

COVER SHEET

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S.E.C. Registration Number

A	B	O	I	T	I	Z		P	O	W	E	R		C	O	R	P	O	R	A	T	I	O	N			

(Company's Full Name)

A	B	O	I	T	I	Z		C	O	R	P	O	R	A	T	E		C	E	N	T	E	R				
G	O	V	.	M	A	N	U	E	L		A	.	C	U	E	N	C	O		A	V	E	N	U	E	,	
K	A	S	A	M	B	A	G	A	N	,	C	E	B	U		C	I	T	Y								

(Business Address: No. Street City / Town / Province)

ATTY. LEAH I. GERALDEZ									
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Contact Person

032-411-1804									
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Company Telephone Number

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Month Day

Fiscal Year

3rd Quarterly Report
2 0 - I S

FORM TYPE

3rd Monday of May
0 5 1 9

Month Day

Annual Meeting

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Secondary License Type, if Applicable

S	E	C
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Dept. Requiring this Doc

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Amended Articles Number/Section

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Total No. of Stockholders

x

Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2008
2. Commission identification number C199800134 3. BIR Tax Identification No. 200-652-460

4. Exact name of issuer as specified in its charter

ABOITIZ POWER CORPORATION

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

Cebu City, Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office Postal Code

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

8. Issuer's telephone number, including area code

(032) 411-1800

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

N.A.

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Stock P1 Par Value	7,358,604,307
Amount of Debt Outstanding	P10,371,798,000

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

Yes [] No []

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

Philippine Stock Exchange

Common

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the

Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [] No []

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

Yes [] No []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the financial statements and schedules attached herewith

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

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

Top Five Key Performance Indicators

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

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

Manner of Computation: $\text{Investee's Net Income (Loss)} \times \text{Investor's \% ownership} - \text{Goodwill Impairment Cost}$

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts.
3. **Cash Flow Generated.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.
4. **Current Ratio.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt paying ability. The higher the ratio, the more liquid the Group.
5. **Debt-to-Equity Ratio.** Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

The table below shows the comparative figures of the top five (5) key performance indicators for the first nine (9) months of 2008 and 2007 and as of December 31, 2007 (amounts in thousands except for financial ratios):

	SEP 30/2008	SEP 30/2007	DEC 31/2007
EQUITY IN NET EARNINGS OF INVESTEES	1,901,818	1,435,992	
EBITDA	3,942,806	3,466,292	
CASH FLOW GENERATED:			
Net cash provided by (used in) operating activities	(595,525)	3,818,413	
Net cash used in investing activities	(4,946,526)	(6,545,532)	
Net cash provided by (used in) financing activities	(190,159)	13,756,074	
Net Increase (Decrease) in Cash & Cash Equivalents	(5,732,210)	11,028,955	
Cash & Cash Equivalent, Beginning	13,287,811	1,494,272	
Cash & Cash Equivalent, End	7,538,745	12,287,829	
CURRENT RATIO	1.81		2.54
DEBT-TO-EQUITY RATIO	0.35		0.31

Above key performance indicators are within management expectations.

Earnings contributions of power assets acquired in 2007 remained significant contributors to the equity net earnings compared to amounts recorded in the same period last year. The largest incremental contribution comes from newly acquired STEAG State Power, Inc. (STEAG) contributed ₱874 million for the first nine months of 2008. Luzon Hydro Corporation (LHC) also contributed ₱436 million in additional earnings as a result of the reversal of accrued costs resulting from the settlement of a case under arbitration. The rest of the earning contributions came from the full year income of East Asia Utilities Corporation (EAUC), another new acquisition.

The strong showing of the Company's newly acquired subsidiaries resulted to the 14% year-on-year growth in EBITDA. This coupled by prudent spending allowed the company to keep its operating expenses within expectations.

The decrease in the current ratios and other financial ratios, points to an improved utilization of capital. This can be seen in the increase in the investments made during the three quarters of the year versus investments as of end 2007. This is consistent with the Company's long-term plan of improving shareholder value by deploying capital into higher yielding investments.

The Company continues to evaluate the investment viability of the remaining power generation assets that the National Power Corporation (NPC) and the Power Sector Assets and Liabilities Management Corporation (PSALM) intend to auction off.

Financial Results of Operations

The Company's net income for the first nine months of 2008 grew by 32% to ₱3.2 billion from ₱2.4 billion for the same period last year. This translates to an earnings per share of ₱0.43 for the ending third quarter of 2008 versus an earnings per share of ₱0.38 3rd quarter ending of 2007.

Higher electricity sales for the period resulted to an income contribution from the power distribution business of ₱1.12 billion, up by 6% from last year's ₱1.06 billion. The group's kilowatt-hour electricity sales for the period grew by 17% year-on-year, from 1,990 GWh to 2,329 GWh. Aside from the contributions arising from the 2007 acquisitions, expansion in Subic Enerzone Corporation's (SEZ) industrial segment accounted for the strong growth of the distribution group, with power demand increasing mainly due to the operation of the Hanjin shipyard. On an organic basis, the group recorded a growth of 5.5% year on year.

The power generation business shored in a net income contribution of ₱1.99 billion, recording a 66% year-on-year growth from last year's ₱1.20 billion. The strong growth can be attributed to the incremental

earnings contributions from 2007 acquisitions with a major contribution coming from the 232MW STEAG coal power plant.

