



PNOC ENERGY DEVELOPMENT CORPORATION

Merritt Road, Fort Bonifacio, Taguig City, Philippines
P.O Box 2102 MCPO, Tel. No. 893-1320/893-6001 Fax No. 840-1575

April 14, 2008

ATTY. PETE M. MALABANAN
Head, Disclosures Department
Philippine Stock Exchange
Tektite Building, Ortigas Center
Pasig City

Dear Atty. Malabanan:

In compliance with the disclosure requirement of the Philippine Stock Exchange (PSE), we submit the attached 2007 Annual Report (SEC Form 17-A) of PNOC Energy Development Corporation.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Erudito S. Recio".

Erudito S. Recio
Investor Relations Manager &
Company Information Officer

SEC Number 66381

File Number

PNOC ENERGY DEVELOPMENT CORPORATION
(Company's Full Name)

PNPC Complex, Merritt Road, Ft. Bonifacio, Taguig City
(Company's Address)

(632) 893-6001
(Telephone Number)

December 31, 2007
(Fiscal Year Ending)

SEC FORM 17-A (2007)
(Form Type)

Corporation Finance Department
(SEC Department)

Total Number of Stockholders as of March 31, 2008: 642

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2007
2. SEC Identification Number: 66381 3. BIR Tax Identification No. 000-169-125-000
4. Exact name of issuer as specified in its charter PNOC ENERGY DEVELOPMENT CORPORATION
5. PHILIPPINES 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
incorporation or organization
7. PNPC Complex, Merritt Road, Ft. Bonifacio, Taguig City 1201
Address of principal office Postal Code
8. (632) 893-6001
Issuer's telephone number, including area code
9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, ₱1.00 par value	15,000,000,000
Preferred Stock, ₱0.01 par value	<u>7,500,000,000</u>

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

Yes [] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange Common Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 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 that 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 []

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PART I – BUSINESS

PNOC Energy Development Corporation (EDC) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 5, 1976. It began commercial operations with the commissioning of its first geothermal steamfield in 1983 and is the Philippines' largest producer of geothermal energy. It is primarily in the business of exploring, developing and operating geothermal energy projects in the Philippines. It is also involved in geothermal drilling and consultancy services.

In December 2006, EDC became a publicly listed corporation in the Philippine Stock Exchange (PSE) through an Initial Public Offering (IPO) of 6,000,000,000 common shares each via a primary and secondary offering. An additional 3,000,000,000 common shares was offered in a secondary offering last July 2007. The Government sold its remaining interests in EDC via an auction conducted last November 2007.

The Company became a subsidiary of Red Vulcan Holdings Corporation starting November 29, 2007. Red Vulcan Holdings Corporation is 100% direct and indirectly owned by First Gen Corporation, a publicly listed entity with ticker symbol FGEN. The ultimate parent of the Company is First Philippine Holdings Corporation, also a publicly listed entity with ticker symbol FPH.

Operational Highlights

From a total sales volume of 8,193 GWh, the Company's gross revenues for 2007 from its steam and electricity business amounted to ₱15,813.1 million. As compared to 2006, there is a slight decline in gross revenues and sales volume.

Electricity and steam sales constitute majority of gross revenues at 60% and 24% of the total, or at ₱11,291.9 and ₱4,521.2 million, respectively. Interest income on service concession, drilling services revenues and construction revenues constitute the balance at 12% or ₱2,236.9 million, 3% or ₱624.8 million, and 1% or ₱108.8 million, respectively.

Steam Generation

For 2007, steam revenues from the sale of 3,094 GWh amounted to ₱4,521.2 million which is slightly higher than the 2006 revenues of ₱4,173.4 million despite a higher steam sales volume of 3,136 GWh. A 42 GWh drop in surplus generation billings was offset by the increase in inflation indices by an average of ₱0.0306/KWh. NPC's recognition of the previously disputed Tongonan 1 shortfall generation billings of ₱321.0 million from 1985 to 1989 also contributed to the increase in steam revenues.

The Southern Negros Geothermal Production Field (SNGPF) generated a total sales volume of 1,369 GWh, exceeding its 1,265 GWh take-or-pay volume by as much as 8%, or 104 GWh. The Tongonan I and Bacman Geothermal Production Fields continue to contribute at the take-or-pay levels of 739 GWh and 986 GWh, respectively.

Electricity Generation

For the current year, electricity revenues from the 5,099 GWh sold amounted to ₱11,291.9 million. It decreased by ₱ 1,037.4 million, as compared with the ₱12,329.3 million revenues in 2006. The decrease is due to the ₱0.0992 per kwh average drop in electricity prices that resulted from the marked appreciation of the Php vs. the US\$. Furthermore, there was a 58 GWh drop in billed volume due to the lowering of the nominated energy for the Leyte BOT Plants to within NPC's financial capability.

Of the total GWh sales volume, 83% or 4,211 GWh was generated by the Leyte Geothermal Production Field. Gross revenues for 2007 amounted to ₱9,462.9 million as compared to the ₱10,532.6 million in 2006.

The Mindanao Geothermal Production Field (MGPF) generated a total sales volume of 818 GWh, exceeding by 30 GWh its minimum energy off-take (MEOT) volume of 788 GWh. For 2007, revenues from the Mindanao

Geothermal Projects reached ₱1,638.3 million as compared to the ₱1,796.7 million in 2006.

On July 25, 2007, PNOG-EDC assumed the operation of the 232.5 MW Malitbog and 180 MW Mahanagdong A & B plants located in the island province of Leyte. On September 25, 2007, it assumed the operation of the remaining 51 MW Leyte Optimization power plants. These BOT power plants were turned over by CalEnergy International Ltd. after the completion of the 10-year cooperation period as per the respective Energy Conversion Agreements.

The Northern Negros Geothermal Production Field, which started its operation only in June of this year generated a total sales volume of 70 GWh amounting to ₱190.7 million.

Third Party Drilling

Third Party Drilling contributed as much as ₱ 624.8 million in 2007 as compared to the ₱ 261.5 million in 2006 primarily from the contract the Company signed with the Lihir Gold Limited. A new 12-month drilling contract, covering the period February '07- '08, was entered into by EDC with Lihir Gold Limited.

Health, Safety and Environment

EDC's safety management program focuses mainly on safety training and inspection, safety rules enforcement and adherence to Government safety requirements. The Program aims to prevent and/or control the occurrence of the following: occupational injury and illness, fire and explosion, accidental damage to tools, equipment and materials, buildings and other facilities, and production delays and interruptions due to all types of accidents, disasters and security problems.

For 2007, both the BacMan and No. Negros Geothermal Projects received a certificate of recognition from the Department of Energy and the Safety and Health Association of the Philippine Energy Sector (SHAPES) for achieving 1,805,928 and 1,862,026 man-hours with no lost time accident, respectively.

To ensure the Company's legal compliance with the Country's environmental rules and regulations, EDC Environmental Management Department (EMD) secured three Environmental Compliance Certificates (ECCs) in 2007. These are the ones for Pad RG in Mindanao Geothermal Production Field (MGPF), Dauin Geothermal Exploration Project and the Mindanao Geothermal Power Project Expansion.

Two (2) of the EDC's EMD's Laboratories (located in Fort Bonifacio and Leyte Geothermal Production Field) were accredited for ISO 17025 in February and July 2007, respectively.

Corporate Social Responsibility

PNOE EDC recognizes that it owes part of its success to the harmonious relationship it maintains with the communities hosting its 12 geothermal projects covered by five geothermal service contracts. Also, the Company is committed to uplifting the lives of the residents in its host communities. To help them move forward, EDC has institutionalized a Community Partnerships Program anchored on the “pay it forward” policy.

The Community Partnerships Program is anchored on four strategic concerns, namely, 1) health, 2) educational support, 3) livelihood development and 4) programs for the environment. Following below are the program’s accomplishments in 2007:

- Health Promotion

6,072 patients benefited from the Company’s focused medical/dental outreach programs. Feeding and de-worming projects undertaken resulted in the improved nutritional condition of 556 school children. Employees and community residents participating in blood-letting drives had donated a total of 85,350 cc to the blood banks of the Philippine National Red Cross.

To enable barangay health centers (BHCs) deliver a more effective medical care to their constituents, PNOE EDC had undertaken the following:

1. the refurbishment of the facilities and equipment of 12 BHCs;
2. the supply of basic medicines and medical supplies to 43 BHCs; and
3. the training of 315 community health worker.

- Educational Support

Further to the Company’s “Schools for Excellence Program”, we would like to report that the program is into its third year of implementation. As for the Company’s contribution to the program, i.e., project’s hardware component (i.e., classrooms and other facilities), a 90 % at year’s end completion rate has already been achieved. Additionally, significant improvement in terms of school readiness of both Prep and Grade 1 pupils has been attained, not to mention the improved performance ratings of teachers as a result of regular training.

The Schools for Excellence Program is a 7 year project covering Preparatory to Grade 6 levels in 2 schools specifically located in Ormoc and Kananga, Leyte within the Company’s Leyte Geothermal Project. The participants in this project are the Department of Education (DepED), Local Government Unit (LGU), PNOE EDC and parents of the school children.

In 2007, 17,122 elementary pupils received financial assistance from the Company for payment of miscellaneous fees and school supplies assistance from the Company, while 935 students of good academic standing benefited from high school, college and vocational scholarships.

- Livelihood Development

EDC’s Community Partnerships Department (CPD) recently completed the conduct of its CSR Program Impact Analysis and Feasibility Study for livelihood projects and was able to identify optimum mix of livelihood projects for each of EDC’s five project sites. The Company is targeting a ₱100,000 annual household gross income in selected host barangays by 2010.

- Environmental Enhancement Projects

Certain CSR projects were undertaken to increase the awareness and participation of the host communities and employees as stewards of the environment such as, seven (7) clean up drives, six (6) tree planting activities, and two (2) solid waste management trainings during the Earth Day and

Environmental Month celebrations.

Business of the Issuer

Principal Products or Services and their markets

The Company operates twelve geothermal steamfields in the five geothermal service contract areas where it is principally involved in:

- (i) the production of geothermal steam for sale to National Power Corporation (NPC) pursuant to Steam Sales Agreements (SSAs) and
- (ii) the production of steam for delivery to both Company-owned and Build Operate Transfer (BOT) Contractor operated power plants which convert geothermal steam to electricity for sale by PNOC EDC to NPC pursuant to Power Purchase Agreements (PPAs).

Additionally, the Company has evolved into being one of the world's leading geothermal energy producers with the expertise it has accumulated for geothermal energy exploration and development, reservoir engineering and management, drilling, engineering design and construction, environmental management and energy research and development.

For 2007, it continues to provide drilling equipment and rig personnel to the Lihir Gold Limited.

Percentage of sales or revenues contributed by foreign sales

Of the ₱18,783.6 million in total revenues for 2007, the Company generated close to ₱624.8 million from the dispatch of personnel and equipment to Lihir, Papua New Guinea on a contract with the Lihir Gold Limited. This represents only 3.32 % of the Company's total revenues for 2007.

Distribution methods of products or services

For 2007, majority of the 8,192 GWh generated by the Company's from its steam and electricity business was sold to NPC. It is the NPC's responsibility to convey the electricity generated, by either its own or the Company's geothermal power plant, through the high voltage backbone system to distribution utilities, electric cooperatives or bulk power customers.

Of its total generation in 2007, the 70 GWh generated by the EDC's Northern Negros Geothermal Project had to be conveyed by the Company to TRANSCO's Mansilingan Substation in Bacolod City for eventual distribution to its customers, i.e., Iloilo I Electric Cooperative, Inc. (ILECO) and Visayan Electric Company, Inc. (VECO).

New Products or Services

The Northern Negros Geothermal Production Field, commenced commercial operation in June 2007 and gross sales of about ₱190.7 million for the sale of some 70 GWh of electricity.

Sale of the Company's electricity production from its Northern Negros Geothermal Project is to its customers, i.e., Iloilo I Electric Cooperative, Inc. (ILECO) and the Visayan Electric Company, Inc. (VECO). The Company pre-terminated its Electricity Sales Agreement with VECO on October 25, 2007.

Competition

The Company competes against other energy sources used for the production of electricity, particularly coal, natural gas and oil. Of these, coal and oil are imported.

The following table sets out the Department of Energy's estimate of the breakdown of total installed capacity as of December 31, 2007 and electricity production by energy source for 2007.

Energy Source	Installed Capacity		Power Generation	
	MW	%	GWH	%
Coal	4,213.0	26.4	16,837.1	28.3
Oil Based	3,616.0	22.7	5,148.0	8.6
Geothermal	1,958.0	12.3	10,214.7	17.1
PNOC EDC	1,198.8	7.5	6,333.1	10.6
Chevron	759.2	4.8	3,881.6	6.5
Hydro	3,293.0	20.7	8,566.8	14.4
Natural Gas	2,834.0	17.8	18,789.4	31.5
Renewable/Others	26.0	0.1	59.2	0.1
Total	15,940.0	100.0	59,615.2	100.0

For the supply of geothermal energy, the only other company operating in the Philippines is Chevron Philippines Geothermal Holdings (formerly Unocal Philippines Inc.).

With the Government committed to the privatization of the majority of NPC-owned power generation facilities and the establishment of Wholesale Electricity Spot Market (WESM), the Company will be exposed to a diversified base of Independent Power Producer (IPP) offtakers (at some point in time in the future).

Additionally, non-Philippine companies that are providing geothermal consultancy services in the Asia-Pacific region are West Japan Engineering Consultancy, GeothermEx and Sinclair Knight Merz Engineering Consultancy.

Dependence on one or a few major customers and identity of any such major customers

The Company's 2007 revenues were derived from existing long term Steam Sales Agreements (SSA) and Power Purchase Agreements (PPA) with NPC. Other than these contracts, EDC has an Electricity Sales Agreement (ESA) with ILECO.

Patents, trademarks, licenses, franchises, concessions, royalty payments

The five geothermal service contract areas where the Company's geothermal steamfields are located are:

- Leyte Geothermal Production Field (expiring in 2031)
- Southern Negros Geothermal Production Field (expiring in 2031)
- BacMan Geothermal Production Field (expiring in 2031)
- Mindanao Geothermal Production Field (expiring in 2022)
- No. Negros Geothermal Production Field (expiring in 2024)

These contract areas are located in four islands of the Philippines, namely Luzon, Leyte, Negros and Mindanao. The following table summarizes highlights of the Company's individual steam and electricity sales agreements as of December 31, 2007:

Geothermal Steamfields and Power Plants by Product ⁽¹⁾	Installed Capacity ⁽²⁾ (MW)	Take-or-Pay or MEOT ⁽³⁾ (GWh)	Expiration of SSA or PPA	Transfer of Plants ⁽⁴⁾	Revenue for 2006 (₱ million)	Revenue for 2007 (₱ million)
Steam						
Tongonan I	112.5	739.0	2008	2008	1,163.2	1,579.7
Palinpinon I	112.5	739.0	2008	2008	1,029.9	1,083.6
Palinpinon II	80.0	526.0	2018	2008	685.3	610.5
BacMan I	110.0	723.0	2018	2008	1,004.2	972.4
BacMan II	40.0	263.0	2019	2008	290.7	275.1
Electricity						
Unified Leyte ⁽⁵⁾		4,211.0	2022		10,532.6	9,462.9
Upper Mahiao	125.0			2006		
Malitbog	232.5			2007		
Mahanagdong	180.0			2007		
Optimization	50.9			2007		
Bottoming	14.6					
Topping	36.3					
Mindanao I	52.3	390.0	2022	2009	1,010.6	948.1
Mindanao II	54.0	398.0	2024	2009	786.1	690.2
No. Negros	49.4	-	2012		-	190.7

Notes:

- (1) Product refers to geothermal steam or electricity which the Company supplies to NPC under SSAs or PPAs, respectively. It provides for nearly all of the Company's revenues.
- (2) Installed capacity is the rated gross electrical output of the power plant measured at the generator terminals.
- (3) Take-or-pay and Minimum Energy Offtake ("MEOT") refer to the guaranteed volume of steam and electrical energy, respectively, that NPC guarantees to use each contract year. These are the bases for the minimum payments NPC is required to make to the Company. The take-or-pay volume for steam sales is expressed in equivalent units of electrical energy, GWh, and is computed at 75% of the electrical energy that would be generated if the power plant were running at its installed capacity for the entire contract year. The Minimum Energy Offtake ("MEOT") corresponds to the nominated annual amount of electricity NPC commits to take from the Company-owned power plants (currently at or about 80 to 85 % of plant capacity).
- (4) Transfer of plants means, in relation to the first 5 plants enumerated (the NPC-owned power plants), indicative dates at which these plants are to be sold to the private sector as part of the ongoing restructuring and privatization of the electric power industry in the Philippines. In relation to the 7 remaining plants enumerated (the BOT plants), the date that the plants are transferred from the BOT Contractors to the Company pursuant to the terms of the relevant ECA.
- (5) Unified Leyte consists of the Upper Mahiao, Malitbog, Mahanagdong and Optimization plants in Leyte that deliver electricity to NPC pursuant to a single PPA.

Cost and effects of compliance with environmental laws

The Company's geothermal steamfield and power generation operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These legal requirements address, among other things, air emissions, wastewater discharges, handling of chemicals, generation and management of hazardous wastes, workplace conditions and employee exposure to hazardous substances.

The total cost incurred by the Company to comply with environmental laws for the years 2006 and 2007 were approximately ₱85.8 million and ₱98.0 million, respectively.

Employees and Labor Relations

As of December 31, 2007 the Company had 2,617 employees which consist of seven Executives, 1,350 Managerial, Professional and Technical (MPT) employees, and 1,260 Rank and File (R&F) employees. In particular, the distribution of employees by sector is as follows:

Sector	Number	%
General Management	141	5
Environment and External Relations	124	5
Steamfield Operations	1,252	48
Power Generation	346	13
Technical Services	365	14
Drilling Services	196	8
Administrative Services	<u>193</u>	<u>7</u>
Total Headcount	2,617	100

The Company has no plans of increasing its workforce by a significant number for the ensuing 12 months.

There are 12 labor unions, each representing a specific collective bargaining unit allowed by law, within the Company. They are distributed in the different locations as follows:

Name of Union	Location/Project	No. of Members
1. PNOC Energy Group of Employees Association (PEGEA)	Head Office (Fort Bonifacio)	74
2. National Union of Rig Workers (NURIWO)	Leyte Geothermal Production Field	115
3. Tongonan Workers' Union (TWU)	Leyte Geothermal Production Field	111
4. Leyte A Geothermal Project Employees' Union (LAGPEU)	Leyte Geothermal Production Field	308
5. PNOC EDC- LGPF and TIPF Association of Technical, Supervisory and Professional Employees (PELT ATSAPE) *	Leyte Geothermal Production Field	181
6. PNOC EDC NNGP Employees Rank and File (PENERFU)	Northern Negros Geothermal Project	73
7. Demokratikong Samahang Manggagawa ng BGPF/Association of Democratic Labor Unions (DSM-BGPF/ADLO)	Bacon-Manito Geothermal Production Field	164
8. PNOC EDC BGPF Professional and Technical Employees Union (PEBPETU) **	Bacon-Manito Geothermal Production Field	49
9. Mt. Apo Workers Union (MAWU)	Mt. Apo Geothermal Production Field	149
10. Mt. Apo Professional and Technical Employees Union (MAPTEU) **	Mt. Apo Geothermal Production Field	66
11. PNOC EDC SNGP Rank and File Union	Southern Negros Geothermal Production Field	182
12. PNOC EDC SNGP Supervisory Association – Association of Professional, Supervisory, Office and Technical Employees Union	Southern Negros Geothermal Production Field	74

* - new union; deadlock in CBA negotiation

** - new union with signed CBA

These unions enter into regular collective bargaining agreements (CBAs) with the Company as regard to number of working hours, compensation, employee benefits, and other employee entitlements as provided under Philippine labor laws. In 2007, seven active CBAs were renewed and two new CBAs were signed. Two active CBAs are for renewal in 2008. The CBA negotiation with the PNOC EDC-LGPF and TIPF Association of Technical Supervisory and Professional Employees (PELT ATSAPE) was declared a deadlock and has been assumed by the Secretary of the Department of Labor and Employment (DOLE) since last August 31, 2007. The Company and PELT ATSAPE have submitted their position papers to the DOLE and the dispute is now undergoing compulsory arbitration.

Management believes that the Company's current relationship with its employees is generally good. Although the Company is involved in arbitrations with its employees' labor unions, it has not experienced within the last five years any strikes, lock-outs or work stoppages as a result of labor disagreements.

FACTORS AFFECTING THE COMPANY'S RESULTS OF OPERATIONS

Set out below are some of the more significant factors that have affected and continue to affect the Company's results of operations.

▪ *The Company's Relationship with NPC*

Contractual framework.

As per the Company's SSAs and PPAs, NPC is obligated to pay for a minimum quantity of steam and electricity pursuant to its take-or-pay and minimum energy offtake (MEOT) obligations. The average remaining life on these contracts are 7 and 15-year for the SSA and PPAs, respectively.

Pursuant to a November 5, 2007 agreement, the Company and NPC have mutually agreed to resolve outstanding issues through voluntary arbitration. The issues to be covered are those arising from the implementation of existing SSAs and PPAs. Appointed as arbitrator by both parties is Hon. Justice Alberto C. Agra of the Office of the Government Corporate Counsel (OGCC).

▪ *Exchange Rate Fluctuations*

The Company's accounting records and financial statements are prepared in Pesos, although its payments for debt service, BOT fees and major materials and services are denominated substantially in US Dollars and Japanese Yen. Changes in the exchange rate between the Peso and foreign currencies also influence the cost, in Peso terms, of the Company's Dollar-denominated and Japanese Yen-denominated borrowings, as well as the Peso value of such borrowings in the Company's balance sheet.

In 2006 and 2007, the Company recorded a foreign exchange gain of ₱2,041.0 million and ₱3,900.3 million, respectively.

Also, the unit prices for majority of the SSAs and PPAs are indexed to movements in the US Dollars vis-a-vis the Philippine Peso. Changes in the exchange rate between the two currencies influence the rate at which the Company's gross revenues change as the individual steam and electricity prices are either inflated or deflated.

PROPERTY

The Company is the registered owner of land located in various parts of the Philippines. As of December 31, 2007, these lands were valued by General Appraisal Company (Philippines), Inc., an independent appraiser, at approximately ₱ 2,675.0 million. The Company's landholdings include the site of its principal office in Fort Bonifacio, Taguig, Metro Manila, other parcels used or to be used for its various projects, such as sites for power plants for the Leyte Geothermal Production Field and the Northern Negros Geothermal Project.

