



















**ABOITIZ POWER CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF JUNE 30, 2008 AND DECEMBER 31, 2007**  
(Amounts in Thousands)

|  | UNAUDITED<br>JUN 2008 | AUDITED<br>DEC 2007 |
|--|-----------------------|---------------------|
| <b>ASSETS</b>  |                       |                     |
| <b>Current Assets</b>                                      |                       |                     |
| Cash and cash equivalents                                  | 10,305,267            | 13,287,811          |
| Trade and other receivables - net                          | 2,561,599             | 1,661,120           |
| Inventories - net  | 534,379               | 374,628             |
| Other current assets                                       | 434,402               | 348,225             |
| <b>Total Current Assets</b>                                | <b>13,835,647</b>     | <b>15,671,784</b>   |
| <b>Noncurrent Assets</b>                                   |                       |                     |
| Property, plant, and equipment - net                       | 5,013,064             | 4,429,044           |
| Investment Property  | 10,000                | 10,000              |
| Investments and advances                                   | 16,828,959            | 14,888,057          |
| Available-for-sale (AFS) investments                       | 8,999                 | 8,999               |
| Goodwill   | 996,005               | 996,005             |
| Pension Asset  | 28,525                | 28,752              |
| Deferred income tax assets                                 | 10,378                | 60,677              |
| Other noncurrent assets - net                              | 61,434                | 69,642              |
| <b>Total Noncurrent Assets</b>                             | <b>22,957,364</b>     | <b>20,491,176</b>   |
| <b>TOTAL ASSETS</b>  | <b>36,793,011</b>     | <b>36,162,960</b>   |
| <b>LIABILITIES AND EQUITY</b>                              |                       |                     |
| <b>Current Liabilities</b>                                 |                       |                     |
| Bank loans   | 3,636,900             | 3,343,680           |
| Trade and other payables                                   | 2,480,802             | 2,694,114           |
| Income tax payable   | 124,803               | 111,898             |
| Current portion of long-term debt                          | 3,346                 | 20,371              |
| Current portion of payable to preferred shareholders       | 7,506                 | 7,506               |
| <b>Total Current Liabilities</b>                           | <b>6,253,357</b>      | <b>6,177,569</b>    |
| <b>Noncurrent Liabilities</b>                              |                       |                     |
| Long-term debt - net of current portion                    | 856,000               | 817,515             |
| Customers' deposits  | 1,456,279             | 1,373,932           |
| Payable to preferred stockholders                          | 76,443                | 97,225              |
| Pension liability  | 19,526                | 15,367              |
| Deferred income tax liability                              | 29,580                | 38,818              |
| <b>Total Noncurrent Liabilities</b>                        | <b>2,437,828</b>      | <b>2,342,857</b>    |
| <b>Total Liabilities</b>                                   | <b>8,691,185</b>      | <b>8,520,426</b>    |
| <b>Equity Attributable to Equity Holders of the Parent</b> |                       |                     |
| Capital stock  | 7,358,604             | 7,358,604           |
| Additional paid-in capital                                 | 12,588,894            | 12,588,894          |
| Share in cumulative translation adjustments of associates  | (475,161)             | (629,346)           |
| Acquisition of Minority Interest                           | (261,050)             | (109,065)           |
| Retained earnings  | 8,265,544             | 7,814,023           |
|  | 27,476,831            | 27,023,110          |
| <b>Minority Interests</b>                                  | <b>624,995</b>        | <b>619,424</b>      |
| <b>Total Equity</b>  | <b>28,101,826</b>     | <b>27,642,534</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        | <b>36,793,011</b>     | <b>36,162,960</b>   |