Total power sold for the period in review recorded a 130% year-on-year expansion, from 566 GWh to 1,300 GWh. This robust performance can be attributed to the 41% year-on-year increase in AP's attributable capacity, from 411MW to 578MW. The increase was brought on by the acquisition of the 232MW STEAG coal power plant in November 2007 and the turnover of the 175MW Ambuklao-Binga hydro power plants in July 2008. Moreover, improved capacity factors for the hydro plants due to higher rainfall also led to the improvement in the power generation for the period.

1. INCOME STATEMENTS (January – September 2008 vs January –September 2007)

Consolidated net income attributable to equity holders grew by P815 million or 35%. Below is a reconciliation of growth in the consolidated net income:

Consolidated Net Income Attributable to Equity Holders of the Parent for the nine months of 2007	<u>2,353,234</u>
Increase in Revenues	1,157,647
Increase in Cost and Expenses	(1,088,095)
Growth from Share in Equity Earnings	465,826
Increase in Net Interest Income	169,162
Increase in Other Income	221,191
Higher Provision for Taxes	(137,263)
Decrease in Minority Interests	<u>26,174</u>
Total Growth	<u>814,642</u>
Consolidated Net Income Attributable to Equity Holders of the Parent for the nine months of 2008	<u><u>3,167,876</u></u>

Total consolidated revenue grew by 14% versus the same period last year. Power distribution subsidiaries' consolidated revenues increased by P561 million or a 9% increase for the period, mainly from the higher revenues coming from SEZ and from the revenue flows from new acquisitions Balamban Enerzone Corporation (BEZ) and Mactan Enerzone Corporation (MEZ).

The power generation's consolidated revenues, on the other hand, recorded a strong growth of 35% or P589 million due to higher generation sales from Cebu Private Power Corporation (CPPC) as a result of higher dispatch in 2008 versus CPPC's level of dispatch in 2007. CPPC's revenue also increased as a result of the higher cost of fuel in 2008 versus 2007 for which it is allowed to pass on in its billings.

The consolidated cost and expenses also increased by 16%. These are mainly driven by the higher cost of generated power and the increase in the cost of purchased power.

For the distribution group, the cost of purchased power increased by 7.23% most of which comes from the cost of purchased power incurred by AP's new acquisitions, BEZ and MEZ. Generated power cost for AP's generation segment increased by 52% primarily driven by the higher prices of fuel in 2008 mostly from CPPC's higher cost of fuel.

The growth on the share in net earnings of associates increased by 32%. The income contribution of P874 million from the acquisition of STEAG significantly offset the decrease in contributions coming from SN Aboitiz Power – Magat, Inc. (SNAP-Magat) which is P497 million lower in 2008 than in 2007. The contribution expected from SN Aboitiz Power – Benguet, Inc.'s (SNAP-Benguet) operations did not come through due to the drag on its bottom line of P63 million. To round out the positive contributions to the share in net earnings, LHC managed to contribute P436 million more as a result of an arbitration settlement. EAUC also contributed P80 million.

Interest income increased by 273% due to higher placements from the initial public offering (IPO) proceeds of AP parent. Interest expense increased by 166% from the short-term loan of AP parent obtained in November 2007 in relation to its acquisition of STEAG.

Other income increased by P221 million as a result of forex losses in the prior year which swung to forex gains in 2008. AP parent increase in other income was P180 million, while Philippine Hydropower Corporation (PHC) was P80 million.

As a result of the foregoing, income before income tax increased by P926 million or 33% over the same period a year ago. Correspondingly the Provision for income tax increased by 33%.

2. BALANCE SHEETS (September 2008 vs December 2007)

Assets

Compared to year-end 2007 levels, consolidated assets increased by 9.63%, from P36.16 billion in December 2007 to P39.65 billion in September 2008, due to the following:

- a. Cash & Cash Equivalents was at P7.54 billion, down by 43% from year-end 2007 level of P13.29 billion. This was mainly attributable to the P4.43 billion for additional or new Investments in associates. The remaining changes in cash position were also from the interest-bearing advances made to related parties and spendings in capital expenditures.
- b. Trade & Other Receivables increased by 129%, from P1.66 billion to P3.80 billion which is due to interest-bearing advances made to related parties.
- c. Inventories were higher by 24%, from P375 million to P464 million as a result of inventory build up due to the greenfield project requirements of the hydro subsidiaries, inventory requirements for the distribution utilities for ongoing capital expenditure programs and increase in inventory due to preventive maintenance requirements of generating facilities.
- d. Other Current Assets increased by 57%, to P547 million from P348 million, due to input VAT arising from construction in progress as well as higher taxes withheld.
- e. Property, plant and equipment increased by 34% from P4.43 billion to P5.94 billion mainly due to the consolidation of the plant and equipment of the on-going Hedcor Sibulan project in Davao into PHC.
- f. Investments and Advances increased by P 36% due to additional or new investments in associates as follows:
 - (i) P 3.48 billion for additional equity into Manila Oslo Renewable Enterprise Inc. (MORE),
 - (ii) Capital infusion into the 246 MW coal plant in Toledo City for P922 million,
 - (iii) P278 million in both equity and advances for Redondo Peninsula Energy, Inc. (RP Energy),
 - (iv) the remaining amount was due to equity earnings for the year.
- g. Deferred tax assets decreased by 11% resulting from the changes in unrealized forex losses for the year versus unrealized forex gains from last year.
- h. Other Noncurrent Assets is lower by 15%, from P70 million to P60 million primarily due to the applied deferred input VAT by PHC and CPPC.

