purchase price of ₱19,900,270 and costs directly attributable to the acquisition of ₱298,504.

The APA originally required APRI to deliver at least 40% of the US$435.0 million purchase price as upfront payment payable on or before the closing date. On closing date, APRI paid PSALM ₱8.3 billion representing the 40% upfront payment. The 60% balance of ₱11.6 billion was paid on September 30, 2009 using proceeds from advances from its parent company.

From the date of acquisition up to December 31, 2009, the Tiwi-MakBan Power Plant has contributed ₱1,583,600 to the net income of the Group.

d. Pagbilao IPP Administration Agreement

In August 2009, TLI, an AP subsidiary, was declared by PSALM as the winning bidder for the IPP Administration Agreement with a discounted bid price of US$691 million. In September 2009, TLI and PSALM executed the IPP Administration Agreement where PSALM appointed TLI to manage the 700 MW contracted capacity of NPC in the coal-fired power plant in Pagbilao, Quezon. TLI assumed dispatch control of the contracted capacity on October 1, 2009.

The IPP Administration Agreement includes the following obligations TLI would have to perform until the transfer date of the power plant (or the earlier termination of the IPP Administration Agreement):

a. supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
b. pay to PSALM the monthly payments (based on the bid) and energy fees (equivalent to the amount paid by NPC to the Independent Power Producer).

TLI has the following rights, among others, under the IPP Administration Agreement:

a. The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
b. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party.
c. The right to receive the transfer of the power plant at the end of the IPP Administration Agreement (which is technically the end of the ECA) for no consideration; and
d. The right to receive an assignment of NPC's interest to existing short-term bilateral Power Supply Contract from the effective date of the IPP Administration Agreement to November 2011 only.

In view of the nature of the IPP Administration Agreement, the arrangement has been accounted for as a finance lease (see Note 20).

e. Acquisition of Power Barge (PB) 117 and 118

On July 31, 2009, Therma Marine and Therma Mobile won the negotiated bid with PSALM for the 100 MW PB 118 and 100 MW PB 117 with a bid price of US$16.00 million and US$14.0 million, respectively. PB 118 is moored in Barangay San Roque, Maco, Compostela Valley in Mindanao. PB 117 is moored in Barangay Sta. Ana, Nasipit, Agusan Del Norte.

On February 16, 2010, Therma Mobile entered into an Assignment Agreement with Therma Marine under which it transferred to the latter all of its rights and obligations under the Asset Purchase Agreement (APA) as buyer of PB 117. Therma Marine is now deemed, for all intents and purposes, the buyer of PB 117. Both companies are subsidiaries of AP.

Under the terms of the APA, Therma Marine is required to deliver at least 40% of the purchase price upon closing of the acquisition. The remaining 60% is payable over a period not to exceed seven years.

The control and possession of PB 118 and PB 117 were successfully turned-over and transferred to Therma Marine on February 6, 2010 and March 1, 2010, respectively. Therma Marine will account for the acquisitions of PB 117 and PB 118 under business combinations in 2010.

As of December 31, 2009, the Company has yet to finalize the purchase price allocation.

f. Significant Business Acquisitions by an Associate

i.) Acquisition of 360 MW Magat Hydroelectric Power Plant (Magat Power Plant)

In January 2007, PSALM officially declared SN Aboitiz Power-Magat, Inc. (SNAP-Magat), an associate of Manila Oslo Renewable Enterprise, Inc. (MORE, an AP associate), as the winning bidder for the Magat Power Plant in Ramon, Isabela. Having paid 70% of the US$530.0 million purchase price, SNAP-Magat took over the Magat Power Plant on April 26, 2007. The payment of the 30% balance was accelerated in October 2007 using proceeds from a common term loan obtained from a consortium of foreign and local banks.

SNAP-Magat accounted for the purchase of the Magat Power Plant under the purchase method. The final accounting for the business combination resulted in the recognition of goodwill amounting to ₱10.3 billion.

The total cost of the acquisition amounted to ₱25.2 billion, comprised the purchase price of ₱25.2 billion and ₱20.7 million in costs directly attributed to the acquisition.

From the date of acquisition up to December 31, 2007, the Magat Power Plant contributed ₱1,186,159 to the net income of the Group.

ii) Acquisition of 175 MW Ambuklao-Binga Hydroelectric Power Plant Complex (Ambuklao-Binga HEPPC)

On November 28, 2007, SN Aboitiz Power-Benguet, Inc., (SNAP-Benguet), another associate of MORE, won the auction for the Ambuklao-Binga HEPPC with a bid of US$325.0 million.

On July 10, 2008, PSALM turned over the possession and control of the Ambuklao-Binga HEPPC to SNAP-Benguet, following payment by SNAP-Benguet of 70% of the purchase price to PSALM. SNAP-Benguet started the commercial operations of the Binga Power Plant on July 11, 2008. The Ambuklao Power Plant is currently undergoing rehabilitation.

On August 8, 2008, SNAP-Benguet signed a US$375.0 million loan agreement with a consortium of international and domestic financial institutions. The loan facility was used to pay the 30% balance of the purchase price and will partially finance the rehabilitation and refurbishment of the Ambuklao-Binga HEPPC and refinance SNAP-Benguet's advances from shareholders with respect to the acquisition of the Ambuklao-Binga HEPPC.

SNAP-Benguet accounted for the purchase of the Ambuklao-Binga HEPPC under the purchase method.

The final fair value of the identifiable assets of the Ambuklao-Binga HEPPC as at the date of acquisition follows:

	Fair value recognized on acquisition
Property, plant and equipment	
Buildings	₱2,569,187
Machinery and equipment	632,464
Electrical equipment	339,876
Furniture and office equipment	198
Materials and supplies	16,240
Deferred income tax asset	590,569
	4,148,534
Goodwill arising on acquisition	10,767,563
Total consideration	₱14,916,097

The total cost of the business combination was ₱14.9 billion, consisting of the purchase price of US$325 million with a peso equivalent of ₱14.8 billion and costs directly attributable to the acquisition of ₱98.6 million.

From the date of acquisition up to December 31, 2008, SNAP-Benguet has contributed ₱16,705 to the net income of the Group.

10. Investments in and Advances to Associates

	2009	2008
Acquisition cost:		
Balance at beginning of year	**₱21,660,274**	₱17,854,995
Additions during the year	**2,827,917**	3,805,679
Disposals during the year	**–**	(400)
Balance at end of year	**224,488,191**	21,660,274
Accumulated share in net earnings:		
Balance at beginning of year	**9,048,865**	8,012,273
Share in net earnings for the year	**4,321,679**	3,624,976
Cash dividends received	**(1,125,681)**	(2,594,353)
Acquisition of minority interest	**(5,969)**	5,969
Balance at end of year	**12,238,894**	9,048,865
Share in cumulative translation adjustments of associates	**115,759**	(17,737)
Share in unrealized valuation losses on AFS investments of an associate	**(64,734)**	(300,079)
Gain on dilution (see discussion below)	**1,014,137**	661,212
	37,792,247	31,052,535
Advances to associates	**805,170**	1,618,244
	38,597,417	32,670,779
Less allowance for impairment losses	**(28,995)**	(28,995)
	38,568,422	32,641,784
Investments in associates included in the disposal group classified as held for sale (see Note 14)	**–**	12,357
	₱38,568,422	₱32,629,427

The Group's associates and the corresponding equity ownership are as follows:

	Nature of Business	Percentage of Ownership		
		2009	2008	2007
Manila-Oslo Renewable Enterprise, Inc. (MORE)	Holding company	**83.33**	83.33	83.33
Visayan Electric Company, Inc. (VECO)	Power	**55.18**	55.11	55.05
SNAP-Magat (SNAP M)	Power	**50.00**	50.00	50.00
SNAP-Benguet (SNAP B)	Power	**50.00**	50.00	50.00
SNAP-Pangasinan, Inc. *	Power	**50.00**	-	-
Luzon Hydro Corporation (LHC)	Power	**50.00**	50.00	50.00
East Asia Utilities Corporation (EAUC)	Power	**50.00**	50.00	50.00
Redondo Peninsula Energy, Inc. (RP Energy)*	Power	**50.00**	50.00	50.00
San Fernando Electric Light and Power Co., Inc. (SFELAPCO)	Power	**43.78**	43.78	43.78
Cordillera Hydro Corporation *	Power	**35.00**	35.00	35.00
STEAG State Power, Inc. (STEAG)	Power	**34.00**	34.00	34.00
Cebu Energy Development Corporation (CEDC)*	Power	**26.40**	26.40	–
Southern Philippines Power Corporation (SPPC)	Power	**20.00**	20.00	20.00
Western Mindanao Power Corporation (WMPC)	Power	**20.00**	20.00	20.00
Aboitiz Project TS Corporation (APTSC)	Transportation	**50.00**	50.00	50.00
MCC Philippines	Transportation	**33.00**	33.00	33.00
Cebu International Container Terminal, Inc (CICTI)*	Transportation	**20.00**	20.00	20.00
Hapag-Lloyd Philippines, Inc.	Transportation	**15.00**	15.00	15.00
WG & A Jebsen Ship Management, Inc.(WGA&J)	Ship management	**–**	–	40.00
Jebsen People Solutions AS (JPS)	Manpower Services	**50.00**	–	–
Accuria, Inc.	Holding company	**49.54**	49.54	49.54
Hijos de F. Escano, Inc. (HIJOS)	Holding company	**46.73**	46.66	46.66
Pampanga Energy Ventures Inc. (PEVI)	Holding company	**42.84**	42.84	42.84
JAIB, Inc.*	Brokerage	**49.00**	49.00	49.00
Union Bank of the Philippines (UBP)	Banking	**38.66**	36.34	36.22
City Savings Bank (CSB)	Banking	**34.39**	34.39	34.42
South Western Cement Corporation	Cement	**20.00**	20.00	20.00

**No commercial operations.*

The Group does not consolidate MORE because of absence of control resulting from the shareholders agreement, which among others stipulate the management and operation of MORE. Management of MORE is vested in its BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which include financial and operating undertakings. The Group also does not consolidate VECO as the other shareholders' group has the control over the financial and operating policies of VECO.

In February 2009, AJBTC, an ATS subsidiary, purchased 50 shares of JPS at Norwegian Krone (NOK) 1,000 per share. As of December 31, 2009, JPS operations resulted to a loss of NOK2.1 million in 2009. The share in equity loss was recognized by AJBTC to the extent of its initial investment.

UBP listed 78.3 million common shares at an offer price of 59 per share on May 10, 2007, and issued additional 11.7 million shares under the over allotment portion on May 22, 2007. Out of this stock offering, 4.5 million shares were offered to existing shareholders on record as of May 22, 2007.

The Company waived its pre-emptive right to subscribe to these shares. As a result, its equity ownership in UBP was reduced from 42.14% to 36.22%, and a gain on dilution amounting to ₱661.2 million was generated.

In March 2009, the Company purchased additional 14.9 million shares in UBP for a total consideration of ₱297.6 million, increasing its share in UBP from 36.34% to 38.66%. The transaction resulted to a gain on dilution amounting to ₱347.0 million that is recognized directly in equity.

The detailed carrying values of investments in associates (including goodwill), which are accounted for under the equity method, follow:

	2009	2008
UBP	**₱13,192,023**	₱10,918,378
MORE	**10,109,764**	8,823,278
STEAG	**5,909,444**	4,973,051
CEDC	**2,417,898**	–
VECO/HIJOS	**1,918,699**	1,942,492
EAUC	**1,375,712**	1,322,173
LHC	**1,232,222**	1,182,972
WMPC	**421,960**	445,573
SFELAPCO/PEVI	**403,597**	390,879
CSB	**275,584**	193,810
SPPC	**251,256**	325,558
CICTI	**240,125**	240,125
RP Energy	**2,118**	278,886
Others	**41,845**	15,360
	₱37,792,247	₱31,052,535

The investments in associates include goodwill amounting to ₱2,076,610 in 2009 and 2008.

The fair value of the investment in UBP for which there is a published price quotation amounted to ₱9.2 billion and ₱5.0 billion as of December 31, 2009 and 2008, respectively.

Following is the summarized financial information of significant associates:

	2009	2008	2007
UBP			
Total current assets	**₱58,908,760**	₱35,789,294	₱90,654,034
Total noncurrent assets	**185,452,558**	168,111,809	104,655,038
Total current liabilities	**208,043,868**	175,597,243	166,608,238
Total noncurrent liabilities	**5,037,100**	1,287,100	1,287,100
Gross revenue	**11,891,519**	10,392,551	9,752,060
Operating profit	**4,420,446**	2,908,474	3,030,590
Net income	**4,325,003**	2,068,426	2,978,355
MORE			
Total current assets	**₱278,313**	₱125,849	₱53,170
Total noncurrent assets	**12,037,113**	10,685,237	6,664,421
Total current liabilities	**276,057**	238,040	281,536
Total noncurrent liabilities	**490,400**	253,351	–
Gross revenue	**1,270,474**	832,142	1,986,557
Operating profit	**1,096,944**	723,172	1,938,003
Net income	**1,102,475**	716,448	1,938,170
STEAG			
Total current assets	**₱8,029,261**	₱7,081,353	₱ 4,277,143
Total noncurrent assets	**10,924,231**	12,129,785	10,803,396
Total current liabilities	**2,307,605**	3,189,506	1,875,742
Total noncurrent liabilities	**6,880,704**	8,573,835	8,343,813
Gross revenue	**6,205,924**	6,265,242	4,774,325
Operating profit	**3,118,338**	3,850,860	2,560,406
Net income	**2,602,400**	3,216,793	1,672,614

	2009	2008	2007
LHC			
Total current assets	₱332,448	₱364,594	₱1,294,061
Total noncurrent assets	4,496,366	4,954,809	4,442,141
Total current liabilities	1,593,142	456,638	1,427,660
Total noncurrent liabilities	771,228	2,218,420	2,190,979
Gross revenue	1,223,189	1,088,083	1,836,412
Operating profit	749,635	682,124	1,311,700
Net income	467,264	1,080,494	990,397
VECO*			
Total current assets	₱1,424,236	₱1,602,279	₱1,981,972
Total noncurrent assets	7,532,706	6,775,561	3,453,827
Total current liabilities	1,902,036	1,340,521	1,350,698
Total noncurrent liabilities	2,546,256	2,434,584	1,403,978
Gross revenue	10,830,878	9,899,115	9,388,743
Operating profit	140,657	396,922	428,050
Net income	315,082	509,527	490,049
EAUC			
Total current assets	₱697,187	₱428,112	₱625,444
Total noncurrent assets	3,122,061	3,128,757	2,937,571
Total current liabilities	255,217	282,265	415,017
Total noncurrent liabilities	9,565	8,160	1,562
Gross revenue	1,381,633	1,579,424	1,568,888
Operating profit	186,597	106,568	62,973
Net income	286,577	126,927	66,913
WMPC			
Total current assets	₱718,455	₱819,909	₱400,547
Total noncurrent assets	1,792,574	2,043,482	2,138,617
Total current liabilities	192,535	277,785	362,663
Total noncurrent liabilities	181,783	357,740	173,546
Gross revenue	1,206,970	1,283,784	1,237,761
Operating profit	558,505	670,578	627,571
Net income	548,359	415,925	501,123

*Amounts are based on appraised values of property, plant and equipment and on historical costs of investment properties which are adjusted to historical amounts and to fair values, respectively, upon equity take-up of the Group. Using cost method in accounting for property, plant and equipment and fair value method in accounting for investment properties, net income amounted to ₱467,792, ₱566,578 and ₱530,333 in 2008 and 2007, respectively, for VECO

11. Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to each business considered as cash-generating unit.

