



AboitizPower
A Better Future

CORPORATE
GOVERNANCE

2012

CORPORATE GOVERNANCE REPORT

ABOITIZ POWER CORPORATE GOVERNANCE PRINCIPLES

AboitizPower believes that good governance is the only sustainable way forward. The Company values good corporate governance practices because they create value for the Company and its businesses in order to thrive in its ever changing environment. Our core principles and practices of corporate governance are: (i) the independence of the Company's personality from that of its Board, officers and employees; (ii) the view that the Company has its own distinct rights and duties; (iii) that the Board has the original power to decide the Company's policies; (iv) that the Company can demand loyalty from its Board, officers and employees; (v) that the Company's business must be pursued through a long term sustainability strategy; (vi) that shareholders and stakeholders must be treated Equitably and with Fairness; (vii) a system of Accountability; (viii) Transparency in corporate operations and company reports; (ix) an Ethical business; (x) Corporate Social Responsibility (CSR); and most importantly, (xi) Sustainability and Environmental Compliance.

The Company's corporate governance practices consist of a Board culture that fosters collegiality which promotes independent-mindedness of directors, an environment of candid and free flow of ideas and an atmosphere of robust discussion among directors and management. We have fully functioning Board Committees with free channels of communication in all levels within the corporate structure and the professional management team.

The AboitizPower Board is committed to performing its roles in ensuring accountability of past actions (e.g. report to shareholders, legal and regulatory compliance and audit reports review) and monitoring and supervision of executive performance, financial results and budgets and possible corrective action, and its roles in determining future corporate strategies and in the making of present and future policies.

The Board held its annual Board Retreat and Strategy Refresh last November 9-10, 2012 in Makati City to discuss the strategic roadmap and policies of the Company. Members of the Board also attended various training seminars to improve Board knowledge depth and efficiency, such

as a Philippine Economic Briefing, Ancillary Services Agreement Briefings, and the (AON) Directors & Officers – Liability Insurance Briefing. In line with the Company's efforts at sustainability, to go paperless and achieve better efficiency, the Board and its key officers underwent a Boardbooks User Training program to embrace new technology designed to efficiently access board meeting materials and create an online Board resource center.

GOVERNANCE FOUNDATION

The Company, its Board, and its professional management team accept their fiduciary duties owed to the Company's stakeholders and are careful to exercise these duties within the context of its ownership structure and the social, cultural, political and economic framework. The Company acknowledges that the AboitizPower ownership structure may be categorized as a firm with controlling shareholder and takes precautions and ensures that appropriate corporate governance controls are in place to avoid insider opportunism. More importantly, the Board and the Management team govern the Company as responsible owners because they believe that this contributes to increased corporate and stakeholder value for a long term horizon.

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

The AboitizPower Board is comprised of nine Directors. To promote critical review and control of the management process, the Company's Directors, are non-executive and independent of management, except for the

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

The Chairman from May 2012 to May 2013, Mr. Enrique M. Aboitiz, Jr., and the Company's President & CEO, Mr. Erramon I. Aboitiz, are brothers. However, despite their relationship, their respective roles are clearly delineated in the Company's Articles of Incorporation and By-Laws to avoid overlapping of roles and to ensure checks and balances.

Pursuant to the One Share-One Vote rule, the Company does not have any arrangements that separate voting rights and cash flow rights. All shareholders are equally entitled to voting and dividend rights in accordance with their equity holdings. These ensure that the Company's controlling shareholders' interests are aligned with the minority shareholders' interests. There are no shareholder agreements or arrangements affecting voting rights of any shareholder.

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

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

THRIVING IN THE NEW ENVIRONMENT THROUGH GOOD GOVERNANCE

Sound corporate governance principles are the foundations upon which the trust of investors is built on. The Company views its corporate existence, goals and strategies on a long term growth and sustainable horizon. A balancing of all stakeholders' interests is necessary to avoid being locked in a short term business perspective. The Company's corporate governance, rooted on a values-based corporate culture for a sustainable future, is its primary benchmark for corporate governance. AboitizPower is committed to preserving its fundamental core values and embedding these in its daily business practices.

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

As a Philippine company listed on The Philippine Stock Exchange, Inc. (PSE), the Company is subject to a number of laws and rules that affect it and its subsidiaries' governance. In the pursuit of our core businesses and in our dealings with all our stakeholders, we comply with the following general and special laws and various implementing rules and regulations which constitute our legal framework: The Philippine Constitution, the Securities Regulation Code, the Administrative Code, the Corporation Code of the Philippines, the Labor Code of the Philippines, the Civil Code of the Philippines, the Revised Penal Code and its amendments, the National Internal Revenue Code, the Electric Power Industry Reform Act of 2001, the Renewable Energy Law, the Clean Air Act, the Social Security System Law, the Consumer Protection Act, the Price Act, the Intellectual Property Code, the Foreign Investments Act, the Property Registration Decree, the Omnibus Investments Code, the Philippine Economic Zone Authority Law, the Anti-Pilferage of Electricity and Theft of Electricity Transmission Lines Act, Clean Air Act, Clean

Water Act, Renewable Energy Law and other applicable statutes, implementing rules, regulations, guidelines, and governing circulars and policies of the SEC, the PSE, the Department of Energy (DOE), Department of Environment and Natural Resources (DENR), the Energy Regulatory Commission (ERC), the Wholesale Electricity Spot Market (WESM), the Philippine Grid Code, the Philippine Distribution Code, and other relevant administrative agencies with oversight of its core businesses. Our regulators include the SEC, the PSE, the Bangko Sentral ng Pilipinas, the Bureau of Internal Revenue (BIR), the ERC, the Board of Investments, the Land Registration Authority, the Bureau of Customs, National Commission on Indigenous Peoples and the offices of the local government units.

Other policies include, the policies of the Group Mancom, AEV Mancom and other Departmental policies, Risk and Reputation Management Policies and other Company and Aboitiz Group policies and guidelines.

Since the Company went public in 2007, it has participated in the Institute of Corporate Directors (ICD) SEC Corporate Governance Scorecard exercise for Philippine companies. Its corporate governance practices were consistently recognized by the ICD through the annual ICD corporate governance awards as well as by Corporate Governance Asia

THE FOUNDATION OF THE COMPANY'S CORPORATE GOVERNANCE

OUR CORPORATE JOURNEY

Consolidation of Our power business - Incorporation of AboitizPower

As early as 1905 and all the way through to pre and post -World War I era, Aboitiz & Co. Inc. had invested in the power distribution businesses. These investments included the Visayan Electric Company, Inc., Davao Light & Power Company, Inc., Cotabato Light & Power Company, Ormoc Electric Light Company and the Jolo Power Company. In December 1978, the Aboitiz Group divested its interests in the electric utilities of Jolo and Ormoc when these were sold to the Philippine Government for conversion into electric cooperatives during the Marcos years. The Company would later add distribution utility networks in special economic zones, such as in Subic Freeport Zone, Mactan Export Processing Zone, and West Cebu Industrial Park.

Sometime in the late 1990's to early 2000's, there were precedent setting changes being studied for the power industry's regulatory framework. Deregulation of the power industry and Privatization of National Power Corporation (NPC) was put on the legislative agenda. For the Aboitiz Group, it saw that its strategic horizon required a focused consolidation of all its power generation, distribution and related power assets into one corporate basket, AboitizPower.

AboitizPower was incorporated in February 13, 1998 as a wholly owned subsidiary of Aboitiz Equity Ventures, Inc. and became the designated corporate vehicle of the Aboitiz Group for its investments in power and power related businesses. As envisioned, AboitizPower would invest in, hold, own, acquire or purchase business assets and facilities for electricity generation and distribution of hydropower facility and other related businesses. AboitizPower was also expected to provide operations, management and technical services and advice for commercial, industrial manufacturing and other kinds of enterprises engaged in electricity generation and or distribution, any electricity generation and distribution of hydropower facility, including business entities that construct, own lease and operate electricity generation, distribution, hydropower plans or related businesses; as well as carry on the general business of manufacture, generation, and transmission of electric power.

Deregulation and privatization of the power industry was finally legislated through the passage of the Electric Power Industry Reform Act of 2001 (EPIRA). This landmark legislation would change the way the power industry would be structured and more importantly, it would change the business model of the Aboitiz Group's power business. Its distribution utilities, albeit quite small relative to the Manila Electric Company, they are widely respected for being efficient and low cost producers. The proposed competition undertaken under EPIRA further challenged the utilities' efficiency and its ability to survive in the new performance-based rate making regime and ability to gear up for the open access.

Gearing up for Growth

From the time of its corporate founding, AboitizPower consolidated and slowly accumulated interests in run-of-river hydroelectric, coal and diesel-fired power plants to add to its existing portfolio of electric power distribution utilities. In 2006, AboitizPower and its partner, SN Power Invest AS, participated in the public bidding for the privatization of the 360-MW Magat Hydroelectric Power Plant owned by the National Power Corporation.

Their joint venture company, SN Aboitiz Power – Magat, Inc. won the bid for the old Magat Hydroelectric Power Plant in December 2006, and took over the operations of the Magat Plant in April 25, 2007. This acquisition provided the inflection point for the growth of AboitizPower’s generation business to what it is today.

AboitizPower saw abundant opportunities, not only from the growing requirements for additional power in the country, but also from the privatization of the NPC assets, which would provide an opportunity of a lifetime for any power industry player. AboitizPower’s strategy was to make sure that it seized the opportunities to acquire brownfield generation assets from the privatization process as well as initiate its own greenfield generation assets.

The opportunities in the power industry were considered extremely important to the Aboitiz Group, such that in AboitizPower’s strategic planning sessions held in January 2007, it brought together for the first time, both distribution and generation business leaders and team members. The purpose of bringing together a bigger team was to discuss the opportunities for the Company within the evolving regulatory framework under the EPIRA, the continuing privatization and deregulation of the generation business, and the advent of the open access and retail competition. No one really knew how the power landscape would eventually shape into. The power industry was evolving and industry players had to metamorphose as well with the new guidelines and new laws. The compelling theme set by the CEO for the strategists was to agree on WHAT can be done; WHAT we should do; rather than the HOW. That 2007- strategic planning session encouraged all participants to brainstorm on the opportunities and embrace the challenges, with the grit and hard work that has come to define the Aboitiz Group corporate character. It was also an opportunity to realistically assess the organizations’ existing competencies, talent and managerial resources, and plan the development of the organization.

The Initial Public Offering

A crucial component of our overall growth strategy was to take AboitizPower public to tap the capital markets and enable us to aggressively pursue our targets. Thus, in July 16, 2007, AboitizPower was listed on the PSE through an initial public offering (IPO) that raised US\$230 million for the Company. It was, at that time, the third corporate entity of the Aboitiz Group to be listed on the stock exchange.

Initially bankrolled by its IPO proceeds, AboitizPower significantly increased its attributable generation capacity mainly through acquisitions. In 2007, it acquired the East Asia Utilities Corporation and Cebu Private Power Corporation; it acquired a 34% stake in STEAG State Power Inc.; won the bid for the privatization of the Ambuklao/Binga hydroelectric power plants and proceeded to build the Hedcor Sibulan run-of-river hydroelectric power plants. AboitizPower also integrated its distribution utilities, Mactan Enerzone and Balamban Enerzone, into its corporate portfolio. AboitizPower then acquired the privatized Tiwi-Makban Geothermal power plant, two NPC power barges located in Mindanao; increased its stake in Luzon Hydro Corporation and acquired 242-MW power barges owned by private entities. It also became one of the country's first IPPA administrator for NPC's contracted energy output from the Pagbilao Power Plant.

Prior to the public listing in January 2007, the total attributable capacity of AboitizPower's power generation business was a mere 164 MW. Today, AboitizPower's total attributable power capacity has reached 2,353 MW, with a well balanced portfolio of generation assets. Part of its focused strategy is to maintain a good mix of hydro peaking plants and baseload plants. Thirty nine percent (39%) of its attributable capacity is from renewable energy sources (i.e. geothermal and hydroelectric), and the remaining capacity is from coal and oil. Of this total capacity, 73% is fully contracted.

At the time of AboitizPower's listing in 2007, its market capitalization was P38.1 billion. By 2012, its market capitalization reached P271.9 billion. In November 2010, the Company was included in the MSCI Philippine Index and the MSCI Philippines Investable Market Index. Its trade volumes in 2011 was an average daily value close to US\$4 million.

AboitizPower is committed to a healthy dividend policy that balances cash returns and growth. It recently adopted an annual cash payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. This cash dividend policy is effective for 2013 based on 2012 net income after tax.

Indeed, the Company has achieved tremendous growth in its generation businesses as it diligently executed its strategy to seize opportunities the changing power industry could offer. As a publicly listed company, AboitizPower however, continues to face new and numerous challenges, both as a business as well as a corporate citizen. In its 2012 management conference, the management team focused on the theme "Thriving in a new

environment” as they acknowledged the pivotal changes brought about by the power industry landscape. Management noted that substantial privatization of NPC assets has been completed; the WESM in Luzon and Visayas is now a functioning energy market, and regulators are now focusing on the implementation of the open access and retail supply market under EPIRA, as well as the implementation of the renewable portfolio standards, the Feed-in-Tariff, green energy options and net metering for renewable energy under the Renewable Energy Act.