**ABOITIZ POWER CORP. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE PERIODS ENDED JUNE 30, 2008 AND 2007**  
(Amounts in Thousands)  
(UNAUDITED)

|                                     | JAN-JUN/08       | JAN-JUN/07 | APR-JUN 08       | APR-JUN 07 |
|-------------------------------------|------------------|------------|------------------|------------|
| <b>REVENUES</b>                     | <b>6,096,968</b> | 5,258,751  | <b>3,127,615</b> | 3,154,525  |
| <b>COSTS AND EXPENSES</b>           | <b>5,281,004</b> | 4,399,324  | <b>2,692,603</b> | 2,607,994  |
| <b>GROSS PROFIT</b>                 | <b>815,964</b>   | 859,427    | <b>435,012</b>   | 546,531    |
| <b>OTHER INCOME (CHARGES)</b>       |                  |            |                  |            |
| Share in net earnings of associates | <b>1,309,926</b> | 676,332    | <b>623,438</b>   | 484,052    |
| Interest income                     | <b>267,375</b>   | 20,478     | <b>118,721</b>   | 10,219     |
| Interest expense                    | <b>(137,364)</b> | (51,478)   | <b>(61,300)</b>  | (24,287)   |
| Other income (charges)              | <b>166,933</b>   | (54,367)   | <b>100,792</b>   | (75,630)   |
|                                     | <b>1,606,870</b> | 590,965    | <b>781,651</b>   | 394,354    |
| <b>INCOME BEFORE INCOME TAX</b>     | <b>2,422,834</b> | 1,450,392  | <b>1,216,663</b> | 940,885    |
| <b>PROVISION FOR INCOME TAX</b>     | <b>326,621</b>   | 254,211    | <b>139,611</b>   | 165,491    |
| <b>NET INCOME</b>                   | <b>2,096,213</b> | 1,196,181  | <b>1,077,052</b> | 775,394    |
| <b>ATTRIBUTABLE TO:</b>             |                  |            |                  |            |
| <b>EQUITY HOLDERS OF THE PARENT</b> | <b>2,064,800</b> | 1,123,574  | <b>1,053,846</b> | 708,426    |
| <b>MINORITY INTERESTS</b>           | <b>31,413</b>    | 72,607     | <b>23,206</b>    | 66,968     |
|                                     | <b>2,096,213</b> | 1,196,181  | <b>1,077,052</b> | 775,394    |

**Earnings Per Common Share \*\***

|   |             |      |             |      |
|---|-------------|------|-------------|------|
| Basic, for income for the period attributable to ordinary holders of the parent   | <b>0.28</b> | 0.21 | <b>0.14</b> | 0.13 |
| Diluted, for income for the period attributable to ordinary holders of the parent | <b>0.28</b> | 0.21 | <b>0.14</b> | 0.13 |

\*\* Refer to Disclosure F for the computation of Earnings per Common Share.

ABOITIZ POWER CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE PERIODS ENDED JUNE 30, 2008 AND DECEMBER 31, 2007

Attributable to equity holders of the parent

|  | Capital Stock<br>Common | Additional<br>Paid-in Capital | Share in<br>Cumulative<br>Translation<br>Adjustments of<br>Associates | Acquisition of<br>Minority Interest | Retained<br>Earnings | Minority<br>Interests | Total             |
|--|-------------------------|-------------------------------|---|-------------------------------------|----------------------|-----------------------|-------------------|
| <b>Balances at December 31, 2007</b>                                 | <b>7,358,604</b>        | <b>12,588,894</b>             | <b>(629,346)</b>  | <b>(109,065)</b>                    | <b>7,814,023</b>     | <b>619,424</b>        | <b>27,642,534</b> |
| Net income for the period  |                         |                               |   |                                     | 2,064,800            | 31,413                | 2,096,213         |
| Cash dividends (P0.18 per share)                                     |                         |                               |   |                                     | (1,324,549)          |                       | (1,324,549)       |
| Share in IFRIC adjustments of associate                              |                         |                               |   |                                     | (288,730)            |                       | (288,730)         |
| Acquisition of minority interests                                    |                         |                               |   | (151,985)                           |                      |                       | (151,985)         |
| Change in minority interests   |                         |                               |   |                                     |                      | (25,842)              | (25,842)          |
| Share in movement of cumulative translation adjustment of associates |                         |                               | 154,185   |                                     |                      |                       | 154,185           |
| <b>Balances at March 31, 2008</b>                                    | <b>7,358,604</b>        | <b>12,588,894</b>             | <b>(475,161)</b>  | <b>(261,050)</b>                    | <b>8,265,544</b>     | <b>624,995</b>        | <b>28,101,826</b> |