The recoverable amount of the investments has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections are from 9.58 % to 18.87% and in 2009 and from 11.46% to 16.05% in 2008, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

Key assumptions used in value in use calculation for December 31, 2009 and 2008

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Foreign exchange rates

The assumption used to determine foreign exchange rate is a weakening Philippine peso which starts at a rate of ₱49.50 to a dollar in 2010 and depreciates at 3% annually until 2014.

Materials price inflation
The assumption used to determine the value assigned to the materials price inflation is 3% in 2010, which then increases by 200, 50 and 50 basis points on the second, third and fourth year, respectively, and remains steady on the fifth year. The starting point of 2010 is consistent with external information sources.

Based on the impairment testing, no impairment was recognized in 2009 and 2008.

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

Key assumptions used in determining recoverable amount of goodwill in ATS in 2008
The provisions in the MOA with KGLI-NM, related to the planned sale in 2009 of the Company's investment in ATS, were considered in determining the recoverable amount of said investment. Fair value of ATS investment was deemed to be equivalent to the net proceeds to be generated from its 100% sale at the selling price indicated in the MOA. As a result, the Company reduced the carrying amount of the goodwill by ₱560,314 in 2008. With the subsequent termination of the sale agreement (see Note 2), said reduction was reversed in 2009 to remeasure the goodwill to its carrying amount prior to the planned sale. Prior to the planned sale and as of the date of the termination of the sale agreement, there was no impairment on the carrying value of the goodwill based on value-in-use calculations.

The carrying amount of goodwill follows:

	2009	2008
Subsidiaries		
ATS	**₱560,314**	₱–
MEZ	**538,373**	538,373
BEZ	**237,405**	237,405
SOI	**235,486**	235,486
HI	**220,228**	220,228
Reefer Van Specialist Inc.	**20,977**	20,977
	1,812,783	1,252,469
Goodwill included in the disposal group classified as held for sale (see Note 14)	**–**	256,463
	₱1,812,783	₱996,006

12. Property, Plant and Equipment

December 31, 2009

	Building, Warehouses and Improve- ments	Power Plant and Equipment	Transmission and Distribution Equipment	Machinery and Equipment	Flight Equipment	Transpor- tation Equipmen	Ships in Operation and Improve- ments	Containers	Handling Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improve- ments	Land	Ships under Refurbish- ments and Construction in Progress	Others	2009
COST															
At January 1	₱993,031	₱3,511,445	₱4,442,990	₱1,957,486	₱301,364	₱682,536	₱–	₱–	₱109,534	₱786,268	₱66,563	₱240,158	₱2,526,651	₱276,108	**₱ 15,894,134**
Re-presentation of Disposal Group in 2008 (see Note 1)	666,455	–	–	–	62,980	298,183	5,098,939	1,537,335	1,136,559	612,092	276,460	–	81,046	–	**9,770,049**
Reversal of Impairment	–	–	–	–	–	–	14,341	–	–	–	–	–	–	–	**14,341**
Acquisition	660,637	18,017,208	–	1,290,397	–	–	–	–	–	–	–	–	–	–	**19,968,242**
Additions	143,467	45,300,656	298,640	74,416	564	143,774	1,639,082	–	85,988	135,453	56,699	24,708	2,404,977	73,958	**50,382,382**
Disposal	(23,288)	(48,231)	(5,004)	(741)	(12,913)	(116,396)	(465,921)	(63,812)	(29,867)	(83,403)	(2,763)	–	–	(4,421)	**(856,760)**
Reclassifications	474,563	(152,313)	(183,199)	343,077	(7)	(212,469)	(407,221)	214	(13,487)	(446,160)	173,637	104,234	(184,687)	20,781	**(483,037)**
At December 31	2,914,865	66,628,765	4,553,427	3,664,635	351,988	795,628	5,879,220	1,473,737	*1,288,727*	1,004,250	570,596	369,100	4,827,987	366,426	**94,689,351**
ACCUMULATED DEPRECIATION AND AMORTIZATION															
At January 1	410,069	2,349,819	2,137,134	1,007,667	101,491	285,919	–	–	75,436	463,467	32,775	–	–	74,090	**6,937,867**
Re-presentation of Disposal Group in 2008 (see Note 1)	239,309	–	–	–	57,770	149,560	2,099,919	1,362,742	1,048,025	481,952	136,275	–	–	–	**5,575,552**
Reversal of Impairment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**
Additions	92,595	987,191	190,394	174,881	19,483	106,632	679,946	28,525	65,364	102,663	44,073	–	–	30,543	**2,522,290**
Disposal	(21,401)	(39,313)	(418)	(544)	(8,170)	(102,454)	(362,548)	(59,265)	(22,838)	(83,392)	(4,728)	–	–	(3,955)	**(709,026)**
Reclassifications	(41,685)	(7,797)	(44,561)	140,634	(87,755)	6,593	(196,404)	(389)	(6,193)	(205,704)	124,612	–	–	116,325	**(202,324)**
At December 31	678,887	3,289,900	2,282,549	1,322,638	82,819	446,250	2,220,913	1,331,613	1,159,794	758,986	333,007	–	–	–	**14,124,359**
Net Book Value	₱2,235,978	₱63,338,865	₱2,270,878	₱2,341,997	₱269,169	₱349,378	₱3,658,307	₱142,124	₱128,933	₱245,264	₱237,589	₱369,100	₱4,827,987	₱149,423	**₱80,564,992**

December 31, 2008

	Building, Ware-houses and Improve-ments	Power Plant and Equipment	Transmis-sion and Distribution Equipment	Distribution Transform-ers and Substation Equipment	Machinery and Equipment	Flight Equip-ment	Transpor-tation Equipmen	Ships in Operation and Improve-ments	Containers	Handling Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improve-ments	Land	Ships under Refurbish-ments and Construction in Progress	Others	2008
COST																
At January 1	₱1,342,291	₱3,448,510	₱2,604,205	₱ 1,391,438	₱1,683,119	₱355,816	₱927,257	₱4,580,798	₱1,710,582	₱1,147,241	₱1,007,656	₱320,393	₱190,945	₱1,134,233	₱140,061	₱ 21,984,545
Disposal Group in 2008 (see Note 1)	(666,455)	–	–	–	–	(62,980)	(298,183)	(5,098,939)	(1,537,335)	(1,136,559)	(612,092)	(276,460)	–	(81,046)	–	(9,770,049)
Impairment	–	–	–	–	–	–	–	(14,341)	–	–	–	–	–	–	–	(14,341)
Acquisition	4,581	–	–	–	–	–	7,712		–	–	23,111	–	–	–	–	35,404
Additions	91,479	138,137	241,620	37,280	15,266	569	177,555	735,660	12	16,879	406,547	33,019	49,213	3,293,940	90,706	5,327,882
Disposal	(43,156)	(103,468)	(311)	–	(985)	(93,447)	(134,319)	(170,910)	(172,330)	(37,445)	(75,775)	(3,614)	–	–	(89,140)	(924,900)
Reclassifications	264,291	28,266	50,286	118,472	260,086	101,406	2,514	(32,268)	(929)	119,418	36,821	(6,775)		(1,820,476)	134,481	(744,407)
At December 31	993,031	3,511,445	2,895,800	1,547,190	1,957,486	301,364	682,536	–	–	109,534	786,268	66,563	240,158	2,526,651	276,108	15,894,134
ACCUMULATED DEPRECIATION AND AMORTIZATION																
At January 1	584,964	2,256,120	1,226,272	720,002	916,242	67,256	448,610	1,835,575	1,458,610	1,035,397	854,321	140,024	–	–	127,335	11,670,728
Disposal Group in 2008 (see Note 1)	(239,309)	–	–	–	–	(57,770)	(149,560)	(2,099,918)	(1,362,742)	(1,048,025)	(481,952)	(136,276)	–	–	–	(5,575,552)
Impairment	–	–	–	–	–	(98)	–	–	–	–	–	–	–	–	–	(98)
Acquisition	1,650	–	–	–	–	–	7,712	–	–	–	14,086					23,448
Additions	68,086	187,069	132,506	59,145	92,498	15,284	89,992	611,258	67,949	88,002	132,326	26,298	–	–	36,432	1,606,845
Disposal	(5,241)	(100,833)	(310)	–	(1,073)	(81,487)	(112,545)	(132,697)	(162,200)	(37,239)	(74,269)	(205)	–	–	(175)	(708,274)
Reclassifications	(81)	7,463	(481)	–	–	158,306	1,710	(214,218)	(1,617)	37,301	18,955	2,934	–	–	(89,502)	(79,230)
At December 31	410,069	2,349,819	1,357,987	779,147	1,007,667	101,491	285,919	–	-	75,436	463,467	32,775	-	-	74,090	6,937,867
Net Book Value	₱582,962	₱1,161,626	₱1,537,813	₱768,043	₱949,819	₱199,873	₱396,617	₱–	₱–	₱34,098	₱322,801	₱33,788	₱240,158	₱2,526,651	₱202,018	₱8,956,267

Containers include units acquired under finance lease arrangements (see Note 20). The depreciation of the leased containers, amounting to ₱29,000 in 2009, ₱62,140 in 2008 and ₱128,800 in 2007 were computed on the basis of the Group's depreciation policy for owned assets.

Specific borrowing costs capitalized as part of construction in progress amounted to ₱227.3 million and ₱48.7 million in 2009 and 2008, respectively.

Property, plant and equipment with carrying amounts of ₱6,073.6 million and ₱4,578.7 million as of December 31, 2009 and 2008, respectively, are used to secure the Group's long-term debts (see Note 18).

Fully depreciated transmission and distribution equipment and distribution transformers and substation equipment with gross carrying amount of ₱1,363.7 million and ₱1,398.1 million as of December 31, 2009 and 2008, respectively, are still in use.

13. Intangible Asset – Service Concession Rights

	2009	2008
Cost:		
At beginning of year	**₱973,532**	₱747,384
Additions (see Note 3)	**71,522**	227,149
Disposals	**–**	(1,001)
	1,045,054	973,532
Accumulated amortization:		
At beginning of year	**119,339**	85,195
Amortization (see Note 24)	**43,407**	35,397
Disposals	**–**	(1,253)
	162,746	119,339
	₱882,308	₱854,193

Service concession arrangements entered into by the Group are as follows:

- On May 15, 2003, the SBMA, AEV and DLPC entered into a DMSA for the privatization of the SBMA PDS on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures, and machineries in the SBFZ.

  Under the terms of the DMSA, SEZC was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA.

  In compliance with the terms of the DMSA, the SBMA shall turn over to SEZC full possession of the Project and any and all improvements, spare parts, inventories, vehicles, works and structures constructed, improved and introduced by the SBMA in the Project and land, roads and any land rights of any description including, without any limitations, easements, access, rights-of-way, leases, licenses and covenants belonging to the SBMA or otherwise appertaining to the Project, or to be acquired by or granted to SEZC by the SBMA or any relevant Governmental Instrumentalities for purposes of implementing the Project on, through, above or below the ground on which any part of the Project is located, maintained and managed, including, without limitation to, arrangements for the disposal of waste materials. The SBMA shall also turnover all records, files and/or contracts pertinent to the PDS. The SBMA shall remain the owner of the Project including all its assets and improvements.

  The DMSA shall be effective for a 25-year period commencing on the turnover date and consisting of two phases: (a) the 5-year rehabilitation period and (b) the 20-year operation, management and maintenance period. Total

estimated rehabilitation costs committed by SEZC under the DMSA amounted to ₱368.6 million.
SEZC is subject to the rate making regulations and regulatory policies of the ERC. The DMSA provides that there will be no change in the basic power supply and power distribution rates for the first 5 years from the turnover date. For and in consideration of the services and expenditures of SEZC for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZC shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project. The said remittance may be reduced by the outstanding power receivables from the SBMA, including streetlights power consumption and maintenance, for the immediately preceding year.

Since SBMA controls ownership of the equipment at the end of the agreement, the power distribution system are treated as intangible assets and are amortized over a period of twenty five years up to year 2028, in accordance with IFRIC 12.

- MEZC, a subsidiary, is registered with the Philippine Economic Zone Authority (PEZA) as an Ecozone Utilities Enterprise and distributes power to locators inside the Mactan Economic Zone II - SEZ (MEZ II - SEZ). AboitizLand, Inc., the Developer-Operator of MEZ II, entered into a Build-Operate-Transfer (BOT) agreement with Mactan Cebu International Airport Authority (MCIAA). Under the terms of the agreement, MCIAA will provide the land, while AboitizLand, Inc. will undertake the development of MEZ II. The project has a term of 25 years, with an option to extend the lease for another 25 years. Under the agreement, ownership of permanent structures within MEZ II will be transferred to MCIAA after termination of the agreement.

  The transmission and distribution equipment of MEZC are located within MEZ II. Since MCIAA controls ownership of the equipment at the end of the agreement, the equipment are treated as intangible assets and are amortized over a period of twenty one years up to year 2028, in accordance with IFRIC 12.

Management believes that, based on the assessment performed, the intangible asset - service concession rights are not impaired.

Specific borrowing costs amounting to ₱2.6 million and ₱23.0 million that were directly attributable to the rehabilitation of the PDS were capitalized in 2009 and 2008, respectively.

14. Assets and Liabilities of Disposal Group Classified as Held for Sale

Assets and liabilities classified as held for sale as of December 31, 2008 represent those of the ATS Group, excluding Aboitiz Jebsen Group (see Note 1).

The major classes of assets and liabilities classified as held for sale as of December 31, 2008 are as follows:

Assets	
Cash and cash equivalents	₱860,254
Trade and other receivables	1,620,675
Inventories	344,665
Prepaid expenses and other assets	627,949
Investment in associates	12,357
AFS investments	27,635
Property and equipment	4,194,497
Deferred income tax assets - net	344,742
Goodwill	256,463
Pension asset	39,501
Other noncurrent assets	301,647
Assets of disposal group classified as held for sale	8,630,385

Liabilities	
Bank loans	₱551,000
Trade and other payables	3,024,694
Current portion of obligations under finance lease	81,692
Income tax payable	6,249
Obligations under finance lease - net of current portion	30,832
Pension liability	23,570
Redeemable preferred shares	17,790
Other noncurrent liabilities	3,736
Liabilities of disposal group directly associated with assets classified as held for sale	3,739,563
Net assets directly associated with disposal group	₱4,890,822
Net unrealized valuation gain on AFS investments	₱4,342
Cumulative translation adjustment	529
Acquisition of minority interest	(4,449)
Reserve of disposal group classified as held for sale	₱422

As stated in Note 2, with KGLI-NM informing the Company and ACO that it would not proceed with the purchase of the ATS shares, the relevant agreement was deemed terminated. The Company and ACO then announced that their holdings in ATS shares are no longer for sale to any third party. The criteria for classifying assets and liabilities of ATS Group, excluding Aboitiz Jebsen Group, as disposal group held for sale are therefore no longer met.

As required by PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations, the Group has ceased to present the assets and liabilities of the disposal group held for sale separately from other assets and liabilities in the consolidated balance sheet as of December 31, 2009. The measurement basis for the assets reverts to what it would have been if they had not been so classified at all or their recoverable amounts, if lower. Such measurement basis enabled the Group in 2009 to reverse its write-down provisions on goodwill amounting to ₱560,314 (see Note 11) and on property, plant and equipment amounting to ₱14,475. Also, the ₱82.9 million deposit paid by KGLI-NM to the Company was deemed forfeited and was recorded as other income in 2009.