The following table sets out certain information regarding the Company's landholdings:

Location/Project	Parcels of Land	Area (hectares)	Under Expropriation	Leased	Acquired	
					w/ title to PNOC EDC	Title for Consolidation
Fort Bonifacio	1	3.27	None	None	1	None
Baguio	1	0.25	None	None	1	None
Bacon-Manito Geothermal Project	104	29.59	None	None	12	92
Northern Negros Geothermal Project	261	153.21	16	111	12	122
Southern Negros Geothermal Project	89	122.93	4	6	0	79
Leyte Geothermal Project	936	502.8	13	9	15	899
Various ⁽¹⁾	8	7.89	None	None	8	None
No. Luzon Wind Project	2,196	465.5	None	2,196	None	None
Total	3,596	1,285.44	33	2,322	49	1,192

Note: (1) Various parcels of land associated with the Company's DES project.

The EDC Board of Directors during its meeting last November 13, 2007 approved the sale of a parcel of land consisting of 29,291 sq. m. which forms part of the Energy Center, to the Philippine National Oil Company (PNOC) at a price of ₱57,000 per square meter, to be paid from the sale proceeds of PNOC shares in EDC. The Company's Head Office is located on this parcel of land. The Company anticipates that with the land's transfer to PNOC, it shall be required to make lease payments for the continued use of both the land and improvements.

The reported book value as of October 31, 2007 of all improvements in the Company's Head Office is ₱127,846,149.74 (net of accumulated depreciation).

LEGAL PROCEEDINGS

Except as disclosed herein, there are no material pending legal proceedings to which the Company is a party or to which any of its material properties are subject. If the Company is not successful in one or more of the proceedings described below, it could incur damages and costs which could be substantial and could have a material adverse effect on the Company's business, financial condition, results of operations and liquidity.

▪ Arbitration Proceedings

Pursuant to a November 5, 2007 agreement, the Company and NPC have mutually agreed to resolve outstanding issues through voluntary arbitration. The issues to be covered are those arising from the implementation of existing SSAs and PPAs. Appointed as arbitrator by both parties is Hon. Justice Alberto C. Agra of the Office of the Government Corporate Counsel (OGCC).

In summary, the 4 major outstanding issues are the following:

- ✓ Unified Leyte Nominated Energy,

Per its PPA with NPC, EDC has the right to specify the Nominated Energy (NE), which is guaranteed by NPC. However, NPC claims that EDC's right to nominate is not absolute but subject to its acceptance. NPC asserts that it may object, and refuse to lift such energy made available by EDC on such ground as market demand, actual dispatch, and its perception of EDC capability to produce its Nominated Energy.

- ✓ Royalty on Shortfall Generation,

EDC claims that NPC cannot unilaterally deduct from its payments under the various SSAs and PPAs

amounts it considers “to be in excess” using its own computation of EDC’s royalty obligation to the DOE under the various GSCs. NPC claims that RA 5092 should apply in computing EDC’s royalty obligations and not PD 1442 under which the GSCs were executed. Under RA 5092, royalty payments are based on actual amount of steam utilized or lifted. And, since NPC’s lifting’s has fallen short of the minimum guaranteed level, NPC should deduct from its payments to EDC royalty payments “in excess.”

- ✓ Bacman I Steam Billing Adjustment due to the revision on NSO Index,

EDC billings for the period May 15, 1993 to November 2002 and July 14, 1993 to November 2002 should be adjusted for the belated revision made by the NSO on the Compensation Index for January 1988, which is the base month for the Bacman I SSA. NPC asserts that EDC cannot retroactively use the revised value against billings that are already paid for by NPC.

- ✓ EDC’s breach of the IRR/RORB caps under the SSAs as per PSALM.

EDC affirms that the stipulated IRR/RORB under the relevant SSAs have not yet been breached considering that IRR being referred to in the contracts is a real IRR figure and should be reckoned from a project’s inception, i.e., from the time the decision was made to develop the steam fields upto the end of the contract period. NPC, on the other hand, maintains that the IRR/RORB referred to under the relevant SSAs is a Nominal Figure and should be computed from the time that NPC signs the contract.

Note: As the various issues enumerated above are still being resolved by the Arbitrator, no estimates of EDC’s claims and NPC’s counter claims could be provided in this write-up.

- **Expropriation Proceedings**

Several expropriation proceedings filed by PNOC and DOE to acquire land needed by the Company for certain of its power plants and projects are still pending before various Philippine courts, in particular, in respect of the land requirements for the Leyte Geothermal Production Field, the Southern Negros Geothermal Production Field, and the Northern Negros Geothermal Project. As of December 31, 2007, there were 35 such cases pending and the aggregate amount claimed by the landowners as just compensation is approximately ₱120,774,351.

To date, PNOC and the DOE’s authority to expropriate land for the Company’s use and the Company’s possession of the land expropriated has not been questioned. In the cases filed in the Company’s behalf, the issue would revolve around the determination of the just compensation for the owners of lands to be expropriated. The Company does not expect the final judgment amounts to exceed the amounts being claimed.

- **Tax Cases**

- a) ***Real Property Taxes***

In Leyte, the Company is negotiating the settlement of the real property taxes assessed against its Geothermal Power Plants located in the province of Leyte. The settlement of these taxes are needed for EDC to be issued the necessary tax clearance required for the transfer of title of the geothermal power plant(s) to EDC from the respective BOT Contractors.

Operations of the Upper Mahiao power plant was transferred to the Company on June 2006 while the Malitbog & Mahanagdong and the Leyte Optimization Plants were transferred on July and September 2007, respectively.

PNOC EDC filed an appeal (PNOC EDC vs. the Province of Leyte, et. Al., LBAA Case No.19) before the Local Board of Assessment Appeals (LBA) of the Province of Leyte against the a ₱2.6 billion

assessment made by the Province of Leyte on PNOC EDC's BOT Plants (Upper Mahiao and Ormat Optimization Power Plant) for the years 2000-2005. The LBAA, through an order dated July 9, 2007, dismissed this case, rendering it moot and academic by reason of the execution of a valid and legal Compromise Agreement between the Province and PNOC EDC.

On December 19, 2006, the City of Taguig assessed PNOC-EDC real property taxes amounting to ₱55.6 million. Covering the years 1979 to 2006, including interest and surcharges, which PNOC EDC protested for being contrary to law. After several discussions and consultations with the City Assessor and Treasurer, the assessment was reduced to reflect the appropriate real property tax liability of PNOC EDC to the City of Taguig which is ₱10.2 million covering the years 1979 to 2007. PNOC EDC completely paid the updated assessment on December 27, 2007.

b) Franchise Taxes

The province of Leyte has assessed the Company franchise taxes amounting to an aggregate of ₱274,168,686 with respect to the operations from 2000 to 2004 of its geothermal power plants in the province. The Company has filed the corresponding appeals before the Regional Trial Court of Tacloban City, Leyte, for the annulment of the assessments made. They have been docketed as Civil Cases No. 2006-07-77, 2006-05-49, and 2006-05-48, all entitled PNOC EDC vs. Province of Leyte, et. al..

PNOC EDC believes that it is not liable for franchise taxes because it does not have the legislative franchise, national or local, necessary for franchise taxes to accrue. This position is bolstered by the fact that under the EPIRA, power generation is not a public utility activity and does not require a franchise. Moreover, the franchise tax assessment is illegal because the assessed tax was based on the power plant revenues of the BOT operators, and not of the Company.

c) Business Taxes

On February 2006, PNOC EDC's BOT Contractor for the 180 MW Mahanagdong Power Plant, CE Luzon Geothermal Power Company, Inc. (CE Luzon), filed a complaint against the Municipality of Kananga, et. al., seeking to permanently enjoin the defendant municipality from collecting business taxes from EDC. The case arose from the assessment made by the Municipality of Kananga on PNOC EDC for business taxes amounting to ₱62.0 million covering the period 2001-2003. This case was consolidated with two other cases, viz, Visayas Geothermal Power Company vs. Municipality of Kananga, et. Al (Civil Case No. 4514-0), and CE Cebu Geothermal Power Company vs. City of Ormoc (Civil Case No. 4627-00). However, despite instituting PNOC EDC as a necessary party in the case, CE Luzon does not seek any adverse relief against the Company.

▪ **Civil Cases**

In an injunction case with prayer for the issuance of a temporary restraining order (TRO) filed on November 22, 2007, the Province of North Cotabato, as represented by Governor Jesus Sacdalan, entitled Province of North Cotabato vs. PNOC EDC, sought to enjoin PNOC EDC from conducting drilling operations outside of the 701-hectare Mindanao geothermal reservation. Prior thereto, however, the Company, in courtesy to the Province, has already suspended the implementation of the planned drilling operations. Thus, the Province's application for TRO, being necessary, was denied by the court. On the other hand, PNOC EDC was able to secure court approval to finish the civil works already started in the area in order to prevent soil erosions. In the meantime, the case is suspended pending the parties' discussions on the planned drilling operations.

PNOC EDC's main arguments on the merits of the case are: (1) that PNOC EDC has a right to develop areas outside the 701-hectare geothermal reservation pursuant to R. A. 9237 (Mt. Apo Natural Park Act) which provides for an Energy Support Zone of 212 hectares within the park; and (2) that prior consultations were already conducted with the concerned government agencies and units.

- **Labor Cases**

As of December 31, 2007, there were 19 pending labor cases against the Company, most of which deal with plaintiffs claiming their employment with the Company had been illegally terminated. In three of these cases, the Company's President and certain officers and employees were impleaded in their official capacities as party respondents. Although the aggregate monetary amount of the claims in these cases is approximately ₱97,275,049, the Company does not believe that any one case poses a material risk to the Company's operations..

PART II – SECURITIES OF THE REGISTRANT

MARKET INFORMATION

The Company's common equity was listed in the Philippine Stock Exchange last December 13, 2006 at an Initial Public Offering price of ₱3.20 per share. The high and low share prices for 2006 and 2007 are indicated in the following table:

Period	Highest Close		Lowest Close	
	Price (₱)	Date	Price (₱)	Date
2006				
Dec. 2006	4.85	Dec. 29, 2006	4.15	Dec. 14, 2006
2007				
1 st Quarter	6.60	Feb. 23 & 26, 2007	4.45	Jan. 8, 2007
2 nd Quarter	6.30	June 4 & 5, 2007	5.20	June 27, 2007
3 rd Quarter	6.70	July 24 & 26, 2007	5.50	July 2, 2007
4 th Quarter	7.70	Oct. 5 & 8, 2007	6.30	Nov. 21, 2007

The total number of stockholders as of December 31, 2007 was 658. Price as of last trading day of the year, December 28, 2007, was ₱6.50 per share.

As of March 31, 2008, the total number of stockholders was 642 and the stock price was ₱5.90.

List of Top 20 Stockholders as of March 31, 2008

Rank	Name	Nationality	Number of Shares			%
			Preferred	Common	Total	
1	Red Vulcan Holdings Corporation	Filipino	7,500,000,000	6,000,000,000	13,500,000,000	60.00
2	PCD Nominee Corporation	Foreign	-	8,228,404,304	8,228,404,304	36.57
3	PCD Nominee Corporation	Filipino	-	757,425,187	757,425,187	3.37
4	Peter D. Garrucho, Jr.	Filipino	-	1,580,000	1,580,000	0.00
5	ALG Holdings Corporation	Filipino	-	700,000	700,000	0.00
6	The Insular Life Assurance Co., Ltd.	Filipino	-	600,000	600,000	0.00
7	Rosalind Camara	Filipino	-	531,000	531,000	0.00
8	Peter &/or Annabelle C. Mar	Filipino	-	400,000	400,000	0.00
9	Engracio A. Sanchez	Filipino	-	360,000	360,000	0.00
10	Nelia G. Gabarda	Filipino	-	300,000	300,000	0.00
11	Hans T. Sy	Filipino	-	300,000	300,000	0.00
12	Rodolfo R. Waga, Jr.	Filipino	-	250,000	250,000	0.00
13	Daniel D. Tagaza	Filipino	-	200,000	200,000	0.00
14	Ernesto B. Rufino, Jr.	Filipino	-	180,000	180,000	0.00
15	Eriberto S. Garcia	Filipino	-	176,000	176,000	0.00
16	Pan Malayan Mgt. & Inv. Corp.	Filipino	-	150,000	150,000	0.00
17	Francis Giles &/or Ma. Patricia B. Puno	Filipino	-	144,000	144,000	0.00
18	Ralph A. Salazar	Filipino	-	140,000	140,000	0.00
19	Maria Antonietta T. Pamintuan	Filipino	-	128,000	128,000	0.00
20	Jose E. Encinares	Filipino	-	125,000	125,000	0.00

COMPANY'S SHARE CAPITAL

As of December 31, 2007, the Company's total authorized and outstanding capital stock consists of 15,000,000,000 common shares and 7,500,000,000 preferred shares with a par value of ₱1.00 and ₱0.01 per share, respectively.

Each common share is equal in all respects to every other common share. All the common shares have full voting and dividend rights. The rights of Company's shareholders include the right to notice of shareholders' meetings, the right of inspection of the Company's corporate books and other shareholders' rights contained in the Corporation Code. Notice of shareholders' meetings is provided by mail or by hand.

Holders of common shares are entitled to receive annual cash dividends of at least 30% of the prior year's recurring net income based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as current and prospective debt service requirements and loan covenants, the implementation of business plans, operating expenses, budgets, funding for new investments and acquisitions, appropriate reserves and working capital, among others. In this connection, covenants in certain loan agreements entered into by the Company restrict the distribution of dividends to the Company's stockholders if such distribution will impair the Company's ability to pay its obligations or if an event of default or a prospective event of default (as defined in the loan agreement) has occurred and has not been remedied to the satisfaction of the creditor(s).

The following are the terms of the preferred share issue:

1. Voting
2. Cumulative dividend rate of 8.0 % p.a.
3. Non-participating in any further dividends distributed to common shareholders
4. PNOC EDC may redeem at par in the event that restrictions on foreign share ownership are lifted
5. Non-convertible
6. No pre-emptive rights
7. Preference over common shares in case of liquidation or dissolution
8. Restrictions on transferability

CASH DIVIDEND

On June 6, 2007, a cash dividend of ₱0.099 per common share was also paid to all stockholders of records as of May 15, 2007.

On February 19, 2008, the Board of Directors approved the following cash dividends in favor of all stockholders of record as of March 5, 2008 and payable on March 17, 2008:

- cash dividend of ₱0.0004 per share on the preferred shares
- regular cash dividend of ₱0.125 per share on the common shares
- special cash dividend of ₱0.145 per share on the common shares

PART III – FINANCIAL INFORMATION

Management Discussion and Analysis of Results of Operations and Financial Condition

PNOC Energy Development Corporation (EDC) operates 12 geothermal projects in the five geothermal service contract areas where it is principally involved in the following:

- (i) the production of geothermal steam for sale to National Power Corporation (NPC) pursuant to Steam Sales Agreements (SSAs) and
- (ii) the production of steam for delivery to both Company-owned and BOT Contractor operated power plants which convert steam to electricity for sale by PNOC EDC to NPC pursuant to Power Purchase Agreements (PPAs).

As the Company's third business segment, EDC is providing drilling equipment and rig personnel to the Lihir Gold Limited in Papua, New Guinea based on the contract signed in February 2007.

The Company has elected to early adopt Philippine Interpretation IFRIC 12 as of January 2, 2007, as it applied to the infrastructure and other assets constructed or acquired by the Company in connection with its geothermal service contracts, geothermal resources sales agreements, and power purchase agreements with the Government of the Republic of the Philippines and certain of its agencies. Please refer to Note 3 of the Company's Audited Financial Statements (December 31, 2007, 2006 and 2005) for a detailed discussion on the impact of adopting this Interpretation.

The following discusses the results of the company's operations.

FINANCIAL RESULTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

Income Statement Data	(Amounts in Million Pesos)		
	2007	2006 (Restated)	2005 (Restated)
Revenues	18,783.6	25,721.7	22,220.0
Foreign exchange gains	3,900.3	2,041.0	6,442.8
Income before income tax	12,812.5	10,089.0	12,600.7
Net Income	8,651.5	6,863.3	9,174.2

Balance Sheet Data	(Amounts in Million Pesos)		
	2007	2006 (Restated)	2005 (Restated)
ASSETS			
Total current assets	14,449.0	20,198.1	15,806.3
Concession receivable, net of current portion	34,695.4	36,895.4	38,966.3
Intangible asset	8,738.8	8,794.3	2,194.3
Deferred income tax assets	3,052.8	4,920.0	6,447.6
Exploration and evaluation assets	1,171.9	1,614.9	2,238.8
Property, plant and equipment – net	1,111.0	2,469.2	2,022.9
Investment property	5.1	278.9	279.8
Other non-current assets	1,846.7	2,221.7	2,103.5
Total assets	65,070.7	77,392.5	70,059.5
LIABILITIES AND EQUITY			
Total current liabilities	6,791.4	13,750.2	17,700.7
Long-term debt, net of current portion	20,809.9	33,308.6	36,180.3
Royalty fee payable, net of current portion	1,277.7	1,419.7	1,050.5
Obligations to power plant contractors , net	96.3	413.2	2,777.3
Retirement and other post retirement benefit plans	912.1	869.6	903.5
Other long-term liabilities	330.0	256.4	235.1
Total liabilities	30,217.4	50,017.7	58,847.4
Total equity	34,853.3	27,374.8	11,212.1
Total liabilities and equity	65,070.7	77,392.5	70,059.5

PNO C EDC's Material Changes in Financial Condition

INCOME STATEMENT

Horizontal and Vertical Analyses of Material Changes for the year ended December 31, 2007 vs. 2006.

(Amounts in PHP millions)	Dec. 2007	Dec. 2006	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS	
			Increase (Decrease)		2007	2006
			Amount	%		
Revenue from sale of electricity	11,291.9	12,329.3	(1,037.4)	-8.4%	60.1%	47.9%
Revenue from sale of steam	4,521.2	4,173.4	347.8	8.3%	24.1%	16.2%
Interest income on service concession	2,236.9	2,357.6	(120.7)	-5.1%	11.9%	9.2%
Revenue from drilling services	624.8	261.4	363.4	139.0%	3.3%	1.0%
Construction revenue	108.8	6,600.0	(6,491.2)	-98.4%	0.6%	25.7%
TOTAL REVENUES	18,783.6	25,721.7	(6,938.1)	-27.0%	100.0%	100.0%
Purchased services and utilities	(3,038.0)	(5,097.0)	2,059.0	-40.4%	-16.2%	-19.8%
Construction costs	(101.1)	(6,021.2)	5,920.1	-98.3%	-0.5%	-23.4%
Depreciation and amortization	(220.1)	(97.7)	(122.4)	125.3%	-1.2%	-0.4%
Operations and maintenance	(3,069.9)	(3,242.0)	172.1	-5.3%	-16.3%	-12.6%
General and administrative	(2,375.7)	(1,047.3)	(1,328.4)	126.8%	-12.6%	-4.1%
Sub-total	(8,804.8)	(15,505.2)	6,700.4	-43.2%	-46.9%	-60.3%
Interest income - net of final tax	648.7	330.2	318.5	96.5%	3.5%	1.3%
Interest expense	(1,567.0)	(2,330.8)	763.8	-32.8%	-8.3%	-9.1%
Other income (charges) - net	3,752.0	1,873.1	1,878.9	100.3%	20.0%	7.3%
TOTAL EXPENSES	(5,971.1)	(15,632.7)	9,661.6	-61.8%	-31.8%	-60.8%
INCOME BEFORE INCOME TAX	12,812.5	10,089.0	2,723.5	27.0%	68.2%	39.2%
Provision for (benefit from) Income Tax						
Current	2,293.8	1,698.0	595.8	35.1%	12.2%	6.6%
Deferred	1,867.2	1,527.7	339.5	22.2%	9.9%	5.9%
	4,161.0	3,225.7	935.3	29.0%	22.2%	12.5%
NET INCOME	8,651.5	6,863.3	1,788.2	26.1%	46.1%	26.7%

Total revenues for the year ended December 31, 2007 decreased by ₱6,938.1 million, or 27.0%, to ₱18,783.6 million from ₱25,721.7 million in 2006 primarily due to lower construction revenue recognized (by ₱6,491.2 million) as the construction of Fluid Collection and Reinjection System (FCRS) and Power Plant in Northern Negros were already 98.6% complete in 2006 coupled with the decrease in both inflation indices and billed volume for electricity sales.

Revenue from Sale of Electricity

Revenue from electricity sales declined by ₱1,037.4 million, or 8.4%, to ₱11,291.9 million in 2007 from ₱12,329.3 million in 2006. This was attributed to the combined decrease in average inflation indices by ₱0.223/KWh, as influenced by the appreciation of Peso against the US dollar, and in billed volume by 58 GWh arising from the reduction in nominated energy of the Leyte BOT power plants, to within NPC's financial capacity, to 4,211 GWh from 4,388 GWh starting July 25, 2006. The 2007 and 2006 actual billings amounted to ₱14,747.9 million and ₱15,785.3 million, respectively. These were reduced by an amount corresponding to the amortization of concession receivables for the BOT plants in Leyte and Mindanao, i.e., ₱3,456 million.

Revenue from Sale of Steam

Revenue from steam sales increased by ₱347.8 million, or 8.3%, to ₱4,521.2 million in 2007 from ₱4,173.4 million in 2006. The increase resulted mainly from NPC's recognition of the previously disputed Tongonan 1 shortfall generation billings from 1985 to 1989 (₱321 million) coupled with the increase in inflation indices by an average of ₱0.0306/KWh (by ₱94.6 million) and reduced by the lower 2007 surplus generation billings (by ₱67.3 million or equivalent to 42 GWh).

Billings for 2007 and 2006 amounted to ₱5,373.0 million and ₱5,025.2 million, respectively, reduced by ₱851.8 million yearly amortization of concession receivable for Tongonan 1, Palinpinon 1 & 2 and Bacman 1 & 2.

Interest Income on Service Concession

Interest income on service concession receivable decreased by ₱120.7 million, or 5.1%, to ₱2,236.9 million in 2007 from ₱2,357.6 million in 2006 due to increasing fraction of the principal component in the annual amortization of concession receivable.

Revenue from Drilling Services

Revenue from drilling services jumped by ₱363.4 million, or 139%, to ₱624.8 million in 2007 from ₱261.4 million in 2006 principally due to the 10-month revenue period recognized in 2007 contract as against the six-month revenue period in 2006.