Attributable to equity holders of the parent

|  | Capital Stock<br>Common | Additional<br>Paid-in Capital | Share in<br>Cumulative<br>Translation<br>Adjustments of<br>Associates | Acquisition of<br>Minority Interest | Retained<br>Earnings | Minority<br>Interests | Total             |
|--|-------------------------|-------------------------------|---|-------------------------------------|----------------------|-----------------------|-------------------|
| <b>Balances at December 31, 2006</b>                                 | <b>4,889,320</b>        | <b>-</b>                      | <b>107,427</b>  | <b>-</b>                            | <b>3,675,580</b>     | <b>90,739</b>         | <b>8,763,066</b>  |
| Issuance of capital stock  | 2,338,776               | 12,493,722                    |   |                                     |                      |                       | 14,832,498        |
| Net income for the period  |                         |                               |   |                                     | 4,138,443            | 109,300               | 4,247,743         |
| Collection of subscriptions receivable                               | 110,680                 |                               |   |                                     |                      |                       | 110,680           |
| Acquisition of minority interests                                    | 19,828                  | 95,172                        |   | (109,065)                           |                      | (5,935)               | -                 |
| Change in minority interests   |                         |                               |   |                                     |                      | 425,320               | 425,320           |
| Share in movement of cumulative translation adjustment of associates |                         |                               | (736,773)   |                                     |                      |                       | (736,773)         |
| <b>Balances at December 31, 2007</b>                                 | <b>7,358,604</b>        | <b>12,588,894</b>             | <b>(629,346)</b>  | <b>(109,065)</b>                    | <b>7,814,023</b>     | <b>619,424</b>        | <b>27,642,534</b> |

ABOITIZ POWER CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE PERIOD ENDED JUNE 30, 2007

Attributable to equity holders of the parent

|   | Capital Stock<br>Common | Additional<br>Paid-in Capital | Share in<br>Cumulative<br>Translation<br>Adjustments<br>of<br>Associates | Retained<br>Earnings | Minority<br>Interests | Total             |
|---|-------------------------|-------------------------------|--|----------------------|-----------------------|-------------------|
| <b>Balances at December 31, 2006</b>                                    | 4,889,320               | -                             | 107,427  | 3,675,580            | 90,739                | 8,763,066         |
| Issuance of capital stock   | 510,680                 | 3,558,760                     |  |                      |                       | 4,069,440         |
| Net income for the period   |                         |                               |  | 1,123,574            | 72,607                | 1,196,181         |
| Change in minority interests  |                         |                               |  |                      | 493,003               | 493,003           |
| Share in movement of cumulative translation<br>adjustment of associates |                         |                               | (108,220)  |                      |                       | (108,220)         |
| <b>Balances at March 31, 2007</b>                                       | <b>5,400,000</b>        | <b>3,558,760</b>              | <b>(793)</b>   | <b>4,799,154</b>     | <b>656,349</b>        | <b>14,413,470</b> |

**ABOTTIZ POWER CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED JUNE 30, 2008 AND 2007**  
**(Amounts in Thousands)**  
**(UNAUDITED)**