In addition, the results of operations of the disposal group held for sale for the years ended December 31, 2008 and 2007, previously presented separately as discontinued operations in the consolidated statements of income in prior year, are reclassified and included as part of income from continuing operations. The amounts for these prior periods are described as having been re-presented in the consolidated statements of income.

15. Other Noncurrent Assets

	2009	2008
Restricted cash	**₱560,423**	₱581,708
Prepaid rent (see Note 35)	**541,830**	62,355
Refundable deposits	**195,314**	114,940
Software development costs – net	**112,127**	188,210
VAT tax credit receivable	**45,335**	12,088
Biological assets - net (see Note 8)	**44,518**	28,450
Others	**536,476**	170,597
Other noncurrent assets included in the disposal group	**2,036,023**	1,158,348
classified as held for sale(see Note 14)	**-**	301,647
	₱2,036,023	₱856,701

Movement of the Group's software development costs follows:

	2009	2008
Cost:		
Balances at beginning of year	**₱577,309**	₱547,599
Additions	**6,264**	29,710
Disposals	**(5,017)**	–
Balances at end of year	**578,556**	577,309
Accumulated amortization:		
Balances at beginning of year	**389,099**	300,816
Additions (see Note 24)	**82,335**	88,283
Disposals	**(5,005)**	–
Balances at end of year	**466,429**	389,099
Net book value	**₱112,127**	₱188,210

Software development costs comprise all expenditures that can be directly attributed to the development and acquisition of several application softwares related to integrated financial and revenue management system.

16. Bank Loans

	2009	2008
Peso loans	**₱5,179,648**	₱4,032,100
US dollar loans	**3,855,390**	4,084,344
US dollar overdraft facility	**–**	43,655
Bank loans included in the disposal group classified	**9,035,038**	8,160,099
as held for sale (see Note 14)	**–**	551,000
	₱9,035,038	₱7,609,099

The peso loans are unsecured short-term notes payable obtained from local banks with interest rates ranging from 5.10% to 8.75%in 2009, 6.00% to 11.00% in 2008, and 4.92% to 7.00% in 2007. These loans will mature on various dates in 2010.

US dollar loans include:

a. Unsecured short-term notes payable obtained by AJBTC and JMI from foreign and local banks and have outstanding balances amounting to US$2.5 million and US$4.9 million as of December 31, 2009 and 2008, respectively. These loans bear interest of 4.0% to 6.5% in 2009 and 5.45% to 5.99% in 2008. These loans will mature on various dates up to July 2010.

b. An unsecured US$81.0 million loans obtained by AP from local banks to finance the purchase of 34% of STEAG. Interest rates range from 1.75% to 4.24% in 2009 and 5.20% to 5.65% in 2008.

In March 2010, AP paid $64.3 million of the loan while the remaining $16.7 million was renewed for another month maturing in April 2010.

The US dollar overdraft facility pertains to loan obtained from a foreign bank by Jebsens Orient Shipping AS, a wholly owned subsidiary of JMBVI based in Norway, with interest at the aggregate of LIBOR plus a margin of 1.50% per annum. This loan is secured by an assignment of earnings and a guarantee by a JMBVI shareholder.

The bank loans included in the disposal group classified as held for sale in 2008 pertain to unsecured short-term notes payable obtained by ATS and AOI from local banks with annual interest rates ranging from 6.00% to 11.00% in 2008. These loans will mature on various dates up to October 2009.

17. Trade and Other Payables

	2009	2008
Trade payables (see Note 35)	**₱5,603,295**	₱2,760,620
Accrued expenses	**1,629,591**	1,786,282
Due to related parties (see Note 31)	**2,278,427**	1,078,410
Nontrade payables and others	**1,234,421**	1,057,310
	10,745,734	6,682,622
Trade and other payables included in the disposal group classified as held for sale (see Note 14)	**–**	23,024,694
	₱10,745,734	₱3,657,928

Trade and other payables are non-interest bearing and are usually 30-90 days' terms.

Accrued expenses include fuel and lube costs, interest on borrowings and other accruals that are due within 12 months.

18. Long-term Debt

	Interest Rate	**2009**	2008
Company:			
Financial institutions - unsecured peso denominated loans	7.33% - 9.19%	**₱1,975,000**	₱2,350,000
Non-financial institutions	11.00% - 12.00%	**–**	16,500
		1,975,000	2,366,500
Subsidiaries:			
AP			
Financial institutions - secured	08.00% - 9.33%	**11,884,400**	3,890,000
HSI			
Financial institutions - secured	8.52%	**3,570,000**	1,715,796
HI			
Financial institution - secured	8.36%	**613,700**	647,000
SEZ			
Financial institution - secured	8.26% - 10.02%	**331,454**	341,000
PILMICO			
Financial institutions - secured	various	**506,667**	620,000
PANC			
Financial institution - secured	7.22%	**212,500**	250,000
Total		**19,093,721**	9,830,296
Less deferred financing cost		**147,019**	71,799
		18,946,702	9,758,497
Less current portion		**722,867**	558,478
		₱18,223,835	₱9,200,019

The Company
The loans availed by the Company from financial institutions include:

a. An unsecured loan obtained in 2006, amounting to ₱1.0 billion, is payable in five years with 10% of the principal due on the second year, 25% due on the third and fourth year and the remaining 40% on the fifth year, with interest rates ranging from 5.06% to 7.49% in 2009 and 5.10% to7.49% in 2008, to be repriced on a quarterly basis.

b. Unsecured loans totaling ₱1.2 billion availed in 2006 with bullet principal payments due at the end of five years and with interest payments due quarterly at a fixed rate of 9.00%. The loan was fully paid on March 2, 2008.

c. Unsecured loan obtained in 2006 amounting to ₱500.0 million is payable in five years with 10% of the principal due on the second year, 25% due on the third and fourth year and the remaining 40% on the fifth year, with interest rates ranging from 5.03% to 7.33% in 2009 and 5.21% to 7.33% in 2008, subject to quarterly repricing.

d. Unsecured loan amounting to ₱1.0 billion availed in 2008 with bullet principal payment due at the end of five years and with interest payments due quarterly at a fixed rate of 9.19%.

The loans availed by the Company from non-financial institutions are subject to fixed interest rates and have outstanding balances of nil and ₱16.5 million as of December 31, 2009 and 2008, respectively.

AP
Retail Bonds
On April 30, 2009, AP registered and issued bonds worth ₱3.0 billion. As provided in the Underwriting Agreement, the three-year and five-year bonds bear interest at 8.00% and 8.70% per annum, respectively.

Prior to the maturity date, AP may redeem in whole the relevant outstanding notes on the 12th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount, the principal amount and a prepayment penalty of 2.00% on the outstanding principal amount.

Under the notes facility agreement, AP shall not permit its Debt-to-Equity ratio to exceed 2:1 calculated based on its audited financial statements. AP is in compliance with the debt covenant as of December 31, 2009.

Unamortized deferred debt issuance cost reduced the carrying amount of long-term debt by ₱32.1 million in 2009.

2009 Fixed Rate Corporate Notes
On September 28, 2009, AP availed a total of ₱5.0 billion from the Notes Facility Agreement it signed on September 18, 2009, with First Metro Investment Corporation as Issue Manager. The Notes Facility Agreement provided for the issuance of 5-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules.

Prior to the maturity date, AP may redeem in whole the relevant outstanding notes on the 12th interest payment date. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount, the principal amount and a prepayment penalty of 2.00% on the outstanding principal amount.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, the Company shall not permit its DE ratio to exceed 2:1 calculated based on the Company's year-end audited parent company financial statements. For the purposes of determining compliance with the required ratio, the outstanding preferred shares and contingent liabilities of the Company, including but not limited to the liabilities in the form of corporate guarantees in favour of any person or entity shall be included

in the computation of debts. The Company is in compliance with the debt covenant as of December 31, 2009.

Unamortized deferred debt issuance cost reduced the carrying amount of long-term debt by ₱47.7 million in 2009.

2008 Fixed Rate Corporate Notes
On December 18, 2008, AP availed a total of ₱3.9 billion from the Notes Facility Agreement it signed on December 15, 2008, with BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch as Joint Lead Managers. The Notes Facility Agreement provided for the issuance of 5-year and 7-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules.

Prior to the maturity date, AP may redeem in whole the relevant outstanding notes on the 12th interest payment date for Tranche 1 note and on the 16th interest payment date for Tranche 2 note. The amount payable in respect of such early redemption shall be the accrued interest on the outstanding principal amount, the outstanding principal amount and a prepayment penalty of 2.00% of the outstanding principal amount.

Unless previously redeemed, the notes shall be redeemable on a lump sum basis on the respective maturity date at its face value.

Under the notes facility agreement, the Company shall not permit its DE ratio to exceed 2:1 calculated based on the Company's year-end parent company audited financial statements. For the purposes of determining compliance with the required ratio, the outstanding preferred shares and contingent liabilities of the Company, including but not limited to the liabilities in the form of corporate guarantees in favour of any person or entity shall be included in the computation of debts. The Company is in compliance with the debt covenant as of December 31, 2009.

Unamortized deferred debt issuance cost reduced the carrying amount of long-term debt by₱41.0 million in 2009 and ₱42.0 million in 2008.

HI
The loan availed by HI from Banco de Oro is a five-year loan of which ₱450.0 million is payable at ₱1.0 million per year starting 2006 with the remaining balance fully payable on January 28, 2010, and ₱200.0 million is subject to a balloon payment on October 20, 2010. It bears interest of two and one-fourth percent over the applicable three-month treasury securities as displayed on Money Market Association of the Philippines (MART)1 page of Bloomberg of the rate setting day plus gross receipts tax, reviewable and payable quarterly. The loan is secured by a chattel mortgage over the machineries and improvements of the Benguet and Davao hydropower plants of HI and a suretyship of AP.

Carrying value of machineries and improvements of the Benguet and Davao hydropower plants mortgaged with BDO to secure loans amounted to ₱489.3 million and ₱554.9 million as of December 31, 2009 and 2008, respectively (see Note 12).

Loan covenant includes, among others, maintenance of current ratio of at least 1:1 and Debt-to-Equity ratio of 15:1 every first semester and 7:1 every end of year, and restrictions such as not to incur any debt with a maturity of more than one year without bank notification, no substantial change in present majority ownership or management, not to enter into any merger or consolidation, sell, lease, mortgage, hypothecate, pledge or otherwise transfer 51% or more of its assets. HI is in compliance with the debt covenant as of December 31, 2009.

HSI
On May 21, 2008, HSI and the Company entered into an agreement with local banks for a loan facility in the aggregate principal amount of up to ₱3.6 billion to partially finance the design, development, procurement, construction, operation and maintenance of the 42.5 MW Sibulan hydro-electric power plant.
Repayment terms of the loan are as follows:

- 70% of the principal amount of the loan is payable in semi-annual installments within 12 years commencing on the 30th month from September 1, 2008.
- A balloon payment equivalent to 30% of the loan principal on the final principal amortization date.

HSI may prepay the loan at par without premium or penalty beginning on the fourth year from the initial advance. Interest on the loan for the first five years is fixed at 8.52%. For the remaining seven-year period interest rate will be fixed at the prevailing seven year-PDST-F interest rate for the day immediately preceding the Fixed Interest Setting Date plus 1.125%.

Loan covenant include among others, the establishment and maintenance of certain project accounts depositories under the control of appointed trustees of the lenders, submission of certain reports and others. As of December 31, 2009 and 2008, HSI has complied with the covenants required by the loan agreement.

The loan is secured by a real estate and chattel mortgages on real assets and all machineries, equipment and other properties, actually located at the project site or plant site used in the project with carrying value of ₱4.28 billion and ₱2.37 billion as of December 31, 2009 and 2008, respectively.

Interest on the loan capitalized as construction in progress amounted to ₱227.3 million in 2009 and ₱37.6 million in 2008 (see Note 12).

Unamortized deferred debt issuance cost reduced the carrying amount of long-term debt by ₱25.6 million in 2009 and ₱28.0 million in 2008.

SEZC

The loan availed of by SEZC pertains to a term loan for assistance in the financing of the Phase 1 rehabilitation of the SBMA PDS. The ₱185.0 million loan it has fully drawn from the facility in 2007 was refinanced on June 26, 2008, with a term loan facility of up to a total amount of ₱285.0 million. As of December 31, 2008, SEZC has drawn ₱210.0 million from the facility. The refinanced loan is payable in twelve years (inclusive of a one year grace period on principal repayment) in twenty-two equal semi-annual installments commencing on December 26, 2009. It bears an interest of 10.02%, which is fixed for the first seven years. For the succeeding five years, the interest will be fixed based on the applicable five-year PDST-R1 on the first day of the eighth year plus 100 basis points.

The term loan agreement prohibits SEZC to declare or pay dividends and incur additional debt unless it complies with conditions set forth in the term loan agreement which includes, among others, maintenance of current ratio of at least 1:1, Debt-to-Equity ratio of a maximum of 3:1, and a debt service cover ratio of 1.1x.

On September 24, 2008, SEZC availed a term loan of ₱131.0 million to finance the acquisition of subtransmission assets and to enhance the rehabilitation and expansion of the SBMA PDS. The loan is payable in twelve years (inclusive of a one-year grace period on principal repayment) in twenty-two equal semi-annual installments commencing on March 24, 2010. It bears an interest of 8.26%, which is fixed for the first seven years. For the succeeding five years, the interest will be fixed based on the applicable five-year PDST-R1 on the first day of the eighth year plus
100 basis points.

The ₱131.0 million loan is secured by surety of the stockholders and assignment of rights and benefits of SEZC related to revenue receivable and new equipment and assets to be purchased and used in the SBMA PDS. The term loan agreement prohibits SEZC to make or permit a material change in the character, ownership or control of its business, to secure any indebtedness, to sell, lease, transfer or dispose of all or substantially all of its properties, assets and investments. The agreement also does not permit SEZC to exceed the allowed DE ratio nor be less than the allowed ratio of current assets to current liabilities. The adoption of Philippine Interpretation IFRIC 12 in 2008 caused its DE ratio to exceed the maximum 3:1 limit as required by the above term loans. Prior to adopting and upon assessing the financial impact of the Interpretation on its financial statements, SEZC's management initiated talks and negotiations with creditor bank on securing a waiver on the DE requirement as contained in the loan agreements. In December 2008, the creditor bank agreed to revise the DE ratio. On January 30, 2009, the creditor bank confirmed that the DE ratio of SEZC for the year 2008 may go up to 4:1. On January 14, 2010, the creditor bank approved and allowed the DE ratio for the year 2009 up to 2011 to go up to a maximum of 3.5:1. SEZC is in compliance with the debt covenant as of December 31, 2009.