Construction Revenue

Construction revenue significantly dropped by ₱6,491.2 million, or 98.4%, to ₱108.8 million in 2007 from ₱6,600 million in 2006 as 66.7% of the construction activities for the Northern Negros FCRS and power plant was completed in 2006 vs. 1.4% in 2007.

Operating Expenses

Operating expenses substantially decreased by ₱6,700.4 million, or 43.2%, in 2007 to ₱8,804.8 million from ₱15,505.2 million in 2006 mainly due to lower purchased services and utilities and construction costs.

Purchased Services and Utilities

Purchased services and utilities decreased by ₱2,059 million, or 40.4%, to ₱3,038 million in 2007 from ₱5,097 million in 2006, largely on account of lower BOT fees (₱2,677.2 million) paid with the completion of the BOT contracts for Upper Mahiao on June 25, 2006, Malitbog and Mahanagdong Power Plants on July 25, 2007 and Leyte Optimization Power Plants on September 25, 2007 and the

significant appreciation of the Peso against the US dollar.

The reduction was partly offset by the purchase of replacement power and the VECO contract termination costs for Northern Negros Project (₱204.4 million) coupled with the higher expenditures for consultancy services in 2007 for the work-over of existing geothermal wells (₱162.2 million) and the Lihir drilling operations (₱45. million).

Construction Costs

Construction costs significantly dropped by ₱5,920.1 million, or 98.3%, to ₱101.1 million in 2007 from ₱6,021.2 million in 2006 as 66.7% of the construction activities for the Northern Negros FCRS and power plant was completed in 2006 vs. 1.4% in 2007.

Depreciation and Amortization

The ₱122.4 million increase, or 125.3%, to ₱220.1 million in 2007 from ₱97.7 million in 2006 mainly resulted from the start of amortization in June 2007 of the Northern Negros geothermal project which is recognized as an intangible asset under IFRIC 12.

Operations and Maintenance

The ₱172.1 million decline, or 5.3%, to ₱3,069.9 million in 2007 from ₱3,242 million in 2006 resulted primarily from the adjustment of the grantor's assessment on the Company's steamfield operations covering translation effects of the Company's foreign loans and financing costs (₱866.4 million). This was partly reduced by the increase in 2007 of O&M costs of the already transferred Leyte BOT power plants (₱228.7 million) and by the O&M costs for the Northern Negros geothermal project in June 2007 (₱299.7 million). Additionally, cost for the Lihir drilling operations increased due to the 10-month revenue period recognized in 2007 contract as against the six-month revenue period in 2006.

General and Administrative

The ₱1,328.3 million rise, or 126.8%, to ₱2,375.7 million in 2007 from ₱1,047.3 million in 2006, was mainly accounted for by the ₱737.6 million reduction of the allowance for doubtful accounts in 2006 with the BIR's issuance of tax credit certificate on already provided for VAT refund claims.

Excluding the foregoing credit adjustment, the net increase in 2007 amounted to ₱590.7 million only and is accounted for by the following:

- insurance premiums paid in 2007 for the following geothermal power plants transferred to the Company, i.e., Upper Mahiao, Malitbog, Mahanagdong Power Plants and Leyte Optimization Power Plants, and the Northern Negros Power Plant (₱259.1 million);
- expenses for the seven month operations of the Northern Negros Project in 2007 (₱229 million); and
- higher accrual in 2007 for retirement benefits with the assumed lower yield on the plan's investments, i.e., from 10% to 7%, based on the actuarial valuation report prepared in 2007 (₱93.9 million).

Financial Income (Expenses)

The ₱1,082.3 million decrease, or 54.1.%, in 2007 to ₱918.3 million from ₱2,000.6 million in 2006, is largely due to lower debt servicing costs resulting with the full settlement of loans from JP Morgan Chase, BOTM, ING Bank and Standard Chartered Bank in October 2006, December 2006, February 2007 and June 2007, respectively.

Interest Income – net

Interest income - net of final tax increased by ₱318.5 million or 96.5% to ₱648.7 million in 2007 from ₱330.2 million in 2006, mainly due to the higher level of investible funds with the IPO proceeds.

Interest Expense

Interest expense substantially decreased by ₱763.8 million, or 32.8%, to ₱1,567 million in 2007 from ₱2,330.8 million in 2006, mainly due to the lower debt servicing costs associated with the full settlement of a number of loans.

Other Income (Charges)

A ₱1,878.9 million net increase, or 100.3 %, to ₱3,752 million in 2007 from ₱1,873.1 million figure in 2006 was reported, primarily because of higher foreign exchange gains reported in 2007.

Foreign Exchange Gains – net

Foreign Exchange Gains – net increased by ₱1,859.3 million, or 91.1%, to ₱3,900.3 million in 2007 from ₱2,041 million in 2006, mainly from the higher rate of Php appreciation vs. the US\$ in 2007 as compared to 2006. This was partly offset by the appreciation of the JPY vs. the US\$ in 2007 as compared to the JPY depreciation vs. the US\$ in 2006.

Derivatives Gain (Loss)

Derivatives gain of ₱56 million in 2007 was a turn-around compared to the ₱145.9 million derivatives loss in 2006, mainly because of the better market value at the time of prepayments. The derivatives gain (loss) pertained to the embedded derivatives on the prepayment options on the term loans arranged by the ING Bank and Standard Chartered Bank, which were fully paid in February 2007 and June 2007, respectively.

Miscellaneous – net

Miscellaneous charges increased by ₱182.3 million, or 825%, to ₱204.4 million in 2007 from ₱22.1 million in 2006, primarily due to the recognition in 2006 of ₱125.6 million miscellaneous income on the recognition of the fair value of the materials inventory turned over by the Upper Mahiao BOT contractor. This is compounded by lower day 1 gain recognized in 2007 on royalty fee due DOE (₱55.9 million).

Provision for Income Tax

Current taxes increased by ₱595.8 million or 35.1%, to ₱2,293.8 million in 2007 from ₱1,698 million in 2006 mainly due to greater taxable income coming by way of lower BOT fees and higher foreign exchange gain.

Deferred taxes increased by ₱339.5 million, or 22.2%, to ₱1,867.2 million in 2007 from ₱1,527.7 million in 2006 mainly attributed to higher unrealized foreign exchange gain on realignment of long-term loans in 2007.

Net Income

As a result of all the foregoing, net income increased by ₱1,788.2 million, or 26.1%, to ₱8,651.5 million in 2007 from ₱6,863.3 million in 2006. In 2007, net income represented 46.1% of total revenue compared to 26.7% of total revenue in 2006, primarily due to lower operating expenses, higher foreign exchange gains and lower interest charges partly offset by lower revenues and higher provision for income tax.

INCOME STATEMENT

Horizontal and Vertical Analyses of Material Changes for the year ended December 31, 2006 vs. 2005.

(Amounts in PHP millions)	Dec. 2006	Dec. 2005	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS	
			Increase (Decrease)		2006	2005
			Amount	%		
Revenue from sale of electricity	12,329.3	13,221.5	(892.2)	-6.7%	47.9%	59.5%
Revenue from sale of steam	4,173.4	4,184.2	(10.8)	-0.3%	16.2%	18.8%
Interest income on service concession	2,357.6	2,470.5	(112.9)	-4.6%	9.2%	11.1%
Revenue from drilling services	261.4	149.5	111.9	74.8%	1.0%	0.7%
Construction revenue	6,600.0	2,194.3	4,405.7	200.8%	25.7%	9.9%
TOTAL REVENUES	25,721.7	22,220.0	3,501.7	15.8%	100.0%	100.0%
Purchased services and utilities	(5,097.0)	(6,729.8)	1,632.8	-24.3%	-19.8%	-30.3%
Construction costs	(6,021.2)	(2,042.7)	(3,978.5)	194.8%	-23.4%	-9.2%
Depreciation and amortization	(97.7)	(82.7)	(15.0)	18.1%	-0.4%	-0.4%
Operations and maintenance	(3,242.0)	(3,290.2)	48.2	-1.5%	-12.6%	-14.8%
General and administrative	(1,047.3)	(1,861.3)	814.0	-43.7%	-4.1%	-8.4%
Sub-total	(15,505.2)	(14,006.7)	(1,498.5)	10.7%	-60.3%	-63.0%
Interest income - net of final tax	330.2	446.2	(116.0)	-26.0%	1.3%	2.0%
Interest expense	(2,330.8)	(2,604.4)	273.6	-10.5%	-9.1%	-11.7%
Other income (charges) - net	1,873.1	6,545.6	(4,672.5)	-71.4%	7.3%	29.5%
TOTAL EXPENSES	(15,632.7)	(9,619.3)	(6,013.4)	62.5%	-60.8%	-43.3%
INCOME BEFORE INCOME TAX	10,089.0	12,600.7	(2,511.7)	-19.9%	39.2%	56.7%
Provision for (benefit from) Income Tax						
Current	1,698.0	1,677.4	20.6	1.2%	6.6%	7.5%
Deferred	1,527.7	1,749.1	(221.4)	-12.7%	5.9%	7.9%
	3,225.7	3,426.5	(200.8)	-5.9%	12.5%	15.4%
NET INCOME	6,863.3	9,174.2	(2,310.9)	-25.2%	26.7%	41.3%

Revenues

Total revenues for the year ended December 31, 2006 increased by ₱3,501.7 million, or 15.8%, to ₱25,721.7 million from ₱22,220 million in 2005 primarily due to higher construction revenue as the Fluid Collection and Reinjection System (FCRS) and Power Plant in Northern Negros was 98.96 completed in 2006 coupled with the decrease in both the inflation indices and billed volume for electricity sales.

Revenue from Sale of Electricity

Revenue from electricity sales decreased by ₱892.2 million, or 6.7%, to ₱12,329.3 million in 2006 from ₱13,221.5 million in 2005. The decline was due to the combined decrease in average inflation indices by ₱0.099/KWh, triggered by the appreciation of the Peso against the US dollar, and in billed volume by 71 GWh owing to the reduction of nominated energy to within NPC's financial capacity for the Leyte BOT plants to 4,211 GWh from 4,388 GWh starting July 25, 2006. The 2006 and 2005 actual billings amounted to ₱15,785.3 million and ₱16,677.5 million, respectively. These were reduced by an amount corresponding to the amortization of concession receivable for the BOT plants in Leyte and Mindanao, i.e., ₱3,456 million.

Revenue from Sale of Steam

Revenue from steam sales decreased by ₱10.8 million, or 0.3%, to ₱4,173.4 million in 2006 from ₱4,184.2 million in 2005. The decrease was on account of lower 2006 final inflation adjustments on prior years' billings (₱63 million) and lower 2006 surplus generation billings by 5.5 GWh (₱8.7 million), partly offset by the increase in inflation indices by an average of ₱0.0194/Kwh (₱60.8 million). The actual 2006 and 2005 billings amounted to ₱5,025.2 million and ₱5,036 million, respectively, reduced by ₱851.8 million yearly amortization of concession receivable.

Interest Income on Service Concession

Interest income on service concession receivable decreased by ₱112.9 million, or 4.6%, to ₱2,357.6 million in 2006 from ₱2,470.5 million in 2005 due to increasing fraction of the principal component in the annual amortization of concession receivable.

Revenue from Drilling Services

Revenue from drilling services significantly went up by ₱111.9 million, or 74.8%, to ₱261.4 million in 2006 from ₱149.5 million in 2005 primarily due to the drilling contract with Lihir Management Corporation in Lihir, Papua New Guinea which began in August 2005 and ended in June 2006.

Construction Revenue

Construction revenue substantially increased by ₱4,405.7 million, or 200.8%, to ₱6,600 million in 2006 from ₱2,194.3 million in 2005, as 66.7% of the construction activities for the Northern Negros FCRS and power plant was completed in 2006 vs. 30% in 2005.

Operating Expenses

Operating expenses increased by ₱1,498.5 million, or 10.7%, in 2006 to ₱15,505.2 million from ₱14,006.7 million in 2005, mainly due to the higher construction costs (₱3,978.4 million) partly offset by lower purchase services and utilities (₱1,632.7 million).

Purchased Services and Utilities

Purchased Services and Utilities decreased by ₱1,632.7 million, or 24.3%, to ₱5,097 million in 2006 from ₱6,729.8 million in 2005, due to the combined effect of the completion of the BOT contract for Upper Mahiao on Jun 25, 2006 and the significant appreciation of the Peso against the US dollar , with ₱46.236/US\$ average payment in 2006 as compared to the ₱51.155/US\$ average payment in 2005 (₱1,655.4 million).

Construction Costs

Construction costs significantly increased by ₱3,978.5 million, or 194.8%, to ₱6,021.2 million in 2006 from ₱2,042.7 million in 2005, as 66.7% of the construction activities for the Northern Negros FCRS and power plant was completed in 2006 vs. 30% in 2005.

Depreciation and Amortization

The ₱15 million increase, or 18.1%, to ₱97.7 million in 2006 from ₱82.7 million in 2005, mainly resulted from the depreciation of the assets acquired in 2006, particularly for drilling operations and support groups from Head Office.

Operations and Maintenance

Operations and maintenance expenses declined by ₱48.2 million, or 1.5%, to ₱3,242 million in 2006 from ₱3,290.2 million in 2005, mainly due to the lower royalty fee in 2006 as a result of the drop in steam revenues coupled with the increase in corporate income tax rate to 35% from 32% starting November 2005.

General and Administrative

General and administrative expenses decreased by ₱814 million, or 43.7%, to ₱1,047.3 million in 2006 from ₱1,861.3 million in 2005, largely due to the ₱737.6 million reduction in 2006 allowance for doubtful accounts with the BIR's issuance of tax credit certificate on already provided for VAT refund claims. One time separation costs incurred in 2005 during the implementation of the manpower reduction program also contributed to the reduction.

Financial Income (Expenses)

Financial expenses-net decreased by ₱157.6 million, or 7.8%, in 2006 to ₱2,000.6 million from ₱2,158.2 million in 2005, largely due to lower debt servicing costs with the full settlement in October and December 2006 of the loans arranged by JP Morgan Chase and BOTM, respectively.

Interest Income – net

Interest income-net of final tax decreased by ₱116.0 million to ₱330.2 million in 2006 from ₱446.2 million in 2005 largely due to lower level of investible funds with the programmed loan settlements.

Interest Expense

Interest expense substantially decreased by ₱273.6 million, or 10.5%, to ₱2,330.8 million in 2006 from ₱2,604.4 million in 2005, mainly due to lower debt servicing costs associated with the maturity of two loans, coupled with the appreciation of the Peso against the US Dollar.

Other Income (Charges)

Other income-net significantly decreased by ₱4,672.5 million, 71.4 %, to ₱1,873.1 million in 2006 from ₱6,545.6 million in 2005 primarily due to lower foreign exchange gain in 2006.

Foreign Exchange Gains - net

Net foreign exchange gains considerably decreased by ₱4,401.8 million, or 68.3%, to ₱2,041 million in 2006 from ₱6,442.8 million in 2005, primarily due to lower rate of JPY depreciation vs. US\$ in 2006 as compared to 2005. The rate of PhP appreciation vs. the US\$ was approximately the same.

Derivatives Gain (Loss)

Derivatives loss of ₱145.9 million in 2006 was a turnaround compared to the ₱200.3 million derivatives gain in 2005, mainly because of the decline in market values as of December 31, 2006. The derivatives gain (loss) pertained to the embedded derivatives on prepayment options on loans arranged by the ING Bank and Standard Chartered Bank.

Miscellaneous - net

Miscellaneous charges - net decreased by ₱75.3 million, or 77.3%, to ₱22.1 million in 2006 from ₱97.4 million in 2005, primarily contributed by lower 2006's day 1 gain on royalty fee due DOE as compared to that of 2005.

Provision for Income Tax

Current taxes increased by ₱20.6 million or 1.2%, to ₱1,698 million in 2006 from ₱1,677.4 million in 2005 mainly caused by the increase in income tax rate to 35% from 32% starting November 2005.

Deferred taxes decreased by ₱221.4 million, or 12.7%, to ₱1,527.7 million in 2006 from ₱1,749.1 million in 2005 mainly on account of lower unrealized foreign exchange gain in 2006 as compared to 2005.

Net Income

As a result of all the foregoing, net income decreased by ₱2,310.9 million, or 25.2%, to ₱6,863.3 million in 2006 from ₱9,174.2 million in 2005.

In 2006, net income represented 26.7% of total revenue compared to 41.3% of total revenue in 2005, largely attributed to lower foreign exchange gains reduced by lower revenues and higher operating expenses.

BALANCE SHEET

Horizontal and Vertical Analysis of Material Changes as of December 31, 2007 and 2006

(Amounts In PHP millions)	HORIZONTAL ANALYSIS				VERTICAL ANALYSIS	
	Dec. 2007	Dec. 2006	Amount	%	2007	2006
ASSETS						
Current Assets						
Cash and cash equivalents	2,797.6	9,999.2	(7,201.6)	-72.0%	4.3%	12.9%
Trade and other receivables	4,925.7	4,355.3	570.4	13.1%	7.6%	5.6%
Concession receivable	2,200.0	2,070.9	129.1	6.2%	3.4%	2.7%
Available-for-sale (AFS) investments	1,177.6	1,341.8	(164.2)	-12.2%	1.8%	1.7%
Parts and supplies inventories	1,140.0	1,164.5	(24.5)	-2.1%	1.8%	1.5%
Due from affiliated companies	-	4.8	(4.8)	-100.0%	-	-
Derivative assets	-	344.0	(344.0)	-100.0%	-	0.4%
Other current assets	535.6	917.6	(382.0)	-41.6%	0.8%	1.2%
	12,776.5	20,198.1	(7,421.6)	-36.7%	19.6%	26.1%
Noncurrent assets held for sale	1,672.5	-	1,672.5	100%	2.6%	-
Total Current Assets	14,449.0	20,198.1	(5,749.1)	-28.5%	22.2%	26.1%
Noncurrent Assets						
Concession receivable - net of current portion	34,695.4	36,895.4	(2,200.0)	-6.0%	53.3%	47.7%
Intangible assets	8,738.8	8,794.3	(55.5)	-0.6%	13.4%	11.4%
Deferred income tax assets	3,052.8	4,920.0	(1,867.2)	-38.0%	4.7%	6.4%
Exploration and evaluation assets	1,171.9	1,614.9	(443.0)	-27.4%	1.8%	2.1%
Property and equipment	1,111.0	2,469.2	(1,358.2)	-55.0%	1.7%	3.2%
Investment property	5.1	278.9	(273.8)	-98.2%	-	0.4%
Other noncurrent assets	1,846.7	2,221.7	(375.0)	-16.9%	2.8%	2.9%
Total Noncurrent Assets	50,621.7	57,194.4	(6,572.7)	-11.5%	77.8%	73.9%
TOTAL ASSETS	65,070.7	77,392.5	(12,321.8)	-15.9%	100.0%	100.0%
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities						
Trade and other payables	3,637.8	6,429.1	(2,791.3)	-43.4%	5.6%	8.3%
Income tax payable	419.0	507.9	(88.9)	-17.5%	0.6%	0.7%
Current portion of long-term debt	2,031.6	3,171.4	(1,139.8)	-35.9%	3.1%	4.1%
Current portion of liability to power plant contractors	246.7	2,766.4	(2,519.7)	-91.1%	0.4%	3.6%
Current portion of royalty fee payable	456.3	524.6	(68.3)	-13.0%	0.7%	0.7%
Due to Philippine National Oil Company (PNOC)	-	350.8	(350.8)	-100.0%	-	0.5%
	6,791.4	13,750.2	(6,958.8)	-50.6%	10.4%	17.8%
Noncurrent Liabilities						
Long-term debt - net of current portion	20,809.9	33,308.6	(12,498.7)	-37.5%	32.0%	43.0%
Royalty fee payable - net of current portion	1,277.7	1,419.7	(142.0)	-10.0%	2.0%	1.8%
Liability to power plant contractors - net of current portion	96.3	413.2	(316.9)	-76.7%	0.1%	0.5%
Retirement benefit obligation	912.1	869.6	42.5	4.9%	1.4%	1.1%
Other long-term liabilities	330.0	256.4	73.6	28.7%	0.5%	0.3%
	23,426.0	36,267.5	(12,841.5)	-35.4%	36.0%	46.9%
EQUITY						
Common stock issued	15,000.0	15,000.0	-	-	23.1%	19.4%
Preferred stock issued	75.0	-	75.0	100%	0.1%	-
Additional paid-in capital	6,278.1	6,278.1	-	-	9.6%	8.1%
Accumulated unrealized gain on AFS investments	368.5	131.5	237.0	180.2%	0.6%	0.2%
Retained earnings	13,131.7	5,965.2	7,166.5	120.1%	20.2%	7.7%
	34,853.3	27,374.8	7,478.5	27.3%	53.6%	35.4%
TOTAL LIABILITIES AND EQUITY	65,070.7	77,392.5	(12,321.8)	-15.9%	100.0%	100.0%

The Company's total resources as of December 31, 2007, aggregated to ₱65,070.7 million, 15.9% or ₱12,321.8 million lower than the December 31, 2006 year-end level of ₱77,392.5 million. PNOC EDC's debt-to-equity ratio improved to 0.66:1 as of December 31, 2007 from 1.33:1 as of December 31, 2006. Current ratio improved to 2.13:1 this year from 1.47:1 last year.

Cash and cash equivalents

This account consists mainly of cash on hand and in banks. Cash equivalents include money market placements with maturities of less than three months. The ₱7,201.6 million reduction resulted primarily from the prepayment of a number of long-term loans.

Trade and other receivables

The ₱570.4 million (13.1%) increase refers primarily to the recognition as current receivable of the agreed final settlement by NPC of the Tongonan I shortfall billings in January 2008. These billings have been fully provided for already.

Available-for-sale securities investments

This account includes placements primarily in dollar-denominated ROP bonds, which can be converted to cash anytime should a need arise. The ₱164.2 million decline was accounted by the pre-termination of ROP bonds amounting to US\$ 3.0 million and foreign exchange losses sustained in translating the placements to the year-end peso-dollar exchange rate.

Other current assets

This account consists mainly of BIR's tax credit certificate, prepaid expenses and advances to contractors. The ₱382.0 million decrease was attributed to the application of tax credit certificates in the payment of income tax due in 2007.

Noncurrent assets held for sale

Noncurrent assets held for sale of ₱1,672.5 million consist of the land owned by the Company in Fort Bonifacio whereby the company agreed to sell these properties to PNOC. The Company expects the sale to be completed within one year from December 31, 2007.