Liabilities

Consolidated liabilities increased by 22% compared to yearend 2007 level. The following were the reasons for the decline:

- a. Bank loans increased by 14% or P467 million due to dollar denominated debt which increased as a result of the weakening of the peso.

- b. An increase in customer's deposit of 10 % or P137 million from last year is mainly due to new connections in the Cotabato Light and Power Co. (CLPC), Davao Light & Power Co., Inc. (DLPC), and SEZ franchise areas.
- c. Payable to Preferred shareholders of subsidiary decreased by 15% due to payments made during the year.
- d. Pension liability increased by 36% coming from AP Parent and PHC
- e. Income tax payable was up 84% due to higher income tax provision recorded during the period under review.
- f. Long-term debt has increased by P1.01 billion in 2008 versus end 2007 or a 121% increase. This is due to the availment of long-term debt by Hedcor Sibulan, Inc. of P861 million to finance the construction of its 42 MW hydro plant and SEZ's debt refinancing increasing long-term debt by P158 million.

Equity

Equity attributable to equity holders of the parent increased by 6%, from P27.02 billion as of December 2007 to P28.69 billion as of September 2008. This was mainly due to consolidated Net income for the first half of P3.17 billion and after the cash dividend payment of P1.32 billion in the first quarter of the year.

The Company declared dividends of P0.18 per share to all stockholders as of record date February 21, 2008. This was paid on March 3, 2008.

Financial Ratios

Current ratio decreased by 0.73, from 2.54x as of December 2007 to 1.81x in Sept 2008. This was due to a decrease in cash and cash equivalents by P5.75 billion

Debt-to-equity ratio increased from 0.31 as of September 30, 2007 versus the current at 0.35 as of September 30, 2008. Net debt to equity ratio as of September 2008 is at -0.14, a .15 decrease from 2007 year end net debt to equity ratio of -0.29.

Material Changes in Liquidity and Cash Reserves of Registrant

As of September 30, 2008, the group's cash reserves posted a balance of P7.54 billion after major investing and financing activities. The excess cash will be used to fund its programmed capital expenditures and to finance planned asset acquisitions for the remainder of the year.

Net cash from operating activities reported a usage of P596 million compared from the net cash inflow of P3.82 billion for the same period last year.

Net cash used in investing activities was P4.95 billion - mostly accounted for by additional or new investments of P4.43 billion, advances to affiliates of P432 million and spendings for capital expenditures of P1.88 billion. These outflows were slightly offset by the inflows coming from dividends received from associates of P1.42 billion.

Net cash used by financing activities for the period in review was P190 million, resulting mainly from the net result coming from the outflow on cash dividends of P1.32 billion declared in the first quarter and a cash inflow of P1.011 billion from long-term debt availment.

The Company finished the nine months of the year with net cash outflows of P5.73 billion. The cash and cash equivalents for the period ending September 30, 2008 was P4.75 billion lower than the cash and cash equivalent held a year ago at P12.29 billion.

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

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

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

The Company remains optimistic that 2008 will be another good year. Notwithstanding external and uncontrollable economic and business factors that affect its businesses, the Company believes that it is in good position to benefit from the foreseen opportunities that will arise in the current year. Its sound financial condition, coupled with a number of industry and company specific developments, should bode well for AP and its investee companies. These developments are as follows:

Generation Business

1. 200% Expansion in the Company's attributable capacity

AP's total attributable generating capacity increased by 200% from 164 MW in 2006 to 490 MW in 2007. The increase was brought about by the following:

- Turnover of the 360MW Magat hydroelectric facility in Isabela province to SNAP- Magat in April 2007;
- Acquisition of a 60% stake in CPPC in April 2007, owner and operator of a 70MW oil-fired power plant in Cebu province;
- Acquisition of a 50% stake in EAUC in April 2007, owner and operator of a 50MW oil-fired power plant in Mactan island, Cebu province; and the
- Acquisition of a 34% stake in STEAG in November 2007, owner and operator of a 232MW coal-fired power plant in Misamis Oriental, Mindanao.

These plants had significant earnings contributions in 2007 and the full year effect of their contributions are expected to improve AP's results in 2008.

SNAP-Magat, the operator and owner of the 360MW Magat hydroelectric facility, was able to refinance its US\$380 million loan in October 2007 effectively lowering its interest cost significantly. It is estimated that cost savings of US\$10 million per annum will be achieved.

2. Greenfield Projects

On February 17, 2007, AP entered into a Memorandum of Agreement with Taiwan Cogeneration International Corporation, a Taipei-based generation company, to collaborate in the building and operation of a 300MW coal-fired power plant in the Subic Bay Freeport Zone. On May 30, 2007, Redondo Peninsula Energy Corporation (RP Energy) was incorporated as the 50:50 joint venture company for this project. The project is estimated to cost approximately US\$500 million.