Today, our entire management team, our leaders and team members alike, continually refresh our common understanding of where we are, where we are going, what drives our business, where we each fit in, and what we need to execute to attain our goals in the years ahead of us, and beyond.

The Legacy of Core Values

Our corporate journey is not complete without telling you the story of our roots, our past, and the core values that we have inherited and aim to preserve. It is a past that is inextricably linked to a gentleman’s tale of “Palabra de Honor” or “Word of Honor”.

Our corporate journey began in the 1920s with the founding of Aboitiz & Co. It was during this period in history when the Aboitiz families consolidated and expanded their existing businesses into a corporate entity. Whilst full of hope and expectations, that period of corporate inception coincided with the deflation of World War I’s economic exuberance. Prices of abaca and other agricultural commodities dropped dramatically. But, during this period of great difficulties was forged a deep commitment to corporate governance.

Aboitiz & Co. was on the brink of bankruptcy with big losses and a large debt. However, the founder, Don Ramon Aboitiz, his brothers, cousins and employees resisted calls from well meaning friends to walk away from the debts. Instead, guided by the principles of “Palabra de honor”, Don Ramon, as he is fondly remembered, borrowed money from banks and friends for the purpose of reviving the business with a commitment to pay back the debts.

In a letter to his sibling, he wrote: “The biggest fortune I have is my word and reputation. Money can be lost and can be recovered but once your name and reputation is lost, one’s word is worthless and one is truly finished”. Without that determination to survive business hardships, with hard work

and a commitment to honor their word and reputation, the Aboitiz Group would not be around today.

One of the greatest lessons thus learned from that singular moment in our corporate past has been woven into AboitizPower's and Aboitiz's business fabric: That Honor, Reputation, Trust and Integrity, are of paramount importance in running both our businesses and in managing our personal lives. The practice of governance and ethics in our business and our expanding Aboitiz family was crucial in the past and still remains so for the challenges our companies will inevitably face in the future.

Honor, Reputation, Trust and Integrity

The Legacy of Core Values

In Aboitiz, we hold Trust very dearly. We realize the importance of Trust from our customers and that they value our products and services; that they are not cheated, nor are they short changed in any way. We value Trust from our management and employees, that they are respected and treated fairly and appreciated in their contributions to the growth of the Company. We acknowledge the importance of Trust that is reposed in us by our shareholders and investors, that their investments are being handled with integrity, for their benefit, and not for those who run the institution. Lastly, we value Trust from the community at large, that we are an asset to the community by being a responsible member that shares and adds value to all.

We believe that Reputation is the Company's most important asset. It is the sum of values that our stakeholders attribute to us, based on their perception and interpretation of the image the Company communicates over time. We believe that corporate reputation has to be earned; and once earned protected and managed, and integrated into the Company's business strategy. Trust, Transparency, Expertise, Commitment and Empathy are four factors that uphold our Reputation.

Even at a young corporate age, Trust, Reputation, Governance and Corporate Social Responsibility have since been important to the Aboitiz organization.

Aboitiz is what it is today because the family, shareholders, our professional team leaders and team members in our various organizations and business units have always upheld strong values that we all believe in and practice,

such as Honor, Trust, Loyalty, Fairness and helping those who are less fortunate. From these strong core values, we have also adopted the complimentary values of adherence to quality, innovation, and service excellence.

A culture of Hard work, Sacrifice, Trustworthiness, Constant Improvement, Customer focus, Quality and Social Commitment – this set of characteristics makes us different and unique. This is what our Reputation is all about since the times when Don Ramon Aboitiz laid the foundational legacy of core values and characteristics for family and non-family team members to hold on to.

The Aboitiz Family Governance

Aboitiz & Co. Inc. owns about 49.54% of Aboitiz Equity Ventures, Inc. (AEV). AEV in turn currently owns about 76.83% of AboitizPower. As of fiscal year 2012, AboitizPower accounted for 78% of the total net earnings contributions of AEV's business segments.

Much is said about family owned companies or companies with controlling shareholders – that these companies may lack the commitment to corporate governance principles, or the discipline to work towards a long term horizon. This is certainly not the case with the Company and the Aboitiz Group. Our track record in the country clearly shows this.

After more than 100 years of doing business, the Aboitiz Group has grown from a closely held family enterprise of less than 10 employees to a professionally run business group focused in seven industries with about a 30,000 strong workforce. This includes thirteen 4th generation Aboitiz family members and about eight 5th generation family members working for the Aboitiz group in a professional capacity. The unity and harmony of the Aboitiz family has been an important factor to the Aboitiz Group's success and continuity. Open Communication, Trust and good Family Governance are the cornerstones of the relationships of the Aboitiz Family. The Aboitiz family has its own Family Constitution to guide family members in their actions and to set rules family members must follow. This Family Constitution, together with the legacy core values and philosophies, are especially relevant to the handling of their corporate interests *vis-a-vis* the stakeholders of the Company. In addition, the Aboitiz family also has a Family Council that is separate from the business corporation and is intended to promote family unity and involvement in different activities whether social or otherwise. Staying together and building a legacy for the Aboitiz name and reputation is important.

Total Quality Management

In 1992, the AEV launched its internal cultural evolution through the adoption of the Total Quality Management (TQM) movement within the organization. To keep up with the fast changing times, the Aboitiz Group needed to experience a re-birth, a change in mindset to make the big transitional step to professionalize the organization. Believing that only organizations that value and practice the quality process, professionalism and good governance would grow and survive in the long run, Management embraced TQM as the key ingredient and driving force behind its business strategy. At that time, globalization and competition in the market place required companies to step up and adopt a culture of constant improvement, innovation, and customer focus. Quality in everything we did was crucial to our continued growth and success. Customer focus and customer satisfaction became our battle cry.

Aboitiz Equity Ventures, Inc. lists on the Philippine Stock Exchange

After 74 years as a private, family-owned business, Aboitiz formed Aboitiz Equity Ventures, Inc. and subsequently listed it on the PSE in 1994. Aboitiz & Co. put into the Company's basket, the best and most profitable businesses it had with the view to expanding and growing the Aboitiz' businesses. This included the power generation and distribution businesses of Aboitiz & Co.

Converting AEV into a Publicly Listed Company (PLC) was a transformation since, for the first time, the Aboitiz Group not only gained non-family shareholders, but also local and foreign shareholders. This big step required further professionalization of the Aboitiz Group as new disciplines and demands for transparency, corporate governance and accountability and a more focused business strategy also evolved. Today, we continue to follow the focused business strategy and course we have set. And we continue to adapt to the changing requirements for corporate governance practices and principles expected of a PLC.

In 1996, AEV's market capitalization of P15 billion in 1996 increased to a market capitalization of P292.4 billion in 2012.

AboitizPower was and remains committed to the same discipline in corporate governance as AEV from the beginning. Its management team runs AboitizPower's business segments with parallel underlying policies.

The same tenacity, hard work, quality management, integrity and adherence to our strong core values with which we have pursued our businesses in the pre-war and post war era within Aboitiz & Co. and AEV, are also being pursued by the management team of AboitizPower. When AboitizPower was listed on the PSE, the Aboitiz Group already had a working competence to manage it as a publicly-listed company. Our management team was cognizant of the public and regulators' expectations from a publicly-listed company and knew what to do.

Corporate Social Responsibility

AboitizPower is managed with the same view of Corporate Social Responsibility (CSR) as AEV. CSR is a way for businesses enterprises like the Company, to manage its business processes to produce an overall impact to society. As a corporate citizen, it is our Company's continuing commitment to behave ethically and contribute to the economic development while improving the quality of life of its workforce, their families, our customers, our local communities, our government and society at large whilst committed to sustainability. Bottom line being, that Corporate Social Responsibility is about business giving back to society and acting in an ethical and transparent manner in all its dealings with all stakeholders in society.

We have been practicing Corporate Social Responsibility long before the word has become a modern day corporate buzzword. We believe that CSR is an integral part of how we operate our businesses and part and parcel of our overall governance and philosophy of being responsible members of our society by sharing and being a neighbor of choice wherever our companies operate.

In 1965 or 47 years ago, Don Ramon Aboitiz gave a big part of his personal wealth to establish the Ramon Aboitiz Foundation, Inc. It is one of the largest shareholders of the Company. Our Company was one of the founding members of the Philippine Business for Social Progress when it was established in 1979 and today is still active in both the Board of Trustees and Regional Executive Committees. As the Aboitiz Group grew, CSR began to take on a much broader and more meaningful perspective; it was no longer merely about doing philanthropic acts but also reaching out to partners within our different communities. It has since evolved into a more organized, structured, and professionalized commitment from a dedicated team and from the Aboitiz workforce.

Thus, in 1988, the Aboitiz Group established the Aboitiz Foundation as the social development arm of the Aboitiz corporate group. CSR teams from business units nationwide were formed and now work together with the Aboitiz Foundation in areas where our companies are located. The business units are mandated to allocate a percentage of their profits every year to fund the Foundation's projects in their respective areas of operations and be the neighbor of choice to their host communities.

The focus areas of our group CSR are primarily education, enterprise development, health and environment. Over the last five (5) years, we have allocated P1.5 billion for our various CSR projects. For 2012 alone, P390 million was earmarked for projects. In addition, Aboitiz Foundation has collaborated and partnered with other organizations and foundations when there was alignment of goals or when a greater need of society required more interdependent CSR strategies were required to assist society.

Our Stakeholders

Our commitment to corporate governance practices involves a commitment to all our contractual stakeholders and our other community of stakeholders. Our contractual stakeholders include our Customers, our Employees, our Business Partners, our Suppliers, Shareholders, Lenders, and Alliances. We also recognize our community stakeholders who are Consumers, Regulators, Government Agencies, Local Governments, Politicians, Local Communities, Traditional and Social Media, Non-Governmental Organizations, Trade Groups, Advocacy Groups and other groups within the general spheres of influence.

Our Regulatory Framework

In the pursuit of our core businesses and in our dealings with all our stakeholders, we comply with various general and special laws and their implementing rules and regulations.

Our internal regulatory framework is primarily based on the corporate governance principles and policies laid down in the Articles of Incorporation and By-Laws, the Amended Manual of Corporate Governance, the Code of Ethics, Directors' Code of Ethics, Board and Board Committees Charter and work procedure and policies, policies of the Group Mancom, the AboitizPower Executive Committee, the "AP Distribution and AP Generation Boards", and other Departmental policies, Risk and Reputation

Management Policies and other Company and Aboitiz Group policies and guidelines.

COMPLIANCE WITH THE SEC CODE OF CORPORATE GOVERNANCE

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

The Company recently amended its Manual to update the Company's practices in the following areas: (a) Selection of the Board of Directors and Officers; (b) Composition of the Board Corporate Governance Committee; (c) Change of the Board Risk Management to the Board Risk and Reputation Management Committee, and (d) Update of the Board Audit Committee Charter.

The Board Corporate Governance Committee continually reviews the Manual for any necessary amendments in keeping with evolving practices. On May 11 and August 1, 2012, the Board Corporate Governance Committee approved the proposed amendments to the Manual to comply with new requirements of the SEC, e.g., the rule on the terms of Independent Directors under SEC Memorandum Circular No. 9, Series of 2011. These recent amendments were submitted to the SEC on February 18, 2013.

COMPANY VISION: A BETTER FUTURE

We in the Aboitiz Group have set a well-defined vision that inculcates a dream to work for a better future for our country. The Company's vision is to actively develop and offer better energy solutions to meet the Philippines

growing energy demands while committing to sustain the Earth's limited resources. Our targets for further growth and expansions are clear and calculated. Driven by our passion for better ways, the Company continues to relentlessly pursue our path towards an even better and greater future for our organization and our country. As a publicly-listed company, the Company's investment focus is for its businesses to provide reliable and ample power supply when needed, and to ensure that the supply of electricity is provided at a reasonable and competitive price. The Company believes it is its responsibility to accomplish these goals with the least possible adverse effect on the environment.

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

OUR VISION, OUR RESPONSIBILITY, OUR CHALLENGES

In achieving our "Vision of A Better Future", and our "Mission of Finding Better Power Solutions for our stakeholders," our responsibility is clear: We need to provide reliable and ample power supply when needed. We need to ensure that the supply of electricity is provided at a reasonable and competitive price. And we need to do this with the least possible adverse effects on the environment and our communities.

We are fortunate to be in a good position of leadership and strength. But if there is anything that the last few years have taught us, it is that there is no such thing as “business as usual”.

New risks, new challenges and new stakeholder expectations, new markets, new competitors and new regulations will force us to continue revisiting what and how we do things. We understand the need to be nimble, to be able to implement and to be willing to participate in an ever-changing future.

Our power distribution’s once simple model of purchasing power from the NPC, distributing electricity, collecting revenues and securing rate increases has disappeared.

In power generation, take or pay contracts, government performance undertakings and other safety nets are a thing of the past.