Deferred income tax assets

The decrease of ₱1,867.2 million was mainly due to the deferred tax liability on the unrealized foreign exchange gains on translation to Peso of the foreign-currency denominated loans.

Exploratory and evaluation assets

This account consists of expenses incurred for exploring areas for potential project development. It was reduced by ₱ 443 million with the reclassification of remaining exploration costs of Northern Negros geothermal project into the intangible asset account.

Investment property

This account consists primarily of the Company-owned building in Fort Bonifacio which is presently occupied by PNOC Exploration Corporation. This account was reduced by ₱273.8 million with the reclassification to noncurrent assets held for sale of the parcel of land not forming part of the Energy Center and which EDC has agreed to sell to PNOC.

Property and equipment

Property and equipment account was reduced by ₱1,358.2 million mainly due to the reclassification to noncurrent assets held for sale of the parcel of land where the Company's Head Office is situated.

Other noncurrent assets

Other noncurrent assets decreased by ₱375.0 million mainly due to the reclassification of NPC contested billings to current trade accounts receivable account. This was further to the dispute resolution agreement between NPC and the Company dated October 26, 2007.

Trade and other payables

Trade and other payables decreased by ₱2,791.3 million mainly due to the lower accrual for BOT fees payable at December 31, 2007 with the completion of the BOT contracts for Malitbog, Mahanagdong and the Leyte Optimization Power Plants in 2007.

Royalty fee payable

Royalty fee payable was reduced by ₱210.3 million with the Company's settlement of Palipinon I royalty fees due to the DOE covering the period 2001 to 2004.

Obligation to power plant contractors

Obligation to power plant contractors decreased by ₱2,836.6 million mainly due to payment of capital cost recovery fees to BOT contractors.

Long-term debt

Long-term debt went down to ₱22,841.5 million in 2007 from ₱36,480.0 million in 2006 with the prepayment of term loans arranged by ING and Standard Chartered Bank and the regular principal amortization payments of all other outstanding loans.

Capital Stock- Preferred shares

The ₱75.0 million increase from December 31, 2006 balance of ₱15,000 million common stock is accounted for by the issuance of 7.5 billion preferred shares at a par value of ₱0.01 per share. The issuance was approved by the Company's Board of Directors and the Securities and Exchange Commission on June 14 and 29, 2007, respectively. The preferred shares were fully subscribed to and paid for by PNOC (4.5 billion shares) and PNOC EDC's Retirement Fund (3.0 billion shares). With the full privatization on November 27, 2007, the entire 7.5 billion shares are now owned by Red Vulcan Holdings Corporation, a subsidiary of FirstGen Corporation.

Retained Earnings

Retained earnings increased by ₱7,166.5 million from the December 31, 2006 balance mainly due to the ₱8,651.5 million net income for the period reduced by the ₱1,485.0 million cash dividend declared on April 17, 2007 to the stockholders on record as of May 15, 2007. The cash dividend was paid on June 5, 2007.

BALANCE SHEET

Horizontal and Vertical Analysis of Material Changes as of December 31, 2006 and 2005

(Amounts In PHP millions)	HORIZONTAL ANALYSIS				VERTICAL ANALYSIS	
	Dec. 2006	Dec. 2005	Increase (Decrease)		2006	2005
			Amount	%		
ASSETS						
Current Assets						
Cash and cash equivalents	9,999.2	4,450.1	5,549.1	124.7%	12.9%	6.4%
Trade and other receivables	4,355.3	4,599.4	(244.1)	-5.3%	5.6%	6.6%
Concession receivable	2,070.9	1,950.2	120.7	6.2%	2.7%	2.8%
Available-for-sale (AFS) investments	1,341.8	2,793.8	(1,452.0)	-52.0%	1.7%	4.0%
Parts and supplies inventories	1,164.5	956.8	207.7	21.7%	1.5%	1.4%
Due from affiliated companies	4.8	2.6	2.2	84.6%	-	-
Derivative assets	344.0	522.9	(178.9)	-34.2%	0.4%	0.7%
Other current assets	917.7	530.5	387.2	73.0%	1.2%	0.8%
Total Current Assets	20,198.2	15,806.3	4,391.9	27.8%	26.1%	22.6%
Noncurrent Assets						
Concession receivable - net of current portion	36,895.4	38,966.3	(2,070.9)	-5.3%	47.7%	55.6%
Intangible assets	8,794.3	2,194.3	6,600.0	300.8%	11.4%	3.1%
Deferred income tax assets	4,920.0	6,447.6	(1,527.6)	-23.7%	6.4%	9.2%
Exploration and evaluation assets	1,614.9	2,238.8	(623.9)	-27.9%	2.1%	3.2%
Property and equipment	2,469.2	2,022.9	446.3	22.1%	3.2%	2.9%
Investment property	278.9	279.8	(0.9)	-0.3%	0.4%	0.4%
Other noncurrent assets	2,221.6	2,103.5	118.1	5.6%	2.9%	3.0%
Total Noncurrent Assets	57,194.3	54,253.2	2,941.1	5.4%	73.9%	77.4%
TOTAL ASSETS	77,392.5	70,059.5	7,333.0	10.5%	100.0%	100.0%
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities						
Trade and other payables	6,429.1	4,960.5	1,468.6	29.6%	8.3%	7.1%
Income tax payable	507.9	2,087.6	(1,579.7)	-75.7%	0.7%	3.0%
Current portion of long-term debt	3,171.4	4,616.9	(1,445.5)	-31.3%	4.1%	6.6%
Current portion of liability to power plant contractors	2,766.4	5,058.3	(2,291.9)	-45.3%	3.6%	7.2%
Current portion of royalty fee payable	524.6	613.2	(88.6)	-14.4%	0.7%	0.9%
Due to Philippine National Oil Company (PNOC)	350.8	364.2	(13.4)	-3.7%	0.5%	0.5%
Total Current Liabilities	13,750.2	17,700.7	(3,950.5)	-22.3%	17.8%	25.3%
Noncurrent Liabilities						
Long-term debt - net of current portion	33,308.6	36,180.3	(2,871.7)	-7.9%	43.0%	51.6%
Royalty fee payable - net of current portion	1,419.7	1,050.5	369.2	35.1%	1.8%	1.5%
Liability to power plant contractors - net of current portion	413.2	2,777.3	(2,364.1)	-85.1%	0.5%	4.0%
Retirement benefit obligation	869.6	903.5	(33.9)	-3.8%	1.1%	1.3%
Other long-term liabilities	256.4	235.1	21.3	9.1%	0.3%	0.3%
Total Noncurrent Liabilities	36,267.5	41,146.7	(4,879.2)	-11.9%	46.9%	58.7%
EQUITY						
Common stock issued	15,000.0	10,000.0	5,000.0	50.0%	19.4%	14.3%
Preferred stock issued	-	-	-	-	-	-
Additional paid-in capital	6,278.1	-	6,278.1	100.0%	8.1%	-
Accumulated unrealized gain on AFS investments	131.5	110.3	21.2	19.2%	0.2%	0.2%
Retained earnings	5,965.2	1,101.8	4,863.4	441.4%	7.7%	1.6%
Total Equity	27,374.8	11,212.1	16,162.7	144.2%	35.4%	16.0%
TOTAL LIABILITIES AND EQUITY	77,392.5	70,059.5	7,333.0	10.5%	100.0%	100.0%

Total resources as of December 31, 2006, amounted to ₱77,392.5 million, 10.5% or ₱7,333.0 million higher than the 2005 year-end level of ₱70,059.5 million. The increase was attributed mainly to the proceeds of the three billion primary shares sold in December 2006. The Company's debt-to-equity ratio of 1.33:1 was better than 3.64:1 as of December 31, 2005. On the other hand, the current ratio went up to 1.47:1 from 0.89:1 in 2005.

Cash and cash equivalents

Cash and cash equivalents increased by ₱5,549.1 million mainly from proceeds from the sale of the three billion primary shares, loans from OECF 21st yen and internally generated funds from operations.

Available for sale investments

The decrease of ₱1,452.0 million resulted mainly from the maturity of ROP bonds which were used to finance temporary funding gaps since the Company opted to minimize availment of its short-term credit lines in anticipation of the IPO proceeds in December 2006.

Intangible asset

The increase of ₱6,600.0 million mainly came from the intensified development of Northern Negros geothermal project in 2006.

Trade and other payables

The increase of ₱1,468.6 million posted as of December 31, 2007 was accounted for by the provision for various government taxes on the Company's steam and electricity operations (₱822.2 million), payment retention for the Northern Negros power plant construction (₱227.6 million) and accrual of various unbilled services (₱418.7 million).

Income tax payable

The decrease of ₱1,579.7 million was attributed mainly by the payment of the income tax liability from the 3rd quarter of 2004 up to 3rd quarter of 2005 since income tax computations for 2004 and 2005 were reverted back to finance lease method for BOT transactions.

Royalty fee payable

Royalty fee payable increased by ₱280.6 million triggered by higher accrual of royalty fee payable to the Department of Energy for the Southern Negros Geothermal Project – Palinpinon I.

Obligation to power plant contractors

Obligation to power plant contractors was reduced by ₱4,656.0 million on account of the repayment of capital cost recovery fees to BOT contractors and foreign exchange gains on realignment of outstanding loans due to the appreciation of the peso against the US dollar.

Long-term debt

Long-term debt decreased by ₱4,317.2 million primarily due to the full payment of loans obtained from JP Morgan Chase and Bank of Tokyo Mitsubishi, which were partly offset by loan availment from OECF in 2006.

Capital Stock – Common shares and additional paid-in capital

Common stock increased by ₱5,000 million from the ₱10,000 million balance as of December 31, 2005 on account of the additional subscribed capital of five billion shares in 2006 through stock dividend of two billion shares and initial public offering of three billion primary shares, which generated additional paid-in capital of ₱6,278.1 million as excess over par in December 2006.

Retained Earnings

The increase of ₱4,863.4 million from the December 31, 2005 balance was accounted for by the ₱6,863.3 net income restated for the effects of IFRIC 12, provision for taxes, accounting for financial statements and embedded derivatives and the net effect of recognition and reversal of expenses. This was partly reduced by the ₱2,000 million stock dividend declared to PNOC as part of the partial privatization efforts.

CASH FLOWS

2007 vs. 2006

The Company's net cash from operating activities decreased by ₱801.9 million or 11%, to ₱6,292.1 million in 2007 from ₱7,094.0 million in 2006, primarily due to higher cash used to settle trade and other payables with the winding up of Northern Negros construction activities. This was partially offset by lower disbursements for income taxes since the tax issue on capital-lease method for BOT transactions was already settled in 2006 coupled with the drop in interest payments as a result of loan maturities in late 2006 and the two loan prepayments undertaken in 2007.

The net cash flows from investing activities amounted to ₱1,372.8 million this year, a turnaround from last year's net cash flows used in investing activities of ₱5,228.6 million. This was primarily accounted by the ₱7,091.4 million decrease in the disbursement for intangible asset with the completion of the Northern Negros Geothermal Project. The ₱1,990.7 million total inflow from interest earned during the period, drop in exploration and evaluation of assets and other non-current assets, maturity and pre-termination of the available-for-sale investments as well as the proceeds from sale of investment and disposal of property and equipment was used for capital expenditures and settlement of loans.

The Company posted in 2007 ₱14,866.5 million net cash flow used in financing activities as compared to the ₱3,683.7 million net cash flow from financing activities. With the appreciation of the PHP against the US\$ and the delay of the implementation of the expansion programs, the Company opted to prepay ₱9,021.3 million its loans which were arranged by the ING and Standard Chartered Bank. The Company also paid cash dividend of ₱1,485.0 million in 2007.

2006 vs. 2005

The Company posted a lower net cash flow from operating activities of ₱7,094.0 million in 2006 year compared with ₱13,230.1 million in December 2005 on account of higher payment of income tax of ₱3,277.6 million. This was because the income tax due for the years 2004 and 2005 of ₱1,933.9 million were paid in 2006 since the income tax computation was reverted to finance lease method for BOT transactions after resolving the issue with the BIR.

Net cash flows used in investing activities surged to ₱5,228.6 million in 2006, ₱2,569.9 million higher compared to the 2005 level of ₱2,658.7 million. This was primarily due to the increase in capital expenditures for the Northern Negros Geothermal Project by ₱4,405.7 million. The ₱1,473.1 million inflow mainly from the maturity and pre-termination of the investments available-for-sale was used for capital expenditures requirements.

The company registered a net cash flow from financing activities of ₱3,683.7 million in 2006, a turnaround from 2005 net cash flows used in financing activities of ₱6,967.6 million attributed mainly to the ₱9,278.1 million proceeds from the IPO offering. Other offsetting factors include the ₱1,123.9 million increment in payments to long-term debt due to the start of the principal amortization of the US\$90 million 5-year-term loan and the ₱1,500.0 million loan from Land Bank of the Philippines plus the ₱747.2 million drop in the payment of the BOT lease obligations.

Selected Financial Data

Financial Statements	2007	2006 (Restated)	2005 (Restated)
a) Cash and Cash Equivalents			
Cash in Bank (Peso)	11	8	9
Cash in Bank (US\$)	3	17	385
Cash in Bank (Yen)	2	2	95
Marketable Securities (Peso)	2,667	9,705	3952
Marketable Securities (US\$)	114	267	9
Total	2,797	9,999	4,450
b) Accounts Receivables – Others			
Unapplied withholding taxes/ tax certificates	-	-	-
Others	628	123	239
Total	628	123	239
c) General and Administrative Expenses			
Employee costs	968	768	1,026
Provision for doubtful accounts	287	299	239
Rent, insurance and taxes	547	240	188
Purchased services and utilities	346	255	225
Materials and supplies	112	71	65
Depreciation and amortization	40	30	32
Maintenance and repairs	28	24	25
Business and others expense	87	97	61
Others	3	-	-
Credit adjustment on allowance for doubtful accounts	(43)	(737)	-
Total	2,375	1,047	1,861
d) Other Income, Interest Expense and Others			
Interest income	649	330	446
Interest expense	1,567	2,331	2,604
Foreign exchange gain (loss)	3,900	2,041	6,443
Derivatives gain (loss)	56	(146)	200
Miscellaneous	(204)	(22)	(97)
Total	5,968	4,534	9,596

Top Five (5) Key Performance Indicators

Ratio	Dec – 07	Dec – 06
Current Ratio	2.13:1	1.47:1
Debt-to-Equity Ratio	0.66:1	1.33:1
Net Debt-to-Equity Ratio	0.58:1	0.97:1
Return on Assets (%)	12.2	9.3
Return on Equity (%)	27.8	35.6

Current Ratio - Total current assets divided by total current liabilities

This ratio is a rough indication of a company's ability to pay its short-term obligations. Generally, a current ratio above 1.00 indicates a greater capability of a company to settle its current obligations.

Debt-to-Equity Ratio - Total interest-bearing debts divided by stockholder's equity

This ratio expresses the relationship between capital contributed by the creditors and the owners. The higher the ratio, the greater the risk being assumed by the creditors. A lower ratio generally indicates greater long-term financial safety.

Net Debt-to-Equity Ratio – Total interest-bearing debts less cash & cash equivalents divided by stockholders' equity

This measures the company's financial leverage and stability. A negative net debt-to-equity ratio means that the total cash and cash equivalents exceeds interest-bearing liabilities.

Return on Assets - Net income divided by total assets (average)

This ratio is an indicator how profitable a company is relative to its total assets. This also gives an idea as to how efficient management is using its assets to generate earnings.

Return on Equity - Net income divided by average total stockholders' equity

This ratio reveals how much profit a company earned in comparison to the total amount of shareholders' equity found on the balance sheet. A business that has a high return on equity is more likely to be one that is capable of internally generating cash. For the most part, the company's return on equity is compared with an industry average. The company is considered superior if its return is greater than the industry average.

Foreign Exchange Rate Volatility

Any volatility in the exchange rate implies not only cost uncertainties for PNO C EDC, both in terms of operating and capital expenses, but also the level of its revenues. As the peso depreciates the cost of imported products increases, which is the same for net sales since some sales agreements have included as component in their inflator indices the peso-dollar volatility. Conversely, as the peso appreciates, costs decrease but net sales also decrease.

As at end-2007, the Philippine peso remained ahead of the US Dollar and had surpassed its performance in end-2006 to close at ₱41.411:US\$ in 2007 as compared to ₱49.045:US\$ in 2006. The peso's appreciation in 2007 was fueled by strong foreign exchange inflows mainly on workers' remittances and the extended decline in the US Dollar on account of the US sub prime crisis.

The peso is expected to remain stable and will continue to improve as market participants see fiscal reforms taking place. The peso will also be supported by strong capital inflows arising from an improvement in investor sentiment and remittances of OFWs.

Inflation and Interest Rates

The Philippines average inflation rate in 2007 stood at 2.77 percent, much lower than the recorded rate of 6.2 percent in 2006 as the peso's strength lowered the cost of imports, including oil. Inflation in 2007 was basically driven by food and fuel prices while demand-side pressures were limited. In 2007, the 91-day T-bill rate averaged 3.414% and stayed within target due to modest inflation rates and favorable monetary policies.

Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation

The Company has entered into long-term loan arrangements with domestic and international financial institutions, including the JBIC, the World Bank, Land Bank of the Philippines, and term loans syndicated by ING and Standard Chartered Bank for its various development projects and working capital requirements. For some of these loans, the Government or PNOC is the initial borrower with sub-lending arrangements with the Company. For other loans the Company is the borrower with the obligations guaranteed by the Government. In these transactions, the Company pays a guarantee fee of 1.00% per annum on the outstanding balance to the Government. The guarantee fee has been increased to 2.00% per annum starting January 1, 2008. Beginning January 2011, it shall be increased by 0.25% per annum annually up to a maximum of 3.00% per annum. The Company is required to abide by procurement standards and procedures established by the lenders for capital expenditure financed through respective loans.

Certain of the Company's long-term loans, such as those obtained from the World Bank contain financial covenants. Under its obligations with the World Bank, the Company was required to maintain (i) a ratio of current assets to current liabilities of not less than 1.0:1, (ii) a ratio of debt to equity not greater than 70:30 and (iii) a debt service ratio (estimated net revenues divided by estimated debt service requirements) of 1.21:1 or 1.25:1. Since 1999, the Company has been unable to maintain the financial ratios set out in its World Bank loans. However, the Company has received a waiver from the World Bank for each year that it has not been able to meet its financial ratios from 1999 to 2005. In November 2006, the Company and the World Bank entered into certain amendments to the financial ratios set out above. Because of the amendment, the Company did not need to secure the Bank's waiver for 2006 and 2007.

Under the US\$90 million syndicated five-year loan facility guaranteed by the Government in 2003, the Company is required to maintain a debt service ratio of 1.1:1. The \$75 million syndicated 5-year term loan guaranteed by the Government, the Company is also required to maintain a debt service ratio of 1:1. These loans were fully paid in February and June 2007.

Any significant elements of income or loss (from continuing operations)

There were no significant elements of income or loss from continuing operations.

Seasonal aspects that have material effect on the FS

There were no seasonal items that materially affect the financial statements.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period

During the reporting period, there were no off-balance sheet transactions, obligations and arrangements with unconsolidated entities or persons.

Audit and Audit-Related Fees

The following table sets out the aggregate fees billed for each of the last three fiscal years for professional services rendered by the Commission on Audit for 2005 and 2006 and by SGV & Co. for 2007.

	Year-ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Audit Fees (in Pesos)	<u>2,000,000.00</u>	<u>2,240,000.00</u>	<u>3,685,000.00</u>

Material Commitments for Capital Expenditures

The Company has a total budget for capital expenditures of approximately ₱6,364.1 million for 2008. Major portion equivalent to 72% of the total budget is allotted to the construction of Mindanao 3 Power Plant and its corresponding Fluid Collection and Re-injection System (FCRS) amounting to ₱3,964.5 and ₱635.3 million, respectively, which is in line with the Company's plan of project optimization. The budget also includes expenditures amounting to ₱400 million for the construction of the Northern Negros FCRS for the wells to be drilled near the national park's buffer zone.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Since 1987, the Commission on Audit of the Philippines had served as the independent auditor of the Company to audit the Company's financial statements. With the full privatization of the Company in 2007, it has engaged SGV & Co. as its external auditor for a period of three years. The Company has not had any material disagreements on accounting matters or financial disclosure matters with both Commission on Audit and SGV & Co.

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors

Oscar M. Lopez, 77

Mr. Lopez, Filipino, was elected the Company's Chairman last November 29, 2007. He also serves as Chairman and Chief Executive Officer of the First Philippine Holdings Corp. (FPHC), and Chairman of Benpres Holdings Corporation (Benpres) and all member-companies of First Gen Corp. (First Gen) and First Gas groups of companies. Through his Chairmanship of FPHC and Benpres, Mr. Lopez serves as Chairman of the Lopez Group of Companies. He is also a member of the board of ABS-CBN Broadcasting Corporation. Mr. Lopez has led FPHC's efforts in other businesses aside from energy and power, including toll road construction, industrial park and real estate development, and electronics manufacturing. Mr. Lopez has a Masters degree in Public Administration from the Littauer School of Public Administration in Harvard University (1955), where he also earned his Bachelor of Arts degree, *cum laude* (1951).

Paul A. Aquino, 65

Mr. Aquino, Filipino, the Company's President and CEO since February 2004, is an electrical engineer by profession and has a master's degree in business administration. He has been a Director of the Company since 2001. He previously served as president to various companies, including Dynamic Computer Services, Corinthian Securities and Management Dynamics. Mr. Aquino was also a consultant for Sycip, Gorres & Velayo from 1967 to 1969. He also serves as an Honorary Consul of the Republic of Malta.

Peter D. Garrucho, Jr., 64

Mr. Garrucho, Filipino, was elected as Company Director on November 29, 2007. He also sits in the boards of FPHC, ABS-CBN Broadcasting Corporation, Manila Electric Company, First Private Power Corporation (FPPC), First Gen Luzon Power Corp. (FGLuzon), First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Energy Solutions, Inc., First Gen Northern Energy Corp., First Gen Premiere Energy Corp., Red Vulcan Holdings Corp., Prime Terracota Holdings Corp., First Gen Visayas Energy Inc., First Gen Prime Energy Corp., First Gas Holdings Corporation (FGHC), First Gas Power Corporation (FGPC), FGP Corp., Allied Gen Power Corp. (AlliedGen), Unified Holdings Corp., First NatGas Power Corporation (FNPC), FGLand Corp. and First Gas Pipeline Corp. (FGPipeline). He served in the government as secretary of the Department of Tourism and the Department of Trade & Industry during the administration of President Corazon C. Aquino. He was also Executive Secretary and Presidential Adviser on Energy Affairs under President Fidel V. Ramos. Mr. Garrucho has an AB-BSBA degree from De La Salle University (1966) and a Master of Business Administration degree from Stanford University (1971).