Construction work on the 42.5MW run-of-river hydropower plant in Barangay Sibulan, Sta. Cruz, Davao del Sur by AP's 100%-owned subsidiary Hedcor Sibulan is still on going. The project entails the construction of two cascading hydropower generating facilities tapping the Sibulan and Baroring Rivers. These facilities can generate an estimated 212 million kilowatt-hours of clean and emissions-free energy annually. The generation from these plants will supply DLPC starting August 2009.

In the first half of 2008, another subsidiary, Hedcor Tamugan, conducted a detailed design stage for three run-of-river hydropower plants with an original combined capacity of 34.5MW. Last August 14, 2008 the Board of Directors of Hedcor Tamugan decided to abandon the construction of the 7MW Suawan Hydropower plant (the Suawan plant) due to the escalation of construction costs which had rendered the Suawan plant economically unfeasible to build. The reduced capacity of the Tamugan project at 27.5MW will not affect the consortium's ability to deliver the required amount of energy under a power supply agreement with DLPC.

In August 2007, AP, together with Vivant Energy Corporation of the Garcia Group, signed a Memorandum of Agreement with Metrobank Group's Global Business Power Corporation for the construction and operation of a 3 x 82 MW coal-fired power plant in Toledo City, Cebu. Completion of the project is expected by first quarter of 2010. AP will have an effective participation of 26% in the project.

3. Ambuklao-Binga Turnover

On November 28, 2007, SNAP-Benguet, a 50:50 joint venture between AP and SN Power AS of Norway, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Plant Complex (HEPPC) consisting of the 75MW Ambuklao Hydroelectric Power Plant located at Bokod, Benguet and the 100MW Binga Hydroelectric Power Plant located at Itogon, Benguet. The price offered amounted to US\$325 million. PSALM issued the Notice of Award to SNAP-Benguet on December 19, 2007.

On July 10, 2008, SNAP-Benguet, Inc. officially took over the ownership and operations of the 75MW Ambuklao hydropower plant and the 100MW Binga hydropower plant after these were turned over by the PSALM.

In August 2008, SN Aboitiz Power-Benguet, Inc. signed a US\$375 million loan agreement with a consortium of international and domestic financial institutions. The loan facility will partially finance the purchase price and the rehabilitation of the power plant complex and refinance SNAP-Benguet's existing advances from shareholders with respect to the acquisition of the Ambuklao-Binga HEPPC. Full payment for the acquisition cost for the plant was made in August 23, 2008 in the amount of US\$99,092,500 to PSALM. The amount represents 30% balance of the purchase price inclusive of interest under the PSALM deferred payment scheme.

To date, SNAP group is the largest traditional hydro operator in the country.

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

AP Renewables, Inc. (APRI), a wholly owned subsidiary AP, submitted the highest bid to PSALM for the 289MW Tiwi geothermal facility in Albay and the 458MW Makiling-Banahaw geothermal facility in Laguna (Tiwi-Makban). The price offered amounted to approximately US\$447 million. The Asset Purchase Agreement between PSALM and APRI became effective last August 26, 2008.

The Tiwi-Makban geothermal facilities will be a significant addition to AP's generating capacity following its successful bids for the Magat and Ambuklao-Binga hydropower plants in Northern Luzon and a stake in the STEAG coal-fired power plant in Misamis Oriental. Upon closing of the purchase, AP will have investments in generation facilities with total generating capacity of 1,957MW, more than 70% of which are powered from renewable sources of energy.

The Company continues to look at other power generation assets to be auctioned by the government. AP had submitted letters of interest to PSALM for the bidding of the 146.5MW Dingle and 22MW Bohol diesel power plants, the 100MW Power Barge 117 and 100MW Power Barge 118. AP is also keen on participating in PSALM's public auction for the Independent Power Producer (IPP) Administrator contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP administrators.

Distribution Business

On the back of a robust economy, AP's distribution utilities are expected to turn in strong results in 2008. Topline growth will mainly come from higher volume sales, especially with full-year contributions from its acquired distribution utilities in 2007. These are:

- 100% of MEZ;
- 100% of BEZ; and
- an additional 36% of SEZ.

Efficiency improvements in operations will continue and should result to healthy margins being maintained.

CLPC has formed a team to study, facilitate and implement its shift to the performance-based rate (PBR) scheme under Group B. CLPC filed its revenue application on May 27, 2008. Release of Revenue Draft Determinant is expected to be approved by the Energy Regulatory Commission (ERC) on December 2008 while final approval of new rates is on February 2009. Implementation of new rates is to commence on April 1, 2009 until March 31, 2013, after which a new reset is made.

Visayan Electric Company, Inc. (VECO) and DLPC likewise formed their respective teams to study, facilitate and implement their respective shift to the PBR scheme under Group C where their 4 year regulatory period will be from July 2010 to June 2014.

Capital Raising Activities

Last November 5, 2008 AP launched the issuance of 5-year and 7-year peso-denominated corporate fixed rate notes worth ₱3 billion, with option to increase depending on market demand. The notes will be offered in a private placement to not more than 19 institutional investors. The proceeds of the notes will be used to finance AP's planned acquisitions as well as for other general corporate purposes.

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

PART II--OTHER INFORMATION

There is no significant information on the company, which requires disclosure herein and/or was not included in SEC Form 17-C.