With the EPIRA, we have actually seen the industry’s business model unravel over the past few years, and we are seeing it reinvent itself. EPIRA’s reforms have changed the power industry landscape carrying with it evolving risks and opportunities.

Although the implementation of Open Access under the EPIRA, for example, has been delayed, it has remained as one of the most crucial, if not the most crucial, reform in the industry. From a regulated, monopolistic industry, the power industry is becoming a competitive, market-driven one. Open Access will also give customers the power to choose their generation providers.

Consumers will understandably exert efforts to lower their expenses by encouraging one power supplier to compete with the other. On one hand, we view this as a chance to expand. On the other hand, consumers will perceive this as a favorable time to buy power from varied sources, and urge suppliers to offer the most beneficial deals.

AN ETHICAL BUSINESS

The Aboitiz Code of Ethics and Business Conduct adopted by the Company in 2002 sets out the roadmap for the Executive Management, team leaders and team members in achieving and maintaining ethical standards

in the Company's day to day operations. It summarizes the Company's fundamental policies and directives.

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

In 2011, the Board mandated a corporate governance seminar for all employees. All newly-hired employees of the Company attend a new-hirees' seminar that includes an orientation on the Company's Manual of Corporate Governance and Code of Ethics and Business Conduct. The Office of the Chief Compliance Officer conducts the group-wide formal Corporate Governance Seminars for all employees, including management and executives. These annual seminars are conducted to inculcate and refresh all employees' awareness and understanding of the Manual and the Code and the underlying principles of corporate governance and ethical behavior and conduct. These corporate governance seminars are mandatory for officers and employees.

To protect proprietary information of the Company, its subsidiaries and its affiliates, the Directors, Officers and Team Members of the Company sign a Non-Disclosure Agreement in accordance with the applicable provisions of the laws of the Philippines, the Company's Articles of Incorporation and applicable rules and regulations issued by the regulatory bodies.

All employees have an individual responsibility to ensure that business practices adhere to the rules of the Code of Ethics and Business Conduct. Generally, no employee or officer seek or has sought exemptions from

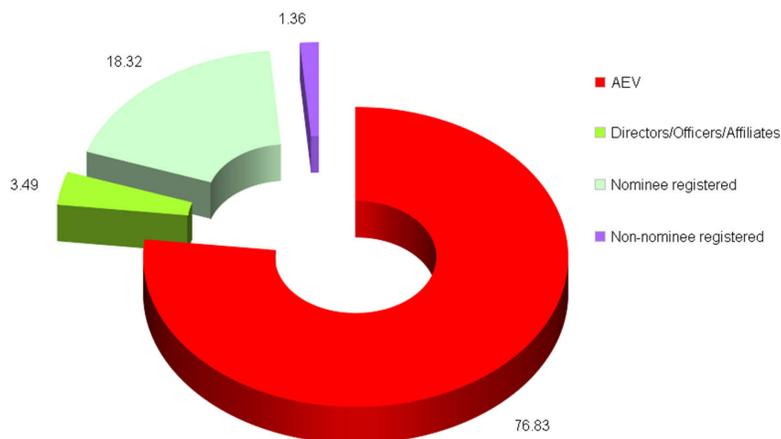
the application of the corporate governance rules and guidelines of the Company. Adherence to the Code of Ethics and Business Conduct is actively encouraged. Employees are empowered to exercise their sound judgment and decision in day to day life, and demonstrate one's commitment to the core values of the Company.

ABOITIZPOWER OWNERSHIP STRUCTURE

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

According to the share register kept by The Hong Kong and Shanghai Banking Corporation Limited, the Company's stock and transfer agent, as of March 31, 2013, AboitizPower has 558 shareholders. As of the same period, AEV, another publicly-listed holding company, owns 5,653,763,954 or 76.83% of the 7,358,604,307 of the total outstanding and common stock entitled to vote. Of the publicly held shares, 18.32% are owned by institutions and/or are nominee-registered (9.56% Filipino & 8.76% Foreign), i.e., held of record by banks, brokers and /or nominees, such as the PCD Nominee Corp. This means that the actual shareholder may not be reflected in the share register or included in shareholding statistics. As a result, the ultimate shareholder of such nominee-registered shares may not participate in shareholder votes and other actions, unless otherwise represented by proxy or nominee. The Company has exerted efforts to extend the communication channels between the Company and the institutional shareholders through its Investor Relations Office and to the nominee registered shareholders through the PCD Nominee Corporation.

Below is a general view of shareholders' composition.



AEV is, in turn, publicly-owned by 9,778 shareholders as of March 31, 2013.

THE BOARD'S VISION AND MISSION

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

CHALLENGES & STRATEGIES

The top challenge for AboitizPower today is to pursue continued and sustained growth of its businesses within its relevant political and regulatory universe, matching this growth with the appropriate organizational capability, and building and maintaining its corporate brand for the benefit of all its stakeholders.

The Company believes that available, reliable and affordable electricity is the lifeblood of the country, fueling both the economy and individual opportunity. The Company therefore considers it its responsibility to provide reliable and ample power supply, when needed, to ensure that the supply of electricity is provided at a reasonable and competitive price; and to accomplish the first two duties with the least possible adverse effects on our environment.

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

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

PERFORMANCE GOVERNANCE SCORECARD AND STRATEGIC INITIATIVES

In 2012, the Chief Strategy Officer of the Aboitiz Group laid down the objectives of the Company and required the Company and its business units to set stretch goals for each corporate strategic objective, and commit to their respective initiatives and plans of action for achieving the expected

performance outcomes. Each Team likewise presented each of their 2012 self-rated performance scores. The corporate and operational objectives will be the basis for self-rated scorecards and performance incentives.

These corporate strategic goals and the initiatives of all departments in meeting these goals, represent non-financial performance indicators of the Company. The Company believes that its overall growth, sustainability and successful pursuit of corporate objectives promote a great organization that is able to strive and thrive in changing business environments.

ALIGNMENT AND EXECUTION OF STRATEGIES

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

AboitizPower fully intends to capitalize on what appears to be a strong Philippine economy and work towards our continued success and growth. We have noted that the Philippines GDP growth has been strong in the last couple of years and the consensus is that it will remain robust. This outlook has been confirmed by the recent upgrade by Standard & Poor's of the country's credit rating.

The PSE index hit record highs in 2012, and we saw the rapid growth on investor participation at the stock market, with AboitizPower stocks performing very well. We continue to see healthy investor interest in our stocks.

The AboitizPower Business Development Team is expanding and is continuing to evaluate new business opportunities.

Our major focus in 2012 was to expand our Greenfield priorities for power generation to improve efficiencies of the distribution utilities, and to fully contract our generation capacity with bilateral counterpart distribution utilities.

ALIGNMENT OF GOALS AND MONITORING OF PERFORMANCE THROUGH SUCCESS FACTORS

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

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

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

ABOITIZ INTEGRATED MANAGEMENT SYSTEM (AIMS): COMBINED ISMS AND QMS

The Company, in coordination with AEV, is merging two recognized management systems - Information Security Management System (ISMS) and the Quality Management System (QMS) in 2013 to come up with the simplified and unified approach to data security, service quality, company sustainability and transparency and ultimately investor and customer satisfaction.

In 2009, the Aboitiz Data Center was certified for ISO 27001:2005. Since then, the Company has continually implemented and maintained a set of policies, processes and systems to manage risks of the Company's information assets, thus ensuring acceptable levels of information security risk. But the Company recognizes the need for a well-documented system for non-information technology assets and processes that ensures consistency and improvements of working practices including the products and services produced. It is adopting the Quality Management System (QMS) which AEV has also adopted. QMS defines and interacts with all activities of the organization, beginning with the identification of customer requirements and ending with their satisfaction, at every transaction interface. It provides consistency and satisfaction in terms of methods, materials, equipment, and other items. Representatives from different departments have been sent to training on process documentation, document management, internal audit and establishing corrective and preventive actions to ensure that every team is prepared to embark on this more stringent platform.

Currently, a team of ISMS and QMS trained officers is working on the integration of Aboitiz Group's systems and merging common management processes. The Company is also gearing up for combining complimentary documents which can satisfy requirements of both ISMS and QMS. The core processes are being reviewed against certain standards and the requirements are combined in the working documents. With the integration and over time, every department in the Company will also gain a better insight of the system and can identify the improvement areas easily.

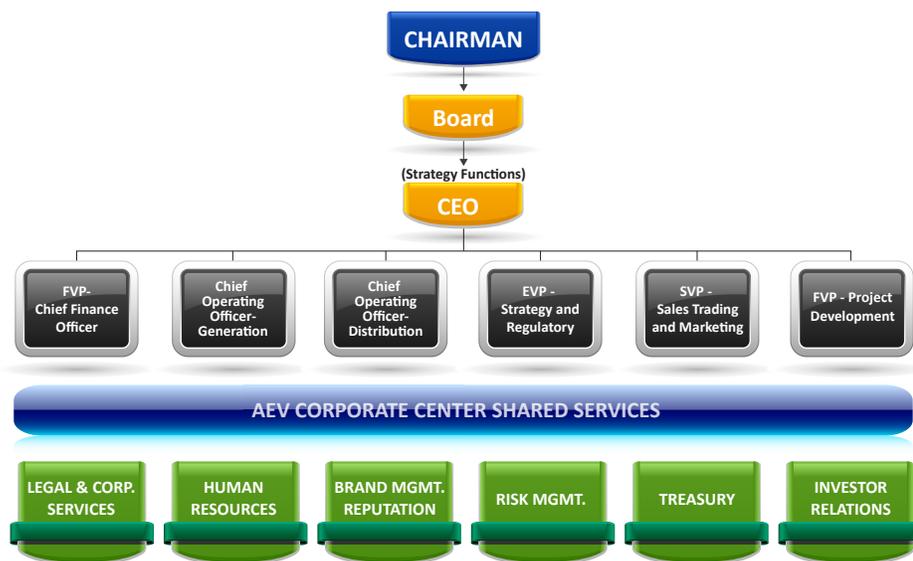
ENTERPRISE RISK AND REPUTATION MANAGEMENT

The result of the Risk Maturity Index Assessment of the Aboitiz Group held in 2010, triggered the Company's review of its own existing Risk Management Program. The Company came up with a three-year plan

geared towards achieving level 4 by the end of 2013. In February 2012, the AboitizPower Team attended the gathering of the Aboitiz Group's risk management leaders and professionals for the first-ever Aboitiz Group ERM Forum at the Marriott Hotel, Cebu. As a strong indication of the Management's commitment in protecting the Company brand and promoting its reputation, it redefined the Risk Management Framework into four major pillars: Governance, Process and Integration, Risk Finance and Capability Building. Under each pillar, different initiatives were planned, implemented and being worked on with the ultimate goal of achieving Level 4 in 2013.

ORGANIZATIONAL STRUCTURE

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



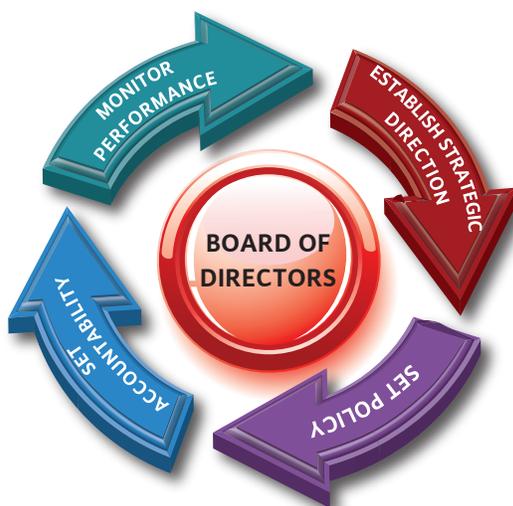
The Company's over-all business focused strategy is for each of the core business, namely Generation and Distribution, to be managed by separate functional management boards, namely, the AP Generation Companies Management Board and the AP Distribution Utilities Management Board. They are responsible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

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

The Company's business units have their respective annual strategy planning sessions. These form an integral process of the Company's overall formulation and execution of AboitizPower's policies and strategies. These are presented to the Group CEOs and Group Mancom, cumulating in the annual AboitizPower Managerial Conference, during which the Company strategy is presented to the Company-wide group of team leaders.

BOARD RESPONSIBILITY

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



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

In 2012, the Board of Directors approved the additional policies and protocols recommended by the Board Corporate Governance Committee. These are the Board Protocols, Policy on Information Disclosure, Policy on Related Party Transactions and Policy on Conflict of Interest.

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

The Board is actively engaged in discussions of strategic business issues of the Company and the directors are consulted for their invaluable inputs through the special strategy board meetings, the informal director's lunches, dinners and gatherings with the management teams. The Board Corporate Governance Committee formalized these gatherings into an annual Board Retreat in an atmosphere of relaxed, open and intellectually exchange. The Board Retreat held on November 9-10, 2012 was well attended and participated by all members of the Board of Directors of the Company.

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

AN EFFECTIVE BOARD: SELECTION & COMPOSITION

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

understanding of the businesses of the Company; (viii) membership in good standing in relevant industry, business or professional organizations; and (ix) previous business experience. Each member of the Board is identified and selected for the depth of experience and wisdom he is expected to provide to the Company, considering that the Company's business is a unique aggregation of businesses, requiring the capability to understand power industry financials and technical matters.