|   | JAN-JUN/08         | JAN-JUN/07       | APR-JUN 08        | APR-JUN 07       |
|---|--------------------|------------------|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                    |                  |                   |                  |
| Income before income tax  | 2,422,834          | 1,450,392        | 1,216,663         | 940,885          |
| Adjustments for:  |                    |                  |                   |                  |
| Share in net earnings of associates   | (1,309,926)        | (676,332)        | (623,438)         | (484,052)        |
| Depreciation and amortization   | 233,807            | 246,635          | 122,952           | 149,048          |
| Interest income   | (267,375)          | (20,478)         | (118,721)         | (10,219)         |
| Interest expense  | 137,364            | 51,478           | 61,300            | 24,287           |
| Unrealized foreign exchange loss  | 48,981             | 120,728          | 65,282            | 110,792          |
| Gain on sale of available for sale investments                                |                    | (1,123)          |                   | (1,076)          |
| Loss on sale of property, plant & equipment                                   |                    | 527              |                   | 527              |
| Operating income before working capital changes                               | 1,265,685          | 1,171,827        | 724,038           | 730,192          |
| Changes in:   |                    |                  |                   |                  |
| Decrease (increase) in operating current assets                               | (1,093,663)        | 1,275,566        | (943,162)         | 1,168,093        |
| Increase (decrease) in operating current liabilities                          | (127,942)          | 857,765          | 1,355,325         | 1,005,585        |
| Cash provided by operations   | 44,080             | 3,305,158        | 1,136,201         | 2,903,870        |
| Income and final taxes paid   | (331,399)          | (155,005)        | (259,070)         | (148,636)        |
| Net cash provided by (used in) operating activities                           | (287,319)          | 3,150,153        | 877,131           | 2,755,234        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                    |                  |                   |                  |
| Dividends received  | 1,233,299          | 503,943          | 980,225           | 407,407          |
| Interest received   | 214,631            | 17,206           | 118,721           | 31,515           |
| Additional investments in associates  | (1,567,117)        | (6,369,742)      | (1,549,147)       | (6,369,742)      |
| Collection of (payments for) advances to associates                           | (431,702)          |                  | (711,501)         | 23,486           |
| Acquisitions of property, plant and equipment - net                           | (817,828)          | (254,195)        | (498,643)         | (226,627)        |
| Acquisitions net of cash  |                    | 21,588           |                   | 21,588           |
| Decrease in Acquisition of Minority Interest                                  | (177,948)          |                  |                   |                  |
| Proceeds from sale of investments in shares of stock                          |                    | 1,123            |                   | 1,123            |
| Decrease (increase) in other assets   | 97,301             | (256,563)        | 23,847            | (196,370)        |
| Net cash used in investing activities   | (1,449,364)        | (6,336,640)      | (1,636,498)       | (6,307,620)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                  |                    |                  |                   |                  |
| Proceeds from loans payable   | 293,220            | 393,300          | 254,340           | 372,300          |
| Proceeds from (payments of) long-term debt                                    | 21,460             | (323,178)        | 24,680            | (295,678)        |
| Payments of payable to preferred shareholders of subsidiaries                 | (20,782)           |                  | 5,891             |                  |
| Interest paid   | (140,386)          | (58,231)         | (61,300)          | (23,805)         |
| Proceeds from issuance of capital stock                                       |                    | 4,069,440        |                   | 4,093,680        |
| Cash dividends paid   | (1,324,549)        |                  |                   | 507,552          |
| Increase (decrease) in minority interest                                      | (25,844)           | (21,198)         | 1,001             | (4,725)          |
| Net cash provided by (used in) financing activities                           | (1,196,881)        | 4,060,133        | 224,612           | 4,649,324        |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                   | <b>(2,933,564)</b> | <b>873,646</b>   | <b>(534,755)</b>  | <b>1,096,938</b> |
| <b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH &amp; CASH EQUIVALENTS</b> | <b>(48,980)</b>    | <b>(120,728)</b> | <b>(65,282)</b>   | <b>(110,792)</b> |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                       | <b>13,287,811</b>  | <b>1,494,272</b> | <b>10,905,304</b> | <b>1,261,044</b> |
| <b>CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD</b>                       | <b>10,305,267</b>  | <b>2,247,190</b> | <b>10,305,267</b> | <b>2,247,190</b> |

**ABOITIZ POWER CORP. AND SUBSIDIARIES**  
**FINANCIAL STATEMENT SCHEDULES AND DISCLOSURES**  
**AS OF JUNE 30, 2008 AND DECEMBER 31, 2007**  
(peso amounts in thousands)