PILMICO

The loans availed by PILMICO include:

Creditor	Interest Rate	Payment Schedule	Collateral	Principal 2009	2008
Security Bank Corporation (SBC)	5 - year PDS Treasury Reference Rate AM (PDST R1) plus spread of 0.75%	12 equal quarterly payments of ₱41.7 million starting July 2009	Secured by Mortgage Trust Indenture (MTI)	**₱416,667**	₱500,000
Metropolitan Bank and Trust Company (MBTC)	1.5% over the prevailing Development Bank of the Philippines (DBP) passed-on rate	20 equal quarterly payments of ₱4.4 million starting January 2008	Secured by MTI	**52,800**	70,400
MBTC	1.5% over the prevailing MART 1 rate	20 equal quarterly payments of ₱2.0 million starting January 2008	Secured by MTI	**24,000**	32,000
MBTC	1.5% over the prevailing DBP passed-on rate	20 equal quarterly payments of ₱4.4 million starting January 2008	Secured by MTI	**13,200**	17,600
				506,667	620,000
Less current portion				**196,667**	113,333
				₱310,000	₱506,667

The loan agreement with SBC requires PILMICO to maintain and preserve the collateral values as well as seek prior approval for any merger, consolidation, change in ownership, suspension of business operations, disposal of assets, maintenance of financial ratios and others.

The MTIs with MBTC require the Group among others, to seek prior approval for any merger, consolidation, change in ownership, suspension of business operations, disposal of assets, and maintenance of financial ratios. They also prohibit the Group to purchase, redeem, retire or otherwise acquire for value any of its capital stock now or hereafter outstanding (other than as a result of the conversion of any share of capital stock into any other class of capital stock), return any capital to the stockholders (other than distributions payable in shares of its capital stock), declare or pay dividends to its stockholders if payment of any sum due to MBTC is in arrears, and declare or pay management bonus or profit sharing over and above existing employee benefits.

As of December 31, 2009, PILMICO has complied with the covenants required by the loan agreements.

PANC

Long-term debt consists of the following peso-denominated loan obtained from SBC for its swine breeder farm expansion:

Creditor	Interest Rate	Payment Schedule	Collateral	Principal 2009	2008
SBC	Annual interest at 7.22%	20 quarterly payments of ₱12.5 million starting January 16, 2009	Mortgage trust indenture covering the Company's property, plant and equipment	**₱212,500**	₱250,000
Less current portion				**50,000**	37,500
				₱162,500	₱212,500

19. Customers' Deposits

	2009	2008
Transformer deposits	**₱751,317**	₱609,547
Lines and poles deposits	**692,427**	656,935
Bill deposits	**337,372**	304,610
Others	**5,565**	10,163
Balances at end of year	**₱1,786,681**	₱1,581,255

Transformer and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility. These deposits are non-interest bearing and are refundable only after their related contract is terminated and the assets are returned to the Group in their proper condition and all obligations and every account of the customer due to the Group shall have been paid.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may now apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customers has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to pose another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Interest on customers' deposits amounted to ₱5,712, ₱5,462 and ₱3,626 in 2009, 2008 and 2007, respectively.

The Group classified customers' deposit under noncurrent due to the uncertainty of timing of refund of these deposits.

20. Finance Leases

TLI

TLI was appointed by PSALM as Administrator under the IPP Administration Agreement, giving TLI the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk; and the right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been considered as a finance lease. Accordingly, TLI recognized the capitalized asset and related liability of ₱44.8 billion (equivalent to the present value of the minimum lease payments using the Company's incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in its financial statement as "Power plant" and "Finance lease obligation" accounts, respectively. The discount determined at inception of the agreement is amortized over the period of the IPP Administration Agreement and is recognized as interest expense in the consolidated statements of income. Interest expense in 2009 amounted to ₱1.2 billion.

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2009 are as follows (in thousands):

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	Total
Within one year	$12,000	₱554,400	₱576,000	₱1,130,400
After one year but not more than five years	274,920	12,701,304	13,196,160	25,897,464
More than five years	938,000	43,335,600	45,024,000	88,359,600
Total contractual payments	1,224,920	56,591,304	58,796,160	115,387,464
Unamortized discount	703,465	32,500,079	37,301,221	69,801,300
Present value	$521,455	₱24,091,225	₱21,494,939	₱45,586,164

[1]USD 1= ₱=46.2

ATS

ATS acquired certain containers under finance lease arrangements denominated in US dollars. Containers as of December 31, 2009 and 2008, shown under "Property, plant and equipment" account in the consolidated balance sheets, include the following amounts:

	2009	2008
Containers included in the disposal group classified as held for sale (see Notes 12 and 14)		
Cost	**₱44,526**	₱1,037,370
Less accumulated depreciation	**37,847**	876,769
	₱6,679	₱160,601

In 2009, the lease term on the containers has already ended and ATS has exercised its bargain purchase option.

Future minimum lease payments under finance lease, together with the present value of minimum lease payments, are as follows:

	2009	2008
Due within one year	**₱8,466**	₱81,692
Beyond one year	**30,377**	32,846
Total minimum lease obligation	**38,843**	114,538
Less amount representing interest	**7,275**	2,014
Present value of minimum lease payments	**31,568**	112,524
Less current portion included in the disposal group classified as held for sale (see Note 14)	**6,222**	81,692
Finance leases included in the disposal group	**25,346**	30,832
classified as held for sale (see Note 14)	**–**	30,832
	₱25,346	₱–

The outstanding balance of the US dollar denominated finance lease obligation of US$0.7 million as of December 31, 2009 and US$2.4 million as of December 31, 2008 have been restated at the rates prevailing as of those dates of ₱46.20 to US$1 and ₱47.52 to US$1, respectively.

21. Capital Stock

Information on the Company's authorized capital stock follows:

	Number of Shares	
	2009	2008
Authorized capital stock:		
Common shares, ₱1 par value	**9,600,000,000**	9,600,000,000
Preferred shares, ₱1 par value	**400,000,000**	400,000,000

Outstanding capital stocks are as follows:

	Number of Shares	
	2009	2008
Common shares issued	**5,694,599,621**	5,694,599,621
Less treasury shares	**172,727,800**	119,657,500
Balance at end of year	**5,521,871,821**	5,574,942,121
Preferred shares issued:		
Balance at beginning of year	**212,600,000**	212,600,000
Redeemed	**(62,600,000)**	–
Balance at end of year	**150,000,000**	212,600,0001

The redeemable preferred shares are presented in the consolidated balance sheets as part of noncurrent liabilities in accordance with PAS 32 as follows:

	2009	2008
Redeemable preferred shares of the Company	**₱1,500,000**	₱2,126,000
Redeemable preferred shares of a subsidiary	**20,176**	17,790
	1,520,176	2,143,790
Redeemable preferred shares included in the disposal group classified as held for sale (see Note 14)	**–**	17,790
	₱1,520,176	₱2,126,000

The preferred shares are non-voting, non-participating, non-convertible, cumulative re-issuable and redeemable and may be issued from time to time by the BOD in one or more series and fixed before issuance thereof, the number of shares in each series, and all designations, relative rights, preferences and limitations of the shares in each series. Preferred shares that are redeemed by the Company may be re-issued.

The Company's outstanding preferred shares as of December 31, 2009 consist of (1) Series "E" with fixed dividend rate of 8.25% per annum; and (2) Series "F" with fixed dividend rate of 8.5% per annum. As of December 31, 2008, the outstanding preferred shares consist of (1) Series "A" and "D" with floating dividend rate determined quarterly equivalent to the Applicable Base Rate for Series "A" and "B" or the Alternative Base Rate for Series "A" and "B" plus a spread of 1.25% per annum; (2) Series "E" with fixed dividend rate of 8.25% per annum; and (3) Series "F" with fixed dividend rate of 8.5% per annum.

The Company shall redeem the preferred shares at the end of the corresponding agreed periods from Issue Dates (Final Redemption Dates) regardless of the existence of unrestricted retained earnings or other amounts legally available for the payment of dividends in such period, provided that the Issuer has, after redemption, sufficient assets in the books to cover debts and liabilities inclusive of capital stock, and subject to the Issuer's compliance with the applicable laws, rules and regulations, including the requirements of the SEC. The final redemption dates are as follows: (1) December 2011 for series "E"; and (2) December 2013 for series "F". The preferred shares

shall be redeemed by payment in cash of 100% of the Issue Price plus all accrued and unpaid cash dividends on the Final Redemption Date.

Interest recognized on the preferred shares amounted to ₱161,596 in 2009, ₱168,575 in 2008 and ₱162,906 in 2007.

Treasury Shares

On January 26, 2007, the Company successfully placed its entire treasury shares holdings representing 742,511,938 shares at a price of ₱8.20 per share or a 5.70% discount to the share price close of ₱8.70. The treasury sale transaction represents approximately ₱5.9 billion, equivalent to US$124.0 million. The proceeds of the sale were used by the Company for its various power projects and participation in the privatization in the NPC's power plants.

In 2008, the Company started to buy back its shares. As of December 31, 2009 and 2008, approximately 172.7 million and 119.6 million AEV shares have been bought into treasury with a total cost of ₱1,295.2 million and ₱830.6 million, respectively.

22. Retained Earnings

On February 11, 2009, the BOD approved the declaration of a regular cash dividend of ₱0.27 a share (₱1.5 billion) to stockholders of record as of February 26, 2009. These dividends were paid on March 23, 2009.

On February 7, 2008, the BOD approved the declarations of a regular cash dividend of ₱0.31 a share (₱1.8 billion) and a special cash dividend of ₱0.30 a share (₱1.7 billion). These dividends were paid on March 3, 2008 to stockholders of record as of February 21, 2008.

On January 11, 2007, the BOD approved the declaration of a ₱0.20 per share (₱1.1 billion) cash dividends which was paid on February 23, 2007 to stockholders of record as of February 9, 2007.

23. Revenue

The Uniform Rate Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.

24. Costs and Expenses

Cost of goods sold consists of:

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Raw materials used	**₱7,911,227**	₱6,892,608	₱3,805,787
Purchases and changes in biological assets and inventories	**1,800,775**	2,980,449	2,769,045
	9,712,002	9,873,057	6,574,832
Direct labor (see Note 25)	**137,455**	12,845	25,125

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Manufacturing overhead			
Power	**₱147,889**	₱127,216	₱143,707
Depreciation (see Note 12)	**159,399**	98,388	85,543
Repairs and maintenance	**59,591**	57,556	71,843
Indirect labor (see Note 25)	**39,768**	40,090	31,991
Insurance	**34,807**	36,937	2,896
Fuel and lubricants	**28,913**	35,671	27,739
Employees' benefits (see Note 25)	**22,170**	15,862	2,612
Taxes and licenses	**19,826**	20,206	18,425
Freight and handling	**10,113**	14,993	13,566
Utilities and supplies	**8,659**	–	–
Pest control	**4,153**	3,638	3,276
Others	**92,376**	70,709	113,095
	627,664	521,266	514,693
Cost of goods manufactured	**10,477,121**	10,407,168	7,114,650
Finished goods inventory (see Note 6)			
Beginning of year	**114,168**	98,350	63,564
End of year	**(44,910)**	(114,168)	(98,350)
	₱10,546,379	₱10,391,350	₱7,079,864

Operating expenses consist of:

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Fuel and lubricants	**₱2,249,181**	₱5,044,309	₱3,660,907
Depreciation (see Note 12)	**2,176,456**	1,242,490	1,264,354
Outside services (Note 36)	**1,890,478**	1,217,930	933,074
Personnel (see Note 25)	**1,199,633**	1,033,816	963,042
Repairs and maintenance	**813,781**	642,752	603,365
Charter hire (see Note 35)	**680,979**	2,020,059	2,315,748
Taxes and licenses	**422,918**	125,804	117,538
Freight and handling	**308,862**	267,284	319,331
Insurance	**266,921**	153,095	199,831
Transportation and travel	**139,161**	81,633	85,367
Management and professional fees (see Note 31)	**117,538**	177,728	75,612
Advertising	**108,533**	52,440	52,255
Commissions	**91,602**	49,203	93,581
Training and development	**52,424**	8,722	29,516
Rent	**22,224**	10,089	24,891
Utilities	**16,593**	32,140	39,649
Others	**1,467,161**	1,154,174	1,207,551
	₱12,024,445	₱13,313,668	₱11,985,612

Overhead expenses consist of:

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Personnel (see Note 25)	**₱967,309**	₱873,812	₱776,774
Depreciation and amortization (see Note 12)	**194,541**	199,686	217,703
Outside services	**188,570**	151,739	134,072
Advertising	**120,693**	103,395	108,015
Communication, light and water	**98,187**	94,246	96,137
Rent	**93,054**	85,490	66,577
Entertainment, amusement and recreation	**34,790**	38,478	34,904
Provision for impairment losses	**30,129**	8,504	11,906
Others	**368,464**	339,459	410,801
	₱2,095,737	₱1,894,809	₱1,856,889

Terminal expenses consist of:

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Transportation and delivery	**₱302,351**	₱548,494	₱244,203
Outside services	**241,587**	257,496	277,710
Depreciation (see Note 12)	**123,737**	173,969	241,976
Personnel (see Note 25)	**112,425**	101,572	97,841
Repairs and maintenance	**80,214**	73,593	59,782
Rent	**43,426**	45,246	48,785
Fuel and lubricants	**29,602**	43,598	35,409
Others	**72,425**	52,655	71,086
	₱1,005,767	₱1,296,623	₱1,076,792

25. Personnel Expenses

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Salaries and wages	**₱2,164,475**	₱1,814,357	₱1,671,050
Employee benefits (see Note 27)	**314,285**	263,640	226,335
	₱2,478,760	₱2,077,997	₱1,897,385

26. Other Income – net

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Reduction (increase) in carrying amount of goodwill and property, plant, and equipment in disposal	**₱574,789**	(₱574,789)	₱–
group (see Note 14)	**559,915**	6,355	(358,521)
Foreign exchange gains (losses) – net	**214,232**	265,550	134,996
Service and other fees	**207,864**	182,314	106,838
Change in fair value of biological assets (see Note 8)			
Gain (loss) on sale of:			
Stock investments	**52,500**	(15,051)	–
Property, plant and equipment	**29,973**	(2,661)	750,348
AFS investments	**296**	74	2,732
Rental income (see Note 31)	**16,452**	40,302	41,408
Dividend income	**6,795**	11,356	512
Provision for (recovery of) decline in value of various assets, project costs and others	**(14,693)**	(58,162)	(4,513)
Unrealized valuation gain on investment property — net	**–**	7,014	–
Others – net	**460,617**	563,566	378,420
	₱2,108,740	₱425,868	₱1,052,220

Rental income earned from and direct operating expenses of investment properties amounted to ₱16,452 and ₱9,426, respectively, in 2009; ₱40,302 and ₱28,154, respectively, in 2008; and ₱41,408 and ₱22,261, respectively, in 2007.

Included in "Others" are the net gains and losses relating to currency forward transactions of a subsidiary.

27. Pension Benefit Plans

The Group has defined benefit pension plans covering substantially all of its employees, which require contributions to be made to separately administered funds.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the respective plans.

Net benefit expense

	2009	2008	2007
Current service cost	**₱55,823**	₱66,162	₱70,190
Nonvested benefits	**2,001**	764	763
Expected return on plan assets	**(66,964)**	(57,900)	(80,967)
Vested benefits	**230**	230	2,679
Net actuarial gains recognized in the year	**(68)**	(1,169)	(12,883)
Expense income due to asset limit	**(26,036)**	13,554	497
Interest cost on benefit obligation	**98,978**	55,680	64,317
Net benefit expense	**₱63,964**	₱77,321	₱44,596
Actual return on plan assets	**₱187,756**	₱6,712	₱44,791

Pension asset (liability) – net

	2009	2008
Fair value of plan assets	**₱884,965**	₱587,009
Defined benefit obligation	**(1,165,003)**	(589,321)
Under-funded obligation	**(280,038)**	(2,312)
Unrecognized actuarial gains (losses)/asset ceiling	**320,721**	(13,319)
Unrecognized past service cost	**9,193**	7,977
	49,876	(7,654)
Benefit liability included in the disposal group held for sale (see Note 14)	**–**	15,930
	₱49,876	(₱23,584)

Net pension asset (liability) above comprise gross pension asset amounting to ₱105,507 and ₱10,538 as of December 31, 2009 and 2008, respectively, and gross pension liability amounting to ₱55,631 and ₱34,122 as of December 31, 2009 and 2008, respectively.