The annual selection process is intended to appoint a diverse mix of highly-competent directors and officers with in-depth knowledge and experience in the core industries of AboitizPower or corporate management and financial expertise. Other factors considered are independent-mindedness, ethical behavior and value contribution of each director. The Company follows a formal and transparent board nomination and election process to ensure the interests of all shareholders. Any shareholder may nominate a director and Independent Director. Nominees for directors are submitted to the Corporate Governance Committee (to which the Nominations and Compensation Committee has been merged into). The overall procedure is in compliance with the Amended Implementing Rules and Regulations of the Securities Regulation Code.

A Board director holds office for one year until his successor is elected at the next Annual Shareholders' Meeting (ASM) in accordance with the Corporation Code of the Philippines, the Company's By-Laws and the SEC guidelines. Shareholders may nominate board members individually through the nominations process. At the ASM, and in accordance with the Corporation Code of the Philippines, the Company follows the rule of One- Share-One vote. Thus, minority shareholders can influence the board composition through the power of cumulative voting rights. The right to cumulative voting is a statutory right allowed in accordance with the Corporation Code of the Philippines.

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

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

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

Our Independent Directors sit in no more than five boards of PLCs. This is shown in the certification of affiliations required from each of the nominated Independent Directors. Likewise, executive directors do not generally sit on other boards of PLCs outside the Group, unless they have substantial interests in those other companies or they have been asked to sit in the capacity as independent directors. The executive directors do not sit in more than two boards of listed companies outside the Aboitiz Group.

The Company's Independent Directors are not encumbered with any Management responsibility and are free from any business or other relationship with the Company or any major or substantial shareholders which could materially interfere with their exercise of independent unfettered judgment as members of the Board. More importantly, the Independent Directors chosen to the Company's Board are independently

minded-professionals. There is nothing in the Company’s By-Laws and in any shareholder agreements or arrangements that constrain the Independent Director’s ability to vote independently.

At the May 21, 2012 Annual Shareholders’ Meeting, the shareholders elected the following Board members for the 2012-2013 term:

BOARD OF DIRECTORS (2012-2013)	
Enrique M. Aboitiz, Jr.	Chairman of the Board (Executive)
Jon Ramon Aboitiz	Vice Chairman (Non-Executive)
Erramon I. Aboitiz	Director (Executive)
Antonio R. Moraza	Director (Executive)
Mikel A. Aboitiz	Director (Non-Executive)
Jaime Jose Y. Aboitiz	Director (Executive)
Jose R. Facundo	Independent Director
Romeo L. Bernardo	Independent Director
Jakob G. Disch	Independent Director

The Company is committed to a gender, race and religion-biased free environment in our employee selection policy. While there is no incumbent female director currently sitting in the Board of the Company, a number of senior officers and Management Committee members are female. Female and male team leaders and team members are generally evenly numbered.

All newly elected directors undergo a director’s orientation program provided by independent service providers and other training programs that will enhance their understanding of roles and develop their technical knowledge to discharge their functions effectively.

Members of the Board annually assess the Board’s, the CEO’s and their own individual performance through a Board Assessment Review initiated by the Board Corporate Governance Committee. The Board Corporate Governance Committee annually conducts the Board Self-Assessment Review and the CEO assessment. Results of the Board, Self and CEO Assessments are presented to the Board Corporate Governance Committee Meetings and circulated to the Board for their feedback.

To date, there have been no instances where any of the non-executive directors resigned nor raised issues of governance-related concerns. There have been no major or minor corporate governance scandals that have affected the Company.

The Board meeting attendance of individual directors is reported to the Board Corporate Governance Committee by way of the Board Performance Report and to the SEC through the filing of the Certificate of Attendance. The attendance of the directors to the Company's board meetings was exemplary with an overall percentage of 92.59% attendance record for the eight regular and special strategy meetings for 2012 for each director and 95.29% presence of directors per meetings.

Directors	SPECIAL MEETING Jan. 5, 2012	REGULAR MEETING Feb. 3, 2012	SPECIAL MEETING Mar. 1, 2012	REGULAR MEETING Mar. 28, 2012	REGULAR MEETING May 21, 2012	REGULAR MEETING Aug. 3, 2012	REGULAR MEETING Sept. 27, 2012	SPECIAL BOARD STRATEGY SESSION Nov. 9&10, 2012	REGULAR MEETING Nov. 28, 2012	TOTAL NO. OF MEETINGS ATTENDED BY EACH DIRECTOR	PERCENTAGE OF MEETINGS ATTENDED BY EACH DIRECTOR
Enrique M. Aboitiz, Jr.	P	P	P	P	P	P	P	P	A	8/9	88.89%
Jon Ramon Aboitiz	P	P	P	P	P	P	P	P	P	9/9	100.00%
Erramon I. Aboitiz	P	P	P	P	P	P	P	P	P	9/9	100.00%
Antonio R. Moraza	P	P	P	P	A	P	P	P	P	8/9	88.89%
Mikel A. Aboitiz	P	P	P	P	A	P	P	P	A	7/9	77.78%
Jaime Jose Y. Aboitiz	P	P	P	P	P	P	P	P	P	9/9	100.00%
Jose R. Facundo (Independent Director)	P	P	P	P	P	P	P	P	P	9/9	100.00%
Romeo L. Bernardo (Independent Director)	P	P	P	P	P	P	P	P	P	9/9	100.00%
Jakob G. Dich (Independent Director)	A	P	P	A	P	P	P	P	P	7/9	77.78%
											92.59%
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	8	9	9	8	7	9	9	9	7		
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	88.89%	100.00%	100.00%	88.89%	77.78%	100.00%	100.00%	100.00%	77.78%	95.29%	

The non-executive directors of the Company met separately in 2012 for an executive session to discuss any concerns or feedback on performance of the Board and executive directors, without the presence of executives. The Independent Directors also discussed other Board related matters and concerns.

The Company's 2012-2013 directors are well-respected individuals of proven competence, integrity and known to be independently-minded professionals. The Board is led by a Chairman who is very knowledgeable about the Company's core businesses, with deep knowledge of relevant corporate finance practices and a long standing commitment to corporate social responsibility. The Chairman ensures that the Board functions in an effective, robust and collegial manner. Despite relationship of consanguinity

between the Company's CEO and the Chairman of the Board, all decisions and dealings are done in a professional manner in keeping with an Aboitiz Family constitution that sets strict standards and adherence to governance for each member's work involvement in the Aboitiz group companies. (See Section on Information on Directors and Officers)

BOARD REMUNERATION

The Board members' remuneration is viewed as a recognition of a director's standing and contribution so that the Company can attract, retain and optimize the directors who continually deliver quality services for the growth of the Company.

The Company rewards the individual directors and officers based on their stretched strategic goals and ability to execute their duties and responsibilities. AboitizPower's performance reward philosophy is based on objective performance. Performance is evaluated and compensation is reviewed on an annual basis. AboitizPower ensures that it pays its directors and officers competitively by comparing rates with other Philippine based companies through market salary surveys. Changes in Board compensation, if any, are recommended by the Board Corporate Governance Committee, approved by the Board and affirmed or voted on by the shareholders in a regular ASM. As approved by the shareholders during the Annual Shareholders' Meeting (ASM) held last May 16, 2011, each Director receives a monthly allowance of ₱100,000, for member and ₱150,000 for the Chairman. Each Director receives a per diem of ₱100,000 per board meeting attended except for the Chairman of the Board who receives a per diem of ₱150,000. In every board committee meeting attended, each director is entitled to a per diem of ₱80,000 except for the Chairman of the Committee who receives ₱100,000. There have been no changes so far to the Board compensation approved by shareholders in 2012.

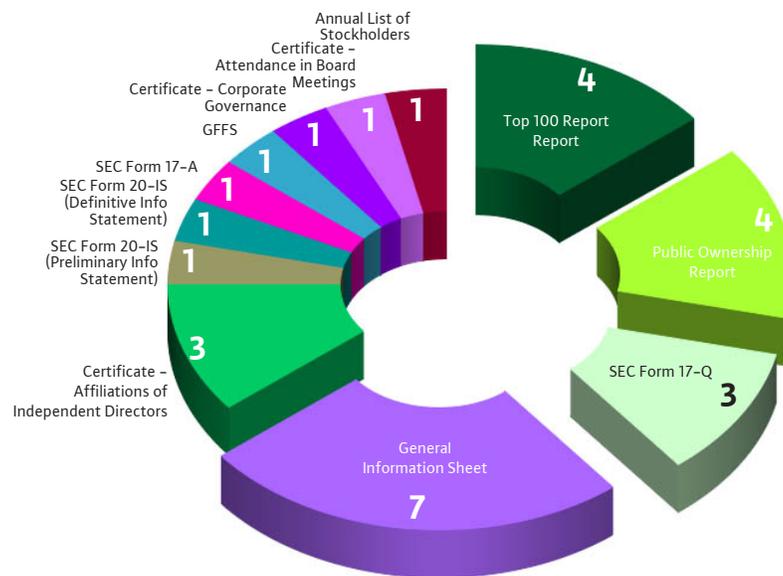
As mentioned, all proposed changes in Board remuneration are approved by the shareholders and disclosed to the public in a timely manner through PSE and SEC disclosures and the Company's Annual Report. The Company reviews Board remuneration by benchmarking against other Philippine PLCs. It participates in market surveys for benchmarking of board remuneration. The non-executive directors do not receive options, performance shares or bonuses.

PSE AND SEC COMPLIANCE REPORT

The Office of the Corporate Secretary and Chief Compliance Officer regularly monitor the Company’s compliance with the PSE and the SEC regulatory requirements. The PSE and SEC compliance reports are regularly presented to the Board Corporate Governance Committee.

The Company is fully compliant for the year 2012. There was no incidence where the Company did not comply with any listing rules and regulations over the past year.

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



The Company also disclosed to the SEC and the PSE its compliance with the SEC Memorandum Circular No. 4, 2012, Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange last October 4, 2012.

MONITORING AND CONTROL

The Board of Directors is fully compliant with the Company’s Manual for the year. The Manual clearly defines the Board’s responsibilities and the corporate governance policy of the Company. The Board acknowledges that the attainment of corporate goals is by no small measure supported by the commitment to the principles of corporate governance. Proof of

the Board's strict adherence to the Manual is the Company's clear record of compliance with SEC and PSE rules and regulations. The Manual was adopted with AboitizPower's vision and mission of proactively working with customers to anticipate the unique and diverse range of industrial, commercial, and residential energy needs and to build customer intimacy because the Company believes that customers deserve no less than the best service it can possibly give.

To continuously keep itself up-to-date with current best practices, the Company regularly reviews and updates its Manual on Corporate Governance. The Board approved the amendment of the Corporate Governance Manual on August 3, 2012 to update the Company's corporate governance practices. The Manual designates a Chief Compliance Officer and defines his duties as well as outlines a Plan of Compliance revolving around the Board of Directors, its composition, qualifications, roles and responsibilities, the delineation of the roles of the Chairman and the CEO, conflict of interest and business interest disclosures, Board meeting quorum requirements, and adequate and timely information and accountability of audits.

The Company's Manual also specifies the composition and duties of the newly-created and restructured board committees, the qualifications of the Corporate Secretary, an information security management policy, a sustainability policy a risk management policy, communication process and training process, reportorial or disclosure system of the Company's corporate policies, shareholders' benefit statement and a monitoring and assessment system. The Chief Compliance Officer coordinates with the regulatory officers of the Company's business units to ensure compliance with other laws as well as to ensure the checks and balances and mitigating penalty measures are imposed.

The Company's Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities through management of a Board Secretariat, through inputs to the agenda, review of reports and PSE and SEC compliance, through an oversight of investor concerns, oversight of stock and transfer agent, and active participation at Board meetings. The current Corporate Secretary is a member in good standing of the Philippines and New York State Bar and alumni of the Institute of Corporate Directors and Professional Directors' Program. The Assistant Corporate Secretary and the lawyers of the Board Secretariat are lawyers and accountants.

BOARD COMMITTEES

The Company's Board Committees consist of the following: Board Audit Committee, Board Risk and Reputation Management Committee, and the Board Corporate Governance Committee.

Members of the Board Committees are the duly elected directors of the Company's Board of Directors as regular members assisted by key officers of the Company on ex-officio basis. These Board Committees hold meetings at least every quarter to ensure that sound strategies for the Company's development are reviewed, monitored and achieved.

The Board decided at its May 17, 2010 meeting to amend the Manual and have the functions of the Board Strategy Committee subsumed under the scope of functions of the full Board membership. As a result, the Board holds a special strategy Board meeting in addition to the strategy sessions at regular board meetings and the informal strategy meetings of the Directors.

The Board folded the Board Nominations and Compensation Committee into the Board Corporate Governance Committee. On February 1, 2012, the Board Corporate Governance Committee endorsed the creation of an expanded Board Risk Management Committee into a Board Risk and Reputation Management Committee. Membership of Independent Directors to both Board Corporate Governance Committee and Board Risk and Reputation Committee was recently increased. Independent Directors now comprise 60% of the voting members of the Board Corporate Governance Committee, 60% for the Board Audit Committee and 25% for the Board Risk and Reputation Management Committee.