Federico R. Lopez, 46

Mr. Lopez, Filipino, was elected as Company Director on November 29, 2007. He is President and CEO of First Gen and Managing Director for Energy of FPHC. He is a member of the boards of FPHC, ABS-CBN Broadcasting Corporation, First Private Power Corp., and Bauang Private Power Corp. He also serves as director, President and CEO of FGLuzon, FG Bukidnon Power Corp., First Gen Hydro Power Corp., First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Energy Solutions, Inc., First Gen Northern Energy Corp., First Gen Premiere Energy Corp., Red Vulcan, Prime Terracota, First Gen Visayas Energy Inc., First Gen Prime Energy Corp., FGHC, FGPC, FGP, AlliedGen, Unified, FNPC, FGLand, and FGPipeline. He is also President of First Philippine Conservation, Inc., and President/COO of First Private Power Corp. Mr. Lopez is a graduate of the University

of Pennsylvania with a Bachelor of Arts degree in Economics and International Relations, *cum laude* (1983).

Richard B. Tantoco, 41

Mr. Tantoco, Filipino, was elected as Company Director on November 29, 2007. He is Executive Vice-President and Chief Operating Officer of First Gen, FGLuzon, FG Bukidnon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Energy Solutions, Inc., First Gen Northern Energy Corp., First Gen Premiere Energy Corp., Red Vulcan, Prime Terracota, First Gen Visayas Energy Inc., First Gen Prime Energy Corp., FGHC, FGPC, FGP, AlliedGen, Unified, FNPC, FGLand, and FGPipeline. He is also Senior Vice-President of FPHC. Mr. Tantoco worked previously with management consulting firm Booz, Allen and Hamilton, Inc. in New York and London. He has an MBA in Finance from the Wharton School of Business of the University of Pennsylvania (1993) and a Bachelor of Science degree in Business Management from Ateneo de Manila University where he graduated with honors (1988).

Francis Giles B. Puno, 43

Mr. Puno, Filipino, was elected as Company Director on November 29, 2007. He is Executive Vice-President and Chief Financial Officer of First Gen, FGLuzon, FG Bukidnon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Energy Solutions, Inc., First Gen Northern Energy Corp., First Gen Premiere Energy Corp., Red Vulcan, Prime Terracota, First Gen Visayas Energy Inc., First Gen Prime Energy Corp., FGHC, FGPC, FGP, AlliedGen, Unified, FNPC, FGLand, and FGPipeline. He is also a member of the boards of First Gen Renewables, Inc., FPPC and Bauang Private Power Corp., and a Senior Vice-President of FPHC. He worked previously with the Global Power and Environmental Group of The Chase Manhattan Bank based in Singapore. Mr. Puno has a Master of Management degree from the Kellogg Graduate School of Management of Northwestern University (1990) and a Bachelor of Science degree in Business Management from Ateneo de Manila University (1985).

Ernesto B. Pantangco, 57

Mr. Pantangco, Filipino, was elected as Company Director on November 29, 2007. He is Senior Vice-President of First Gen, and President and CEO of FPPC and BPPC. He also sits in the boards of First Gen, FGLuzon, FG Bukidnon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., and First Gen Northern Energy Corp. He is Senior Vice-President of FGLuzon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Northern Energy Corp. and Red Vulcan. He is also President of the Philippine Independent Power Producers Association (PIPPA). Mr. Pantangco has a Bachelor of Science in Mechanical Engineering degree from De La Salle University (1973) and Master of Business Administration degree from Asian Institute of Management, dean's list (1976). He is a registered mechanical engineer and placed 6th in the 1973 board exams.

Jonathan C. Russell, 43

Mr. Russell, British, was elected as Company Director on November 29, 2007. He is a member of the Execom and Mancom of First Gen, responsible for the development of power related projects, both Greenfield and acquisition. He was previously Vice-President of Generation Ventures Associates (GVA), an international developer of independent power projects based in Boston, USA from 1994 to 1998, responsible for the development of 1,720 MW of IPP projects in Asia. Mr. Russell has an MBA with Distinction in International Business & Export Management from City University Business School, London, England (1989) and a Bachelor of Science with Honours in Chemical & Administrative Sciences from City University, London, England (1987).

Vicente S. Perez, Jr., 49

Mr. Perez, Filipino, was elected as an Independent Director of the Company on June 14, 2007. He is also Director of Alternergy, Chikka, Merritt Partners, Nido Petroleum, Northwind Power, SM Investments Corp., ST Telemedia, etc. He previously served as Secretary of the Department of Energy from June 2001 to March 2005 and Undersecretary for Industry and Investments at the Department of Trade and Industry. He served in various private corporations prior to his appointment to government. He has over 17 years experience in investment banking and pursued a banking career overseas from 1983 to 1997. He was previously General Partner at Lazard Freres (New York). Mr. Perez holds a Bachelors degree in Business Economics from the University of the Philippines and obtained an MBA from Wharton Business School of the University of Pennsylvania (1983).

Eric O. Recto, 44

Mr. Recto, Filipino, was elected as an Independent Director of the Company on June 14, 2007. He is CEO of Eastern Telecommunications Philippines, Inc. (ETPI) and Connectivity Unlimited Resources Enterprise, Inc. (CURE). He is also Director and President of ISM Communications Corporation, Vice Chairman of PhilWeb Corporation and Director of Philippine National Bank. He was formerly Undersecretary of Department of Finance handling the International Finance Group and the Privatization Office. He was previously CFO of Alaska Milk Corporation and Belle Corporation. Mr. Recto obtained his undergraduate degree in Industrial Engineering from the University of the Philippines and an MBA from the Johnson School of Cornell University.

Francis G. Estrada, 58

Mr. Estrada, Filipino, was elected as an Independent Director of the Company on January 22, 2008. He is President and CEO of Asian Institute of Management (AIM) and Odyssey Capital Ventures. He is a Triple A awardee and is the first alumnus to serve as president of AIM. He also sits in the boards of Rizal Commercial Banking Corp. and Philamlife Corp. For over 32 years (22 years outside the Philippines), he has been a prominent international investment banker, financial adviser and financial entrepreneur, specializing in Asia-related financial operations. He has established a number of Asia-related financial institutions and commercial enterprises within and outside the Asian region, advised on numerous turn-around and cross-border financial transactions, and served on the board of over 30 private and public companies based in Asia, USA, Australia and Spain. Mr. Estrada graduated "With Distinction" from AIM with a Master in Business Management (1973) and completed the Advanced Management Program at the Harvard Business School (1989). He obtained his Bachelor of Science in Business Administration and Bachelor of Arts degrees from De La Salle University (1971).

Key Executive Officers

Agnes C. de Jesus, 54 - Senior Vice-President for Environmental and External Relations

Ms. de Jesus, Filipino, joined the Company in 1980 and has held her current position since April 4, 2005. She has had extensive experience in environmental and watershed management, government relations, policy formulation, community development and conflict resolution for energy projects. She was the environmental editor of Geothermics (International Journal on Geothermal Research and its Applications) from 1996 to 2004. She was also a member of the Board of Consultants of the Kenya Geothermal Program from 1993 to the present and is an accredited Environmental Assessment Expert of the DENR from 1997 to the present. She was the head of the Company's Environmental Management Division prior to her current position. Ms. de Jesus obtained bachelors and masters degrees in Botany from the University of the Philippines in Diliman and completed the Management Development Program of AIM (1996).

Marcelino M. Tongco, 53 - Vice-President for Operations

Mr. Tongco, Filipino, has been with the Company since 1979 and has held his current position since April 4, 2005. He previously served as General Manager of Operations, Manager for Engineering and Construction from 1988 to 1991 and Manager for Project Development from 1991 to 1994. Mr. Tongco graduated with a Bachelors of Science in Civil Engineering from the University of Santo Tomas and has pursued masters studies in Civil Engineering at the University of the Philippines in Diliman. He also completed the Management Development Program of AIM (1997) and obtained a Master's Certificate in Project Management from George Washington University (1997).

Manuel S. Ogena, 51 - Vice-President for Technical Services

Mr. Ogena, Filipino, joined the Company in 1979 and has held his current position as Vice President for the Technical Services Sector since December 2005. He joined the Company as a Geologist and was appointed Supervisor under the Geoscientific department in 1985. He became Department Manager in 1994 in the Exploration Department and then the Geoscientific Department in 2003. He has been a member of the board of directors of the International Geothermal Association since May 2006. Mr. Ogena graduated with a BS Geology degree from the University of the Philippines in Diliman and an MS Mechanical Engineering degree from the University of Auckland in New Zealand. He is also a graduate of the Management Development Program of AIM and earned his Masters Certificate in Project Management from George Washington University (1995).

Danilo C. Catigtig, 51 - Vice-President for Power Generation

Mr. Catigtig, Filipino, has been with the Company since February 1980. He has performed various activities such as well testing, reservoir engineering and maintenance at Southern Negros Geothermal Project (SNGPF) and Bacman Geothermal Production Field (BGPF). He became the first production manager of SNGPF. Then, he became Resident Manager of the Mt. Apo Geothermal Production Field, Northern Negros Geothermal Project and SNGPF prior to his appointment as General Manager for Field Operations II in January 2006. Mr. Catigtig graduated with a B.S. in Mechanical Engineering from Silliman University (1979) and obtained a Bachelor of Laws degree (1992). He undertook geothermal technology training (1983) at the United Nations University, Reykjavik, Iceland, earned his Masters Certificate in Project Management from George Washington University (1995) and completed the Management Development Program of AIM (1999).

Michael A. Medado, 53 - Vice-President for Administrative Services

Attorney Medado, Filipino, has been with the Company since May 1993. He was appointed as Vice-President for Administrative Services on November 29, 2007. He is also the concurrent General Counsel and head of Human Resources and Legal Division. He served as Corporate Secretary from September 2001 to January 2007, and Compliance Officer from January 2007 to July 2007. Prior to his employment in the Company, he had extensive experience in taxation, corporate and labor law in the PNOG Group of companies. A graduate of the University of the Philippines College of Law, he has been a lawyer since 1979. He also completed the Management Development Program of AIM (1996).

Mario L. Taguines, 53 - Vice-President for Drilling

Mr. Taguines, Filipino, has been with the Company since December 1979. He was appointed as Vice-President for Drilling on November 29, 2007. Prior to his appointment, he was General Manager of Field Operations. He also held division and department managerial positions in the Engineering and Construction of EDC since June 1997. Mr. Taguines graduated with a B.S. in Mechanical Engineering from Holy Angel College in Angeles City (1976). He completed the Management Development Program of AIM (1997) and obtained his Diploma in Geothermal Technology at the University of Auckland in New Zealand (1987). Prior to his employment in the Company, he had worked as Mechanical Engineer with Ecco-Asia from 1978 to 1979. He also taught mechanical engineering courses at Holy Angel College from 1977 to 1978.

Fenina O.T. Rodriguez, 52 - Chief Financial Officer/Treasurer

Ms. Rodriguez, Filipino, joined the Company in September 1992. She was appointed CFO in October 2007. She is also the concurrent Treasurer and head of Finance Division. Prior to her employment in the Company, she held various positions in internal audit, accounting and treasury in Petron Corporation and other PNOG subsidiaries. A certified public accountant, Ms. Rodriguez is a graduate of B.S. Business Administration, *magna cum laude* and with university honors, of Silliman University. She completed the Management Development Program of AIM (1996).

Roberto V. San Jose, 66 - Corporate Secretary

Mr. San Jose was appointed by the Board in January 2007. He graduated *summa cum laude* at the De La Salle University for his A. B. degree in 1962, and then *magna cum laude* and Class Valedictorian at the U. P. College of Law in 1966. Thereafter, he placed 1st in the 1966 Bar Examinations. His expertise lies in the fields of business and corporate law, securities, real property and natural resources. He was admitted to the Philippine Bar in 1967.

Ana Maria A. Katigbak-Lim, 39 - Assistant Corporate Secretary

Ms. Katigbak-Lim was appointed by the Board in January 2007. She graduated *cum laude* at the University of the Philippines for her A. B. degree. She is a graduate of the U. P. College of Law Class of 1994. She is a member of the Phi Kappa Phi international honor society. Her practice areas are corporate law, securities and litigation. She was admitted to the Philippine Bar in 1995.

Michael R. Rodriguez, 57 - Senior Manager, Internal Audit

Mr. Rodriguez, Filipino, has been with the Company since June 1993 and has held his current position as Senior Manager of Internal Audit since January 2006. He was appointed Senior Manager of Power and Sales in April 2005 and Operations Services in October 2003. He served as Senior Manager of Purchasing and Traffic Division from 1993 to 2003. Prior to his employment in the Company, he held various positions in purchasing, materials control, and traffic and warehousing in Petron Corporation and other PNOG subsidiaries. He was also appointed as Director of PNOG – Shipping and Transport Corporation Board from 1998-1999. A Chemical Engineer, Mr. Rodriguez graduated from Mapua Institute of Technology (1974). He obtained MBA units at the Ateneo Graduate School of Business (1983) and completed the Management Development Program of AIM (1996).

Francis M. Dolor, 55 - Senior Manager, Planning and Control Division

Mr. Dolor, Filipino, has been with the Company since 1980 and has held his current position since February 2005. He was previously Manager for the Power and Energy Services Department from August 2003 to January 2005. He also served as Project and Business Development Manager from March 1996 to July 2003. Mr. Dolor graduated from the University of the Philippines in Diliman with a B.S. in Mechanical Engineering. He completed the Management Development Program of AIM (1996) and obtained a Master's Certificate in Project Management from George Washington University (1995).

Francisco A. Palafox, 55 – Compliance Officer

Mr. Palafox, Filipino, has been with the Company since February 1981. He was appointed Compliance Officer on August 23, 2007. He was Senior Manager for Power and Sales Division from 2005 to 2007. He was Senior Manager and Department Manager under the Purchasing and Traffic Division in 2003 and 1993, respectively. He held positions as Materials and Control Manager in 1991, and Resident Manager of the Bacman Geothermal Production Field from 1986 to 1991. Mr. Palafox graduated with a B.S. in Civil Engineering from University of Santo Tomas in Manila (1975). He completed the Management Development Program of AIM (1994). He also earned credits in the MBA program at the Ateneo Graduate School of Business in Makati City from 1976 to 1978.

Elvira L. Punsalan, 48 - Senior Manager, Supply, Procurement and Materials Management Division

Ms. Punsalan, Filipino, joined the Company in October 1994 and has held her current position since August 2006. She was Accounting Manager from June 1996 to July 2006. Prior to her employment in the Company, she held various positions in corporate accounting and administrative systems in PNOC and Petron Corporation. A certified public accountant, Ms. Punsalan graduated with a B.S. degree in Commerce with a major in Accounting, and graduated *summa cum laude* at Far Eastern University. She completed the Management Development Program of the AIM (1994) and the foundation courses for the Master in Business Administration at De La Salle University.

Erudito S. Recio, 50 - Senior Manager, Investor Relations

Mr. Recio, Filipino, has been with the Company since 1981 and was formally appointed to his current position on January 2, 2007 but has performed his current duties since December 2006. He started with the Company as a Planning Engineer and has since held various positions in the Planning & Control Division. He was Corporate Planning Manager from 1993 to 2006. Mr. Recio obtained a Bachelor of Science degree in Management Engineering from Ateneo de Manila University. He completed the Management Development Program of AIM (1996).

Wilfredo T. Capil, 48 - Senior Manager, Drilling

Mr. Capil, Filipino, has been with the Company since 1981 and has held his current position since January 19, 2007. Prior to his current position, he was Manager of Drilling Services Department. He obtained a Bachelor of Science degree in Mechanical Engineering from Mapua Institute of Technology (1980). He completed the Management Development Program of AIM (2000).

Ramonchito Cedric M. Malate, 49 - Senior Manager, Reservoir Engineering

Dr. Malate, Filipino, has been with the Company since 1981 and has held his current position since January 19, 2007. Prior to his current position, he was Manager of Reservoir Engineering Department. He obtained a Bachelor of Science degree in Chemical Engineering from the Pamantasan ng Lungsod ng Maynila (University of the City of Manila), *cum laude* (1979) and earned credits in the Master in Engineering Management program of the same university. Dr. Malate obtained his Master in Engineering (Energy Planning and Economics) from the Asian Institute of Technology in Bangkok, Thailand (1983). He earned his doctorate degree, Ph. D. in Engineering, Reservoir Physics from the University of Auckland, New Zealand (1991).

Ellsworth R. Lucero, 49 - Senior Manager, Power Plant

Mr. Lucero, Filipino, has been with the Company since July 1983 and has held his current position since August 1, 2007. He previously served as Resident Manager for MGPF from July 2003 to July 2007 and Field Production Manager for BGPF from June 1994 to July 2003. Mr. Lucero graduated with a B.S. in Mechanical Engineering from Cebu Institute of Technology in Cebu City (1979). He completed the Management Development Program of AIM (1995). Prior to his employment with the Company, he had worked as Power Plant Junior Manager at the Atlas Consolidated Mining & Development Corporation from 1979 to 1982.

Gino P. de la Cruz, 52 - Resident Manager, Northern Negros Geothermal Production Field (NNGPF)

Mr. De la Cruz, Filipino, has been with the Company since October 1978 and has held his current position since May 2005. He previously served as Resident Manager for BGPF from October 2002 to April 2005. He rose from the ranks and has held field maintenance and production managerial positions in BGPF and SNGPF, respectively. Mr. de la Cruz graduated with a B.S. in Mechanical Engineering from Silliman University in Dumaguete City (1978) and obtained his MBA from St. Paul College also in Dumaguete City (2000). He also completed the Management Development Program of AIM (1998) and attended the Plant Operations and Maintenance Management Training in Japan (2006).

Dwight A. Maxino, 49 - Resident Manager, Southern Negros Geothermal Production Field (SNGPF)

Mr. Maxino, Filipino, has been with the Company since February 1980 and has held his current position since January 2006. He previously served as Resident Manager for Leyte Geothermal Production Field (LGPF) from July 2004 to April 2005 and Field Production Manager for the same project from January 1989 to June 2004. Mr. Maxino graduated with a B.S. in Mechanical Engineering from Cebu Institute of Technology in Cebu City (1979). He obtained his Diploma in Geothermal Technology at the University of Auckland in New Zealand (1981) and completed the Management Development Program of AIM (1992).

Manuel C. Paete, 51 - Resident Manager, Leyte Geothermal Production Field (LGPF)

Mr. Paete, Filipino, has been with the Company since March 1980 and has held his current position since August 2005. Prior to his promotion current position, he was Field Production Manager for LGPF since July 2004. He has held various positions that dealt with functions covering geothermal reservoir engineering, well test and measurement and FCRS operations in LGPF. Mr. Paete graduated with a B.S. in Mechanical Engineering from the Leyte Institute of Technology in Tacloban City (1978). He obtained his Diploma in Geothermal Technology at the United Nations University in Iceland (1983). Prior to his employment in the Company, he had worked as an Engineering Analyst at the Consult Asia Management in Metro Manila for a year.

Liberato S. Virata, 48 - Resident Manager, Bacman Geothermal Production Field (BGPF)

Mr. Virata, Filipino, has been with the Company since April 1982 and has held his current position since May 2005. Prior to his current position, he was Field Maintenance Manager for LGPF and Production Manager for BGPF. Mr. Virata graduated with a B.S. in Mechanical Engineering from Mapua Institute of Technology in Manila (1981). He also completed the Management Development Program of AIM (1996), the Diploma Course of Maintenance Management System in Japan (2002), as well as the Refinery Operators Course in Sydney, Australia (1988).

Alejandro V. Catacutan, 50 - OIC Resident Manager, Mindanao Geothermal Production Field (MGPF)

Mr. Catacutan, Filipino, has been with the Company since March 1981 and has held his current position since July 2007. He is also the concurrent Production Manager for MGPF. He was acting Maintenance Manager for MGPF from March 2002 to January 2007. He has held various positions that dealt with functions covering geothermal reservoir engineering, well test and measurement, and FCRS maintenance and operations in SNGPF. Mr. Catacutan graduated with a B.S. in Mechanical Engineering from Silliman University (1979) and a Bachelor of Laws from Foundation University in Dumaguete City (1993). He completed the Management Development Program of AIM (1998).

Martin Jude V. Lacambra, 43 - Senior Manager, Engineering, Procurement & Design Division (EPDD)

Mr. Lacambra, Filipino, has been with the Company since July 1988 and has held his current position since December 11, 2007. He is also the concurrent Engineering Design Manager. Mr. Lacambra graduated with a B.S. in Civil Engineering from St. Louis University in Baguio City (1986). He obtained his Diploma in Geothermal Energy Technology from the Geothermal Institute at the University of Auckland in New Zealand (1994) and Master's Certificate in Project Management from The George Washington University, School of Business and Management in Washington, D. C., USA (1997). He is a registered civil engineer and placed 10th in the 1986 board exams.

Significant Employees

No single person or employee is expected to make a significant contribution to the Company's business since the Company considers the collective efforts of all its employees as instrumental to the success of the Company.

Family Relationships

Oscar M. Lopez is the father of Federico R. Lopez; Ernesto B. Pantangco is the cousin-in-law of Oscar M. Lopez; and the wives of Federico R. Lopez and Francis Giles B. Puno are sisters.

Involvement in Certain Legal Proceedings

To the best of the Company's knowledge, there has been no occurrence during the past five years of any of the following events since its incorporation which are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, or control person of the Company:

1. Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;
2. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
3. Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and
4. Any final and executory judgment by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

Mr. Aquino in his capacity as President has been impleaded as respondents in three labor cases filed by former Company employees. The Company, however, does not believe that these claims affect Mr. Aquino's ability or integrity as a Company Director.

EXECUTIVE COMPENSATION

The aggregate compensation of the Company's Directors and executive officers is set forth below.