Changes in the present value of the defined benefit obligation are as follows:

	2009	2008
Opening defined benefit obligation	**₱589,321**	₱685,531
Actuarial (losses) gains	**445,351**	(55,385)
Employee transfers	**86,248**	458
Interest cost	**98,979**	51,722
Current service cost	**55,823**	61,314
Fund transfers to(from) affiliates	**102**	(3,037)
Benefits paid	**(110,719)**	(155,518)
Defined benefit obligation of acquired subsidiary	**–**	14,458
Defined benefit obligation of disposed subsidiary	**–**	(10,222
Closing defined benefit obligation	**₱1,165,003**	₱589,321

Changes in the fair value of plan assets are as follows:

	2009	2008
Opening fair value of assets	**₱587,009**	₱747,521
Contributions by employer	**102,227**	66,010
Expected return	**66,964**	53,304
Actuarial gains (losses)	**145,508**	(106,159)
Employee transfers	**86,146**	–
Fund transfer to affiliates	**102**	(2,580)
Benefits paid	**(102,991)**	(155,518)
Fair value of plan assets of disposed subsidiary	**–**	(15,569)
Closing fair value of plan assets	**₱884,965**	₱587,009

The Group expects to contribute approximately ₱90.6 million to the defined benefit pension plan in 2010.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used on January 1, 2008 and 2007 in determining pension benefit obligations for the Group's plans are shown below:

	2009	2008	2007
Discount rates	**11% – 16%**	7% – 8%	8%
Expected rates of return on plan assets	**9% – 11%**	7% – 9%	9% – 15%
Future salary increase rates	**6% – 11%**	5% – 8%	5% – 8%

Amounts for the current and previous periods are as follows:

	2009	2008	2007
Defined benefit obligation	**1,165,003**	589,321	685,531
Fair value of plan assets	**884,965**	587,009	747,521
Deficit (surplus)	**280,039**	2,312	(61,990)
Experience adjustments on plan liabilities	**126,731**	(108,880)	(109,174)
Experience adjustments on plan assets	**(5,029)**	(63,312)	(32,778)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008
Investments in:		
Cash, common trust fund and money market placements	**34.66%**	43.71%
Notes and other receivable	**2.90%**	3.77%
AFS investments	**54.85%**	41.63%
Government securities and other debt securities	**7.18%**	10.30%
Others	**0.41%**	0.59%
	100.00%	100.00%

28. Income Taxes

The provision for income tax consists of:

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Current			
Corporate income tax	**₱1,083,158**	₱948,891	₱964,606
Final tax	**3,249**	7,403	32,528
	1,086,407	956,294	997,134
Deferred	**119,308**	21,705	214,499
	₱1,205,715	₱977,999	₱1,211,633

A reconciliation between the statutory income tax rate and the Group's effective income tax rates follows:

	2009	2008 (As re-presented, see Notes 2 and 14)	2007 (As re-presented, see Notes 2 and 14)
Statutory income tax rate			
Tax effects of:	**30.00%**	35.00%	35.00%
Nontaxable equity in net earnings of associates	**(11.62)**	(20.22)	(17.30)
Income subject to ITH	**(7.37)**	(0.96)	(0.64)
Interest income subjected to final tax at lower rates - net	**(0.60)**	(1.98)	(1.15)
Gain on sale of investments already subjected to final tax	**(0.14)**	(0.08)	(0.02)
Others	**0.54**	3.82	(0.87)
	10.81%	15.58%	15.02%

Net deferred income tax assets at December 31 relate to the following:

	2009	2008
Allowances for:		
Impairment and probable losses	**₱162,801**	₱96,245
Inventory obsolescence	**26,326**	23,494
NOLCO	**211,917**	186,143
MCIT	**78,425**	46,247
Accrued retirement benefits	**45,754**	46,409
Unrealized foreign exchange losses	**3,755**	47,595
Others	**(14,448)**	(1,823)
Net deferred income tax assets included in the disposal group	**514,530**	444,310
classified as held for sale (see Note 14)	**–**	356,164
	₱514,530	₱88,146

Deferred income liabilities at December 31 relate to the following:

	2009	2008
Unamortized customs duties and taxes capitalized	**₱17,015**	₱15,859
Pension cost	**15,379**	11,750
Unrealized foreign exchange gains	**1,554**	38,008
Rental income based on straight-line method	**386**	86
Unamortized streetlight donations capitalized	**–**	3,648
Others	**8,669**	1,400
Net deferred income tax liabilities included in the disposal group	**43,003**	70,751
classified as held for sale (see Note 14)	**–**	11,422
	₱43,003	₱59,329

In computing for deferred income tax assets and liabilities, the rates used were 30% in 2009 and 35% in 2008, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled. In addition, the effect of the different subsidiaries' availment of their respective ITH incentives for their registration with the Board of Investments (BOI) on certain temporary differences has likewise been considered in the above computation.

As of December 31, 2009, the Group has nil deferred income tax asset and (liability) on the temporary difference of ₱27.8 million and ₱441.8 million, respectively as the management expects that the temporary difference will be realized or will reverse during the income tax holiday (ITH) period (see Note 34).

There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

29. Earnings per Common Share

Earnings per common share amounts were computed as follows:

	2009	2008	2007
a. Net income attributable to equity holders of the parent	**₱8,306,868**	₱4,120,886	₱5,820,893
b. Weighted average number of common shares issued and outstanding	**5,561,675**	5,616,839	5,694,600
c. Earnings per common share (a/b)	**₱1.494**	₱0.734	₱1.022

There are no dilutive potential common shares as of December 31, 2009, 2008 and 2007.

30. Operating Segment Information

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

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

- power segment, which is engaged in power generation and sale of electricity.
- food manufacturing segment, which is engaged in the production of flour and feeds and swine breeding.
- the transportation segment, which comprises ATS Group, provides domestic sea and land transportation services.
- the financial services segment, which is engaged in banking operations.
- the parent company and others, which include the operations of the Company, air transport services and real property business of the Group.

For management purposes, the Group is organized into five (5) business segments based on their products and services. No operating segments have been aggregated to form the above reportable operating segments.

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

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

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

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

There is no concentration of major customers on any of the segments.

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

	2009						
	Power	Financial Services	Food Manufacturing	Transport Services	Parent Company and Others	Eliminations	Consolidated
REVENUE							
Third parties	₱23,174,265	₱–	₱11,048,314	₱11,762,738	₱244,637	₱–	₱46,229,954
Inter-segment	–	–	–	61,691	295,940	(357,631)	–
Total revenues	23,174,265		11,048,314	11,824,429	540,577	(357,631)	46,229,954
RESULTS							
Segment results	5,456,167	–	1,351,270	513,444	159,509	46,384	7,526,774
Unallocated corporate income (expenses)	813,411	–	222,820	327,475	791,418	(46,384)	2,108,740
INCOME FROM OPERATIONS							9,635,513
Interest expense	(2,813,978)	–	(55,840)	(99,110)	(183,167)	–	(3,152,095)
Dividends on redeemable preferred shares	–	–	–	–	(161,596)	–	(161,596)
Interest income	409,972	–	6,113	28,530	72,122	–	516,737
Share in net earnings of associates	2,536,637	1,768,050	–	53,434	5,950,134	(5,986,576)	4,321,679
Provision for income tax	(631,190)	–	(297,004)	(201,056)	(76,465)	–	(1,205,715)
NET INCOME							9.954,524
OTHER INFORMATION							
Segment assets	9,915,103	–	3,035,263	4,799,883	819,958	(165,509)	18,404,698
Investments and advances	24,896,238	13,467,608	–	74,208	34,106,955	(33,976,587)	38,568,422
Unallocated corporate assets	76,635,313	–	2,281,180	5,747,905	1,082,976	560,314	86,307,688
Consolidated total assets							143,280,808
Segment liabilities	75,862,419	–	2,863,846	5,427,097	4,066,398	(137,020)	88,082,740
Unallocated corporate liabilities	431,372	–	81,329	35,327	7,829	–	555,857
Consolidated total liabilities							88,638,597
Capital expenditure	23,473,164	–	260,639	1,940,756	112,638	–	25,787,197
Depreciation and amortization	1,412,900	–	162,201	1,033,545	66,593	–	2,675,239

	2008						
	Power	Financial Services	Food Manufacturing	Transport Services	Parent Company and Others	Eliminations	Consolidated
REVENUE							
Third parties	₱12,242,980	₱–	₱10,688,583	₱12,759,613	₱171,072	₱–	₱35,862,248
Inter-segment	–	–		108,905	351,457	(460,362)	–
Total revenues	12,242,980	–	10,688,583	12,868,518	522,529	(460,362)	35,862,248
RESULTS							
Segment results	1,652,505	–	496,704	(48,280)	205,739	33,747	2,340,415
Unallocated corporate income (expenses)	386,691	–	226,208	271,882	(425,166)	(33,747)	425,868
INCOME FROM OPERATIONS							
Interest expense	(315,112)	–	(48,838)	(76,985)	(173,349)	21,490	2,766,283
Dividends on redeemable preferred shares	–	–	–	–	(168,575)	–	(592,794)
Interest income	544,116	–	5,715	19,405	96,881	(21,490)	(168,575)
Share in net earnings of associates	2,808,641	816,458	–	(7,639)	3,870,629	(3,863,113)	644,627
Provision for income tax	(618,384)	–	(221,328)	(47,671)	(90,616)	–	3,624,976 (977,999)
NET INCOME							5,296,518
OTHER INFORMATION							
Segment assets	17,157,942	–	4,273,426	4,161,538	648,882	4,722,013	30,963,801
Investments and advances	21,345,587	11,112,188	–	17,346	29,809,467	(29,655,162)	32,629,426
Unallocated corporate assets	8,873,293	–	2,158,395	5,230,136	1,038,385	(5,178,826)	12,121,383
Consolidated total assets							75,714,610
Segment liabilities	16,425,559	–	3,987,912	4,798,996	4,110,647	(449,230)	28,873,884
Unallocated corporate liabilities	154,913	–	–	19,239	10,974	–	185,126
Consolidated total liabilities							29,059,010
Capital expenditure	2,623,993	–	657,838	1,113,175	207,782	–	4,602,788
Depreciation and amortization	511,154	–	126,418	1,035,731	57,672	–	1,730,975

	2007						
	Power	Financial Services	Food Manufacturing	Transport Services	Parent Company and Others	Eliminations	Consolidated
REVENUE:							
Third parties	₱11,311,991	₱–	₱8,629,364	₱11,017,203	₱246,850	₱–	₱31,205,408
Inter-segment	–	–	–	38,765	421,258	(460,023)	–
Total revenues	11,311,991		8,629,364	11,055,968	668,108	(460,023)	31,205,408
RESULTS							
Segment results	1,992,975	–	695,944	(200,935)	409,207	5,158	2,902,349
Unallocated corporate income (expenses)	(11,155)	–	138,382	891,331	38,822	(5,158)	1,052,222
INCOME FROM OPERATIONS							3,954,571
Interest expense	(197,502)	–	(30,904)	(102,587)	(471,503)	37,566	(764,930)
Dividends on redeemable preferred shares	–	–	–	–	(162,906)	–	(162,906)
Interest income	330,913	–	5,977	32,705	721,666	(37,566)	1,053,695
Share in net earnings of associates	2,803,833	1,193,541	–	410	4,195,007	(4,205,516)	3,987,275
Minority of disposed subsidiaries	–	–	–	(99,556)	–	–	(99,556)
Provision for income tax	(634,333)	–	(279,895)	(182,143)	(115,262)	–	(1,211,633)
NET INCOME							6,756,516
OTHER INFORMATION							
Segment assets	15,689,904	–	2,173,838	3,721,540	4,610,079	(200,134)	25,995,227
Investments and advances	14,600,199	10,880,603	–	24,701	27,120,796	(26,643,403)	25,982,896
Unallocated corporate assets	5,886,128	–	1,641,252	4,892,765	949,534	560,447	13,930,126
Consolidated total assets							65,908,249
Segment liabilities	8,650,031	–	1,583,413	4,112,866	4,430,639	(210,820)	18,566,129
Unallocated corporate liabilities	166,076	–	46,229	22,500	11,012	–	245,817
Consolidated total liabilities							18,811,946
Capital expenditure	1,137,195	–	196,814	1,543,101	402,919	–	3,280,029
Depreciation and amortization	483,892	–	112,865	1,178,343	50,285	–	1,825,385

31. Related Party Disclosure

ACO, the holding company of the Group, owns 48.17% of the Company's common shares.

In the normal course of business, the Group enters into transactions with related parties, principally consisting of the following:

a. Service contracts of certain subsidiaries and associates with ACO at fees based on agreed rates. Up until December 2008, ACO provided these companies with various corporate center services such as human resources, information technology, internal audit, legal, treasury and corporate finance. With the transfer of

all ACO employees to AEV in January 2009, AEV is now rendering these same services. Professional and technical fees paid by the Group to ACO amounted to ₱84,525 and ₱83,996 in 2008 and 2007, respectively. In 2009, similar fees paid by ACO and certain associates to AEV totaled ₱151,596.

b. Temporary cash advances to and from ACO and certain associates for working capital requirements. The advances are interest bearing at an average rate of 4.83% in 2009, 5.90% in 2008, and 5.13% in 2007. Interest income recognized on these advances amounted to ₱113,096 in 2009, ₱124,018 in 2008 and ₱480,334 in 2007, while interest expense amounted to ₱37,737 in 2009, ₱4,391 in 2008 and ₱26,976 in 2007.

c. Aviation services rendered by AEV Aviation to ACO and certain associates. Total aviation service income generated from these related parties amounted to ₱9,612, ₱8,362 and ₱2,574 in 2009, 2008 and 2007, respectively.

d. Lease of commercial office units by ACO and certain associates from CPDC for a period of three years. Rental income amounted to ₱17,968 in 2009, ₱20,239 in 2008 and ₱20,493 in 2007.

e. Freight revenues from ACO subsidiaries and certain associates amounted to ₱15,541, ₱39,878, and ₱7,910 in 2009, 2008 and 2007, respectively. Expenses incurred from related parties amounted to ₱59,751, ₱224,463 and ₱120,664, in 2009, 2008 and 2007, respectively.

Significant outstanding account balances with related parties as of December 31, 2009 and 2008 are as follows:

Significant outstanding account balances with related parties as of December 31, 2009 and 2008 are as follows:

	Nature of Relationship		Amounts Owed by Related Parties	Amounts Owed to Related Parties
ACO	Parent	**2009**	**₱47,635**	**₱–**
		2008	483,500	–
EAUC	Associate	**2009**	**–**	**1,145,253**
		2008	–	1,100,253
Vivant Energy Corporation	Related party	**2009**	**–**	**–**
		2008	–	466,847
Others		**2009**	**4,425**	**10,179**
		2008	15,962	41,624

The compensation of key management personnel of the Company follows:

	2009	2008	2007
Short-term employee benefits	**₱55,705**	₱37,140	₱30,636
Post-employment benefits	**5,016**	2,761	2,480
	₱60,721	₱39,901	₱33,116

32. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments, bank loans, long-term debt, obligations under finance lease and non-convertible, cumulative, redeemable preferred shares. The main purpose of these financial instruments is to raise finances for the Group's operations and its investments in existing subsidiaries and associates and in new projects. The Group has other financial assets and liabilities such as trade and other receivables and trade and other payables and customer deposits which arise directly from operations.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2009, 5.43% of the Group's long-term debt had floating interest rates ranging from 4.20% to 9.00%, and 94.57% are with fixed rates ranging from 6.75% to 10.02%. As of December 31, 2008, 23.65% of the Group's long-term debt had floating interest rates ranging from 6.29% to 9.47%, and 76.35% are with fixed rates ranging from 6.75% to 12.00%.