BOARD CORPORATE GOVERNANCE COMMITTEE

The Board's ability to make decisions with governance impact is supported by the work of the Board Corporate Governance Committee. The Board Corporate Governance Committee provides information and recommendations necessary for making good governance decisions.

The Board Corporate Governance Committee assists the Board but does not pre-empt any board responsibilities in making final decisions on corporate governance, nomination and compensation matters.

In performing its duties, the Board Corporate Governance Committee maintains effective working relationships with the Board and the Group’s senior leadership to enable it to perform its role effectively. Each Committee member strives to obtain an understanding of the detailed responsibilities of Committee members as well as the Group’s businesses and operating environment.

The Committee is expected to contribute to the management of the Group’s affairs through good governance practices for the overall interests of the stakeholders.

The Board Corporate Governance Committee formulates policies, guidance in selecting nominees for the Board of Directors, among others in a coordinated way. In performing its duties, the Committee maintains an effective working relationship with the Board of Directors.

The Committee is composed of a majority of Independent Directors (three out of five directors). The Chairman of the Committee is a non-executive director and brings with him his past valuable experience and expertise in the major businesses of the Company, having served as its Chairman of the Board from 1998 to 2008.

The Board Corporate Governance Committee is currently composed of the following members:

BOARD CORPORATE GOVERNANCE COMMITTEE	
Jon Ramon Aboitiz	Chairman
Erramon I. Aboitiz	Director
Jose R. Facundo	Independent Director
Romeo L. Bernardo	Independent Director
Jakob G. Disch	Independent Director
M. Jasmine S. Oporto	Ex-Officio Member, Chief Compliance Officer
Xavier J. Aboitiz	Ex-Officio Member, Chief Human Resources Officer

The resolutions of the Board Corporate Governance Committee can only be approved with the vote of at least one Independent Director.

The Company utilizes all channels and available databases for the selection of Directors, whether through professional search firms or other external sources of candidates.

The Board Corporate Governance Committee tackled the following agenda items in 2012:

February 1, 2012	May 11, 2012
Nominees for the Board of Directors	Proposed Amendments to the Amended Manual on Corporate Governance to Include Reputation Management in the Board Risk and Management Committee
Proposed Agenda for the 2012 AGM	Updates on PSE Corporate Governance Guidelines Signatories Under the New Guidelines
Timeline for the Preparation and Proposed Content of the Information Statement for the 2012 AGM/2011 Annual Report	Institute of Corporate Directors (ICD) Ratings
Salary Increase Guidance for 2012	Results of the Board and CEO Performance Assessment
Proposed Corporate Governance Report for the Annual Report	New SEC Requirement: SEC Form - ACGR
Review of Senior Leadership Appointments	Proposed Protocols Policy on Information Disclosure Disclosure on Related Party Transactions Board Protocols
2011 Statutory Compliance Report	Updates on the New Stock and Transfer Agent - The Hongkong and Shanghai Banking Corporation Limited Dividend Checks Distribution Agreed Protocols
Board and CEO Performance Assessment Forms	
Corporate Governance Initiatives/ Issues	
Schedule of Corporate Governance Seminars for AboitizPower Officers and Employees	

2011 ICD Scorecard Update	
PSE Corporate Governance Updates	
Term of Independent Directors under SEC Memo No. 9-2011	
Updates to the Manual of Corporate Governance	
Aboitiz Foundation/CSR: 2011 Report and 2012 Program	
Investor Relations: 2011 Report and 2012 Program	
Liability Insurance of Directors and Officers	
August 1, 2012	November 8, 2012
SEC Memo No. 4: Guidelines for the Assessment of the Performance of Audit Committees	Updates on SEC Memo No. 4: Guidelines for the Assessment of the Performance of Audit Committees and Amendment on the Board Audit Committee Charter
Approval of the Revised Manual on Corporate Governance	Updates on ASEAN Corporate Governance Scorecard
Environmental, Social and Governance Analysis of AboitizPower by GMI Analyst	PSE 2012 Bell Awards Evaluation Process Submission of Affidavit or Sworn Statement
Maybank's Market Analysis based on PSE's Scorecard	Investor Relations Report
Updates on the Corporate Governance Seminars for Team Leaders and Team Members	
Investor Relations Report	
January 30, 2013	
Updates on WADDS and Re-Issuance of Stale Dividend Checks	Nominees for the Board of Directors for AboitizPower
Proposed Corporate Governance Report for the Annual Report (ASEAN Scorecard)	2012 Statutory Compliance Report
Submission of the PSE Corporate Governance Guidelines Disclosure Template for the Year 2012	

Attendance record of the Members of the Board Corporate Governance Committee has been exemplary. Individual directors' record of attendance at meetings of the Committee has been 94.29% and overall percentage of directors present at meetings has been 97.14%.

BOARD CORPORATE GOVERNANCE COMMITTEE							
Directors	Feb. 1, 2012	May 11, 2012	Aug. 1, 2012	Nov. 8, 2012	Jan. 30, 2013	TOTAL NO. OF MEETINGS ATTENDED BY EACH MEMBER	PERCENTAGE OF MEETINGS ATTENDED BY EACH MEMBER
Jon Ramon Aboitiz Chairman	P	P	P	P	P	5/5	100.00%
Erramon I. Aboitiz Member	P	P	P	P	P	5/5	100.00%
Jose R. Facundo Independent Director	P	P	P	P	P	5/5	100.00%
Romeo L. Bernardo Independent Director	P	P	P	P	P	5/5	100.00%
Jakob G. Disch Independent Director	P	P	P	P	P	5/5	80.00%
M. Jasmine S. Oporto Ex-officio Member, Chief Compliance Officer	P	P	P	P	P	5/5	100.00%
Xavier Jose Aboitiz Ex-officio Member Chief Human Resources Officer	P	P	P	A	P	4/5	80.00%
							94.29%
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	7/7	7/7	7/7	6/7	7/7		
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	100.00%	100.00%	100.00%	85.71%	100.00%		97.14%

The annual performance assessment of the CEO and members of the Board of Directors are conducted by the Board Corporate Governance Committee. The attendance of directors at Board meetings is reported to the Board Corporate Governance Committee through the Board Performance Report and the Certificates of Attendance. These 2012 record of attendance reports were also submitted to the SEC and PSE on January 14, 2013.

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

practices, information necessary for shareholders decision making, trading of Company shares by directors, officers and controlling shareholders, annual reports, and any material event or information.

BOARD RISK AND REPUTATION MANAGEMENT COMMITTEE

The Board is committed to establishing a fully functioning enterprise risk management system for the Company and its businesses. The Board oversees the Company's risk management functions through the Board Risk and Reputation Management Committee. The Board has adopted a formal risk management policy to guide and direct the Company's risk management and compliance processes and procedures.

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

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

In 2011, the Company's Chief Risk Management Officer established the Company's Enterprise Risk Management platform and conducted a study to benchmark the Company's practices with internationally recognized standards. The incumbent Chief Risk & Reputation Management Officer has continued the planned outlay of the Company's ERM program to bring this to a higher, more institutional level.

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

The Board Risk and Reputation Management Committee is composed of the following members:

BOARD RISK AND REPUTATION MANAGEMENT COMMITTEE	
Enrique M. Aboitiz, Jr.	Chairman
Erramon I. Aboitiz	Director
Jose R. Facundo	Independent Director
Jakob G. Disch	Independent Director
Iker M. Aboitiz	Ex-officio Member, Chief Financial Officer
Susan V. Valdez	Ex-officio Member, Chief Reputation and Chief Risk Management Officer

In its 2012 and 2013 meetings, the Board Risk Management Committee reviewed, discussed, updated, and approved the following matters:

February 1, 2012	August 1, 2012
Formation of the Risk and Reputation Committee	Updates on Risk Finance
Risk Management Team Status Report and 2012 Plans	Revised Risk and Reputation Management Committee Charter
	Updates on Risk Maturity Index
	Social Media Audit Results
	Mindanao Crisis Survey Results

August 1, 2012 *	October 4, 2012
Presentation of the Revised Board Risk and Reputation Management Committee Charter	Updates on Risk Finance
	Highlights on AON Symposium
	Top Risks of SBU
	Updates on Reputation Council Deliverables
December 6, 2012	December 6, 2012*
Risk Management Plan Challenge Updates	Review of Management Systems vs Risk Maturity Index Ratings vs Internal Audit Ratings
Risk Tolerance	2013 Audit Plan - Review of Risk Treatment Plan
Risk Finance Update	
Insurance Renewal	
Insurance Approval Authority	
RM Policy (Approval of Risk Management Manual)	
Social Media Strategy and Next Steps	
WPF Updates	
January 30, 2013	
Risk Finance Update	Project Risk Management - Therma South, Inc.
Aboitiz Foundation - Corporate Social Responsibility Report	

* Joint meeting with the Board Audit Committee

Attendance record of the Members of the Board Risk and Reputation Management Committee has been exemplary. Individual directors' record of attendance at meetings of the Committee has been 95.92% and overall percentage of directors present at said meetings has been 95.24% as shown below.

BOARD RISK AND REPUTATION MANAGEMENT COMMITTEE*									
Directors	Feb. 1, 2012	Aug. 1, 2012	Aug. 1, 2012**	Oct. 4, 2012**	Dec. 6, 2012	Dec. 6, 2012**	Jan. 30, 2013	TOTAL NO. OF MEETINGS ATTENDED BY EACH MEMBER	PERCENTAGE OF MEETINGS ATTENDED BY EACH MEMBER
Enrique M. Aboitiz, Jr., Chairman	P	P	P	P	A	A	P	5/7	71.43%
Erramon I. Aboitiz Member	P	P	P	P	P	P	P	7/7	100.00%
Jose R. Facundo Independent Director	P	P	P	P	P	P	P	7/7	100.00%
Jakob G. Disch Independent Director	P	P	P	P	P	P	P	7/7	100.00%
Iker M. Aboitiz Ex-officio Member Chief Financial Officer	P	P	P	P	P	P	P	7/7	100.00%
Rolando C. Cabrera Ex-officio Member Chief Risk Management Officer***	P	N/A	N/A	N/A	N/A	N/A	N/A	1/1	100.00%
Susan V. Valdez Ex-officio Member AEX Chief Reputation Officer and Chief Risk and Management Officer**** AboitizPower's Chief Reputation and Chief Risk Management Officer****	N/A	P	P	P	P	P	P	6/6	100.00%
									95.92%
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	6/6	6/6	6/6	6/6	5/6	5/6	6/6		
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	100.00%	100.00%	100.00%	100.00%	83.33%	83.33%	100.00%	95.24%	

*Board Risk Management Committee was merged with the Reputation Management, thus formed the Board Risk and Reputation Management Committee.

**Joint meeting of the Board Risk and Reputation Management Committee and Board Audit Committee.

*** Mr. Rolando Cabrera was an Ex-officio member until July 31, 2012. He was replaced by Ms. Susan V. Valdez.

**** Ms. Susan V. Valdez was formally appointed as AboitizPower's Chief Reputation and Chief Risk Management Officer on December 14, 2012.

The Board Risk and Reputation Management Committee's initiatives for 2012-2013 focused on the following key activities: creation and activation of the Risk and Reputation Councils, assistance to the business units in formulating their top risks, assessment of the Risk Maturity Index and Plan of the Group, formulation of financial limits of identified risks for the Group, formulation of financial limits of identified risks for the Group, revision to the Board Risk and Reputation Management Charter, quality assurance review of its internal audit teams, and the Business continuity management review and Claims Management.

Risk Oversight responsibilities are all set in the Manual and all internal control procedures are incorporated in the policies of the revised Board Risk and Reputation Management Committee Charter. The Company discloses its internal control procedures and risk management systems in the Risk Management Report of our Chief Risk and Reputation Management Officer in the Annual Report. The report shows a review of the Company's material controls and risk management systems.

BOARD AUDIT COMMITTEE

The Company recreated its internal audit group into the Group Internal Audit and is overseen by the Board through the Board Audit Committee. The Board Audit Committee represents the Board on all audit-related matters of the Company's group companies. Its work focuses on the optimization of effective financial management, as well as compliance with regulatory reporting requirements for all business units.

The Board Audit Committee oversees the function of the Group Internal Audit in maintaining a comprehensive enterprise-wide compliance program and a robust and institutionalized quality service platform for the Company's internal audit functions that are annually reviewed. The Board Audit Committee, in conjunction with the Group Internal Audit, performs the following functions: reviews and approves non-audit services conducted by the external auditor and corresponding fees, assesses and recommends the external auditor on behalf of the Board to ensure a selection of credible, competent, external auditor with the ability to understand the complexity of the entire range of the transactions of the Company, provides the Board with adequate and relevant information on the external auditors for a fair and transparent selection or tender process, and schedules regular meetings and dialogues with the external audit team (with and without management teams present). The Company's CFO, when invited by the Board Audit Committee, attends the meetings of the Board Audit Committee (a) to ensure immediate clarification and feedback of audit issues to the Board Audit Committee, and (b) to give prompt instructions to the Company of any policy that the Board Audit Committee proposes to implement.