**A. INVESTMENTS AND ADVANCES**

|   | % OWNERSHIP<br>2008 | JUN 2008          | DEC 2007          |
|---|---------------------|-------------------|-------------------|
| Investments in shares of stock                          |                     |                   |                   |
| At equity   |                     |                   |                   |
| Acquisition cost:                                       |                     |                   |                   |
| Redondo Peninsula Energy, Inc.                          | 50.00%              | 5,000             |                   |
| Cebu Coal Project                                       | 44.00%              | 807,199           |                   |
| San Fernando Electric Light & Power Co., Inc.           | 43.78%              | 180,864           | 180,864           |
| Pampanga Energy Ventures, Inc.                          | 42.84%              | 209,465           | 209,465           |
| Visayan Electric Co., Inc.                              | 55.09%              | 654,828           | 652,843           |
| Hijos de Escaño, Inc.                                   | 46.66%              | 857,237           | 857,197           |
| Southern Philippines Power Corporation                  | 20.00%              | 152,587           | 152,587           |
| Western Mindanao Power Corporation                      | 20.00%              | 263,664           | 263,664           |
| STEAG   | 34.00%              | 4,400,611         | 4,384,045         |
| East Asia Utilities Corporation                         | 50.00%              | 1,009,143         | 1,009,143         |
| Manila Oslo Renewable Enterprise, Inc.                  | 83.33%              | 4,558,371         | 3,822,043         |
| Luzon Hydro Corporation                                 | 50.00%              | 1,048,250         | 1,048,250         |
| Cordillera Hydro Corporation                            | 35.00%              | 88                | 88                |
| Cebu Praedia Development Corporation                    | 11.73%              | 27,749            | 27,749            |
| Balance at end of period                                |                     | 14,175,056        | 12,607,938        |
| Accumulated equity in net earnings:                     |                     |                   |                   |
| Balance, beginning of year                              |                     | 2,979,930         | 771,685           |
| Share in net earnings for the year                      |                     | 1,309,926         | 2,790,038         |
| Share in associates' prior period's adjustments (IFRIC) |                     | (288,730)         |                   |
| Cash dividends received                                 |                     | (1,233,299)       | (581,793)         |
| Balance, end of period                                  |                     | 2,767,827         | 2,979,930         |
| Share in associates' cumulative translation adjustments |                     | (475,161)         | (629,346)         |
| <b>Investments, at equity</b>                           |                     | <b>16,467,722</b> | <b>14,958,522</b> |
| <b>Advances to investees</b>                            |                     | <b>361,237</b>    | <b>(70,465)</b>   |
|   |                     | <b>16,828,959</b> | <b>14,888,057</b> |





## H. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and long term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, amounts owed by parent company and related parties, accounts payable and accrued expenses and customers' deposits, which arise directly from its operations.

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

**Liquidity risk.** Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Group maintains sufficient cash and cash equivalents to finance operations. Any excess cash is invested in short term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations. The Group, in general, matches the appropriate long-term funding instruments with the general nature of its equity investments.

In managing its long term financial requirements, the Group's policy is that not more than 25% of long term borrowings should mature in any twelve-month period. 0.45% of its debt will mature in less than one year at June 30, 2008 (December 31, 2007: 1.20%). For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short term debt.

**Interest rate risk.** The Group's exposure to market risk for changes in interest rates relates primarily to its long term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of June 30, 2008, 77% of the Group's long term debt had floating interest rates ranging from 6.29% to 7.65%, and 23% are with fixed rates ranging from 8.78% to 10.02%. As of December 31, 2007, 80% of the Group's long term debt had floating interest rates ranging from 6.21% to 6.89%, and 20% are with fixed rates ranging from 8.78% to 9.5%.