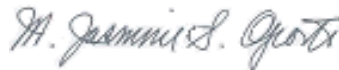
SIGNATURES

Pursuant to the requirement of the Securities Regulation Code, the issuer has duly cause this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **Aboitiz Power Corporation**



Principal Financial Officer
Signature and Title **Iker M. Aboitiz**
First Vice President/Chief Financial Officer/Chief Information Officer
Date **November 14, 2008**



Corporate Secretary
Signature and Title **M. Jasmine S. Oporto**
Corporate Secretary
Date **November 14, 2008**

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

	JAN-SEP/08	JAN-SEP/07	JUL-SEP 08	JUL-SEP 07
REVENUES	9,288,346	8,130,699	3,191,378	2,871,949
COSTS AND EXPENSES	7,880,488	6,792,393	2,599,484	2,393,069
GROSS PROFIT	1,407,858	1,338,306	591,894	478,880
OTHER INCOME (CHARGES)				
Share in net earnings of associates	1,901,818	1,435,992	591,893	759,660
Interest income	437,186	115,682	169,811	95,204
Interest expense	(244,158)	(91,816)	(106,794)	(40,338)
Other income (charges)	270,684	49,492	103,750	103,859
	2,365,530	1,509,350	758,660	918,385
INCOME BEFORE INCOME TAX	3,773,388	2,847,656	1,350,554	1,397,265
PROVISION FOR INCOME TAX	548,547	411,284	221,926	157,073
NET INCOME	3,224,841	2,436,372	1,128,628	1,240,192
ATTRIBUTABLE TO:				
EQUITY HOLDERS OF THE PARENT	3,167,876	2,353,234	1,103,076	1,229,660
MINORITY INTERESTS	56,965	83,138	25,552	10,532
	3,224,841	2,436,372	1,128,628	1,240,192

Earnings Per Common Share **

Basic, for income for the period attributable to ordinary holders of the parent	0.43	0.38	0.15	0.17
Diluted, for income for the period attributable to ordinary holders of the parent	0.43	0.38	0.15	0.17

** 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 SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

Attributable to equity holders of the parent

	Capital Stock Common	Additional Paid-in Capital	Share in Cumulative Translation Adjustments of Associates	Acquisition of Minority Interest	Retained Earnings	Minority Interests	Total
Balances at December 31, 2007	7,358,604	12,588,894	(629,346)	(109,065)	7,814,023	619,424	27,642,534
Net income for the period					3,167,876	56,965	3,224,841
Cash dividends (P0.18 per share)					(1,324,549)		(1,324,549)
Effects of adoption of IFRIC 12					(288,730)		(288,730)
Acquisition of minority interests				(151,985)			(151,985)
Change in minority interests						(89,442)	(89,442)
Share in movement of cumulative translation adjustment of associates			261,755				261,755
Balances at Sept 30, 2008	7,358,604	12,588,894	(367,591)	(261,050)	9,368,620	586,947	29,274,424

Attributable to equity holders of the parent

	Capital Stock Common	Additional Paid-in Capital	Share in Cumulative Translation Adjustments of Associates	Acquisition of Minority Interest	Retained Earnings	Minority Interests	Total
Balances at December 31, 2006	4,889,320	-	107,427	-	3,675,580	90,739	8,763,066
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)
Balances at December 31, 2007	7,358,604	12,588,894	(629,346)	(109,065)	7,814,023	619,424	27,642,534

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

Attributable to equity holders of the parent

	Capital Stock Common	Additional Paid-in Capital	Share in Cumulative Translation Adjustments of Associates	Retained Earnings	Minority Interests	Total
Balances at December 31, 2006	4,889,320	-	107,427	3,675,580	90,739	8,763,066
Issuance of capital stock	2,298,344	11,857,622				14,155,966
Net income for the period				2,353,234	83,138	2,436,372
Acquisition of minority interests					493,117	493,117
Share in movement of cumulative translation adjustment of associates			(164,648)			(164,648)
Balances at September 30, 2007	7,187,664	11,857,622	(57,221)	6,028,814	666,994	25,683,873