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

December 31, 2009

	Less than 1 year	1-5 years	More than 5 years	**Total**
Long-term debt				
Floating rate	₱383,000	₱616,000	₱–	**₱999,000**
Fixed rate	339,866	14,128,162	3,479,674	**17,947,702**
Payable to preferred shareholder of a subsidiary– floating	11,263	76,767	–	**88,030**
Redeemable preferred shares				
Fixed rate	–	1,520,176	–	**1,520,176**
Obligations under finance lease – floating	6,222	25,346	–	**31,568**
	₱740,351	**₱16,366,451**	**₱3,479,674**	**₱20,586,476**

December 31, 2008

	Less than 1 year	1-5 years	More than 5 years	Total
Long-term debt				
Floating rate	₱384,000	₱1,645,000	₱–	₱2,029,000
Fixed rate	174,478	5,581,907	1,973,112	7,729,497
Payable to preferred shareholder of a subsidiary– floating	9,194	88,030	–	97,224
Redeemable preferred shares				
Floating rate	626,000	–	–	626,000
Fixed rate	–	1,517,790	–	1,517,790
Obligations under finance lease – floating	81,692	30,832	–	112,524
	1,275,364	8,863,559	1,973,112	12,112,035
Liabilities directly associated with disposal group (see Note 14)	81,692	48,622	–	130,314
	₱1,193,672	₱8,814,937	₱1,973,112	₱11,981,721

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

The interest expense recognized during the period is as follows:

	2009	2008	2007
Long-term debt (see Note 18)	**₱1,505,184**	₱229,157	₱410,485
Obligations under finance lease (see Note 20)	**1,245,963**	20,168	15,305
Bank loans (see Note 16)	**321,855**	297,488	271,980
Advances from related parties (see Note 31)	**37,737**	4,391	26,976
Long-term obligation on PDS	**35,644**	36,128	36,558
Customers' deposits (see Note 19)	**5,712**	5,462	3,626
	₱3,152,095	₱592,794	₱764,930

Interest on redeemable preferred shares amounting to ₱161,596, ₱168,575 and ₱162,906 in 2009, 2008 and 2007, respectively, are recognized as dividends on redeemable preferred shares in the consolidated statements of income.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) as of December 31, 2009 and 2008:

	Increase(decrease) in basis points	Effect on income before tax
2009	**100**	**(₱11,186)**
	(50)	**5,593**
2008	100	(₱28,647)
	(50)	14,324

The Group's sensitivity to an increase/decrease in interest rates pertaining to derivative instruments is expected to be insignificant in 2009 due to their short-term maturities and immateriality relative to the total assets and liabilities of the Group.

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

Foreign exchange risk

The foreign exchange risk of the Group pertains significantly to its foreign currency denominated borrowings, including obligations under finance lease, which are mainly in US Dollar. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing adverse impact of changes in foreign exchange rates on financial performance and cash flows. As of December 31, 2009 and 2008, foreign currency denominated borrowings account for 13.9% and 24.8%, respectively, of total consolidated borrowings.

The following table presents the Company's foreign currency denominated assets and liabilities:

	2009		2008	
	US Dollar	**Peso Equivalent**[1]	US Dollar	Peso Equivalent[2]
Current Financial Assets				
Loans and receivables				
Cash and cash equivalents	**$13,090**	**₱604,773**	$54,662	₱2,597,519
Trade and other receivables	**7,420**	**342,804**	9,764	463,985
Amounts owed by related parties	**2,636**	**121,783**	1,313	62,394
Restricted cash	**12,130**	**560,423**	12,242	581,756
Total Financial Assets	**$35,276**	**₱1,629,783**	$77,981	₱3,705,654

	2009		2008	
	US Dollar	**Peso Equivalent[1]**	US Dollar	Peso Equivalent[2]
Current Financial Liabilities				
Other financial liabilities				
Bank loans	**$83,450**	**₱3,855,390**	$89,247	₱4,241,017
Trade and other payables	**16,494**	**762,023**	9,763	463,938
Advances from shipping principals	**212**	**9,794**	1,334	63,392
Amounts owed to a related party	**607**	**28,043**	536	25,471
Obligations under finance lease	**522,138**	**24,122,776**	1,730	82,210
Total Financial Liabilities	**$622,901**	**₱28,778,026**	$102,610	₱4,876,028
Net foreign currency denominated liabilities	**($587,625)**	**(₱27,148,243)**	($24,629)	(₱1,170,373)

[1]USD1= ₱46.20

[2]USD1= ₱47.52

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's profit before tax as of December 31, 2009 and 2008.

	Increase (decrease) in US dollar rate against the Peso	Effect on income before income tax
2009		
US dollar denominated accounts	**US Dollar strengthens by 5%**	**(₱1,357,412)**
	US Dollar weakens by 5%	**1,357,412**
2008		
US dollar denominated accounts	US Dollar strengthens by 5%	(₱59,106)
	US Dollar weakens by 5%	59,106

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

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

Equity price risk

Equity price risk is the risk that the fair value of traded equity instruments decreases as the result of the changes in the levels of equity indices and the value of the individual stocks.

As of December 31, 2009 and 2008, the Group's exposure to equity price risk is minimal.

Credit risk

For its cash investments (which includes restricted), AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these financial assets. With respect to cash and AFS investments, the risk is mitigated by the short-term and or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and has internal mechanism to monitor

the granting of credit and management of credit exposures. The Group has no significant concentration risk to a counterparty or group of counterparties.

The credit quality per class of financial assets that were neither past due nor impaired is as follows:

December 31, 2009

	Neither past due nor impaired			Past due or individually impaired	Total
	High	Medium	Low		
Loans and receivables					
Cash and cash equivalents	₱5,582,228	₱–	₱–	₱–	**₱5,582,228**
Trade and other receivables					
Trade receivables					
Power	1,100,562	2,094,347	203,142	314,343	**3,712,394**
Transport services	1,002,103	163,094	382,607	515,086	**2,062,890**
Food manufacturing	70,287	272,841	258,322	215,281	**816,731**
Holding and others	171	–	–	624	**795**
Receivable from insurance and other claims	18,525	12,026	–	193,105	**223,656**
Other receivables	388,555	97,929	12,226	716,774	**1,215,484**
Restricted cash	560,423	–	–	–	**560,423**
AFS					
Quoted shares of stocks	34,445	–	–	–	**34,445**
Unquoted shares of stocks	50,490	–	–	–	**50,490**
Financial asset at FVPL					
Derivative asset	846	–	–	–	**846**
	₱8,808,635	**₱2,640,237**	**₱856,297**	**₱1,955,213**	**₱14,260,382**

December 31, 2008

	Neither past due nor impaired			Past due or individually impaired	Total
	High	Medium	Low		
Loans and receivables					
Cash and cash equivalents	₱16,037,473	₱–	₱–	₱–	₱16,037,473
Trade and other receivables					
Trade receivables					
Transport services	938,865	240,377	74,646	706,806	1,960,694
Power	476,860	96,264	114,999	102,018	790,141
Food manufacturing	96,342	329,500	238,628	329,141	993,611
Holding and others	22,456	–	–	506	22,962
Receivable from insurance and other claims	19,220	–	–	22,304	41,524
Other receivables	828,333	36,736	5,592	164,085	1,034,746
Restricted cash	581,708	–	–	–	581,708
AFS					
Quoted shares of stocks	23,381	–	–	–	23,381
Unquoted shares of stocks	57,175	–	–	–	57,175
	19,081,813	702,877	433,865	1,324,860	21,543,415
Financial assets of disposal group classified as held for sale (see Note 14)	1,676,312	240,377	80,238	811,363	2,808,290
	₱17,405,501	₱462,500	₱353,627	₱513,497	₱18,735,125

High quality receivables pertain to receivables from related parties and customers with good favorable credit standing. Medium quality receivables pertain to receivables from customers that slide beyond the credit terms but pay a week after being past due are classified under medium quality. Low quality receivables are accounts from new customers and forwarders. For new customers, the Group has no basis yet as far payment habit is concerned. With regards to the forwarders, most of them are either under legal or suspended. In addition, their payment habits extend beyond the approved credit terms because their funds are not sufficient to conduct their operations.

The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to AFS investments and derivative asset, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The aging analysis per class of financial assets that were past due but not impaired is as follows:

December 31, 2009

		Past due but not impaired					
	Neither past due nor impaired	Less than 30 days	31 days to 1 year	Over 1 year up to 3 years	Over 3 years	Impaired	**Total**
Loans and receivables							
Cash and cash equivalents	₱ 5,582,228	₱–	₱–	₱–	₱–	₱–	**₱5,582,228**
Trade and other receivables							
Trade receivables							
Power	3,398,051	174,088	34,779	–	–	105,476	**3,712,394**
Transport services	1,547,804	208,224	72,753	–	–	234,109	**2,062,890**
Food manufacturing	601,450	168,708	14,988	–	–	31,585	**816,731**
Holding and others	171	–	624	–	–	–	**795**
Receivable from insurance and other claims	30,551	–	172,481	–	–	20,624	**223,656**
Other receivables	498,710	173,848	537,605	–	–	5,321	**1,215,484**
Restricted cash	560,423	–	–	–	–	–	**560,423**
AFS							
Quoted shares of stocks	34,445	–	–	–	–	–	**34,445**
Unquoted shares of stocks	50,490	–	–	–	–	–	**50,490**
Financial asset at FVPL							
Derivative asset	846	–	–	–	–	–	**846**
	₱12,305,169	**₱724,868**	**₱833,230**	**₱–**	**₱–**	**₱397,115**	**₱14,260,382**

December 31, 2008

	Past due but not impaired						
	Neither past due nor impaired	Less than 30 days	31 days to 1 year	Over 1 year up to 3 years	Over 3 years	Impaired	Total
Loans and receivables							
Cash and cash equivalents	₱16,037,473	₱–	₱–	₱–	₱–	₱–	₱16,037,473
Trade and other receivables							
Trade receivables							
Transport services	1,253,888	171,168	267,801	–	–	267,837	1,960,694
Power	688,123	59,401	42,617	–	–	–	790,141
Food manufacturing	664,470	238,300	60,198	–	–	30,643	993,611
Holding and others	22,456	–	506	–	–	–	22,962
Receivable from insurance and other claims	19,220	34	11,446	–	–	10,824	41,524
Other receivables	870,661	46,979	85,215	–	–	31,891	1,034,746
Restricted cash	581,708	–	–	–	–	–	581,708
AFS							
Quoted shares of stocks	23,381	–	–	–	–	–	23,381
Unquoted shares of stocks	57,175	–	–	–	–	–	57,175
	20,218,555	515,882	467,783	–	–	341,195	21,543,415
Financial assets of disposal group classified as held for sale (see Note 14)	1,996,927	248,354	263,282	–	–	299,727	2,808,290
	₱18,221,628	₱267,528	₱204,501	₱–	₱–	₱41,468	₱18,735,125

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

Liquidity risk

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

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long term borrowings should mature in any twelve-month period. As of December 31, 2009 and 2008, the portion of the total long-term debt that will mature in less than one year is 3.31% and 9.31%, respectively. For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents and trade and other receivables that have contractual undiscounted cash flows amounting to ₱5,582,228 and ₱7,634,835 as of December 31, 2009 and ₱15,177,219 and ₱2,884,534 as of December 31, 2008, respectively (see Notes 4 and 5). Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected within one year.

The following table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2009 and 2008 based on contractual undiscounted payments:

December 31, 2009

	Contractual undiscounted payments				
	Total	On demand	Less than 1 year	1 to 5 years	More than 5 years
Financial liabilities					
Derivative liabilities	**₱16,476**	₱–	₱16,476	₱–	₱–
Bank loans	**9,067,068**	–	9,067,068	–	–
Long-term debt	**27,026,408**	–	2,241,685	19,910,044	4,874,679
Customers' deposits	**1,794,900**	–	59,164	27,270	1,708,466
Trade and other payables	**10,745,734**	–	10,745,734	–	–
Obligations under finance lease	**115,426,307**	–	1,138,866	25,927,841	88,359,600
Long-term obligation on PDS	**720,000**	–	40,000	200,000	480,000
Payable to preferred shareholder of a subsidiary	**155,350**	–	31,070	124,280	–
Redeemable preferred shares	**1,862,363**	–	125,000	1,737,363	–
	₱166,814,606	**₱–**	**₱23,465,063**	**₱47,926,798**	**₱95,422,745**

December 31, 2008

	Contractual undiscounted payments				
	Total	On demand	Less than 1 year	1 to 5 years	More than 5 years
Financial liabilities:					
Bank loans	₱8,202,430	₱116,253	₱8,086,177	₱–	₱–
Long-term debt	13,463,908	–	1,331,232	10,120,764	2,011,912
Customers' deposits	1,584,991	–	99,375	13,495	1,472,121
Trade and other payables	6,682,621	3,142,808	3,465,475	74,338	–
Obligations under finance lease	125,426	–	87,401	38,025	–
Long-term obligation on PDS	760,000	–	40,000	200,000	520,000
Payable to preferred shareholder of a subsidiary	186,420	–	31,070	124,280	31,070
Redeemable preferred shares	2,826,703	–	799,340	2,027,363	–
Financial liabilities of	33,832,499	3,259,061	13,940,070	12,598,265	4,035,103
disposal group classified as held for sale (see Note 14)	3,709,744	1,489,030	2,081,174	139,540	–
	₱30,122,755	₱1,770,031	₱11,858,896	₱12,458,725	₱4,035,103

Capital management

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

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

No changes were made in the objectives, policies or processes during the years ended December 31, 2009, 2008 and 2007.