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

### As of June 30, 2008

|  | <1 year | 1-5 years | >5 years | Total   |
|--|---------|-----------|----------|---------|
| Floating rate - long-term debt                               | 1,000   | 646,000   | —        | 647,000 |
| Fixed rate - long-term debt                                  | 2,346   | 95,455    | 114,545  | 212,346 |
| Floating rate - payable to pref shareholders of subsidiaries | 7,506   | 76,443    | —        | 83,949  |
|  | 10,852  | 817,898   | 114,545  | 943,295 |

### As of December 31, 2007

|  | <1 year | 1-5 years | >5 years | Total   |
|--|---------|-----------|----------|---------|
| Floating rate - long-term debt                               | 1,000   | 647,000   | —        | 648,000 |
| Fixed rate - long-term debt                                  | 19,371  | 123,333   | 47,182   | 189,886 |
| Floating rate - payable to pref shareholders of subsidiaries | 7,506   | 97,225    | —        | 104,731 |
|  | 27,877  | 867,558   | 47,182   | 942,617 |

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

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

|           | Increase/decrease in basis points | Effect on profit before tax |
|-----------|-----------------------------------|-----------------------------|
| June 2008 | 100                               | 6,470                       |
|           | 50                                | 3,235                       |
| June 2007 | 100                               | 6,480                       |
|           | 50                                | 3,240                       |

The sources of interest expense recognized during the period are as follows:

|                               | June 2008 | June 2007 |
|-------------------------------|-----------|-----------|
| Bank loans and long term debt | 134,072   | 44,639    |
| Customers' deposits           | 2,729     | 1,561     |
| Advances from related parties | 563       | 5,278     |
|                               | 137,364   | 51,478    |

**Credit risk.** For its cash investments, AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash and AFS investments, the risk is mitigated by the short term and or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk.

The Group ensures that sales are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures. The Group has no significant concentration risk to a counterparty or group of counterparties.

Credit risk concentration of the Group according to customer category is summarized in the following table:

|   | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|---|----------------------|--------------------------|
| Residential                             | 254,050              | 218,335                  |
| Industrial                              | 224,022              | 185,166                  |
| Commercial                              | 82,889               | 162,912                  |
| Streetlighting/Flat Rate                | 21,589               | 15,106                   |
| Power distribution utilities/off-takers | 311,559              | 282,612                  |
|   | <u>894,109</u>       | <u>864,131</u>           |

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ended June 30, 2008 and December 31, 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 40% or below at the consolidated level. Depending on the quality of cash flows, associates and subsidiaries that can secure limited recourse project financing can maintain a gearing ratio of 70%. The Group determines net debt as the sum of interest-bearing short-term and long-term loans (comprising long-term debt and payable to preferred shareholders of a subsidiary) less cash and short-term deposits and temporary interest bearing advances to related parties.

Gearing ratios of the Group as of June 30, 2008 and December 31, 2007 are as follows:

|  | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|--|----------------------|--------------------------|
| Bank Loans                                   | 3,636,900            | 3,343,680                |
| Long - term debt                             | 943,295              | 942,617                  |
| Cash and cash equivalents                    | (10,305,267)         | (13,287,811)             |
| Temporary advances from (to) related parties | (964,500)            | 1,089,007                |
| Net Debt (a)                                 | (6,689,572)          | (7,912,507)              |
| Equity                                       | 28,101,826           | 27,642,536               |
| Equity and Net Debt (b)                      | 21,412,254           | 19,730,029               |
| <b>Gearing Ratio (a/b)</b>                   | <b>(31.24%)</b>      | <b>(40.10%)</b>          |

## I. DISCLOSURES

### 1. Basis of Preparation and Accounting Policies

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS investments and derivatives which are measured at fair value, and agricultural produce and biological assets which are measured at fair value less estimated point-of-sale costs. The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except as otherwise indicated.

The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The same accounting policies are followed in the preparation of the interim financial statements as compared with those of the most recent annual financial statements, except as follows:

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Philippine Interpretation IFRIC 12, *Service Concession Arrangements*

Philippine Interpretation IFRIC 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. A financial asset is recognized to the extent that the operator has a contractual right to receive cash from the grantor or has a guarantee from the grantor. An intangible asset is recognized to the extent that the entity has a right to charge the public for use of the asset.