Name	Position	Salaries/Director's Fees/Bonuses/Other Income
Oscar M. Lopez	Chairman, Nov. 29, 2007	
Pedro A. Aquino, Jr.	Chairman, Aug. 30, 2007 – Nov. 29, 2007	
Antonio M. Cailao	Chairman, Nov. 23, 2006 – Aug. 30, 2007	
Paul A. Aquino	Director, President and Chief Executive Officer	
Peter D. Garucho, Jr.	Director, Nov. 29, 2007	
Federico R. Lopez	Director, Nov. 29, 2007	
Richard B. Tantoco	Director, Nov. 29, 2007	
Francis Giles B. Puno	Director, Nov. 29, 2007	
Ernesto B. Pantangco	Director, Nov. 29, 2007	
Jonathan C. Russell	Director, Nov. 29, 2007	
Vicente S. Perez, Jr.	Independent Director	
Eric O. Recto	Independent Director	
Francis G. Estrada	Independent Director, Jan. 22, 2008	
Benjamin F. Tugonon	Director, June 18, 2001 - Nov. 29, 2007	
Danilo Luis M. Mariano	Director, June 17, 2002 – Nov. 29, 2007	
Ernesto S. Amatong	Director, Oct. 23, 2002 – Nov. 29, 2007	
Benito Jose Q. Bengzon	Director, April 27, 2003 – Nov. 29, 2007	
Nicasio P. Rodriguez, Jr.	Director, March 17, 2003 – Nov. 29, 2007	
Ralph A. Salazar	Director, Nov. 22, 2004 – Nov. 29, 2007	
Asuncion J. Espina	Director, Feb. 15, 2005 – Nov. 29, 2007	
Edgardo A. Bautista	Independent Director, June 14 – Oct. 15, 2007	
Agnes C. De Jesus	Sr. Vice-President & Vice-President for Environmental and External Affairs	
Marcelino M. Tongco	Vice-President for Operations	
Manuel S. Ogena	Vice-President for Technical Services	
Danilo C. Catigtig	Vice-President for Power and Sales	
Fenina O. T. Rodriguez	Chief Financial Officer	
Mario L. Taguines	Vice-President for Drilling	
Michael A. Medado	Vice-President for Administrative Services	
Ester R. Guerzon	Vice-President for Corporate Services, April 4, 2005 – April 30, 2007	
Aggregate compensation (all key executive officers and Directors as a group)	2006 Short-term benefits	₱ 40,419,545
	2006 Post employment benefits	₱ 60,434,375
	2007 Short-term benefits	₱ 39,626,921
	2007 Post employment benefits	₱ 76,699,639
	2008 Short-term Benefits (Estimate)	₱ 58,343,985
	2008 Post employment Benefits (Estimate)	₱ 9,293,050

In compliance with PNOC EDC Board Resolution No. 54, S' 2007, the members of the Board are remunerated with a compensation package as follows:

- Monthly director's fee: ₱50,000.00
- Attendance fee for Board meetings: ₱10,000.00 per meeting
- Bonus to Directors as a group: ½ of 1% of declared cash dividend
- Group Life Insurance Coverage: ₱ 4 million, at a premium per month of ₱2,120 wherein ₱ 819.10 is being shouldered by the Company while the balance of ₱1,300.90 is being shouldered by the director.
- Group Hospitalization Insurance Coverage: ₱1,400.24 per month

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of March 31, 2008

Type of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Common Preferred	Red Vulcan Holdings Corporation 3 rd Floor Benpres Bldg., Exchange Road cor. Meralco Ave., Pasig City Major Stockholder	Beneficial Owner - First Gen Corporation Proxy - Federico R. Lopez, President & CEO of First Gen Corporation	Filipino	6,000,000,000 7,500,000,000	40.00% 100.00%
Common	PCD Nominee Corporation (Foreign) *		Foreign	8,228,404,304	54.86%
Common	PCD Nominee Corporation (Filipino) *		Filipino	757,425,187	5.05%

* PCD Nominee Corporation, a wholly owned subsidiary of Philippine Central Depository, Inc. (PCD), is the registered owner of the shares in the books of the Company's transfer agent in the Philippines. The beneficial owners of such shares are PCD's participants, who hold the shares on their behalf or in behalf of their clients. PCD is a private company organized by the major institutions actively participating in the Philippines capital market to implement an automated book-entry system of handling securities transactions in the Philippines.

Security Ownership of Directors and Management as of March 31, 2008

Title of Class	Name of Beneficial Owner	Amount of Shares	Nature of Ownership	Citizenship	Percent of Class
Directors					
Common	Oscar M. Lopez	10,001	Direct	Filipino	0.000%
Common	Paul A. Aquino	100,001	Direct	Filipino	0.001%
Common	Peter D. Garrucho, Jr.	2,686,000	Direct	Filipino	0.018%
Common	Federico R. Lopez	156,000	Direct	Filipino	0.001%
Common	Richard B. Tantoco	600,000	Direct	Filipino	0.004%
Common	Francis Giles B. Puno	294,001	Direct	Filipino	0.002%
Common	Ernesto B. Pantangco	30,001	Direct	Filipino	0.000%
Common	Jonathan C. Russell	1,371,000	Direct	British	0.009%
Common	Vicente S. Perez, Jr.	10,000	Direct	Filipino	0.000%
Common	Eric O. Recto	5,000	Direct	Filipino	0.000%
Common	Francis G. Estrada	1	Direct	Filipino	0.000%

Title of Class	Name of Beneficial Owner	Amount of Shares	Nature of Ownership	Citizenship	Percent of Class
Key Executive Officers					
Common	Agnes C. De Jesus	100,000	Direct	Filipino	0.001%
Common	Marcelino M. Tongco	150,000	Direct	Filipino	0.001%
Common	Manuel S. Ogena	149,000 172,500	Direct Indirect	Filipino	0.002%
Common	Danilo C. Catigtig	50,000	Direct	Filipino	0.000%
Common	Fenina O. T. Rodriguez	500,000	Direct	Filipino	0.003%
Common	Michael A. Medado	10,000	Direct	Filipino	0.000%
Common	Mario L. Taguines	0	-	Filipino	0.000%
Common	Roberto V. San Jose	0	-	Filipino	0.000%
Common	Ana Maria A. Katigbak-Lim	0	-	Filipino	0.000%

As of March 31, 2008, the total number of shares owned by the Directors and key executive officers is 6,393,505 or 0.042% of total common shares.

Voting Trust Holders of 5% or more

The Company knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

Certain Relationships and Related Transactions

At the time of its approval by EDC Board of Directors during its November 13, 2007 meeting, the sale of a parcel of land consisting of 29,291 sq. m. which forms part of the Energy Center, to its parent the Philippine National Oil Company (PNOC) at a price of ₱57,000 per square meter, was a related party transaction.

Other than this, the Company is not aware if a material transaction or proposed transaction to which the Company was or is to be a party, in which any of its directors or executive officers, or any nominee for election as a director, or any individual owning, directly or indirectly, significant voting power of the Company, or any close family members of such individuals, had or is to have a direct or indirect material interest.

PART V – CORPORATE GOVERNANCE

Further to its commitment to good governance, PNOC Energy Development Corporation (PNOC EDC) has adopted several measures that would put the Company at par with the best in the country. In a project jointly undertaken by the Institute of Corporate Directors (ICD), Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE), the Company has been rated as one of the twenty (20) top-ranked Philippine companies on corporate governance for the year 2007.

Since the adoption of PNOC EDC's Manual on Corporate Governance in November 15, 2006, the following major amendments have been made to the Manual:

1. The provisions as regard the five-year disqualification for independent Directors have been revised to reflect the amendments to the Securities Regulation Code Rule 38, i.e., officers, consultants and other persons who have rendered services to the Corporation in the last 2 years prior to their election (instead of 5 years) are not qualified as an independent director of the Corporation.
2. Amendments to the reporting line of the Compliance Office and the Internal Audit Department, from the Office of the President, to the Board of Directors through the Audit and Governance Committee
3. Amendments based on significant corporate changes due to PNOC EDC's full privatization on November 29, 2007, such as:
 - Requirement for incumbent Directors to undergo a corporate governance orientation/training by an accredited training institution
 - The removal of the Commission on Audit as PNOC EDC's external auditor, as a consequence of privatization, and authorizing the Company to retain the services of a private reputable firm as its external auditor.

Evaluation System

In compliance with the provisions of the Company's Manual on Corporate Governance, it has adopted the self-rating scorecard to initially assess EDC's level of compliance thereon.

Thereafter, on January 22, 2008, the Board approved a corporate governance evaluation system which will aid in the review of, and ensure compliance with, the Company's corporate governance policies and to identify potential improvements. The evaluation system also encourages disclosure of deviations from the Company's corporate governance policies, if any, and is discussed during the Audit and Governance Committee Meetings and Board Meetings.

On January 28, 2008, the Compliance Officer submitted the annual certification with the Philippine Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE), confirming that the Company is compliant with the corporate governance requirements under existing laws, rules and regulations concerning corporate governance.

The PNOC EDC Board of Directors

The Company's Articles of Incorporation and By-Laws prescribe that the Board shall be composed of 11 directors, three (3) of whom are independent directors who are to be certified as possessing all the qualifications and none of the disqualifications provided under the Securities Regulation Code and its IRR, as well as the Company's Corporate Governance Manual.

The Company's compliance with the independent director requirement goes beyond the legal requirement of

at least two (2) persons, or twenty percent (20%) of the Board's composition, be independent directors.

Having been elected during the Stockholders' Meeting last June 13, 2007, the independent Directors have a fixed term of one (1) year or until such time that their successors have been duly qualified and elected.

Board Committees

In furtherance of its compliance with the principles of corporate governance, the Company has the following Board Committees:

1. Audit and Governance Committee (AGC)

Pursuant to the Corporate Governance Manual, the AGC shall be composed of at least a majority of Independent Directors and chaired by an Independent Director. Its present composition includes, in addition to the foregoing requirement, two (2) regular directors.

Further to its mandate under the Corporate Governance Manual and its Charter, the Committee reviewed in detail the Company's Quarterly Reports (SEC Form 17Q), its Annual Report (SEC Form 17A), and the Company's 2007 Audited Financial Statements. Also, the AGC prequalified five (5) auditing firms before it finally recommended to the Board Sycip Gorres and Velayo as EDC's external auditor.

2. Nominations and Compensation Committee (NCC)

The NCC shall be composed of three (3) directors, one of whom must be an independent director who shall chair the Committee.

In 2007, the NCC has the following major accomplishments: (a) *on nominations*, the pre-screening and shortlisting of candidates nominated to become regular or independent members of the Board in the 2007 Annual Stockholders' Meeting and in the filling up of the vacancies in the board in the August 30, 2007, November 26, 2007 and January 22, 2008 Board Meetings; and (b) *on compensation*, to propose the revised compensation package, consisting of the following: salaries, director's per diem, mid-year bonus and year-end bonus.

3. Risk Management Committee (RMC)

The RMC shall have at least three (3) Directors as its members.

In 2007, the RMC institutionalized the Enterprise-Wide Risk Management System which was designed to continually monitor and manage the Company's identified risks, and identify and manage new risks.

4. Corporate Social Responsibility Committee (CSRC)

The CSRC was created by the Board in its August 21, 2007 Meeting. Pursuant to its charter, the CSRC shall have At least three (3) Directors as members, one of whom shall be elected as Chairman.

The Committee is primarily tasked to formulate and update the vision, strategy and execution of Corporate Social Responsibility (CSR) programs for the Company, as well as oversee, coordinate and integrate their management for effective development and implementation.

5. Operations Committee (OpsComm)

The Operations Committee (OpsComm) was created by the Board on January 22, 2008 to take-over the functions of the former Procurement Committee, among others. Its membership consists of 7 directors.

Directors' Attendance in Board Meetings

For 2007, the PNOC EDC Board of Directors held a total of twenty-three (23) meetings. We have an excellent record of attendance of the individual directors as shown below:

NAME OF DIRECTORS (alphabetical)	ATTENDANCE
Amatong, Ernesto S.	77.78%
Aquino, Paul A.	82.60%
Aquino, Pedro, Jr. A.	75.00%
Bautista, Edgardo A.	88.89%
Bengzon, Benito Jose Q.	86.36%
Cailao, Antonio M.	100.00%
Espina, Asuncion J.	90.90%
Garrucho, Peter, Jr. D.	100.00%
Lopez, Federico R.	50.00% ¹
Lopez, Oscar M.	100.00%
Mariano, Danilo Luis M.	100.00%
Pantangco, Ernesto B.	100.00%
Perez, Vicente, Jr. S.	66.66%
Puno, Francis Giles B.	50.00% ¹
Recto, Eric O.	100.00%
Rodriguez, Nicasio, Jr. P.	100.00%
Russel, Jonathan C.	100.00%
Salazar, Ralph A.	100.00%
Tantoco, Richard B.	100.00%
Tugonon, Benjamin F.	63.63%

Notes: 1. Elected only last November 29, 2007. Attended 1 of 2 board meetings for the remainder of the year 2007.

2. The incumbency of the foregoing directors in 2007 is as follows:

January-June 2007

Amatong, Ernesto S.

January-August 2007

Cailao, Antonio M.

January-November 2007

Bengzon, Benito Jose Q.
Espina, Asuncion J.
Mariano, Danilo Luis M.
Rodriguez, Nicasio, Jr. P.
Salazar, Ralph A.
Tugonon, Benjamin F.

August-November 2007

Aquino, Pedro A.

June-November 2007

Bautista, Edgardo A.

June 2007-Present

Perez, Vicente, Jr. S.
Recto, Eric O.

January 2007-Present

Aquino, Paul A.

November 2007-Present

Lopez, Oscar M.
Lopez, Federico R.
Garrucho, Peter, Jr. D.
Tantoco, Richard B.
Puno, Francis Giles B.
Pantangco, Ernesto B.
Russell, Jonathan C.

Deviations

There are no known deviations from the Company's manual of Corporate Governance.

Plan to Improve

The Company, through partnership with regulatory government agencies and SEC-accredited corporate governance institutions, continues its program to improve policies in the Company to be at par with global best practices on good governance.

For 2007, the PNOC EDC Board of Directors held twenty-three (23) meetings. The Directors had an excellent record of attendance as summarized below:

NAME OF DIRECTORS (in alphabetical order)	ATTENDANCE	TOTAL MEETINGS (during term)	REMARKS
Amatong, Ernesto S.	7	9	Term expired June 14, '07
Aquino, Paul A.	19	23	Incumbent
Aquino, Pedro, Jr. A.	6	8	Elected Aug. 30, '07; resigned effective Nov. 29, '07
Bautista, Edgardo A.	8	9	Elected Jun. 14, '07; resigned effective Nov. 6, '07
Bengzon, Benito Jose Q.	19	22	Resigned effective Nov. 29, '07
Cailao, Antonio M.	15	15	Resigned effective Aug. 30, '07
Espina, Asuncion J.	20	22	Resigned effective Nov. 29, 07
Garrucho, Peter , Jr. D.	2	2	Incumbent; elected Nov. 29, '07
Lopez, Feredico R.	1	2	Incumbent; elected Nov. 29, '07
Lopez, Oscar M.	2	2	Incumbent; elected Nov. 29, '07
Mariano, Danilo Luis M.	22	22	Resigned effective Nov. 29, '07
Pantangco, Ernesto B.	2	2	Incumbent; elected Nov. 29, '07
Perez, Vicente, Jr. S.	10	15	Incumbent; elected Jun. 14, '07
Puno, Francis Giles B.	1	2	Incumbent; elected Nov. 29, '07
Recto, Eric O.	15	15	Incumbent; elected Jun. 14, '07
Rodriguez, Nicasio, Jr. P.	22	22	Resigned effective Nov. 29, '07
Russel, Jonathan C.	2	2	Incumbent; elected Nov. 29, '07
Salazar, Ralph A.	22	22	Resigned effective Nov. 29, '07
Tantoco, Richard B.	2	2	Incumbent; elected Nov. 29, '07
Tugonon, Benjamin F.	14	22	Resigned effective Nov. 29, '07

PART VI – EXHIBITS AND SCHEDULES

Exhibits

- Exhibit 1 – 2007, 2006 and 2005 Financial Statements
- Exhibit 2 – Supplementary Schedules (Schedules A - I)

Reports on SEC Form 17-C

The Company filed the following reports on SEC Form 17-C during the period January to December 2007:

- | | |
|---|-------------------|
| 1. NPC's Bacon-Manito Geothermal Power Plants Damaged by Typhoons "Milenyo" and "Reming" | January 2, 2007 |
| 2. Certification as to Attendance of the Board of Directors | January 8, 2007 |
| 3. Board Approval of Prepayment of \$72 M ING Syndicated Loan | January 23, 2007 |
| 4. Certification on Compliance with Corporate Governance | January 24, 2007 |
| 5. Clarification of news article: "PNOC EDC to Prepay \$72 Million Syndicated Loan" | January 24, 2007 |
| 6. Election of Corporate Secretary and Assistant Corporate Secretary; Conduct of Special Stockholders' Meeting on March 19, 2007 | January 24, 2007 |
| 7. Clarification of news article: "PNOC EDC Plans 20% Stake Sale in '07" | January 31, 2007 |
| 8. Clarification of news article: "12 Firms Await 2nd Half Bidding of Energy Deals" | February 1, 2007 |
| 9. PNOC EDC Starts Operation of No. Negros Geothermal Power Plant | February 6, 2007 |
| 10. Update re: Restoration of NPC's 20 MW Bacon-Manito II Geothermal Power Plant (Botong Module) | February 14, 2007 |
| 11. PNOC EDC Signs Carbon Finance Deal with WB for No. Negros Geothermal Project | February 16, 2007 |
| 12. Postponement of Special Stockholders Meeting | February 22, 2007 |
| 13. PNOC EDC starts USD13.7 M drilling contract in Papua New Guinea | March 13, 2007 |
| 14. Clarification on news article re: PNOC EDC contract with VECO | March 20, 2007 |
| 15. Annual Stockholders' Meeting on June 14, 2007, Record Date on May 14, 2007 | March 22, 2007 |
| 16. Update re: Restoration of Bacman I Unit 1 | April 13, 2007 |
| 17. Cash Dividend Declaration | April 18, 2007 |
| 18. Board Approval of Amendments to AOI re Increase in ACS by Way of Creation of Preferred Shares | April 27, 2007 |
| 19. Update on Previous Disclosure re No. Negros Geothermal Project | May 17, 2007 |
| 20. List of Stockholders May 14, 2007 Record Date | May 18, 2007 |
| 21. Notice of Stockholders' Meeting June 14, 2007 | May 22, 2007 |
| 22. Definitive Information Statement for Annual Stockholders' Meeting on June 14, 2007; Record Date on May 14, 2007 | May 22, 2007 |
| 23. BSP Monetary Board Authorizes Prepayment of \$75 million ING Syndicated Loan | May 22, 2007 |
| 24. Board Approval of Revised Terms of Preferred Shares | June 8, 2007 |
| 25. Results of June 14 Annual Stockholders' Meeting: Increase in Authorized Capital Stock; Election of Directors/Officers/Committee Members | June 15, 2007 |
| 26. Board Approval of Preferred Shares Subscription | June 20, 2007 |
| 27. SEC Approval of Amended articles of Incorporation (Denial of Preemptive Right) | June 26, 2007 |

28. SEC Approval of ₱75 M Increase in Authorized Capital Stock by Way of Creation of Preferred Shares	July 2, 2007
29. Release of Shares Under Escrow	July 3, 2007
30. EDC Common Shares (3 billion) Offer by PNOC	July 9, 2007
31. Request for Trade Halt During the Trading Period on July 9, 2007	July 9, 2007
32. Fixing of Share Price for 3 Billion Secondary Share Sale and Lifting of Trading Suspension	July 10, 2007
33. Incident Report of July 13, 2007 Earthquake at Palinpinon I & II Geothermal Production Projects	July 16, 2007
34. Disposal of Shares by Investor Relations Manager	July 20, 2007
35. Clarification of News Article re: Bio-Diesel Facility	July 23, 2007
36. CBA Negotiation between PNOC EDC and PEGEA	July 25, 2007
37. PNOC EDC Assumes Operations of Leyte Geothermal Plants	July 25, 2007
38. CBA Negotiation between PNOC EDC and Leyte Union	July 27, 2007
39. Conclusion of CBA Negotiation between PNOC EDC and PEGEA	August 13, 2007
40. Resignation of Chairman Antonio M. Cailao	August 22, 2007
41. Appointment of Francis A. Palafox as Compliance Officer	August 28, 2007
42. Election of Pedro A. Aquino, Jr. as Chairman	August 30, 2007
43. Update on Leyte CBA Negotiation	September 4, 2007
44. Clarification of News Article: "PNOC Board Okays Complete Sale of Geothermal Unit"	September 4, 2007
45. PNOC Board Approval of Sale of Government's Remaining Stake in PNOC EDC Consisting of 6 Billion Common Shares and 4.5 Billion Preferred Shares	September 7, 2007
46. Engagement of SGV & Co. as New External Auditor	September 13, 2007
47. Appointment of Financial Advisor and Co-Financial Advisor on Sale of Government's Stake in PNOC EDC	September 18, 2007
48. Board Authorization to Trustee of PNOC EDC Retirement Fund to Offer for Sale its 3.0 Billion PNOC-EDC Preferred Shares	September 19, 2007
49. Clarification of News Article: "PNOC-EDC in talks with Indon utility"	September 25, 2007
50. Participation in Sale of Palinpinon and Panay Power Plants	September 25, 2007
51. List of Entities Interested to Participate in Sale of PNOC EDC Shares	September 25, 2007
52. Turn over of Leyte Optimization Power Plants to PNOC EDC	September 26, 2007
53. Resignation of Director Edgardo A. Bautista	October 16, 2007
54. Exemption of PNOC's Sale of Remaining Stake in PNOC EDC from SEC Registration and Mandatory Tender Offer Requirements and Applicability of "Control Test"	November 9, 2007
55. Board Approval of Sale of Ft. Bonifacio Land to PNOC	November 14, 2007
56. Clarification by the DOF re: National Government's Guarantee on PNOC EDC Loans	November 16, 2007
57. Signing of Arbitration Agreement with NPC	November 16, 2007
58. Bidding Results of the PNOC EDC 60% Stake Sale by PNOC	November 22, 2007
59. Notice of Award to Red Vulcan Holdings Corporation for the PNOC EDC 60% Stake Sale	November 23, 2007
60. Update by DoF on National Government's Guarantee Fee	November 28, 2007
61. Completion of Sale of PNOC EDC Shares; Resignation/ Election/ Appointment of Directors and Officers	November 29, 2007
62. Appointment of New Members of Board Committees	December 19, 2007
63. Clarification of News Article: "PNOC EDC to Undertake \$146-M Wind Power Project"	December 26, 2007

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned, thereunto duly authorized, in the City Taguig on _____, 2008.