Existing corporate audit policies require that the financial reports are attested to by the CEO and CFO and that a sound internal audit, control and compliance system is in place and working effectively in the Company. The Company follows the policy of rotating lead audit partner of external auditors every five years.

The Group Internal Audit ensures that existing Company mechanisms allow all stakeholders to raise valid audit issues to the Board Audit Committee. The Company's internal audit team is currently pursuing an ISO 9001:2008 Quality Management System to further raise the quality of internal audit services of the Company to itself and to all business units.

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

The Board Audit Committee is composed of at least three directors. Currently, three Independent Directors sit in the Committee. The Chairman of the Board Audit Committee is an Independent Director.

Each member, generally with accounting and finance backgrounds, has adequate understanding, familiarity and competence on most of AboitizPower's financial management systems and environment.

The 2012-2013 Board Audit Committee membership consist of the following:

BOARD AUDIT COMMITTEE	
Jose R. Facundo	Chairman, Independent Director
Romeo L. Bernardo	Independent Director
Jakob G. Disch	Independent Director
Mikel A. Aboitiz	Director
Jaime Jose Y. Aboitiz	Director

For the year 2012-2013, the Board Audit Committee met on the following matters:

February 29, 2012	May 3, 2012
SGV Presentation of Audit Results for Financial Year 2011	AboitizPower YTD March 2012 Financials
AboitizPower YTD 2011 Financials	Presentation of Group Internal Audit
Presentation of Group Internal Audit	Approval of 2012 Audit Masterplan
Updates on EQAR Action Plans	Audit Highlights for Completed Audit Engagements
2012 Internal Audit Plans	Updates for EQAR Action Plan
	Updates on the New Audit Organization
August 1, 2012*	August 2, 2012
Presentation of the revised Board Risk and Reputation Management Committee Charter	AboitizPower YTD June 2012 Financials
	Presentation of Group Internal Audit Revised AboitizPower Audit Charters Audit Highlights for Completed Audit Engagements Updates on YTD Accomplishment and Organization
October 30, 2012	December 6, 2012*
SGV Presentation of the Audit Plan for AboitizPower and Subsidiaries	Review of Management Systems vs Risk Maturity Index Ratings vs Internal Audit Ratings
AboitizPower YTD September 2012 Financials	2013 Audit Plan - Review of Risk Treatment Plan
Presentation of Group Internal Audit	
Approval of AboitizPower Audit Charters	
Audit Highlights on Completed Engagements	
YTD Accomplishment and Organization Updates	

March 1, 2013	
SGV Presentation of the Audit Plan for AboitizPower and Subsidiaries	
AboitizPower YTD 2012 Financials	
Presentation of Group Internal Audit	
2012 Overall Assessment	
2013 Plans and Deliverables	
2012 Accomplishment and Organization Updates	
Board Audit Committee Self-Assessment	

* Joint meeting with the Board Risk and Reputation Management Committee

For the year 2012, the Company has not received any sanctions from regulators on financial reports nor has it received any qualified, adverse and disclaimer opinions on its external audit report. The Board Audit Committee has also reported to the Board the adequacy of the Company's current internal controls.

Attendance record of Members of the Board Audit Management Committee has been good. Individual directors' record of attendance at meetings of the Committee has been 85.71% and overall percentage of directors present at said meetings has been 87.75% as shown below.

BOARD AUDIT COMMITTEE									
Directors	Feb. 29, 2012	May 3, 2012	Aug. 1, 2012*	Aug. 2, 2012	Oct. 30, 2012	Dec. 6, 2012*	Mar. 1, 2013	TOTAL NO. OF MEETINGS ATTENDED BY EACH MEMBER	PERCENTAGE OF MEETINGS ATTENDED BY EACH MEMBER
Jose R. Facundo Chairman/Independent Director	P	P	P	P	P	P	P	7/7	100.00%
Romeo L. Bernardo Independent Director	P	P	P	P	P	P	P	7/7	100.00%
Jakob G. Dich Independent Director	P	P	P	P	A	P	P	6/7	85.71%
Mikel A. Aboitiz	P	A	P	P	P	P	P	6/7	85.71%
Jaime Jose Y. Aboitiz	P	A	P	P	A	A	P	4/7	57.14%
									85.71%
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	7/7	5/7	7/7	7/7	5/7	6/7	6/7		
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	100.00%	71.43%	100.00%	100.00%	71.43%	85.71%	85.71%	87.75%	

* Joint meeting with the Board Risk and Reputation Management Committee and Board Audit Committee

In compliance with SEC Memorandum Circular No. 4: Guidelines for the Assessment of the Performance of Audit Committees of PLCs, the Board Audit Committee and the Board of Directors approved the Amended Board Audit Committee Charter on August 2, 2012 and September 27, 2012, respectively. The Company also disclosed to the PSE and SEC the SEC FORM 17-C in compliance with the SEC Memorandum Circular No. 4 last October 4, 2012.

The role of the Board Audit Committee is important because it ensures that local investors and global capital markets can rely on quality financial statements. The Board Audit Committee approves and submits accurate and transparent financial disclosures and observes adequate risk controls.

The Board Audit Committee Charter contains the purpose, membership, structure, operations, reporting procedures, resources, assessment of the members of the Board Audit Committee and other relevant information.

As reported by the Chairman of the Board Audit Committee in the Annual Report, the Company's internal controls are adequate and the basic control assertions of reliability and integrity have been satisfactorily complied with. Standardization and alignment of processes across the Group have also been satisfactorily addressed during the year 2012.

OTHER COMPANY COMMITTEE/GROUP INITIATIVES

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

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

The LexCom is one of the Aboitiz Group's institutional venue enabling members of the Legal & Corporate Services Team to meet with the executive management to discuss legal issues and concerns that affect the group. It is overseen by the Chief Financial Officer (CFO) of AEV and managed by the Chief Legal Officer of the Aboitiz Group. The legal risk management expertise of the LexCom is fully accessible to the Company. The Company allows the LexCom to have a degree of oversight over the Company's compliance with laws and regulations and contractual obligations. AEV's Chief Human Resources Officer, together with the Company's Chief Financial Officer, the legal team of the Legal and Corporate Services, and the regulatory and legal team of AboitizPower's business units participate in the LexCom meetings. The members of the LexCom report, discuss and assess corporate governance compliance track records, identification and mitigation of legal risks, review of litigation management procedures, tax protocols, current litigation issues and other related matters affecting the companies and its business units, including overall legal expenditure of the Company's business units.

The LexCom meets every two months to regularly update management on ongoing projects or activities handled by the Legal and Corporate Services Team. The purpose of these meetings is to provide Executive Management with up to date and relevant legal developments affecting the businesses of the Company. The LexCom also reviews if there are any requests for waivers or exemptions of company governance rules. The LexCom supports the Company's efforts in maintaining ethical and proper conduct of Company personnel.

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

The Office of the Chief Legal Officer is responsible for ensuring compliance by the Company and its business units, with all relevant laws and regulatory requirements, including the protection and respect for intellectual property rights. The LexCom is responsible for the comprehensive legal compliance program of the Company. As part of its program, the LexCom and the Office of the Chief Legal Officer oversee the appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances by the employees and the business units.

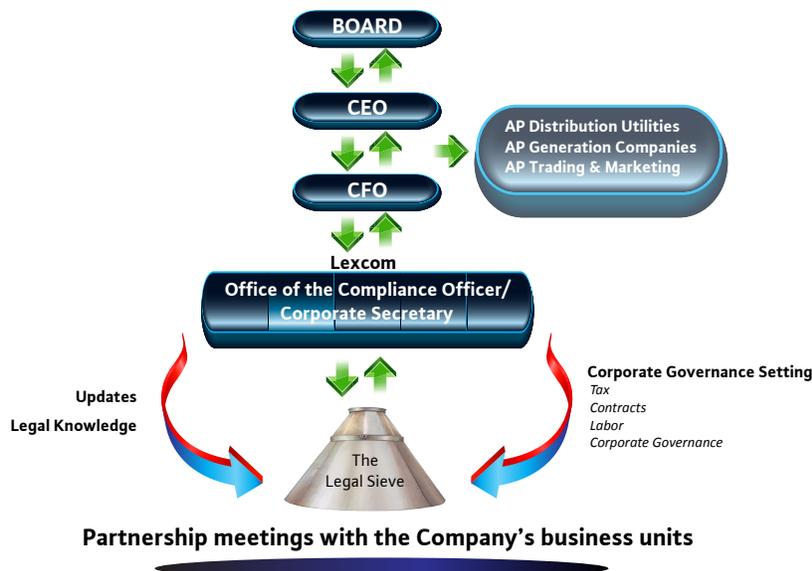
The Company has a regulatory compliance team that handles compliance issues for the Company. The Company also has a Government Relations

Committee composed of senior management and certain members of the Board, having oversight over the Company’s legal and administrative concerns and issues.

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

The LexCom also provides the Company with a whistle blowing forum in addition to the Board Corporate Governance Committee’s oversight functions. Any complaint of whistleblowers is encouraged, reviewed, investigated and reported to the Lexcom for discussion and appropriate action.

The LexCom Functional and Strategic Structure below shows the two-way flow of information of legal issues from the business units to the Board and the forum for addressing legal and corporate governance matters.



BOARD MEETINGS

The Company, through its Board Secretariat, follows well-defined processes and protocols for Board meetings. One practice of the Board Secretariat ensures that Board materials of Directors are provided to the Board at least five calendar days prior to the actual date of the board meeting.

The Board Secretariat recently adopted the use of Diligent Boardbooks technology and platform to assist the Board in its work. The Boardbook is a brand portal that looks and functions like a book of all Board materials in an iPad or laptop and completely paperless. The application is used by the Board of Directors and its Committees during their actual meetings. This application has helped improve governance through an easier and timely communications tool for the Directors and allows easy and portable access of current and historic Company information. The application is also in line with the Company's sustainability efforts to reduce the unnecessary usage of paper.

THE RIGHT OF SHAREHOLDERS

EFFECTIVE EXERCISE OF SHAREHOLDERS' RIGHTS

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

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

The Company is not involved in any legal proceedings for violations pertaining to labor and employment, insolvency, commercial, unfair competition or environmental issues.

The Company has not been charged with any sanctions for failure to make timely disclosures of material information. Shareholders continue to have access to relevant, sufficient and reliable information on a timely and regular basis through its PSE and SEC disclosures.

ONE SHARE - ONE VOTE

The exercise of a shareholder's voting right is encouraged by the Company to ensure meaningful participation in all shareholders' meetings. The Board is directed to remove excessive costs and other administrative or practical impediments to a shareholder's right to vote. The counting of shareholders' votes is done in accordance with the general provisions of the Corporation Code and the Company's internal procedures. The Office of the Corporate Secretary supervises the counting of votes through an electronic platform.

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

PRE-EMPTIVE RIGHTS

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

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

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

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

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

RIGHT TO INSPECT CORPORATE BOOKS AND RECORDS

The Company recognizes the shareholders statutory right to access certain Company information and records. Shareholders enjoy the right to inspect corporate books and records, including minutes of Board and Stockholders' meetings and the stock and transfer registry records affecting their shares, upon reasonable request made to the Office of the Corporate Secretary. The Office of the Corporate Secretary ensures that all minutes of annual and special meetings of shareholders clearly and satisfactorily reflect all matters taken up at these meetings. The issues and motions raised, agreements arrived at during the meetings and corporate acts approved or disapproved are concisely reported. Resolutions and corporate acts approved or disapproved by the shareholders or Board of

Directors are accurately recorded in the minutes. The Corporate Secretary dutifully records the minutes of the meetings and notes the attendance of the members of the Board of Directors and other key officers, who are identified at meetings.

RIGHT TO INFORMATION ON THE CORPORATION

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

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

Annual reports and financial statements of the Company may be secured without cost or restrictions and all of these information are also available on the Company's website.

RIGHT TO PARTICIPATE IN SHAREHOLDERS' MEETINGS

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

The Company's policy on directors' compensation is disclosed to shareholders and to the public and proposed directors' compensation is always presented for shareholder approval at the ASM.

Sycip Gorres Velayo & Co. (SGV), has been the Company's external auditing firm for the last 14 years. By policy, the Company changes its audit partner every five years. The Company complies with the requirements of Section 3(b)(ix) of SRC Rule 68 on the rotation of external auditors or signing partners and the two-year cooling off period. SGV attends all ASMs of the Company.

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

ATTENDANCE AT ANNUAL SHAREHOLDERS' MEETING (ASM)

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

Voting Procedures and Voting Results

All shareholders are given the right to nominate, individually, the members of the Board. Nominations for members of the Board of Directors are received by the Corporate Secretary in accordance with the Company's By-Laws and Guidelines for the Nomination and Election of Independent Directors. The rules and procedure for nomination are clearly set out in the Company's Definitive Information Statement, Annual Report, Guidelines for the Nomination and Election of Independent Directors, and these information are readily accessible through the Company's website.