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

	JAN-SEP/08	JAN-SEP/07	JUL-SEP 08	JUL-SEP 07
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income tax	3,773,388	2,847,656	1,350,554	1,397,265
Adjustments for:				
Share in net earnings of associates	(1,901,818)	(1,435,992)	(591,893)	(759,660)
Depreciation and amortization	376,577	400,632	142,770	153,997
Interest income	(437,186)	(115,682)	(169,811)	(95,204)
Interest expense	244,158	91,816	106,794	40,338
Dividend income		(4)		(4)
Unrealized foreign exchange loss (gain)	16,856	235,398	(32,124)	114,670
Gain on sale of available for sale investments		(1,123)		
Loss (gain) on sale of property, plant & equipment		293		(236)
Operating income before working capital changes	2,071,975	2,022,994	806,290	851,166
Changes in:				
Decrease (increase) in operating current assets	(2,444,769)	1,026,848	(1,351,106)	(248,717)
Increase in operating current liabilities	252,493	1,000,728	380,435	142,963
Cash provided by (used in) operations	(120,301)	4,050,570	(164,381)	745,412
Income and final taxes paid	(475,224)	(232,157)	(143,825)	(77,152)
Net cash provided by (used in) operating activities	(595,525)	3,818,413	(308,206)	668,260
CASH FLOWS FROM INVESTING ACTIVITIES:				
Dividends received	1,418,679	564,059	185,381	60,116
Interest received	454,847	71,240	240,216	54,034
Additional investments in associates	(4,427,985)	(6,296,431)	(2,860,868)	73,311
Collection of (payments for) advances to associates	(432,029)	-	(327)	-
Acquisitions of property, plant and equipment - net	(1,882,735)	(563,196)	(1,064,907)	(309,001)
Acquisitions net of cash		21,588		
Decrease in Acquisition of Minority Interest	(177,948)			
Proceeds from sale of investments in shares of stock		1,123		
Decrease (increase) in other assets	100,643	(343,915)	3,343	(87,352)
Net cash used in investing activities	(4,946,528)	(6,545,532)	(3,497,162)	(208,892)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from loans payable	467,370	32,000	174,150	(361,300)
Proceeds from (payments of) long-term debt	1,011,032	(325,524)	989,572	(2,346)
Payments of payable to preferred shareholders of subsidiaries	(14,891)		5,891	
Interest paid	(239,677)	(96,993)	(99,291)	(38,762)
Proceeds from issuance of capital stock		14,155,966	-	10,086,526
Cash dividends paid	(1,324,549)	-		
Increase (decrease) in minority interest	(89,442)	(9,375)	(63,600)	11,823
Net cash provided by (used in) financing activities	(190,157)	13,756,074	1,006,722	9,695,941
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,732,210)	11,028,955	(2,798,646)	10,155,309
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS	(16,856)	(235,398)	32,124	(114,670)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,287,811	1,494,272	10,305,267	2,247,190
CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD	7,538,745	12,287,829	7,538,745	12,287,829

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

A. INVESTMENTS AND ADVANCES

	% OWNERSHIP		
	2008	SEP 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%	921,599	
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%	654,409	652,843
Hijos de Escaño, Inc.	46.66%	857,236	857,197
Southern Philippines Power Corporation	20.00%	152,587	152,587
Western Mindanao Power Corporation	20.00%	263,665	263,664
STEAG State Power, Inc.	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%	7,305,257	3,822,043
Luzon Hydro Corporation	50.00%	1,048,251	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		17,035,924	12,607,938
Accumulated equity in net earnings:			
Balance, beginning of year		2,979,930	771,685
Share in net earnings for the year		1,901,818	2,790,038
Share in associates' prior period's adjustments charged to Retained Earnings (IFRIC)		(288,730)	
Cash dividends received		(1,418,679)	(581,793)
Balance, end of period		3,174,339	2,979,930
Share in associates' cumulative translation adjustments		(367,591)	(629,346)
Investments, at equity		19,842,672	14,958,522
Advances to investees		361,564	(70,465)
		20,204,236	14,888,057

B. ACCOUNTS PAYABLE & ACCRUED EXPENSES

Trade	1,259,034
DOSRI	-
Others	1,555,299
TOTAL	2,814,333

C. SHORT-TERM LOANS

	Effective Interest Rate	SEP 2008	DEC 2007
Financial institutions	3.28%-4.87%	3,636,900	3,343,680

D. LONG-TERM LOANS

	Effective Interest Rate	SEP 2008	DEC 2007
Company:		0	0
Subsidiaries:			
HEDCOR, INC.			
Financial institution - secured	2.25% over the applicable three-month Treasury Securities rate	647,000	648,000
HEDCOR SIBULAN, INC.			
Financial institutions - secured	8.52%	860,918	
SEZC			
Financial institutions - secured	8.26% - 10.02%	341,000	182,848
CLP			
Financial institution - secured	8.78%	0	7,038
		1,848,918	837,886
Total		1,848,918	837,886
Less: Current portion		1,000	20,371
		1,847,918	817,515

E. DEBT SECURITIES

There has been no new debt security issuances made by the registrant or its subsidiaries.

F. EARNINGS PER SHARE

Earnings per common share amounts were computed as follows:

	SEP 2008	SEP 2007
a. Net income to common stockholders	3,167,876	2,353,234
b. Average number of outstanding shares	7,358,604,307	6,193,832,000
c. Earnings per share (a/b)	0.43	0.38

G. BUSINESS SEGMENT INFORMATION

Financial information on the operations of the business segment is summarized as follows:

	DISTRIBUTION		GENERATION		PARENT COMPANY & OTHERS		ELIMINATIONS		CONSOLIDATED	
	JAN-SEP/08	JAN-SEP/07	JAN-SEP/08	JAN-SEP/07	JAN-SEP/08	JAN-SEP/07	JAN-SEP/08	JAN-SEP/07	JAN-SEP/08	JAN-SEP/07
REVENUES	6,933,490	6,372,899	2,327,909	1,743,729	235,833	215,148	(208,886)	(201,077)	9,288,346	8,130,699
RESULT										
Segment results	899,435	759,544	497,903	421,055	10,520	157,707			1,407,858	1,338,306
Unallocated corporate income (expenses)	244,981	283,425	(83,704)	(163,442)	109,407	(70,491)			270,684	49,492
INCOME FROM OPERATIONS									1,678,542	1,387,798
Interest Expense	(53,351)	(37,334)	(65,312)	(54,479)	(164,698)	(3)	39,203		(244,158)	(91,816)
Interest Income	9,597	7,872	90,644	5,450	376,148	102,360	(39,203)		437,186	115,682
Share in net earnings of associates	245,015	292,464	1,656,803	1,143,528	2,973,510	2,137,397	(2,973,510)	(2,137,397)	1,901,818	1,435,992
Provision for Income tax	(334,966)	(347,140)	(90,441)	(48,638)	(123,140)	(15,506)			(548,547)	(411,284)
NET INCOME									3,224,841	2,436,372
NET INCOME TO COMMON	691,981	593,465	1,303,387	467,841	2,074,656	1,132,666			3,167,876	2,353,234
Segment assets	1,774,405	1,540,410	6,049,134	1,690,599	5,150,503	11,535,181	(624,216)	(22,692)	12,349,826	14,743,498
Investments in shares of stock at equity method	2,193,865	2,265,900	17,648,807	6,230,318	21,863,134	14,994,130	(21,863,134)	(14,994,130)	19,842,672	8,496,218
Unallocated corporate assets	3,931,840	2,543,842	3,182,934	4,408,594	6,856,216	135,867	(6,517,265)	-	7,453,725	7,088,303
Consolidated total assets									39,646,223	30,328,019
Segment liabilities	3,322,938	2,377,746	8,837,993	363,316	5,055,378	1,617,931	(7,141,481)	(22,692)	10,074,828	4,336,301
Unallocated corporate liabilities	146,575	173,137	60,177	139,830	90,219	(5,122)			296,971	307,845
Consolidated total liabilities									10,371,799	4,644,146
Depreciation & amortization	231,530	206,521	140,213	188,609	4,834	5,502			376,577	400,632

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. 0.25% of its debt will mature in less than one year at September 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.

The following table summarizes the maturity profile of the Group's financial liabilities as of September 30, 2008 based on contractual undiscounted payments (amounts in thousands):

	Contractual undiscounted principal payments				
	Total	On demand	Less than 1 year	1 to 5 years	> 5 years
Bank loans	3,811,050	–	3,811,050	–	–
Long-term debt	1,848,918	–	1,000	950,792	897,126
Customers' deposits	1,510,686	–	30,042	–	1,480,644
Trade and other payables	1,581,707	–	1,581,707	–	–
Due to related parties	1,232,626	1,232,626	–	–	–
Payable to preferred shareholder of a subsidiary	89,840	–	7,506	82,334	–
Total	10,074,827	1,232,626	5,431,305	1,033,126	2,377,770

Interest rate risk. The Group's exposure to market risk for changes in interest rates relates primarily to its long term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of September 30, 2008, 38% of the Group's long term debt had floating interest rates ranging from 6.29% to 8.62%, and 62% are with fixed rates ranging from 8.26% 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 September 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	–	304,792	897,126	1,201,918
Floating rate - payable to pref shareholders of subsidiaries	7,506	82,334	–	89,840
	8,506	1,033,126	897,126	1,938,758

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
September 2008	100	6,470
	50	3,235
September 2007	100	6,480
	50	3,240

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

	September 2008	September 2007
Bank loans and long term debt	235,537	82,822
Customers' deposits	4,040	2,640
Advances from related parties	4,581	6,354
	244,158	91,816

Foreign exchange risk. The foreign exchange risk of the Group pertains significantly to its foreign currency denominated borrowings. To mitigate the risk of incurring foreign exchange losses, foreign currency holdings are matched against the potential need for foreign currency in financing equity investments and new projects. As of September 30, 2008 and December 31, 2007, foreign currency denominated borrowings account for 66% and 78%, respectively, of total consolidated borrowings.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of September 30, 2008, translated in Philippine peso:

	US Dollar	Peso Equivalent
Current Financial Assets		
Cash	51,322	2,414,720
Total Financial Assets	51,322	2,414,720
Current Financial Liabilities		
Bank loans	81,000	3,811,050
Total Financial Liabilities	81,000	3,811,050
Net foreign currency denominated assets	-29,678	-1,396,330

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's profit before tax as of September 30, 2008.

	Increase (decrease) in US dollar rate	Effect on income before income tax
US dollar denominated accounts	5%	-69,817
US dollar denominated accounts	-5%	69,817

The increase in dollar rate represents the depreciation of the Philippine peso while the decrease in dollar rate represents appreciation of the Philippine peso.

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

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:

	September 30, 2008	December 31, 2007
Residential	204,869	218,335
Industrial	251,339	185,166
Commercial	63,955	162,912
Streetlighting/Flat Rate	17,694	15,106
Power distribution utilities/off-takers	356,080	282,612
	893,937	864,131

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 September 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 September 30, 2008 and December 31, 2007 are as follows:

	September 30, 2008	December 31, 2007
Bank Loans	3,811,050	3,343,680
Long - term debt	1,938,758	942,617
Cash and cash equivalents	(7,538,745)	(13,287,811)
Temporary advances from (to) related parties	(2,235,700)	1,089,007
Net Debt (a)	(4,024,637)	(7,912,507)
Equity	29,274,424	27,642,536
Equity and Net Debt (b)	25,249,787	19,730,029
Gearing Ratio (a/b)	(15.94%)	(40.10%)

I. FINANCIAL INSTRUMENTS

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

	September 30, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	7,538,745	7,538,745	13,287,811	13,287,811
Trade and other receivables	3,800,188	3,800,188	1,661,120	1,661,120
AFS investments	8,999	8,999	8,999	8,999
	11,347,932	11,347,932	14,957,930	14,957,930
Financial liabilities				
Bank loans	3,811,050	3,811,050	3,343,680	3,343,680
Trade and other payables	2,814,333	2,814,333	2,694,113	2,694,113
Customers' deposits	1,510,686	1,510,686	1,373,932	1,373,932
Long-term debt				
Fixed rate	1,201,918	1,161,664	189,886	205,595
Floating rate	647,000	647,000	648,000	648,000
Payable to preferred shareholder of a subsidiary (floating rate)	89,840	89,840	104,731	104,731
	10,074,827	10,034,573	8,354,342	8,370,051

As of September 30, 2008 and December 31, 2007, the group does not have any investment in foreign securities nor has it issued any traded debt securities.