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

Gearing ratios of the Group as of December 31, 2009 and 2008 are as follows:

	2009	2008
Bank loans	**₱9,035,038**	₱7,609,099
Long-term loans	**66,172,640**	12,672,229
Temporary advances from (to) related parties	**47,635**	(487,902)
Cash and cash equivalents	**(5,582,228)**	(16,037,473)
Net debt (a)	**69,673,085**	3,755,953
Equity	**54,642,211**	46,655,601
Equity and net debt (b)	**₱124,315,296**	₱50,411,554
Gearing ratio (a/b)	**56.05%**	**7.45%**

33. Financial Instruments

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

	2009		2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Loans and receivables				
Cash and cash equivalents				
Cash in bank	**₱3,947,769**	**₱3,947,769**	₱1,832,882	₱1,832,882
Short-term deposits	**1,634,459**	**1,634,459**	4,204,591	14,204,591
	5,582,228	**5,582,228**	**16,037,473**	**16,037,473**
Trade and other receivables				
Trade receivables				
Power	**3,606,224**	**3,606,224**	782,043	782,043
Transportation services	**1,803,530**	**1,803,530**	1,660,967	1,660,967
Food manufacturing	**785,145**	**785,145**	962,968	962,968
Holding and others	**795**			
Receivable from insurance and		**795**	22,962	22,962
other claims	**223,656**	**223,656**	41,524	41,524
Other receivables	**1,215,485**	**1,215,485**	1,034,746	1,034,746
Restricted cash	**560,423**	**560,423**	581,708	581,708
	13,777,486	**13,777,486**	21,124,391	21,124,391

AFS Investments				
Quoted shares of stocks	**34,445**	**34,445**	23,381	23,381
Unquoted shares of stocks	**50,490**	**50,490**	57,175	57,175
	84,935	**84,935**	80,556	80,556
Financial asset at FVPL				
Derivative asset	**846**	**846**	–	–
	13,863,267	**13,863,267**	21,204,947	21,204,947
Financial assets of disposal group classified as held for sale	**–**	**–**	2,508,563	2,508,563
	₱13,863,267	**₱13,863,267**	₱18,696,384	₱18,696,384

	2009		2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial liabilities				
Financial liability at FVPL				
Derivative liability	**₱16,476**	**₱16,476**	₱–	₱–
Other financial liabilities				
Bank loans	**9,035,038**	**9,035,038**	8,160,099	8,160,099
Trade and other payables				
Trade payables	**5,603,295**	**5,603,295**	2,760,620	2,760,620
Accrued expenses	**1,629,591**	**1,629,591**	1,786,282	1,786,282
Due to related parties	**2,278,427**	**2,278,427**	1,078,410	1,078,410
Nontrade payables and others	**1,234,421**	**1,234,421**	1,057,309	1,057,309
Customers' deposits				
Transformers, lines and poles and others	**1,449,310**	**1,449,310**	1,280,381	1,280,381
Bill deposits	**337,371**	**337,371**	304,610	304,610
Long term lease obligation on PDS	**287,460**	**291,816**	291,816	366,862
Obligations under finance leases				
Fixed rate	**45,586,164**	**52,946,954**	–	–
Floating rate	**31,568**	**31,568**	112,524	112,524
Long-term debt				
Fixed rate	**17,947,702**	**19,157,644**	7,729,497	7,857,834
Floating rate	**999,000**	**999,000**	2,029,000	2,029,000
Payable to preferred shareholder of a subsidiary-floating rate	**88,030**	**88,030**	97,224	97,224
Redeemable preferred shares				
Fixed rate	**1,520,176**	**1,562,837**	1,517,790	1,511,469
Floating rate	**–**	**–**	626,000	626,000
	88,044,029	**96,661,779**	28,831,562	29,028,624
Liabilities of disposal group classified as held for sale	**–**	**–**	3,709,744	3,709,744
	₱88,044,029	**₱96,661,779**	₱25,121,818	₱25,318,880

Fair Value of Financial Instruments

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

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

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

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

Fixed-rate borrowings
The fair value of fixed-rate interest bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans ranging from 5% to 9.84% in 2009 and 5.67% to 8.20% in 2008.

Variable-rate borrowings
Where the repricing of the variable-rate interest-bearing instruments is frequent (i.e., three-month repricing), the carrying value approximates the fair value. Otherwise, the fair value is determined by discounting the principal plus the known interest payment using current market rates.

Long-term obligation on PDS
The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 6.22% to 10.77% in 2009 and 5.67% to 8.34% in 2008.

Obligations under finance lease. The fair value of the finance lease obligation was calculated by discounting future cash flows using discount rates of 5.00% to 9.03% for dollar payments and 9.00% to 14.00% for peso payments in 2009 and 8.21% to 9.13% for dollar payments in 2008.

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

Redeemable preferred shares
The fair values of the redeemable preferred shares are based on the discounted value of future cash flows using the applicable rates for similar types of borrowings. Discount rates ranging from 4.80% to 7.78% in 2009 and 6.20% to 8.59% in 2008 were used in calculating the fair value of the Group's redeemable preferred shares.

AFS investments
The fair values of AFS investments are based on quoted market prices, except for unquoted equity shares which are carried at cost since fair values are not readily determinable.

Derivative asset and liabilities
The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivative valued using a valuation technique with market observable inputs pertains to a foreign exchange forward contract. The most applied valuation technique is forward pricing. The model incorporates various inputs including the credit quality of counterparty and foreign exchange spot and forward rates.

Fair Value Hierarchy
The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As of December 31, 2009 and 2008, the Group held the following financial instruments that are measured at fair value:

December 31, 2009

	Total	Level 1	Level 2	Level 3
AFS investments	**₱34,445**	₱34,445	₱–	₱–
Derivative asset	**846**	–	846	–
Derivative liabilities	**(16,476)**	–	(16,476)	–
	₱18,815	₱ 34,445	(₱15,630)	₱–

December 31, 2008

	Total	Level 1	Level 2	Level 3
AFS investments	₱23,381	₱23,381	₱–	₱–

During the reporting year ended December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Derivative financial instruments
The Company enters into non-deliverable short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases.

As of December 31, 2009, the Group has outstanding non-deliverable buy Dollar and sell Peso forward exchange contracts with counterparty banks with aggregate notional amount of $78.5 million and remaining maturities of 1 month to 10 months. As at December 31, 2009, the forward rates related to the forward contracts range from ₱46.40 to ₱47.14 per US$1. The Group recognized derivative asset and derivative liabilities relating these contracts amounting to ₱846 and ₱15,286, respectively.

As of December 31, 2009, the Group also has outstanding non-deliverable sell US Dollar buy EURO short-term forward exchange contracts with a counterparty bank with an aggregate notional amount of $1.83 million and remaining maturities of less than 1 month to 3 months. As at December 31, 2009, the weighted average forward rate related to the forward contracts is [illegible]1.4578 per US$1. The Group recognized derivative liability relating to these contracts amounting to ₱1,190.

The net fair value changes from forward contracts amounted to a ₱223,968 loss in 2009. This is included under "Others - net" presented under "Other Income -net" in the consolidated statements of income.

34. Registration with the Department of Energy and BOI

a. In accordance with its registration with the Department of Energy (DOE) under RA 7156 known as "Mini Hydro Electric Power Incentives Act" as mini hydro electric power developer, HI is currently entitled to ITH on the four (4) power plants located in Mintal, Tugbok, Davao City, which were acquired from PSALM, transferred on January 18, 2005 and started commercial operations on January 19, 2005. ITH on the four (4) plants started on September 28, 2005. With the effectivity of RA 9136 known as "Electric Power Industry Reform Act (EPIRA) of 2001", HI has updated its registration with the BIR from VAT Exempt to VAT Zero Rated effective April 10, 2003.

b. On June 19, 2009, the BOI approved APRI's application as a new operator of the Tiwi-Makban Power Plant and granted APRI a pioneer status under the Omnibus Investments Code of 1987. The following are the incentives granted by BOI to APRI:
   - ITH for six (6) years from June 2009 or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant. Revenues generated from the sales of carbon emission reduction credits are also entitled to ITH.
   - For the first five (5) years from date of registration, APRI shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of $10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.
   - Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.
   - Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.
   - APRI may qualify to import capital requirement, spare parts and accessories at zero (0%) duty rate from the date of registration to June 16, 2011 pursuant to Executive Order (EO) No. 528 and its Implementing Rules and Regulations.

c. On December 23, 2009, the BOI pre-approved TLI's application for registration as a new operator of the power plant on a non-pioneer status. Once approved, TLI will be entitled with the following incentives:
   - ITH for a period of four (4) years without extension from January 1, 2010 or actual start of operation, whichever is earlier but in no case earlier than the date of registration. The ITH incentives shall be limited only to the sales/revenue generated from the sale of electricity of the power plant.
   - for the first five (5) years from date of registration, TLI shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board of US$10,000 to one (1) worker and provided that this incentive shall not be availed of simultaneously with the ITH.
   - Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subject to the foregoing limitations.
   - Importation of consigned equipment for a period of ten (10) years from date of registration, subject to the posting of re-export bond.

   On February 26, 2010, TLI submitted to BOI all its requirements with a commitment to comply with the 25% minimum equity requirement of ₱490.0 million prior to the availment of ITH incentives.

d. PANC is registered with the BOI on its swine finishing farm expansion as "expanding producer of hogs" and its swine breeder farm expansion as "new producer of hogs" on a nonpioneer status under the Omnibus Investment Code of 1987. The registration of the swine finishing farm expansion entitles PANC's swine finishing farm with ITH for a period of three (3) years from the actual start of commercial operations, or January 2009, whichever comes first, but in no case earlier than the date of registration. The registration of the swine breeder farm expansion entitles PANC's swine finishing farm with ITH for a period of four (4) years starting from January 2010 or actual start of commercial operations whichever comes first but in no case earlier than date of registration.

e. PILMICO is registered with the BOI on its new feedmill plant as "new producer of animal feeds on a non-pioneer status with pioneer incentives" under the Omnibus Investment Code of 1987. The registration entitles the PILMCO's new feedmill plant, among others, with ITH for a period of six (6) years from July 2008 or actual start of commercial operation, whichever is earlier, but in no case earlier than the date of registration. PILMICO's feedmill plant started commercial operations on September 2008.

f. ATS is registered with the BOI under the Omnibus Investment Code (OIC) of 1987 as a new operator of inter-island shipping through its SuperFerries 15, 16, 17 and 18 vessels on a pioneer status starting February 13, 2003, SuperFerry 19 starting December 29, 2004, and SuperFerry 12 starting May 4, 2005. Such registration entitles ATS to income tax holiday for a period of three to six years from the date of registration. Upon the request of ATS, the BOI cancelled the registrations of SuperFerry 19 and SuperFerries 15, 16, 17 and 18 last October 18, 2006 and January 12, 2007 including all incentives granted thereunder. ATS requested the cancellation of the said registrations due to the change in activity of SuperFerry 19 and the sale of SuperFerries 15, 16, 17 and 18 leaving only SuperFerry 12 as the remaining vessel entitled to ITH incentives up to May 3, 2008.

g. ZIP is registered with BOI under OIC of 1987 as a non-pioneer operator of logistics service facilities. Such registration entitles ZIP to ITH for a period of four (4) years from May 2005 or actual start of commercial operations, whichever is earlier. On October 30, 2007, the BOI approved ZIP's application under EO No. 226 as an expanding operator of logistics service facilities, the new registration entitles ZIP to ITH for a period of three (3) years from the date of registration. Incentives availed amounted to ₱23.7 million in 2009 and ₱68.6 million in 2008.

35. Rate Regulation, Power Supply and Other Agreements

a. Certain subsidiaries are subject to the ratemaking regulations and regulatory policies by the ERC.

b. DLP, CLP and SEZC have contracts with NPC for the purchase of electricity. Pursuant to Section 8 of RA No. 9136, National Transmission Corporation (Transco) was created and has assumed the electrical transmission functions of NPC. The material terms of the contracts are as follows:

	Term of Agreement with NPC	Contract Energy (MWH year)
DLP	Ten years; expiring in December 2015	1,238,475
CLP	Ten years; expiring in December 2015	116,906
SEZ	Two-and-a-half years; renewed in March 2008 expiring in March 2011	90,000

Total power purchases from the NPC and Transco, net of discounts, recognized in the consolidated statements of income, amounted to ₱7.1 billion in 2009, ₱5.8 billion in 2008 and ₱5.6 billion in 2007. The outstanding payable to NPC and Transco on purchased power, presented as part of the "Trade and other payables" account in the consolidated balance sheets amounted to ₱601.1 million and ₱532.1 million as of December 31, 2009 and 2008, respectively (see Note 17).

c. Certain subsidiaries of PHC have Electric Power Supply Agreements with various corporations to supply or sell power and energy produced by the mini hydroelectric power plants. The maturity of these agreements varies from one taker to another with the nearest that matured in 2007 and farthest in 2018. All agreements provide for renewals or extensions subject to mutually agreed upon terms and conditions by both parties.

d. AJBTC, JMI and AJMSI (Agents) have outstanding agreements with foreign shipping principals, wherein the Agents render manning and crew management services consisting primarily of the employment of crew for the principals' vessels. As such, the principals have authorized the Agents to act on their behalf with respect to all matters relating to the manning of the vessels. Total service fees revenues recognized in the consolidated statements of income from these agreements amounted to ₱400.0 million in 2009, ₱387.8 million in 2008 and ₱326.0 million in 2007.

e. JMBVI and Subsidiaries have outstanding Charter Party Agreements with vessels' owners for the use of the vessels or for sublease to third parties within the specified periods of one (1) to three (3) years under the terms and conditions covered in the agreements. In consideration thereof, JMBVI recognized charter

hire expense amounting to ₱529.4 million, ₱1,962.0 million and ₱2,245.0 million in 2009, 2008 and 2007, respectively.

f. APRI Agreements

Service Contract (SC) with Chevron
Among the assumed contracts that APRI received from APA is the SC with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) which provides for the following:

- The SC is to provide for the exploration and exploitation to APRI of Geothermal Resources in the Area of Interest described in the SC.
- CGPHI shall be the sole contractor responsible to APRI for the execution of services for the exploration and exploitation operations in accordance with the provisions of SC and, in accordance with the terms hereof, is hereby appointed as the sole contractor of NPC for such purposes in connection with the Area of Interest.
- CGPHI shall furnish technical assistance required for the exploration for and exploitation of Geothermal Resources in order to make geothermal steam available for utilization into electric power, and shall recover its operating costs and realizes its return solely from the sale of power produced from the Geothermal Energy.
- APRI shall provide and defray Philippine currency expenses to the extent hereinafter set forth necessary in the exploration for and exploitation of Geothermal Resources and Utilization of geothermal steam for electric power.
- APRI shall provide and install as its own expense and with technological assistance of CGPHI as hereinafter provided, such plants, machineries and auxiliary works as may be necessary for the conversion of geothermal steam into electric power and distribution of such power.

Lease Agreement with PSALM
On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of twenty-five (25) years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease (see Note 15). Total lease charged to operations in 2009 amounted to ₱11.5 million.

g. Coal Supply Agreement
TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2009 have aggregate supply amounts of 202,112 metric tons (equivalent dollar value is $12.5 million) which are due for delivery from January 30, 2010 to March 3, 2010. Terms of payment are by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.

h. PHC and Subsidiaries' Power Supply Agreement
In February 2007, PHC, in consortium with subsidiaries, HI, HTI and HSI successfully bid for an agreement to supply DLP a total of 400.00 million kilowatt hours (kWh) of new capacity per year for a 12-year period beginning 2009. The delivery of the contracted energy under the agreement is in two phases: Phase I Supply, whereby 200 million kWh per year of net Expected Energy will be delivered, has a target completion date of August 1, 2009; and Phase II Supply, whereby the additional 200 million kWh per year of Net Expected Energy will be delivered, has a target completion date of August 1, 2010. Net Expected Energy refers to the quantity of electricity generated by the respective projects of the parties of the consortium, net of electricity used by the project, site usage, and step up transformer and transmission losses up to the delivery per meter points, which points are to be agreed upon by the parties. The bid price of the contracted energy is ₱4.0856/kWh delivered, subject to adjustment based on changes to the Philippine consumer price index.

i. In connection with the Sibulan project, HSI, a subsidiary, entered into agreements with various contractors and suppliers. Major agreements entered into as of December 31, 2008 included those for the construction of civil works and electro-mechanical works and project management. Total purchase commitments entered into by HSI from their contracts as of December 31, 2009 and 2008 amounted to ₱2,674,787 and $23,322, respectively, of which ₱2,139,836 and $17,152 had been paid during the year.

j. HTI Agreements with Local Government Units
On October 29, 2007, HTI, a subsidiary, entered into agreements with various barangays in Davao City wherein each barangay gives its consent to HTI to manage, administer, regulate and undertake the construction of HTI's hydroelectric power plants and other related activities in their respective areas. In consideration thereof, HTI shall pay each of the barangay an annual royalty fee in an amount equivalent to ₱0.01 per kwh of electricity sales of the power plant located within their area to be paid annually beginning the first anniversary date of the commencement of HTI's commercial operations and on every anniversary date thereafter to be increased by ₱0.001 every 5 years. In addition to the royalty fee, HTI shall make donations for the undertaking of certain infrastructure projects and provide financial assistance for the various needs of the community. The agreement likewise provides that HTI shall comply with Sec. 5(i) of Republic Act 7638 as implemented by Energy Regulation No.1-94 as amended, prescribing the following annual benefits during the operation of the power stations: a) electrification fund to be distributed to the relevant host local government unit equivalent to ₱0.0075 per kWh of the total electricy sales; b) development and livelihood fund to be shared by the province, municipality, barangay and region equivalent to P0.00125 per kWh of the total electricity sales; and c) reforestration, watershed management, health and/ or environmental enhancement fund to be shared by the resettlement area, barangay, municipality, province and region equivalent to ₱1.00125 per kWh of the total elecricty sales. The duration of the agreements is for a period of 25 years and renewable for another 25 years as agreed by the Barangay Council of Wines and HTI.