By:

PAUL A. AQUINO
President/Chief Executive Officer

FELICITO A. GESITE
OIC, Chief Financial Officer

ROBERTO V. SAN JOSE
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 11 day of April 2008 affiant(s) exhibiting to me his/her Community Tax Certificates, as follows:

NAMES	CTC No.	DATE OF ISSUE	PLACE OF ISSUE
Paul A. Aquino	13275156	January 22, 2008	Manila
Felicito A. Gesite	01614976	March 3, 2008	Manila
Atty. Roberto V. San Jose	19288806	January 24, 2008	Makati

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(Handwritten Signature)

ATTY. MARIA JASMINE D. MEDINA-ALMOGINO
Notary Public for the City of Taguig until 12/28/2008
Appointment No. 58 (2007-2008)
3rd Floor, Building V, Energy Center
Merritt Road, Fort Bonifacio, Taguig City
Roll No. 46123, 05/25/01
PTR No. 0326246-B, 1/09/08, Taguig City
IBP No. 729977, 12/28/07, Rizal/San Juan/Mandaluyong



PNOC ENERGY DEVELOPMENT CORPORATION

Merritt Road, Fort Bonifacio, 1200 Taguig City, Philippines
P.O. Box 2102 MCPO, Tel. Nos. 893-6001 to 47/893-1320 Fax No. 840-1575

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

January 22, 2008

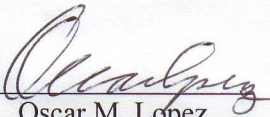
Securities and Exchange Commission
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

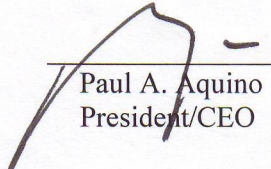
The management of PNOC Energy Development Corporation is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

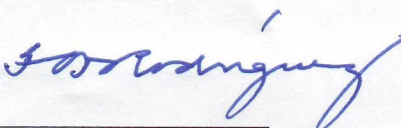

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders have examined the financial statements of the Company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and stockholders.


Oscar M. Lopez
Chairman


Paul A. Aquino
President/CEO



Fenina O. T. Rodriguez
Chief Financial Officer

SUBSCRIBED AND SWORN TO before me this 28th day of March 2008, in Taguig City, Metro Manila, affiants Oscar M. Lopez, Paul A. Aquino and Fenina O. T. Rodriguez exhibiting to me their Community Tax Certificate numbers 23697851, 13275156 and 13271098 issued on January 24, 2008, January 22, 2008 and January 22, 2008, in Pasig, Manila and Manila, respectively.

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Book No. I
Series of 2008



ATTY. MARIA JASMINE D. MEDINA-ALMOCOINO
Notary Public for the City of Taguig until 12/31/2008
Appointment No. 58 (2007-2008)
3rd Floor, Building V, Energy Center
Merritt Road, Fort Bonifacio, Taguig City
Roll No. 46123, 05/25/01
PTR No. 0326246-B, 1/09/08, Taguig City
IBP No. 729977, 12/28/07, Rizal/San Juan/Mandaluyong

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PNOC Energy Development Corporation

We have audited the accompanying financial statements of PNOC Energy Development Corporation (a subsidiary of Red Vulcan Holdings Corporation), which comprise the balance sheet as of December 31, 2007, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company as of and for the years ended December 31, 2006 and 2005 were audited by another auditor whose report dated March 27, 2007, expressed an unqualified opinion on those statements. Those financial statements, however, do not include the restatement adjustments as discussed in Note 44.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.




Opinion

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of PNOC Energy Development Corporation as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

We also audited the adjustments described in Note 44 to the financial statements that were applied to restate the 2006 and 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

SYCIP GORRES VELAYO & CO.



Ladislao Z. Avila, Jr.

Partner

CPA Certificate No. 69099

SEC Accreditation No. 0111-AR-1

Tax Identification No. 109-247-891

PTR No. 0017573, January 3, 2008, Makati City

January 22, 2008



PNOC ENERGY DEVELOPMENT CORPORATION
(A Subsidiary of Red Vulcan Holdings Corporation)

BALANCE SHEET

DECEMBER 31, 2007

(With Comparative Figures for 2006)

	2007	2006 (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱2,797,581,577	₱9,999,202,227
Trade and other receivables (Note 7)	4,925,681,584	4,355,257,059
Concession receivable (Note 34)	2,199,986,327	2,070,920,965
Available-for-sale (AFS) investments (Note 10)	1,177,589,987	1,341,751,679
Parts and supplies inventories (Note 8)	1,140,044,062	1,164,452,145
Due from affiliated companies	–	4,785,103
Derivative assets	–	344,000,987
Other current assets (Note 9)	535,582,774	917,776,810
	12,776,466,311	20,198,146,975
Noncurrent assets held for sale (Note 11)	1,672,516,100	–
Total Current Assets	14,448,982,411	20,198,146,975
Noncurrent Assets		
Concession receivable - net of current portion (Note 34)	34,695,434,198	36,895,420,525
Intangible asset (Note 13)	8,738,836,827	8,794,316,944
Deferred income tax assets - net (Note 30)	3,052,792,587	4,919,954,067
Exploration and evaluation assets (Note 14)	1,171,922,174	1,614,922,295
Property and equipment (Note 12)	1,111,020,356	2,469,219,679
Investment property (Note 15)	5,121,709	278,921,181
Other noncurrent assets (Note 16)	1,846,624,604	2,221,561,116
Total Noncurrent Assets	50,621,752,455	57,194,315,807
TOTAL ASSETS	₱65,070,734,866	₱77,392,462,782

LIABILITIES AND EQUITY

LIABILITIES

Current Liabilities

Trade and other payables (Note 17)	₱3,637,782,267	₱6,429,065,264
Income tax payable	418,986,388	507,932,215
Current portion of long-term debt (Note 20)	2,031,565,879	3,171,351,515
Current portion of obligations to power plant contractors (Note 19)	246,719,220	2,766,401,494
Current portion of royalty fee payable (Note 18)	456,273,707	524,644,631
Due to Philippine National Oil Company (PNOC)	–	350,844,177
Total Current Liabilities	6,791,327,461	13,750,239,296

(Forward)



	2007	2006 (Restated)
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 20)	₱20,809,947,547	₱33,308,649,468
Royalty fee payable - net of current portion (Note 18)	1,277,653,457	1,419,678,292
Obligations to power plant contractors - net of current portion (Note 19)	96,287,392	413,180,565
Retirement and other post-retirement benefit plans (Note 39)	912,069,757	869,569,338
Other long-term liabilities (Note 21)	330,168,646	256,432,845
Total Noncurrent Liabilities	23,426,126,799	36,267,510,508
EQUITY		
Common stock (Note 22)	15,000,000,000	15,000,000,000
Preferred stock (Note 22)	75,000,000	-
Additional paid-in capital (Note 22)	6,278,075,648	6,278,075,648
Accumulated unrealized gain on AFS investments (Note 10)	368,549,253	131,462,811
Retained earnings (Note 23)	13,131,655,705	5,965,174,519
Total Equity	34,853,280,606	27,374,712,978
TOTAL LIABILITIES AND EQUITY	₱65,070,734,866	₱77,392,462,782

See accompanying Notes to Financial Statements.



PNOG ENERGY DEVELOPMENT CORPORATION
(A Subsidiary of Red Vulcan Holdings Corporation)

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2007

(With Comparative Figures for the Years Ended December 31, 2006 and 2005)

	Years Ended December 31		
	2007	2006 (Restated)	2005 (Restated)
REVENUES			
Revenue from sale of electricity	₱11,291,898,705	₱12,329,293,369	₱13,221,450,697
Revenue from sale of steam	4,521,232,474	4,173,352,911	4,184,165,193
Interest income on service concession	2,236,906,585	2,357,591,482	2,470,503,366
Revenue from drilling services	624,777,831	261,449,987	149,524,840
Construction revenue	108,813,951	6,599,983,742	2,194,333,202
	18,783,629,546	25,721,671,491	22,219,977,298
OPERATING EXPENSES			
Purchased services and utilities (Note 24)	(3,037,996,158)	(5,097,022,773)	(6,729,759,120)
Construction costs	(101,137,594)	(6,021,156,889)	(2,042,725,148)
Depreciation and amortization	(220,109,054)	(97,686,449)	(82,724,315)
Operations and maintenance (Note 25)	(3,069,862,420)	(3,241,956,710)	(3,290,215,921)
General and administrative (Note 26)	(2,375,691,381)	(1,047,347,557)	(1,861,315,361)
	(8,804,796,607)	(15,505,170,378)	(14,006,739,865)
FINANCIAL INCOME (EXPENSES)			
Interest income - net of final tax	648,736,545	330,161,680	446,165,085
Interest expense (Note 27)	(1,567,038,735)	(2,330,786,357)	(2,604,375,818)
	(918,302,190)	(2,000,624,677)	(2,158,210,733)
OTHER INCOME (CHARGES)			
Foreign exchange gains - net (Note 28)	3,900,346,224	2,041,014,023	6,442,750,524
Derivatives gain (loss)	56,011,571	(145,851,332)	200,262,741
Miscellaneous - net (Note 29)	(204,412,937)	(22,068,021)	(97,370,469)
	3,751,944,858	1,873,094,670	6,545,642,796
INCOME BEFORE INCOME TAX	12,812,475,607	10,088,971,106	12,600,669,496
PROVISION FOR INCOME TAX (Note 30)	(4,160,994,421)	(3,225,629,880)	(3,426,506,227)
NET INCOME	₱8,651,481,186	₱6,863,341,226	₱9,174,163,269
Basic/diluted earnings per share (Note 31)	₱0.577	₱0.565	₱0.765

See accompanying Notes to Financial Statements.



PNOG ENERGY DEVELOPMENT CORPORATION
(A Subsidiary of Red Vulcan Holdings Corporation)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007

(With Comparative Figures for the Years Ended December 31, 2006 and 2005)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Unrealized Gain on AFS Investments	Retained Earnings		Total
					Appropriated	Unappropriated	
Balance, January 1, 2005, as previously reported	₱10,000,000,000	₱-	₱-	₱-	₱-	(₱8,262,782,320)	₱1,737,217,680
Impact of early adoption of IFRIC 12 (Note 3)	-	-	-	-	-	908,737,729	908,737,729
Prior period adjustments (Note 44)	-	-	-	-	-	(718,285,385)	(718,285,385)
Balance, January 1, 2005, as restated	10,000,000,000	-	-	-	-	(8,072,329,976)	1,927,670,024
Net income, as restated	-	-	-	-	-	9,174,163,269	9,174,163,269
Gain on AFS investments recognized in equity (Note 10)	-	-	-	110,309,139	-	-	110,309,139
Total recognized income for the year	-	-	-	110,309,139	-	9,174,163,269	9,284,472,408
Balance, December 31, 2005	₱10,000,000,000	₱-	₱-	₱110,309,139	₱-	₱1,101,833,293	₱11,212,142,432
Balance, January 1, 2006, as previously reported	₱10,000,000,000	₱-	₱-	₱110,309,139	₱-	₱1,653,315,043	₱11,763,624,182
Impact of early adoption of IFRIC 12 (Note 3)	-	-	-	-	-	675,548,451	675,548,451
Prior period adjustments (Note 44)	-	-	-	-	-	(1,227,030,201)	(1,227,030,201)
Balance, January 1, 2006, as restated	10,000,000,000	-	-	110,309,139	-	1,101,833,293	11,212,142,432
Net income, as restated	-	-	-	-	-	6,863,341,226	6,863,341,226
Gain on AFS investments recognized in equity (Note 10)	-	-	-	22,235,323	-	-	22,235,323
Gain on AFS investments removed from equity and recognized in profit and loss (Note 10)	-	-	-	(1,081,651)	-	-	(1,081,651)
Total recognized income for the year	10,000,000,000	-	-	21,153,672	-	6,863,341,226	6,884,494,898
Appropriation for exploration projects	-	-	-	-	1,653,315,043	(1,653,315,043)	-
Stock dividends - 20%	2,000,000,000	-	-	-	-	(2,000,000,000)	-
Issuance of common shares (Note 22)	3,000,000,000	-	6,278,075,648	-	-	-	9,278,075,648
Balance, December 31, 2006	₱15,000,000,000	₱-	₱6,278,075,648	₱131,462,811	₱1,653,315,043	₱4,311,859,476	₱27,374,712,978

(Forward)



	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Unrealized Gain on AFS Investments	Retained Earnings		Total
					Appropriated	Unappropriated	
Balance, January 1, 2007, as previously reported	₱15,000,000,000	₱-	₱6,278,075,648	₱131,462,811	₱1,653,315,043	₱4,782,924,651	₱27,845,778,153
Impact of early adoption of IFRIC 12 (Note 3)	-	-	-	-	-	1,106,906,850	1,106,906,850
Prior period adjustments (Note 44)	-	-	-	-	-	(1,577,972,025)	(1,577,972,025)
Balance, January 1, 2007, as restated	15,000,000,000	-	6,278,075,648	131,462,811	1,653,315,043	4,311,859,476	27,374,712,978
Net income, as restated	-	-	-	-	-	8,651,481,186	8,651,481,186
Gain on AFS investments recognized in equity (Note 10)	-	-	-	245,024,166	-	-	245,024,166
Gain on AFS investments removed from equity and recognized in profit and loss (Note 10)	-	-	-	(7,937,724)	-	-	(7,937,724)
Total recognized income for the year	-	-	-	237,086,442	-	8,651,481,186	8,888,567,628
Issuance of preferred shares (Note 22)	-	75,000,000	-	-	-	-	75,000,000
Cash dividends - ₱0.099 a share (Note 23)	-	-	-	-	-	(1,485,000,000)	(1,485,000,000)
Balance, December 31, 2007	₱15,000,000,000	₱75,000,000	₱6,278,075,648	₱368,549,253	₱1,653,315,043	₱11,478,340,662	₱34,853,280,606

See accompanying Notes to Financial Statements.



PNO ENERGY DEVELOPMENT CORPORATION
(A Subsidiary of Red Vulcan Holdings Corporation)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2007

(With Comparative Figures for the Years Ended December 31, 2006 and 2005)

	Years Ended December 31		
	2007	2006 (Restated)	2005 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱12,812,475,607	₱10,088,971,106	₱12,600,669,496
Adjustments for:			
Interest expense	1,567,038,735	2,330,786,357	2,604,375,816
Depreciation and amortization (Note 12)	260,053,996	128,983,367	114,709,736
Unrealized foreign exchange losses (gains)	(3,252,473,403)	(2,446,842,473)	(6,581,568,490)
Interest income on service concession	(2,236,906,585)	(2,357,591,482)	(2,470,503,366)
Interest income	(648,736,545)	(330,161,680)	(446,165,085)
Gain on derivatives	(58,497,977)	(145,851,332)	200,262,671
Receipt of inventories from power plant contractor	–	(125,636,878)	–
Gain on disposals of property and equipment	–	(1,730,483)	–
Operating income before working capital changes	8,442,953,828	7,140,926,502	6,021,780,778
Decrease (increase) in:			
Trade and other receivables	(570,424,525)	244,158,095	(143,152,562)
Parts and supplies inventories	24,408,083	(82,052,395)	93,437,098
Service concession receivable	4,307,827,549	4,307,827,549	4,307,827,549
Derivative assets	402,498,964	324,754,827	(372,714,468)
Other current assets	382,194,036	(387,302,002)	5,735,578,833
Increase (decrease) in trade and other payables	(2,747,543,551)	1,154,041,585	572,375,484
Net cash generated from operations	10,241,914,384	12,702,354,161	16,215,132,712
Income taxes paid	(2,382,778,768)	(3,277,594,061)	(380,688,835)
Interest paid	(1,567,038,735)	(2,330,786,357)	(2,604,375,816)
Net cash flows from operating activities	6,292,096,881	7,093,973,743	13,230,068,061
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	648,736,545	330,161,680	446,165,085
Decrease in exploration and evaluation assets	461,679,362	623,844,176	3,288,783,303
Increase (decrease) in other noncurrent assets	430,780,017	(503,784,092)	(451,661,034)
Increase (decrease) in available-for-sale investments	401,248,134	1,473,118,337	(2,683,469,705)
Proceeds from sale of investment	45,000,000	62,500	(62,500)
Proceeds from disposal of property and equipment	3,210,009	2,175,000	–
Addition to intangible asset	(108,813,951)	(6,599,983,742)	(2,194,333,202)
Additions to property and equipment (Note 12)	(158,166,483)	(540,830,419)	(967,958,447)
Decrease in due to PNO	(350,844,177)	(13,323,561)	(96,143,183)
Net cash flows from (used in) investing activities	1,372,829,456	(5,228,560,121)	(2,658,679,683)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of preferred shares (Note 22)	75,000,000	–	–
Increase (decrease) in other long-term liabilities	72,496,772	(3,805,337,473)	(6,017,750,328)
Proceeds from (payments to) affiliated companies	4,785,103	(2,191,285)	1,421,864
Proceeds from initial public offering (Note 22)	–	9,278,075,648	–
Proceeds from loan availments	–	2,725,632,762	2,437,307,488
Payment of cash dividend (Note 23)	(1,485,000,000)	–	–
Payments of long-term debt	(13,533,828,862)	(4,512,480,992)	(3,388,597,422)
Net cash flows from (used in) financing activities	(14,866,546,987)	3,683,698,660	(6,967,618,398)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,201,620,650)	5,549,112,282	3,603,769,980
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,999,202,227	4,450,089,945	846,319,965
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱2,797,581,577	₱9,999,202,227	₱4,450,089,945

See accompanying Notes to Financial Statements.



PNOG ENERGY DEVELOPMENT CORPORATION
(A Subsidiary of Red Vulcan Holdings Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

PNOG Energy Development Corporation (the “Company”) is a company incorporated and domiciled in the Philippines whose shares are publicly traded. It was registered with the Philippine Securities and Exchange Commission (SEC) on March 5, 1976. The Company is involved in geothermal steam production and power generation business, and drilling and consultancy services.

The Company became a subsidiary of Red Vulcan Holdings Corporation starting November 29, 2007. Red Vulcan Holdings Corporation is a wholly owned subsidiary of First Gen Corporation, a publicly listed entity. The ultimate parent of the Company is First Philippine Holdings Corporation.

The registered office address of the Company is Merritt Road, Ft. Bonifacio, Taguig City, Metro Manila.

The Board of Directors (BOD) approved and authorized for issue the Company’s financial statements on January 22, 2008.

2. Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for derivatives and AFS investments that have been measured at fair value. The financial statements are presented in Philippine peso, the Company’s functional currency.

Statement of compliance

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Company has adopted the following new and amended PFRS and Philippine Interpretations during the year. Adoption of these new and amended standards and Interpretations did not have any significant effect on the financial performance or position of the Company. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- PFRS 7, *Financial Instruments: Disclosures*
- Philippine Accounting Standards (PAS) 1 Amendment - *Presentation of Financial Statements*
- Philippine Interpretation IFRIC 8, *Scope of IFRS 2, Share-based Payment*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*



The Company has also early adopted Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. The effect of adopting Philippine Interpretation IFRIC 12 is discussed in Note 3.

The principal effects of these changes are as follows:

PFRS 7, Financial Instruments: Disclosures

This standard introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. Adoption of this standard resulted to the inclusion of additional disclosures such as market risk sensitivity analysis, contractual maturity analysis of financial liabilities and aging analysis on financial assets that are neither past due nor impaired (see Note 42). The Company availed of the transitional relief on disclosure of comparative information PFRS 7.

Amendment to PAS 1, Presentation of Financial Statements

This amendment introduces disclosures about the level of the Company's capital and how it manages capital. Adoption of the Amendment resulted to the inclusion of additional disclosures on capital management (see Note 42).

Philippine Interpretation IFRIC 8, Scope of PFRS 2, Share-based Payment

This Interpretation requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As the Company does not have any such transaction, the Interpretation had no impact on the financial position or performance of the Company.

Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives

Philippine Interpretation IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Adoption of this Interpretation had no significant impact on the financial position or performance of the Company.

Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment

The Company adopted Philippine Interpretation IFRIC 10 as of January 1, 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company has no goodwill and had no impairment losses previously reversed with respect to its investments in AFS equity instruments, the Interpretation had no impact on the financial position or performance of the Company.

Philippine Interpretation IFRIC 12, Service Concession Arrangements

The Company has elected to early adopt Philippine Interpretation IFRIC 12 as of January 1, 2007, as it applies to the infrastructure and other assets constructed or acquired by the Company in connection with its geothermal service contracts, geothermal resources sales agreements, and



power purchase agreements with the Government of the Republic of the Philippines and certain of its agencies. Philippine Interpretation IFRIC 12 becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Refer to Note 3 for the detailed discussion on the impact of adopting this Interpretation.

3. Effect of Adoption of Philippine Interpretation IFRIC 12

As discussed in Note 2 and as allowed by its transitional provisions, the Company early adopted Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, on its service concession and related arrangements as more fully described in Note 34. Accordingly, the Company has recognized the consideration received or receivable in exchange for its infrastructure construction services or its acquisition of infrastructure to be used in the arrangements as either a financial asset to the extent that the Company has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor, or an intangible asset for the right to charge users of the public service.

Adoption of this Interpretation resulted in the following:

- Derecognition of the carrying amounts of the concession assets consisting of the production wells, fluid collection and recycling systems, building infrastructures, power plants and other assets amounting to ₱44,672.94 million as of January 1, 2005;
- Recognition of financial assets initially at the fair value of the construction services and subsequently carried at amortized cost using the effective interest rate method, which had a carrying amount of ₱42,753.90 million as of January 1, 2005;
- Recognition of the aggregate effect on retained earnings as of January 1, 2005 of the profits on construction services; elimination of depreciation and amortization expenses on the concession assets; reduction in revenues relating to the collection of the financial assets; interest income on the amortization of the financial assets and the amortization of the intangible asset, which resulted to an increase of ₱908.74 million as of January 1, 2005.

The effect of adopting this Interpretation has increased the reported net income in 2006 by ₱431.36 million and has decreased the reported net income in 2005 by ₱233.19 million; and has increased the reported total assets as of December 31, 2006 and 2005 by ₱1,106.91 million and ₱675.55 million, respectively.

The effect of adopting this Interpretation is an increase in the reported basic/diluted earnings per share in 2006 by ₱0.036 and a decrease by ₱0.019 in 2005.