Fair Value of Financial Instruments

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

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

Cash and cash equivalents, trade and other receivables and trade and other payables

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

Fixed-rate borrowings

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

Variable-rate borrowings

Where the repricing of the variable-rate interest bearing loan is frequent (i.e., three-month repricing), the carrying value approximates the fair value. Otherwise, the fair value is determined by discounting the principal plus the known interest payment using current market rates.

Customers' deposits

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

AFS investments

The fair values of AFS investments are based on quoted market prices. The publicly-traded equity securities which are owned by the group are all actively traded in the stock market.

J. 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). On the other hand, Luzon Hydro Corporation (LHC), the 50-owned power generation associate of Aboitiz Power Corp., has implemented this new IFRIC during the period under review. As a result of this adoption, LHC recorded a retained earnings adjustment of P577 million, P289 million of which is AP's share.

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. AP 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 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 70 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 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.

f) Turnover of the Ambuklao-Binga Hydroelectric Power Plants

The Power Sector Assets and Liabilities Management Corporation (PSALM) turned over today possession and control over the 175 MW Ambuklao-Binga Hydroelectric Power Plant Complex (Ambuklao-Binga HEPPC) to SN Aboitiz Power-Benguet, Inc. (SNAP-Benguet), a consortium between Aboitiz Power Corporation and SN Power AS of Norway, following payment by SNAP-Benguet of 70% of the purchase price of US\$325 million of the Ambuklao-Binga HEPPC to PSALM.

On August 8, 2008, SNAP-Benguet signed a US\$ 375 million loan agreement with a consortium of international and domestic financial institutions. The loan facility was used to pay the 30% balance of the purchase price and will partially finance the rehabilitation of the 175 MW Ambuklao-Binga HEPPC under the Asset Purchase Agreement with PSALM and refinance SNAP-Benguet's existing advances from shareholders with respect to the acquisition of the Ambuklao-Binga HEPPC.

SNAP-Benguet won the competitive bid conducted by PSALM for the sale of the Ambuklao-Binga HEPPC in November last year.

g) Bid on Tiwi-Makban Geothermal Power Plants

AP Renewables, Inc. (APRI), a wholly owned subsidiary of AP, submitted the highest bid to PSALM for the 289 MW Tiwi geothermal facility in Albay and the 458 MW Makiling-Banahaw geothermal facility in Laguna (Tiwi-Makban). The price offered amounted to approximately US\$447 million.

The Asset Purchase Agreement (APA) between PSALM and APRI was effective August 26, 2008. Under the PSALM Bidding Rules, the closing date for the acquisition of the Tiwi-Makban geothermal facilities shall be 60-270 days from effectivity date, at which time PSALM shall turn over the Tiwi-Makban assets and contracts to APRI.

h) Tamugan Hydropower Project - Suawan Plant

Hedcor Tamugan, Inc. (Hedcor Tamugan), a wholly-owned subsidiary of AP, has decided to abandon the construction of the 7MW Suawan hydropower plant (the Suawan plant) due to escalation of construction costs. The cost escalation, which resulted from delays in securing permits for the Suawan plant, has rendered the Suawan plant economically unfeasible to build. The Suawan plant is a component of the Tamugan hydropower project (the Tamugan Project). The Tamugan Project would have involved the construction of three distinct run-of-river hydroelectric plants (Tamugan, Panigan and Suawan) with combined generating capacity of 34.5MW in Davao City.

Hedcor Tamugan is part of a consortium that won the competitive bidding for the 12-year power supply agreement to supply 400,000,000 kilowatt-hour (kWh) per annum of new capacity to Davao Light and Power Company Inc. (DLPC) starting August 2009. The reduced capacity of the Tamugan Project at 27.5MW will not affect the consortium's ability to deliver the required amount of energy under the power supply agreement with DLPC.

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

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

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

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

4. Material Adjustments

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

5. Contingencies

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

ABOITIZ POWER CORP. AND SUBSIDIARIES**AGING OF RECEIVABLES**AS OF : **SEP 30/2008**

	30 Days	60 Days	90 Days	Over 90 Days	Total
A/R - Trade:					
Power Distribution Customers	419,575	73,699	20,524	39,549	553,347
Power Generation Customers	302,305	4,376	0	37,763	344,443
Management & Other Services Customers	7,759	5,370	2,320	1,566	17,015
Sub-total - A/R - Trade	729,639	83,445	22,844	78,878	914,805
Less : Allowance for Doubtful Accounts					21,688
Net Trade Receivables					893,117
A/R - Non Trade	2,756,641	54,233	5,142	91,055	2,907,071
Grand Total	3,486,280	137,678	27,985	169,933	3,800,188

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