Philippine Interpretation IFRIC 12 is effective on January 1, 2008. The Group is currently assessing the impact of this Interpretation on the Distribution Management Service Agreement (DMSA) of SEZC and the power purchase agreements of its power generation companies namely Luzon Hydro Corporation (LHC) and STEAG State Power, Inc. (STEAG) with the National Power Corporation (NPC).

Philippine Interpretation IFRIC 14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Philippine Interpretation IFRIC 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, Employee Benefits. This Interpretation has no impact on the Group's financial position or performance.

### 2. Seasonality of Interim Operations

Operations of hydropower plants are generally affected by climatic seasonality. Seasonality and location have a direct effect on the level of precipitation. In Luzon where rainy and summer seasons are more pronounced, higher rainfall is normally experienced in the months of June to September. As such, the hydropower plants located in Luzon operate at their maximum capacity during this period. In contrast, the hydropower plants in Mindanao experience a well distributed rainfall throughout the year, with a slightly better precipitation during the months of December to April. This provides continuous water flow and thus makes it favorable to all 'run-of-river' hydropower plants' operations.

There were no unexpected seasonal aspects that had a material effect on the Group's financial condition or results of operations.

### 3. Material Events and Changes

#### a. APC Dividend Declaration

On February 6, 2008, the Board of Directors (BOD) of the Company approved the declaration of a regular cash dividend of P0.18 a share (P1.324 billion) to all stockholders of record as of February 21, 2008, payable on March 3, 2008.

#### b. Acquisition of Minority Interest in Balamban Enerzone, Inc. (BEZC)

On March 7, 2008, Aboitiz Power Corp. (AP) purchased Tsuneishi Holdings (Cebu), Inc.'s 40% equity in BEZC for approximately 178 million to be paid out of the proceeds of the initial public offering of AP. This increases AP's ownership in BEZC to 100%.

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

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

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

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

#### c. Luzon Hydro Corporation Arbitration Settlement

Luzon Hydro Corporation (LHC), the IPP operator of the 10 MW Bakun AC hydro power plant (Bakun AC plant) entered into a Settlement Deed with Transfield Philippines, Inc. (TPI), the EPC contractor of the Bakun AC Plant, contractor of the Bakun AC Plant, for the settlement of all disputes related to the Turnkey Contract of the Bakun AC Plant. LHC is 50% owned by Philippine Hydropower Corporation, a wholly owned holding company of Aboitiz Power Corporation. TPI, on the other hand, is wholly owned by Transfield Holdings Pty Ltd of Australia.

The settlement involving the payment by LHC of the sum of US\$14 million to TPI is intended to, without any admission of any liability by any party, fully and finally settle all unperformed and unpaid obligations between the parties under the Turnkey Contract, as well as any and all disputes, allegations, claims and threatened or actual litigation, arbitration or other proceedings between any one or more parties arising out of or related to the Bakun AC Project.

As previously disclosed, the dispute between LHC and TPI arose in connection with the construction of the Bakun AC Plant. The dispute was taken to arbitration before the ICC International Court of Arbitration as provided under the Turnkey Contract. The arbitral tribunal delivered its final award on August 9, 2005 and ruled that TPI was entitled to recover a total of approximately

US\$24 million from LHC, net of counterclaim awards.

LHC has appropriately recorded the US\$24 million final award as a contingent obligation in 2005 with adequate provisioning for any negative effect on its operating profit and balance sheet. The US\$14 million payment of LHC to TPI and the reversal of the provision will result in a net income of approximately US\$7.5 million to LHC

#### **d) Hedcor Sibulan Loan Signing**

Hedcor Sibulan, Inc., a wholly owned subsidiary of Aboitiz Power Corporation (AP), obtained a P3.5 billion loan from a consortium of local banks composed of the Metropolitan Bank & Trust Company, Rizal Commercial Banking Corporation and Philippine National Bank.