The voting methods and vote-counting systems employed by the Company during every stockholders meeting are clearly explained to shareholders to ensure the effective exercise of shareholders' right to vote.

Proxy voting is allowed in all meetings and is facilitated through proxy voting forms attached to the notice to the meeting distributed to all shareholders. In keeping with best practices, such proxies are not required to be notarized.

Voting during the ASM is done by poll, under the supervision of the Company's Corporate Secretary and Stock and Transfer Agent and validated by the Group Internal Audit team. The Board Secretariat uses an electronic platform to record the votes.

The Company has no merger or acquisition cases at present. However, in the event of mergers/acquisitions or takeovers, as a practice, the Company engages the independent third parties to provide fairness in evaluation. These corporate actions are always approved or rejected by the shareholders in accordance with the provisions of the Corporation Code.

Shareholder Participation at Shareholders Meeting & Documentation of Minutes

The Office of the Corporate Secretary ensures that all Minutes of annual and special meetings of shareholders clearly and satisfactorily reflect all matters taken up during these meetings. All shareholders are encouraged and given the right to participate in the meetings. The questions and answers, the issues and motions raised, the agreements and resolutions arrived at, the corporate acts approved or disapproved, and the voting results are reported in the Minutes. The Company also discloses to PSE and the SEC all the items approved at the ASM based on the agenda items provided to all shareholders, no later than the next business day after the ASM.

At every ASM, the Company ensures the effective exercise of the rights of its shareholders. There are no barriers or impediments preventing shareholders from consulting or communicating with one another, with the Directors and with the Corporate Secretary.

Shareholders Meeting Venue Accessibility

The Company's ASM is usually held in a hotel in Cebu City, the current principal place of business of the Company. The hotel venue is easily accessible to majority of the shareholders.

Shareholders Meeting Notice and Agenda

The Company provides at least 21 days prior notice for all proposed resolutions and rationale thereof with corresponding explanation for each agenda item requiring shareholders' approval in the notices of the ASM. Such notice is indicated in the Company's Preliminary and Definitive Information Statements and also published in newspapers both in Cebu and in Manila. Each resolution relates to only one agenda item, and a brief rationale or explanation for its inclusion in the ASM is provided. The Company does not include any additional and unannounced agenda item in the ASM if not disclosed prior to the ASM.

The Notices, Minutes, and other Corporate Documents of the Company are written in English, the official language in the Philippines and generally known and understood by the Company's shareholders. The Company releases its Notice of ASM at least 30 days before the date of the meeting.

Together with the notice, the profiles of the nominees for the positions of Board of Directors and the current key officers of the Company are provided to shareholders through the Preliminary and Definitive Information Statements distributed to shareholders before the ASM. The profiles of the nominees, members of the Board and its key officers include their qualifications, work experience, age, and positions and offices held for the past five years, date of first appointment, and other directorships currently and previously held in other listed companies.

The auditors seeking an appointment or re-appointment are clearly identified by the Company.

Voting by Proxy

The shareholders may vote in person or by proxy. Arrangements for proxy voting or voting in absentia are in line with pertinent rules and regulations. The Company provides shareholders with a copy of the Proxy form through the following: (1) printed copy enclosed in the Definitive Information Statement; (2) digital copy inserted in the CD kit containing the soft files of the Definitive Information Statement; and (3) downloadable from the Company's website.

An independent auditor, Luis Cañete & Company, has been appointed as independent inspector for the validation of votes at the 2013 ASM.

RIGHT TO RECEIVE DIVIDENDS

The Company has a clear and transparent dividend policy. This is disclosed in the Operational and Financial Information section of the Annual Report, in the Information Statement and in the Report of its Chief Financial Officer.

In its regular board meeting held on November 28, 2012, the Board of Directors of the Company, approved a revised dividend policy consisting of an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. This new policy changes the previous cash dividend payment ratio of 33% of previous year's net profits. The Company's new dividend policy took effect in its cash dividend declaration in 2013 based on 2012 net income after tax. Cash dividends declared by the Company to common stockholders from 2011-2013 are shown in the table below. (*See Management's Discussion and Analysis or Plan of Action*).

In respect to dividends, shareholders are treated equally, receiving an amount of dividends per share that is proportionate to his their shareholdings. The dividends are paid within 30 days from date of declaration and approval by the Board.

In the last three years, the Company paid the following dividends:

Year	Cash Dividend Per Share	Total Declared
2013	P1.66	P12.22bn
2012 (special dividend)	P0.22	P1.62bn
2012 (regular dividend)	P1.32	P9.71bn
2011	P1.32	P9.71bn

APPRAISAL RIGHT

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

EQUITABLE TREATMENT OF SHAREHOLDERS VOTING RIGHTS OF MINORITY SHAREHOLDERS

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

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

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

FAIR DEALINGS FOR ALL SHAREHOLDERS

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

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

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

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

For purposes of compliance with these rules, the Office of the Corporate Secretary conduct corporate governance seminars for all employees,

from top management to team members. The seminars cover the rules prohibiting insider trading among many other topics on corporate governance rules of the Company. These seminars are being converted into e-learning modules for better employee penetration.

The Company has an existing policy requiring the Board of Directors and the officers to notify the Company at least one day before they deal in the company shares. There has been no violation and conviction of insider trading and abusive self-dealing by directors, management and employees in the past three years.

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

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

DISCLOSURE AND TRANSPARENCY

The Company is committed to elevating our standards of disclosure and transparency and the quality and depth of its corporate governance practices to enable the investing community to understand the true financial condition of the Company. Through the Investor Relations Office,

the Annual Report, the Company website, the Company's Information Statement and all disclosures to the PSE and SEC, the Company publishes timely material information on its businesses. Regular disclosures include details of the Company's subsidiaries, associates, joint ventures and special purpose vehicles, if any. There are no special arrangements enabling certain shareholders to obtain a degree of control disproportionate to their equity ownership that needs to be disclosed.

DISCLOSURE OF MATERIAL INFORMATION

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

DISCLOSURE OF BENEFICIAL OWNERSHIPS OF DIRECTORS AND OFFICERS

The Company has an existing policy requiring the Board of Directors and the officers to report to the Office of the Corporate Secretary any transaction related to the purchase and disposal of Company shares within five business days from date of transaction. The Company discloses the direct and indirect (deemed) shareholdings of major and/or substantial shareholders and the details of the subsidiaries, associates, joint ventures and special purpose enterprises/vehicles. The Company's Definitive Information Statement and Public Ownership Report regularly filed by the Company likewise show the direct and indirect ownership of the Company's shareholders, which include its Board, management, and employees.

The Company has an existing whistleblowing policy to encourage all employees and other stakeholders to report illegal and unethical practices in the Company. AboitizPower supports the disclosure of these practices as the Company believes it will support and further strengthen its competitive advantage.

There has been no incidence where the Company failed to disclose the existence of capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to the disclosed equity ownership. There are no such agreements.

The Company strives to publish a clear, comprehensive and informative Annual Report. The sections on Management Discussion and Analysis or Plan of Action, the Audited Financial Statements and Results of Operations of the Annual Report discuss in detail the financial and operating results of the Company. Other non-financial matters are discussed in the Shareholders' Report and Results of Operations section. Operating risks, particularly major risks, are also discussed in the Audited Financial Statements, and which also include discussions on the Financial Risk Management Objectives and Policies of the Company. *(See other sections of the Annual Report)*

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

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

may have obtained as a result of such activities. The Company may thus exercise certain rights against the director for acting in circumstances such as conflict of interest.

TRANSPARENCY OF AUDIT PROCESS

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

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

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

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

Aside from an internal audit, an annual external audit of the Company is performed by SGV, an independent, competent and qualified auditor. SGV has been the Company's external auditors for the fiscal years 1998 to 2011. SGV provides an external and objective assurance to the Board and shareholders that the financial statements fairly represent the financial position and performance of the Company in all materials aspects. Ms.

Leovina Mae V. Chu is the Company's audit partner for 2012. She replaced Mr. Ladislao Z. Avila, Jr. who served as the audit partner of the Company in 2011. Our external auditors also attend the Company's ASM to respond to questions on the Company's audited financial statements for 2012. They also have the opportunity to make a statement if necessary. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

There has been no event in the past 14 years where the Company and its external auditors or the handling partner had any serious or material disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the selection of external auditor and pre-approves audit plans, scope and frequency before the audit is conducted. Audit services of external auditors for the years 2011 and 2012 were pre-approved by the Board Audit Committee. The Committee also reviews the extent and nature of these services to ensure that the independence of the external auditors is preserved.

The fees paid to the external auditor, for audit services are disclosed by the Company in its Definitive Information Statement. The external audit and consultancy fees of the Company for the years 2012 and 2011 were as follows:

Fee Type	2012	2011
Audit Fees	P331,000	P315,000
Tax Fees	-	-
All Other Fees	-	-
Total	P331,000	P315,000

The Company does not pay non-audit fees to its external auditor, SGV.

LINKAGES TO THE COMPANY

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

In addition, the Office of the Corporate Secretary, Company's Investor Relations Office, its shareholder affairs contact person, its Stock and Transfer Agent are also available for any communications, requests, inquiries or any clarifications. The contact details are provided in the Annual report and in the Company's website. The Investor Relations team provides a venue for shareholders to air out comments or any suggestions and organizes regular analysts' briefing for every disclosure of financial statements. It also ensures that investors/shareholders' queries are responded at least three to five business days.

There have been no major grievances for any alleged violation by the Company's Right of Shareholders.

RELATED PARTIES TRANSACTIONS DISCLOSURES

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

basis. In addition, transaction costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Commitments and Agreements are executed to ensure quality and timeliness of services.

The SEC issued new disclosure guidelines on retirement benefit funds. These guidelines enumerate the minimum disclosure requirements under PAS 24, Related Party Disclosures, and prescribing additional disclosure requirements on the information that would provide an understanding on the transactions of retirement funds with an entity whose employees are the beneficiaries thereof and other investments in securities of the related entity. These disclosure guidelines are applicable to annual financial statements for the period ending December 31, 2012. The Company has always disclosed its transaction in its Annual Report and will continue to disclose in accordance with the new guidelines with more specific requirements as provided under the guidelines.

There has been no reported case of non-compliance with the laws, rules and regulations pertaining to significant or material related party transactions in the past three years.

The Company's Annual Financial Statement (AFS) is filed within 120 days from the end of its fiscal year, as required by the SEC. Our AFS reflects a true and fair representation of the financials that are affirmed by the Board of Directors and relevant officers of the Company. There have been no revisions and restatements of the financials approved by the Board Audit Committee prior to the approval of the Board.

CORPORATE GOVERNANCE AND THE ROLE OF ABOITIZPOWER STAKEHOLDERS

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

It has a long standing Sustainability Program and is committed to the principles of sustainability as these relate to the Company's businesses. Its subsidiaries, SN Aboitiz Power – Benguet, Inc. and Hedcor Sibulan, Inc. have registered their hydroelectric power plants, namely Ambuklao and Binga, under the Clean Development Mechanism (CDM), or carbon trading by the United Nations Framework on Climate Change. This is part of the

Company's contribution to the international response to climate change promoting hydroelectric power projects as a major source of renewable energy for the country. CDM is a mechanism based on the Kyoto Protocol to enable industrialized countries to reduce greenhouse gas, to invest in climate change friendly project in developing countries, allowing them to develop emission reduction projects to earn carbon emission credits. (See Sustainability Report)

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

COMPLIANCE WITH HEALTH, SAFETY AND ENVIRONMENTAL LAWS

The Company's power generation and distribution operations are subject to evolving and stringent safety, health and environmental laws and regulations. For the year 2012, the Company and its subsidiaries and affiliates were fully compliant with the legal standards. AboitizPower and all its generation companies and distribution utilities have been granted Certificates of Compliance from the relevant governmental agencies and bureaus requiring certification. The business units of the Company commit to the expenditure on occupational health and safety measures well worth the investment. To note, the Company has gained recognition for operating without accidents, a clear demonstration of how the Company values health and safety measures in the work environment.

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

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

THE EMPLOYEE AS A STAKEHOLDER

AEV Corporate HR has a universal training passport program for all employees, which is also extended to the Company's employees. This universal training program includes personal development skills such as Principles of Quality Living, Seven Habits, Creating the Future Organization, Basic Quality Awareness, and Working Program, to name just a few in-house training skills. The Company adheres to a merit-based performance incentive pay compensation package that includes some form of employee stock ownership plans, merit increase schemes and bonus schemes for performance and incentives to employees. The Company offers not only statutory benefits but also additional internal benefits program to enhance the quality of life of our employees.

The AboitizPower employee benefit package aims to foster a culture that realizes, rewards and celebrates the Aboitiz values and culture across the group. The Company's HR Department recently launched an Inspired by Passion campaign to provide an organized and purposive framework for all HR Initiatives and promote a thematic communication plan coming from the HR pillars of Attraction, Retention and Optimization. The Company is committed to addressing the four basic needs of individuals in organizations.