36. Other Commitments

a. Operating Lease Commitments
Certain subsidiaries lease their office space for a period of one to five years. Future minimum rentals payable under non-cancellable operating leases is as follows:

	2009	2008
Within one year	**₱162,177**	₱141,648
After one year but not more than five years	**286,360**	319,499
More than five years	**10,394**	15,545
	₱458,931	₱476,692

Total rent expense charged to operations amounted to ₱201,540, ₱150,290 and ₱100,156 in 2009, 2008 and 2007, respectively.

The Group has no contingent rent commitments in 2009, 2008 and 2007.

b. Memorandum of Agreement
In 2002, ATS entered into a Memorandum of Agreement (Agreement) with Asian Terminals, Inc. (ATI) for the use of the ATI's facilities and services at the South Harbor for the embarkation and disembarkation of ATS's domestic passengers, as well as loading, unloading and storage of cargoes. The Agreement shall be for a period of five (5) years, which shall commence from the first scheduled service of ATS at the South Harbor. The Agreement is renewable for another five years under such terms as may be agreed by the parties in writing. If the total term of the Agreement is less than ten years, then ATS shall pay the penalty equivalent to the unamortized reimbursement of capital expenditures and other related costs incurred by ATI in the development of South Harbor. The Agreement became effective on January 14, 2003.

Under the terms and conditions of the Agreement, ATS shall avail of the terminal services of ATI, which include, among others, stevedoring, arrastre, storage, warehousing and passenger terminal. Domestic tariff for such services (at various rates per type of service as enumerated in the Agreement) shall be subject to an escalation of 5% every year. Total service fees charged to operations amounted to ₱128.8 million, ₱159.4 million and ₱160.1 million in 2009, 2008 and 2007, respectively.

c. Agreement with SBMA
On May 15, 2003, the SBMA, the Company and DLP entered into a DMSA for the privatization of the SBMA PDS on a rehabilitate-operate-and-transfer arrangement.

Under the terms of the DMSA, SEZC was created to undertake the administration, rehabilitation, operation and maintenance of the PDS including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the Subic Bay Freeport Zone as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA.

The DMSA shall be effective for a twenty five-year period commencing on the turnover date and consisting of two phases: (a) the five-year rehabilitation period and (b) the twenty-year operation, management and maintenance period. Total estimated rehabilitation costs committed by SEZC under the DMSA amounted to ₱368,600.

For and in consideration of the services and expenditures of SEZ for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZC shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project.

d. On February 7, 1997, VECO entered into a Power Purchase Agreement (PPA) for the purchase of electric energy from CPPC effective for a period of 15 years from the commercial operations of the latter. Among the salient features of the contract is that the electricity price shall not exceed 98% of the effective NPC billing rate to VECO based on contracted demand and energy.

On September 1, 2006, a Supplement to the 1997 PPA was executed by VECO and CPPC. Some of the salient provisions of the Supplement included the removal of the minimum off-take and a pricing arrangement that effectively allowed CPPC to bill capacity-based fees based on CPPC's guaranteed contractual capacity. On December 28, 2007, the ERC approved the Supplement to the 1997 PPA, which was implemented on the billing period ending January 26, 2008, the first billing cycle immediately after the approval of the ERC.

Energy fees billed by CPPC to VECO amounted to ₱2.1 billion in 2009, ₱2.3 billion in 2008 and ₱1.6 billion in 2007.

e. In connection with the Sibulan hydropower project, HSI entered into agreements with various contractors and suppliers. Major agreements entered into as of December 31, 2009 included those for the construction of civil works and electromechanical works and project management. Total purchase commitments entered into by HSI from their contracts amounted to ₱2.8 billion and US$24.1 million as of December 31, 2009, and ₱2.7 billion and US$23.3 million as of December 31, 2008. HSI paid ₱2.6 billion and US$19.8 million, and ₱2.1 billion and US$17.1 million in 2009 and 2008, respectively.

37. Contingencies

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

AP obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries and associates in connection with loans and credit accommodations. It provided SBLC for STEAG, LHC, and SNAPB in the amount of ₱1.80 billion in 2009 and 2008.

38. Other Matters

a. Renewable Energy Act of 2008

On January 30, 2009, Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes,* which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims principally to accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to the following incentives, among others:

i. ITH – For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;
ii. Duty-free Importation of RE Machinery, Equipment and Materials – Within the first ten (10) years of upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;
iii. Special Realty Tax Rates on Equipment and Machinery – Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed one and a half percent (1.5%) of their original cost less accumulated normal depreciation or net book value;
iv. NOLCO – the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;
v. Corporate Tax Rate – After seven (7) years of ITH, all RE developers shall pay a corporate tax of ten percent (10%) on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by RA No. 9337;
vi. Accelerated Depreciation – If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such; and
vii. Zero Percent VAT Rate – The sale of fuel or power generated from renewable sources of energy shall be subject to zero percent (0%) VAT.

The Group expects that the Act may have significant effect on the Group's future operations and financial results as the Company has subsidiaries and associates that are RE developers. Impact on financial results is expected to arise from the effective reduction in taxes.

b. EPIRA of 2001

EPIRA of 2001 RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. RA No. 9136 provides for the privatization of NPC and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002. RA No. 9136 and the IRR impact the industry as a whole and the Group's power segment in particular.

Following the enactment of EPIRA in June 2001, the implementation of its various provisions has continued to date.

Distribution Wheeling Rate Guidelines
In accordance with the authority given to the ERC by Sec. 43 of EPIRA to "adopt alternative forms of internationally-accepted rate-setting methodology", the ERC approved the Distribution Wheeling Rate Guidelines (DWRG) last December 20, 2004. The DWRG took effect on January 29, 2005.

DWRG embodies a new rate-fixing scheme known as the performance-based rate (PBR) setting methodology. Under the current RORB methodology, utility tariffs are based on historical costs plus a reasonable rate of return. On the other hand, the PBR scheme sets tariffs according to forecasts of performance and capital and operating expenditures. The DWRG also employs a penalty/reward mechanism depending on a utility's actual performance.

On July 26, 2006 the DWRG was updated and re-issued as the "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Entering Performance Based Regulation (First Entry Point)" (RDWR), under Resolution No. 39, Series of 2006 dated July 26, 2006. The first entrants included Cagayan Electric Light & Power Company, Dagupan Electric Corporation, and Manila Electric Company.

On December 13, 2006 the ERC issued Resolution No. 54, Series of 2006, adopting the "Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (Second and later Entry Points)."

On October 24, 2007, Resolution No. 24, Series of 2007, "Resolution Adopting a New Grouping for Privately Owned Distribution Utilities Entering PBR" was issued by the ERC, where DLP is under Group C, thereby the Regulatory Period will be on July 1, 2010 to June 30, 2014. No specific period was mentioned in this resolution regarding the Regulatory Reset Process, but according to the Rules, it will commence 18 months prior to the start of the Regulatory Period, or from January 1, 2009 to June 30, 2010.

Wholesale Electricity Spot Market
In 2005, the Philippine Electricity Market Corporation (PEMC) finalized its preparations for the commercial operations of the wholesale electricity spot market, or WESM, as envisioned by Sec. 30 of EPIRA. In January 2008, the ERC and PEMC signed a Memorandum of Agreement adopting a protocol in the exercise of their respective authorities with regard to the WESM. The protocol recognizes the ERC's jurisdiction to enforce the rules and regulations of the electricity spot market and investigate and penalize any market participant for anti-competitive behavior and market power abuse, on the one hand, and PEMC's mandate to prevent and penalize breach of the WESM Rules and WESM Market Manuals, on the other.

Since the commercial operations in Luzon was launched, the Luzon WESM operations saw new trading participants as the cumulative energy mix contribution from hydro and geothermal plants as of April 2008 exceeded last year's. Peak demand in April 2008 exceeded the 2007 annual peak. The DOE deferred the operations of WESM in the Visayas citing inadequate capacity in both power and generation and transmission facilities. The Live Dispatch Operations marks the final step of the Visayas Trial Operations which is intended to test the readiness of the market systems and participants prior to full commercial operations. WESM Visayas has been on trial operations since 2005.

Retail Competition
On February 9, 2007, through its Resolution No. 3, Series of 2007, the ERC set out its timeline for the implementation of retail competition and open access. According to the Resolution, retail competition shall commence upon the fulfillment of the preconditions of EPIRA's Section 31 and of two other "vital requirements," i.e., the establishment of necessary infrastructures (such as a customer switching system) and the promulgation of pertinent regulations. The ERC shall also announce the commencement of retail competition six months before its actual implementation.

Given the recent success of the PSALM in bidding out a number NPC's generation assets, including the Masinloc and the Ambuklao-Binga hydroelectric plant system, the ERC announced during a forum last December 3, 2008 that retail competition and open access may begin on July 2010. However, with the withdrawal of Emerald Energy Corporation from the purchase of NPC's 600 MW coal-fired power plant, the fulfillment of EPIRA's pre-conditions and, consequently, the start of retail competition and open access may be further delayed.

Removal of Cross-subsidies
In December 2005, the Group reflected in the bills of end users the final step in TransCo's intra-grid subsidy removal process. The inter-class subsidy component of the Group's unbundled tariffs are being continually phased out. The gradual removal of cross-subsidies is mandated by Sec. 74 of EPIRA.

c. DLP Case
On December 7, 1990, certain customers of DLP filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the Supreme Court's (SC) decision reducing the sound appraisal value of DLP's properties, DLP exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch. Claim for refund amounted to ₱4.1 million. No accrual was made as the ultimate amount and timing of payment cannot be determined as of April 6, 2010. As of April 6, 2010, the ERC has not issued any order to refund the claim.

d. LHC Arbitration
LHC is a party to a dispute with a contractor regarding the delay in the completion of its Power Station. Under the Turnkey Contract, the contractor shall pay liquidated damages for each day of delay on the following day without the need of demand from LHC. LHC may, without prejudice to any other method of recovery, deduct the amount of such damages from any monies due or to become due to the contractor and/or by drawing on the irrevocable and confirmed standby letters of credit amounting to US$18.0 million (the Security).

In 2000 and 2001, due to the delay in the completion of the Power Station, LHC withdrew the Security. In November 2000, the contractor and LHC elevated their claims and counterclaims to an Arbitration Tribunal operating under the Rules of International Chamber of Commerce sitting in Australia (ICC International Australian Case No. 11264/TE/MW). The Arbitration Tribunal delivered the final award on August 9, 2005.

LHC was successful in certain claims concerning the design and construction of the lined and unlined tunnel. However, the Arbitration Tribunal also found that the contractor is entitled to certain money claims and refund of the liquidating damages that LHC has drawn from the Security.

LHC has recognized provisions for arbitration for the full financial effects of the final award delivered by the Arbitration Tribunal for the claims and counterclaims filed by the contractor and LHC for the construction of the Power Station.

In April 2008, LHC entered into a Settlement Deed (the Settlement) with Transfield Philippines, Inc. (TPI) for the purpose of settling all claims and disputes related to the Turnkey Contract, including the Final Award. The Settlement required the payment by LHC as a partial return of the securities posted by TPI. As a result of the Settlement, all related cases were dismissed following the parties' Joint Motion to Dismiss filed with relevant courts.

e. SEZC Unbundling
SEZC applied for the rate unbundling on April 6, 2006. On February 6, 2008, the ERC approved SEZC's application for authority to unbundle rates in accordance with Section 36 of Republic Act No. 9136, EPIRA of 2001 and to implement the revised rates schedule starting on October 26, 2008. Furthermore, the ERC

directed the SEZC to phase out its inter-class cross subsidy within a period of 3 years starting with a one-third removal in the first year and the remaining two-thirds inter-class subsidies corresponding to the second and third years at an annual rate similar to that of the first year.

39. Minority Interest

Changes in minority interests as presented in the consolidated statement of changes in equity is composed of the following:

- 2009 – Minority stockholders' share of a.) current year's net income, net of dividends received, and b.) movements in cumulative translation adjustments and unrealized fair valuation gains or losses on AFS investments, net of decrease in their share of accumulated earnings due to the Company's increase of ownership in AP in 2009.
- 2008 – Minority stockholders' share of a.) current year's net income, net of dividends received, and b.) movements in cumulative translation adjustments and unrealized fair valuation gains or losses on AFS investments, net of decrease in their share of accumulated earnings due to the Company's increase of ownership in AP and adoption of IFRIC 12 (Service Concession Arrangements) in 2008.
- 2007 – Minority stockholders' a.) share of current year's net income, net of dividends received, and of movements in cumulative translation adjustments and unrealized fair valuation gains or losses on AFS investments, and b.) increase in their share of accumulated earnings due to AP's initial public offering in 2007.

Accordingly, amounts totaling ₱577.3 million, ₱1,059.8 million and ₱528.4 million, mainly representing dividends paid to minority interests, have been presented as changes in minority interests in the consolidated statements of cash flows for the years ended December 31, 2009, 2008 and 2007, respectively.

40. Events After the Balance Sheet Date

a. Dividends Declaration

On March 10, 2010, the BOD of the Company approved the declaration of a cash dividend of ₱0.52 a share (₱2.871 billion) to all stockholders of record as of March 24, 2010, payable on April 16, 2010.

b. Approval of Proposal to Acquire CSB

In the same meeting of the BOD on March 10, 2010, the BOD of the Company approved a proposal to acquire up to 60% ownership of its associate, CSB. PILMICO will also acquire the remaining 40% of the CSB equity. The planned acquisition, which is conditional upon the Company's obtaining the necessary Monetary Board approval, will effectively convert CSB into a subsidiary of the Company.

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Common Stock
The Company's common stock is listed and traded on the Philippine Stock Exchange.

Citibank N.A. serves as depositor bank.

Stockholders' Meeting
The Company's regular stockholders' meeting is held on the third Monday of May of every year.

Stockholder Services and Assistance
The Securities Transfer Services, Inc. (STSI) serves as the Company's stock transfer agent registrar.
For matters concerning dividend payments, account status, lost or damaged stock certificates, change of address, please write or call:

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