The loan will finance the construction of the 42.5-megawatt Sibulan hydropower project in Sta. Cruz, Davao del Sur which broke ground last September 2007. The Sibulan hydropower project, which is estimated to cost P5.0 billion, involves the construction of two cascading hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur.

#### **e) Acquisition of Cebu Private Power Corporation (CPPC) and East Asia Utilities Corp. (EAUC)**

On April 20, 2007, the Company acquired 60% ownership of CPPC from East Asia Utilities Corporation (EAUC) and 50% ownership interest in EAUC from El Paso Philippines Energy Company, Inc.

The fair valuation of the acquirees' assets and liabilities, particularly on the power plant and the customer contracts, was undertaken by the Company. As of the end of 2007, the Company opted to avail of the 12-month period allowed by the standard and followed provisional accounting for the acquisitions of CPPC and EAUC.

The fair values as of March 31, 2007 for CPPC acquisition and included in the consolidated amounts follow:

|                                       |         |
|---------------------------------------|---------|
| Cash and cash equivalents             | 77,856  |
| Receivables                           | 143,367 |
| Spare parts and supplies              | 82,811  |
| Prepayments and other current assets  | 85,062  |
| Property, plant and equipment         | 353,633 |
| Other assets                          | —       |
| Accounts payable and accrued expenses | 314,225 |
| Other liabilities                     | 131,728 |
| Net assets                            | 296,776 |
| Share in net assets acquired          | 178,066 |
| Total consideration                   | 178,066 |

The results of the conduct of the valuation did not result to any material change between the provisional fair values as taken and the fair values as finally determined for CPPC.

The fair values as of March 31, 2007 for EAUC acquisition and included in the consolidated amounts follow:

|                                       |           |
|---------------------------------------|-----------|
| Cash and cash equivalents             | 292,357   |
| Receivables                           | 133,625   |
| Spare parts and supplies              | —         |
| Prepayments and other current assets  | 1,881,434 |
| Property, plant and equipment         | —         |
| Other assets                          | 300,224   |
| Accounts payable and accrued expenses | 587,784   |
| Other liabilities                     | 1,570     |
| Net assets                            | 2,018,286 |
| Share in net assets acquired          | 1,009,143 |
| Total consideration                   | 1,009,143 |

The results of the conduct of the valuation did not result to any material change between the provisional fair values as taken and the fair values as finally determined for EAUC.

#### **4. Material Adjustments**

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

#### **5. Contingencies**

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

**ABOITIZ POWER CORP. AND SUBSIDIARIES****AGING OF RECEIVABLES**

AS OF : JUN 30/2008

|   | 30 Days          | 60 Days        | 90 Days       | Over 90 Days   | Total            |
|---|------------------|----------------|---------------|----------------|------------------|
| <b>A/R - Trade:</b>                           |                  |                |               |                |                  |
| Power Distribution Customers                  | 460,482          | 80,098         | 22,591        | 34,105         | 597,276          |
| Power Generation Customers                    | 265,023          | 0              | 0             | 37,677         | 302,700          |
| Management & Other Services Customers         | 24,323           | 4,082          | 1,131         | 1,403          | 30,939           |
| <b>Sub-total - A/R - Trade</b>                | <b>749,828</b>   | <b>84,180</b>  | <b>23,722</b> | <b>73,184</b>  | <b>930,914</b>   |
| <b>Less : Allowance for Doubtful Accounts</b> |                  |                |               |                | <b>16,038</b>    |
| <b>Net Trade Receivables</b>                  |                  |                |               |                | <b>914,876</b>   |
| <b>A/R - Non Trade</b>                        | <b>1,026,401</b> | <b>129,491</b> | <b>27,259</b> | <b>463,572</b> | <b>1,646,723</b> |
| <b>Grand Total</b>                            | <b>1,776,229</b> | <b>213,671</b> | <b>50,981</b> | <b>536,756</b> | <b>2,561,599</b> |

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

**NORMAL OPERATING CYCLE**

Power Subsidiaries

Distribution - 60 days

Generation - 65 days