The programs and strategic initiatives of the HR Department are covered within the categories of Body and Physical Wellness programs (e.g. Compensation and Benefits Information, Health Talks, Fitness, Biggest Loser Competition, Fitness Clubs and Safety and Protection Programs); Belongingness (e.g., Coffee with the President, Company Events, Quality Focus, Creating the Future Organization, Employee's Recognition, Team Celebrations, Good Health Bonus, Annual Merit Increase and Promotions); Soul and Spirit , Sense of Purpose (e.g., CSR Activities); and Learning and Growth (e.g., Universal Training Programs and other work-related trainings, E-learning, Educational Leave and Assistance, Financial Wellness, SuccessFactors, and U-21). These initiatives recently won in the Company's Team Awards for Driven to Excel category.



Corporate HR's mission is to "To Attract, Retain and Optimize our A-people; constantly adding value to our businesses". This aims to expand the Aboitiz Group's and the Company's reach to identify talent, to continue to develop the Aboitiz Talent Management Program (ATMP), to strengthen traditional programs targeted at the "Body and "Mind" and to expand retention programs to include more "Heart and "Spirit".

In an ever changing need for gender equality in the workplace, the Company makes sure that there is no discrimination for all types of employees based on the gender. The employees are hired and promoted on the basis of their qualifications, experiences, capabilities and merits relating to the performance of their jobs and not on the basis of gender. Male and female employees are substantially even numbered.



ABOITIZ POWER CORPORATION

	Female	Male	Total
Top Management Team	6	18	24
Middle Management Team	13	19	32
Staff	20	21	41
	39	58	97

EMPLOYEE RELATIONS

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

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

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

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

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

The Investor Relations Office conducted investors' briefings in March 2, 2012, May 4, 2012, August 15, 2012 and October 31, 2012 as a forum for investors to discuss the Full Year 2011 Financial Operating Results, First Quarter 2012 Financial and Operating Results, First Half 2012 Financial and Operating Results and Third Quarter 2012 Financial and Operating Results, respectively.

The Risk and Reputation Management Team also conducted media briefings and press conferences on March 27, August 31, July 30, November 6, May 21, May 27, and November 27, 2012 as media fora to discuss various Company updates and other events like the Earth Hour, Aklat Gabay, Aruga Tungo sa Pag Angat at Pag-asa (AGAPP), sponsored events like Golf Tournaments and Football Cup, Pilmico Expo, and other types of briefings.

Policy on Safeguarding Creditor's Rights

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

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

Anti-Corruption Policy

As a PLC, the Company is subject to numerous stringent laws and regulations. All Company employees are made aware of their responsibility to know and understand the laws applicable to their respective job responsibilities and are directed to comply with both the letter and the spirit of these laws. All Company employees are expected to behave properly within the bounds of law and also cautioned to avoid any appearance of impropriety. The Company ensures that all stakeholders are aware of these various laws operating within its own environment, and adopts policies to encourage participation and prevent any violation of these laws. One such policy is the non-acceptance of gifts from persons who have a beneficial relationship with the Company. The Company makes it a point that employees know that gifts and special favors may create an inappropriate expectation or feeling of obligation. Further, it is a policy of the Company that business gifts to, and entertainment of, non-government employees in connection with business discussions or the development of business relationships are only appropriate if they are in the ordinary course of business and their value is modest.

Moreover, in dealings with suppliers and other business partners, the Company likewise ensures that they are likewise compliant with the laws, such as requiring a certificate of registration from the Bureau of Internal Revenue. Another example is the detachment of the Board, management and employees from any conflict of interest as mandated in the Company's Code of Ethics and Business Conduct. All directors are prohibited from participating in any Board discussion or decision affecting their personal, business or professional interests. All employees, officers and directors have an obligation to act in the best interest of the Company.

Policy on Occupational Health and Safety

The Company has a corporate policy on Occupational Health and Safety, which mandates Management to eliminate any likely hazards or work situations that may result to property loss or damage, accidents or personnel illness and injury. It is the policy of the Company to protect both people and property.

The Company is committed to strike a balance among economic growth, social development and environmental stewardship in the conduct of its business. The Company implements programs that promote environmental preservation as well as social and economic development in the communities where its businesses operate. To fulfill this commitment, Management provides and maintains a healthy and safe work environment in accordance with industry standards and in compliance with legislative requirements. All Team Members are equally responsible for maintaining healthy and safe workplaces that minimize the probability for accidents or hazardous incidents. Accidental loss can be controlled through proactive management and active employee involvement.

All business and corporate service units of AboitizPower comply with all legislative occupational health and safety requirements as they relate to planning, operation and maintenance of facilities and equipment usage. All personnel perform their job tasks properly and in accordance with established safe work practices and procedures.

To strengthen Company's efforts in promoting occupational health and safety, some of the business units conduct safety and skills competition in Davao and Benguet. These events are held annually to refresh employees on safety practices and technical skills. In support of the observance of the National Electrical Engineers of the Philippines, Inc., Davao Light & Power Company initiated Intensified Safety or I-Safety Campaign. The campaign aims to inform its customers on the hazards of electricity so they can avoid accidents. Aside from giving information on the risks related to electricity, the campaign also included an anti-pilferage presentation aimed at educating and protecting the customers from unscrupulous acts related to electricity theft. There were also presentations on energy saving tips and how to read an electric meter to help them manage their electricity.

RELATIONS WITH THE COMMUNITY AND THE ENVIRONMENT

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

In pursuit of striking a balance between economic growth and sustainability, the Company implements programs that promote environmental preservation, such as the Mt. Apo Natural Park rejuvenation projects, and social and economic development in the communities where its businesses operate through the Aboitiz Foundation. The Company's business units implement programs designed to make their operations more cost-efficient at the same time foster meaningful and long term partnerships with their host communities. The Company not only respects sustainability of the environment and natural resources, but also considers the immeasurable legacy and culture of indigenous peoples.

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

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

CORPORATE SOCIAL RESPONSIBILITY COMMITMENT

As part of the Company's conscious efforts, we embrace the "Three Ps" – People, Planet and Profit as part of the Aboitiz Way. The "Three Ps" is otherwise known as the triple bottom line approach offering a far more expanded measure of organizational success than merely financial results. Numerous programs are implemented under the Three Ps policy.

The Company implements programs that promote environmental preservation as well as social and economic development in the communities where its businesses operate. The Aboitiz Group, driven by its passion for a better world, continues to pursue initiatives to help enrich

the planet through various sustainable projects that it has implemented in 2012. A highlight of its “green efforts” last year was the planting of 640,000 seedlings all across the country under the Group’s Aboitiz Passion for Reforest and Agroforest to Keep (APARK) Program. The seedlings planted were mostly of native or indigenous species as well as of the fruitbearing variety. The Company through its various operating business units are on track to surpass its Million trees projects for preserving or rehabilitating the watersheds surrounding their power plants and other identified sites. The policy of sustainability of businesses is an integral part of the way the Company conducts its businesses. An ingrained CSR agenda is part of the Company’s contribution to enriching the lives of its neighboring communities as well as a legacy to the country. (See *Aboitiz Foundation Inc. Annual Report*).

The Company also initiated CSR activities which focus on the five-program components namely: education, enterprise development, primary health and child care and environment supported by corporate donations of its business units. Through its commitment to give back to the community, the employees have also initiated projects such as disaster relief programs, Christmas outreach and brigada eskwela.

In 2012, the Company and Aboitiz Foundation, Inc. included in its many CSR initiatives partnership with organizations like AMORE and HAPINOY, organizations which provide livelihood opportunities and improvement of the quality of life of rural, off-grid households through sustainable renewable energy projects.

As part of AboitizPower’s commitment in nurturing the environment and conserving the Earth’s diminishing resources, the Company adopted a female Philippine Eagle, and named her Pangarap. Pangarap’s home is in the Philippine Eagle Center in Calinan, Davao City. By providing Pangarap food and shelter, we hope to protect the Philippine Eagle, one of the most endangered species in the world. We are also hoping that Pangarap can successfully give birth to off springs in the future, and contribute to saving our national bird from extinction.

To further promote environmental protection and awareness among the youth, AP Renewables Inc. successfully conducted the Forest Nurturing and Cleaning up Project for the Makiling-Banahaw (MakBan) geothermal power plant premises located in Laguna and Batangas with more than 100 participants in attendance. Most volunteers were participants of AboitizPower’s Youth Eco Camp, whose members have established

their own school organizations to support efforts to protect and nurture the environment and lessen one's carbon footprint as promoted by AboitizPower.

The Aboitiz Group is working together with donors from the private sector to support the Philippine Government in its efforts to reduce weather-related disaster risks in the country through its partnership with Meteomedia of Switzerland. Aboitiz and Meteomedia established the Weather Philippines Foundation (WeatherPhilippines) to operate a premiere weather forecasting system. The system provides free weather information to the public to reduce risks and calamities associated with adverse climate conditions in the country through a planned deployment of 1000 plus automated weather stations donated by the various business units. The Company, through WeatherPhilippines, aims to provide accurate and reliable weather forecasts throughout the whole country. The ultimate goal of WeatherPhilippines is to complement the Department of Science and Technology's (DOST) Project NOAH (Nationwide Operational Assessment of Hazards). WeatherPhilippines also operates a portal, "weather.com.ph", featuring a wealth of weather information transmitted through telecommunications and other multi-media accessible to all persons. (*See weather.com.ph*)

The Company also participates in annual Earth Hour event in partnership with the World Wildlife Fund and the Cebu City government, taking a step further in its efforts to reduce its carbon footprint. The Aboitiz Group and its partners joined the rest of the country and the world in shutting off lights from 8:30 p.m. to 9:30 p.m. to conserve energy and lessen carbon dioxide emissions for at least an hour. After an hour, our distribution utility, Visayan Electric Company, Inc., announced that there was a documented drop of 16.55 MW of power in its franchise area, where the utility supplies 308 MW of power daily.

The Company continues to reaffirm our commitment to do our share to protect and enrich our planet and to uplift the well-being of our communities through the implementation of the various sustainability and CSR projects. The Company is constantly finding efforts to ensure that its value chain is environmentally-friendly and is consistent with promoting sustainable development.

COMPANY AWARDS & RECOGNITION

The Company has been consistently considered as one of the top Philippine companies by the Institute of Corporate Directors (ICD) and Corporate Governance Asia for its commitment to good corporate governance practices. For its 2011 ICD corporate governance scorecard, it was recognized as a top Company practicing good corporate governance. In 2012, the Company received an award in the 3rd Asian Excellence Recognition Awards of Corporate Governance Asia held in Hong Kong on March 27, 2013. The Asian Excellence Recognition Awards are designed to recognize excellence in investor communications, business ethics, CSR, environmental practices and financial performance. Among of the awards received at the 3rd Annual Recognition are the following: Asia's Best CEO (Investor Relations) – Erramon Aboitiz (AEV), Best CSR (AEV), Best Investor Relations by Company (AEV), Best CFO (AboitizPower) – Iker Aboitiz, and Best Environmental Responsibility (AboitizPower).

AboitizPower's SN Aboitiz Power-Magat, Inc., a renewable energy generator, provides ancillary services necessary to maintain power quality, reliability and security of the Philippine transmission grid. SN Aboitiz Power-Benguet, Inc. was awarded Silver Prize in the Best Power Plant Upgrade category by the Asian Power Awards for its rehabilitation of the Ambuklao-Binga hydroelectric power plant. This recognition is given to companies who show evidence of "going beyond simple compliance, and being driven by competitiveness, image and supply chain requirements to improve their performance".

SN Aboitiz Power-Magat was also given the Safety Milestone Recognition (Smile) Awards by the Department of Labor and Employment's Bureau of Working Conditions (DOLE-BWC) for achieving record man-hours without a lost-time incident. Other awards include the Asian Power Awards, the Anvil Awards of Excellence, and the Gawad Kaligtasan at Kalusugan for Occupational Safety & Health Practices.

Hedcor, Inc. (Hedcor) is an ISO 14001 certified company for Environment Management Systems, a testimony of its commitment to environmental activities and stewardship. Hedcor was recently awarded separate certifications for ISO 27001, the international standard for Information Security Management Systems or ISMS, and ISO 9001 for Quality Management System. Both certifications were issued in October 2012. Hedcor is ISO-certified for OHSAS 18001, Occupational Health and Safety. It is also a recipient of the Safety Milestone award of the Department of

Labor and Employment (DOLE). The business units under the AboitizPower Group also received various awards and recognitions, such as the Philippine Environmental Partnership Program (PEPP) awarded to Hedcor Sibulan, Inc., the Company's Passion for Better Ways awards, over-all winner on Benguet safety Olympics, the Tripartite Certificate of Compliance with Labor Standards and Best Police Community Relations – for NGO, the Award of Honor (Safety), Safety Milestone Award, the Corporate Safety Excellence Award, the PEPP Seal of Approval, the Success Story Award, the Saringaya Special Award for Multipartite Monitoring Team, the DOLE Secretary's Award for Distinction, the Safety Recognition Award as DOLE Accredited Occupational Safety and Health Practitioner for 2011, the Outstanding Safety Professional Award and the Outstanding Pollution Control Officer for 2012.