As allowed by the transition provisions of Philippine Interpretation IFRIC 12, the Company applied this Interpretation retroactive to January 1, 2005.



4. Significant Accounting Judgments and Estimates

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustments to the carrying amounts of the assets or liabilities in the future.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimates, which has the most significant effect on the amounts recognized in the financial statements:

Functional currency

The Company's transactions are denominated or settled in various currencies such as the Philippine peso, US dollar, and Japanese yen. The Company has determined that its functional currency is the Philippine peso, which management has evaluated to be the currency that most faithfully represents the economic substance of the Company's underlying transactions, events and conditions.

Service concession arrangements

In applying Philippine Interpretation IFRIC 12, the Company has made a judgment that its service contracts in Tongonan, Leyte; Palinpinon, Negros Oriental; Bacon-Manito in Albay and Sorsogon; and Mt. Apo in North Cotabato qualify under the financial asset model; while its service contract in Northern Negros qualifies under the intangible asset model. Refer to the accounting policy on service concession arrangements for the discussion of financial asset model and intangible asset model.

Deferred revenue on stored energy

Under the Company's addendum agreements with National Power Corporation (NPC), the Company has commitment to NPC for certain stored energy that NPC can lift for a certain specified period provided that the Company is able to generate such energy over and above the nominated energy for each given year in accordance with the related power purchase agreements. The Company has made a judgment based on historical information that the probability of future liftings by NPC from the stored energy is remote and accordingly has not deferred any portion of the collected revenues. The stored energy commitments are however disclosed in the financial statements under the discussion on contingencies and commitments (see Note 43).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of receivables

The Company maintains an allowance for doubtful accounts at a level that management considers adequate to provide for potential uncollectibility of its trade and other receivables, and its receivables arising from service concession arrangements. The Company evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Company uses judgment, based on available facts and circumstances, and based on a



review of the factors that affect the collectibility of the accounts including, but not limited to, the age and status of the receivables, collection experience, past loss experience and, in the case of the receivables arising from service concession arrangements, the expected net cash inflows from the concession. The review is made by management on a continuing basis to identify accounts to be provided with allowance. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated.

The carrying amounts of trade and other receivables and receivables arising from service concession arrangements are ₱4,925.68 million and ₱36,895.42 million, respectively, as of December 31, 2007 (₱4,355.26 million and ₱38,966.34 million in 2006).

In addition to specific allowance against individually significant receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical default experience.

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. These non-financial assets (intangible assets arising from service concession arrangements, property and equipment, investment property, deferred income tax assets and claim for excess input vat) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Where the collection of a tax claim is uncertain based on the assessment of the Company's legal counsel, the Company provides an allowance for impairment. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in Note 42.

Estimating useful life of intangible asset arising from service concession arrangement and property and equipment

The Company estimates the useful life of intangible asset arising from service concession arrangement and property and equipment based on the period over which the asset is expected to be available for use and on the collective assessment of industry practices, internal evaluation and experience with similar arrangements. The estimated useful life is revisited periodically and updated if expectations differ materially from previous estimates. For purposes of determining the estimated useful life of the intangible asset arising from a service concession arrangement, the Company included the renewal period on the basis of the constitutional and contractual provisions and the Company's historical experience of obtaining approvals of such renewals at no significant cost. The carrying amount of the intangible asset arising from a service concession arrangement and property and equipment are ₱8,738.84 million and ₱1,111.02 million as of December 31, 2007 (₱8,794.32 million and ₱2,469.22 million in 2006).

Exploration and evaluation assets

Exploration and evaluation costs are capitalized in accordance with PFRS 6, *Exploration for and Evaluation of Mineral Resources*. Capitalization of these costs is based, on certain instances, on management's judgment of the degree to which the expenditure can be associated with finding specific geothermal reserve. The Company determines impairment of projects based on the technical assessment of its resident scientists in various disciplines or based on management's



decision not to pursue any further commercial development of its exploration projects. At December 31, 2007, the carrying amount of capitalized exploration and evaluation costs was ₱1,171.92 million (₱1,614.92 million in 2006).

Retirement and other post-employment benefits

The cost of defined benefit retirement plan and other post-retirement medical and life insurance benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future retirement pay increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net retirement benefit liability at December 31, 2007 is ₱912.07 million (₱869.57 million in 2006). Further details are given in Note 39.

Provision for dismantlement, removal and restoration costs

In determining the amount of provisions for dismantlement, removal and restoration costs, assumptions and estimates are required in relation to the expected cost to dismantle, remove or restore sites and infrastructure when such obligation exists. The Company has made an assessment that such costs are not significant as of December 31, 2007 and 2006.

Provision for liabilities on regulatory assessments

The Company is currently involved in certain regulatory assessments. The Company's estimate of the probable costs for the resolution of these assessments has been developed in consultation with in-house and outside counsels and is based upon the analysis of the potential results. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. As of December 31, 2007 provision for liabilities on these regulatory assessments amount to ₱1,364.76 million (₱1,047.31 million in 2006).

Impairment of AFS financial assets

The Company classifies certain assets as AFS and recognizes movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. At December 31, 2007 no impairment losses have been recognized for AFS financial assets (2006: NIL). The carrying amount of AFS financial assets was ₱1,194.00 million (₱1,353.90 million in 2006).

Deferred income tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the assets can be utilized. Significant management judgment is required to determine the amount of net deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred income tax assets at December 31, 2007 was ₱3,052.792 million (₱4,919.95 million in 2006). There are no unrecognized deferred income tax assets at December 31, 2007 (2006: NIL). Further details are contained in Note 30.



Fair values of embedded derivatives

The fair values of embedded derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 42 for information on the carrying values of these instruments.

5. **Summary of Significant Accounting Policies**

Foreign currency translation

The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Parts and supplies inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes invoice amount, net of trade and cash discounts. Cost is calculated using the moving-average method. Net realizable value represents the current replacement costs.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Construction in progress is stated at cost and is not depreciated until such time that the assets are completed and/or put into operational use.



Noncurrent assets held for sale

Assets are classified as noncurrent assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale that should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Noncurrent assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and depreciation on such assets cease.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

No assets held under operating lease have been classified as investment properties.

Service concession arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the Company must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of Philippine Interpretation IFRIC 12. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This Interpretation applies to both: (a) infrastructure that the Company constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the Company access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property and equipment of the Company. Under the terms of contractual arrangements within the scope of this Interpretation, the Company acts as a service provider. The Company constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

The Company recognizes and measures revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenues*, for the services it performs. If the Company performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.



When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The Company accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The Company accounts for revenue and costs relating to operation services in accordance with PAS 18.

The Company recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The Company recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the Company has contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the Company has a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement in accordance with the allowed alternative treatment under that Standard.

Intangible asset

The Company's intangible asset pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value of the construction services. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset is amortized using the straight-line method over the estimated useful economic life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.



Exploration and evaluation assets

All costs incurred in the geological and geophysical activities such as costs of topographical, geological and geophysical studies; rights of access to properties to conduct those studies; salaries and other expenses of geologists, geophysical crews, or others conducting those studies are charged outright to expense.

If the results of initial geological and geophysical activities reveal the presence of geothermal resource that will require further exploration and drilling, subsequent exploration and drilling costs are accumulated and deferred under the Exploration and Evaluation Assets account.

These costs include the following:

- a. costs associated with the construction of temporary facilities;
- b. costs of drilling exploratory and exploratory-type stratigraphic test wells, pending determination of whether the wells can produce proved reserves; and,
- c. costs of local administration, finance, general and security services, surface facilities and other local costs in preparing for and supporting the drilling activities, etc. incurred during the drilling of exploratory wells.

After tests conducted on the drilled exploratory wells reveal that these wells cannot produce proved reserves, the capitalized costs are charged to expense except when management decides to use the unproductive wells, for recycling or waste disposal.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognized in equity up to the amount of any previous revaluation.



For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Investments and other financial assets

Financial assets within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial yearend.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Fair value

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations without deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.



'Day 1' profit

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit or loss.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not measured at fair value with changes in fair value reported in net profit or loss.

Classified under this category are the Company's bifurcated embedded derivatives.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

The Company has no held-to-maturity investments as of December 31, 2007 (2006: NIL).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.



Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under loans and receivables are trade receivables and other receivables, service concession receivable and due from affiliated companies.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified as financial assets designated at fair value through profit and loss, held-to-maturity investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

Available-for-sale financial investments are initially measured at fair value plus directly attributable transaction cost. After initial measurement, available-for-sale financial investment are subsequently measured at fair value with unrealized gains and losses being recognized a separate component of equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.

AFS financial assets are classified as current if they are expected to be realized within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

AFS investments include ROP bonds, Golf & Country club, Petron and PLDT shares.

Other financial liabilities

Other financial liabilities which include loans and borrowings, trade and other payables and due to PNOG are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the statement of income when the liabilities are derecognized, as well as through the amortization process.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Derecognition of financial assets and liabilities

Financial asset

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to them in full without material delay to a third party under a “pass through” arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred the control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.



Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Company's statement of income.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less and that are subject to insignificant risk of changes in value.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee

Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:



Revenue from sale of electricity and steam

(For service contracts qualifying under the intangible asset model and for other revenue streams for the financial asset model of service concession arrangements)

Sale of electricity is consummated whenever the electricity generated by the Company is transmitted to the transmission line of the buyer for a consideration. Sale of steam is recognized when the steam generated by the Company or its by-product passes to the flowmeters installed at the interface point for conversion by the buyer into power. Revenues from sale of electricity and steam are based on sales price, net of the portion of the billings representing collection of concession receivable and related interest charges.

Interest income

Revenue is recognized as interest accrues (using the effective interest rate, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Construction revenue

Construction revenue is recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Rendering of services

Revenue is recognized as services are rendered.

Retirement and other post-retirement benefits

The Company maintains a funded, non-contributory defined benefit retirement plan. The Company also provides post-retirement medical and life insurance benefits which are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligations and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognized immediately. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of the assets, until such time that the assets are substantially ready for their intended use or sale, which necessarily take a substantial period of time. Income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.



Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.



Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of resources is probable.

Earnings per share

Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to any stock dividends or stock splits, if any, declared during the year.

Diluted earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalent. The Company does not have dilutive common stock equivalents.

Segment reporting

For management purposes, the Company's operating businesses are organized and managed separately according to the nature of the products and services provided. Financial information on business segment is presented in Note 33. The Company has one geographical segment and derives principally all its revenues from domestic operations.



Events after the balance sheet date

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Future changes in accounting policies

Standards issued but not yet effective

PAS 1, Presentation of Financial Statements

A revised PAS 1, Presentation of financial statements is to be applied for annual periods beginning on or before January 1, 2009. The main revisions to PAS 1 arise from the IASB's consideration of the US standard SFAS 130, *Reporting Comprehensive Income*. The IASB has also taken the opportunity to improve the structure and wordings of PAS 1.

PAS 23, Borrowing Costs

A revised PAS 23, *Borrowing Costs*, was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The Company expects that this revision will have no impact on the Company's financial statements since the Company is already capitalizing borrowing costs relating to qualifying assets.

Philippine Interpretation IFRIC 13, Customer Loyalty Programmes

Philippine Interpretation IFRIC 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

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*. The Company expects that this Interpretation will have no impact on its financial position or performance.

6. **Cash and Cash Equivalents**

	2007	2006
Cash on hand and in banks	₱16,353,040	₱60,380,562
Cash equivalents	2,781,228,537	9,938,821,665
	₱2,797,581,577	₱9,999,202,227



Cash in banks earn interest at the respective bank deposit rates. Cash equivalents consist of money market placements which are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earned interest of ₱304.48 million in 2007 (₱318.11 million in 2006).

7. Trade and Other Receivables

	2007	2006
Trade	₱4,674,443,525	₱4,232,642,072
Others	628,456,657	122,614,987
	5,302,900,182	4,355,257,059
Allowance for doubtful accounts	377,218,598	-
	₱4,925,681,584	₱4,355,257,059

Trade receivables are non-interest bearing and are generally on 30 days' terms while other receivables comprise mainly of receivables from employees, contractors and suppliers.

The rollforward analysis of allowance for doubtful accounts, which pertains to trade receivables is presented below:

January 1, 2007	₱-
Charges for the year	377,218,598
	₱377,218,598

8. Parts and Supplies Inventories

	2007	2006
Landed		
Drilling tubular products and equipment spares	₱493,364,974	₱515,495,138
Pump, production/steam gathering system, steam turbine, valves and valve spares	175,536,519	180,648,919
Heavy equipment spares	190,242,480	86,901,635
Chemical, chemical products, gases and catalyst	80,965,812	94,503,340
Electrical, cable, wire product and compressor spares	53,232,630	50,031,092
Measuring instruments, indicators and tools, safety equipment and supplies	33,787,261	34,738,670
Automotive, mechanical, bearing, seals, v-belt, gasket, tires and batteries	29,441,624	34,711,525
Construction and hardware supplies, stationeries and office supplies, hoses, communication and other spares and supplies	2,852,740	141,178,526
	1,059,424,040	1,138,208,845
In transit	75,542,983	22,789,590
Materials and supplies for disposals	5,077,039	3,453,710
	₱1,140,044,062	₱1,164,452,145



In-transit inventories include items not yet received but ownership or title to the goods already passed to the Company.

9. Other Current Assets

	2007	2006
Tax credit certificate	₱386,956,078	₱711,222,564
Prepaid expenses	125,589,232	121,117,426
Advances to contractors	23,037,464	52,223,863
Restricted cash	-	33,212,957
	₱535,582,774	₱917,776,810

The tax credit certificate pertains to the ₱811.22 million certificate issued by the Bureau of Internal Revenue (BIR) in 2006. Of this amount, ₱324.27 million was applied against income taxes due as of December 31, 2007 (₱100.00 million in 2006).

10. Available-for-Sale (AFS) Investments

	2007	2006
Quoted investments		
Government debt securities	₱1,177,589,987	₱1,341,751,679
Equities	16,336,106	12,072,279
	1,193,926,093	1,353,823,958
Unquoted investments		
Equities	74,550	74,550
	₱1,194,000,643	₱1,353,898,508

Quoted and unquoted equity investments are included under Other Noncurrent Assets account.

Gain (loss) on AFS investments is presented under a separate component of equity with details as follows:

	2007	2006
Gain or loss recognized in equity	₱377,568,628	₱132,544,462
Gain or loss removed from equity and recognized in profit or loss	(9,019,375)	(1,081,651)
Net accumulated unrealized gain or loss on AFS investments	₱368,549,253	₱131,462,811

The Company uses the specific identification method in determining the cost of securities sold.



11. Noncurrent Assets Held for Sale

This account consists of the land owned by the Company in Fort Bonifacio previously presented under the following accounts in 2006:

	Area (sq. m.)	Amount
Property and equipment	24,464.87	₱1,399,570,246
Investment property	4,826.13	272,945,854
	<u>29,291.00</u>	<u>₱1,672,516,100</u>

The properties were classified as noncurrent assets held for sale in accordance with the Company's Board Resolution No. 115 series of 2007 dated November 13, 2007, whereby the Company agreed to sell these properties to PNOC. The Company expects the sale to be completed within one year from December 31, 2007.

There are no liabilities directly associated with the noncurrent asset held for sale.



12. Property and Equipment

<u>2007</u>	Buildings and improvement	Exploration, machinery and equipment	Transportation equipment	Furniture, fixtures and equipment	Laboratory equipment	Land, leases and improvement	Construction in progress	Major spares	Surplus assets available for sale	Total
COST										
Balance - January 1	₱348,605,868	₱1,158,038,095	₱49,324,273	₱162,660,784	₱46,070,652	₱1,727,641,708	₱50,735,205	₱27,236,986	₱4,266,849	₱3,574,580,420
Additions	–	–	–	–	–	235,471	149,324,599	8,143,778	462,635	158,166,483
Retirements/Write-Off	–	(614,210)	(2,508,632)	(6,789,335)	(409,104)	–	–	–	(2,866,469)	(13,187,750)
Reclassifications/Adjustments	–	9,986,240	4,036,110	15,631,082	3,583,192	(1,399,570,246)	(24,426,142)	(9,506,360)	–	(1,400,266,124)
Balance - December 31	348,605,868	1,167,410,125	50,851,751	171,502,531	49,244,740	328,306,933	175,633,662	25,874,404	1,863,015	2,319,293,029
ACCUMULATED DEPRECIATION										
Balance - January 1	188,626,885	705,696,155	39,087,595	135,287,405	36,662,701	–	–	–	–	1,105,360,741
Additions	20,053,401	52,395,147	5,122,900	14,066,308	3,268,554	–	–	–	–	94,906,310
Retirements/Write-Off	–	(615,794)	(2,275,730)	(6,677,119)	(409,098)	–	–	–	–	(9,977,741)
Reclassifications/Adjustments	–	29,084,813	–	(11,982,476)	881,026	–	–	–	–	17,983,363
Balance - December 31	208,680,286	786,560,321	41,934,765	130,694,118	40,403,183	–	–	–	–	1,208,272,673
Net book value	₱139,925,582	₱380,849,804	₱8,916,986	₱40,808,413	₱8,841,557	₱328,306,933	₱175,633,662	₱25,874,404	₱1,863,015	₱1,111,020,356
2006										
COST										
Balance - January 1	₱345,519,804	₱651,214,114	₱53,739,631	₱152,839,306	₱42,336,741	₱1,712,937,830	₱48,182,295	₱19,531,878	₱1,336,526	₱3,027,638,125
Additions	–	499,329,083	–	–	–	14,703,878	23,599,419	1,691,110	1,506,929	540,830,419
Retirements/Write-Off	(12,824,958)	(1,683,301)	(7,256,802)	(5,574,159)	(1,049,074)	–	(21,685,286)	–	(244,265)	(50,317,845)
Reclassifications/Adjustments	15,911,022	9,178,199	2,841,444	15,395,637	4,782,985	–	638,777	6,013,998	1,667,659	56,429,721
Balance - December 31	348,605,868	1,158,038,095	49,324,273	162,660,784	46,070,652	1,727,641,708	50,735,205	27,236,986	4,266,849	3,574,580,420
ACCUMULATED DEPRECIATION										
Balance - January 1	169,057,216	634,409,217	38,984,360	127,719,356	34,610,059	–	–	–	–	1,004,780,208
Additions	28,288,720	72,825,103	10,118,974	13,203,295	3,693,657	–	–	–	–	128,129,749
Retirements/Write-Off	(8,719,051)	(1,538,165)	(10,015,739)	(5,635,246)	(1,641,015)	–	–	–	–	(27,549,216)
Balance - December 31	188,626,885	705,696,155	39,087,595	135,287,405	36,662,701	–	–	–	–	1,105,360,741
Net book value	₱159,978,983	₱452,341,940	₱10,236,678	₱27,373,379	₱9,407,951	₱1,727,641,708	₱50,735,205	₱27,236,986	₱4,266,849	₱2,469,219,679



Total costs of assets retired/written-off amounted to ₱0.34 million in 2007 and ₱0.84 million in 2006, net of ₱9.98 million and ₱27.55 million accumulated depreciation, respectively.

Total purchase commitments as of December 31, 2007 and 2006 year amounted to ₱27.36 million and ₱64.51 million, respectively.

Management believes that, based on the assessment performed, there are no property and equipment found impaired.

Depreciation is calculated on a straight-line basis over the economic life of the asset as follows:

Buildings and improvements	5-25 years
Exploration, machinery and equipment	2-10 years
Furniture, fixtures & equipment	3-10 years
Laboratory equipment	5-10 years
Transportation equipment	5 years

As discussed in Note 11, land with a carrying value of ₱1,399.57 million was reclassified in 2007 to noncurrent assets held for sale.

13. Intangible Asset

	2007	2006
Cost		
January 1	₱8,794,316,944	₱2,194,333,202
Additions	108,813,951	6,599,983,742
December 31	8,903,130,895	8,794,316,944
Accumulated amortization		
January 1	-	-
Provision	(164,294,068)	-
December 31	(164,294,068)	-
Carrying amount	₱8,738,836,827	₱8,794,316,944

Amortization expense charged to operations during 2007 amounted to ₱164.29 million.

Management believes that, based on the assessment performed, the intangible asset is not impaired.

The intangible asset is being amortized over the term of the related Geothermal Service Contract of the Northern Negros Geothermal Project (see Notes 3 and 34).

14. Exploration and Evaluation Assets

	2007	2006
January 1	₱1,614,922,295	₱2,238,766,471
Additions	84,962,253	625,431,104
Transfers to financial assets/intangible asset	(527,962,374)	(1,249,275,280)
December 31	₱1,171,922,174	₱1,614,922,295



Deferred exploration and evaluation costs pertain to the following project areas:

	2007	2006
Cabalian, Southern Leyte	P558,363,775	P363,970,378
Northern Negros	445,872,148	858,210,728
Mindanao	76,080,913	-
Ilocos Norte	48,427,707	39,546,367
Bacman-Tanawon	37,315,026	37,315,026
Other areas	5,862,605	315,879,796
	P1,171,922,174	P1,614,922,295

15. Investment Property

2007

	Land	Building	Total
Cost			
January 1	P272,945,854	P8,570,000	P281,515,854
Reclassified to noncurrent asset held for sale (see Note 11)	(272,945,854)	-	(272,945,854)
December 31	-	8,570,000	8,570,000
Accumulated depreciation			
January 1	-	2,594,673	2,594,673
Additions	-	853,618	853,618
December 31	-	3,448,291	3,448,291
Net book value	P-	P5,121,709	P5,121,709

2006

	Land	Building	Total
Cost			
January 1	P272,945,854	P8,570,000	P281,515,854
Additions	-	-	-
December 31	272,945,854	8,570,000	281,515,854
Accumulated depreciation			
January 1	-	1,741,055	1,741,055
Additions	-	853,618	853,618
December 31	-	2,594,673	2,594,673
Net book value	P272,945,854	P5,975,327	P278,921,181

As discussed in Note 11, the above land was reclassified in 2007 to noncurrent assets held for sale.

Depreciation expense charged to operations amounted to P0.85 million in 2007 and 2006.

Management believes that, based on the assessment performed, there are no investment property found impaired.



Fair value of the building as of December 31, 2006 based on the appraisal report of an independent appraiser amounted to ₱22.67 million. Management believes that the fair value as of December 31, 2007 is not significantly different from the fair value as of the prior year.

16. Other Noncurrent Assets

	2007	2006
Long-term receivables	₱2,981,776,511	₱3,660,076,242
Prepaid expenses	764,352,330	1,053,172,238
Deferred royalty fee	464,520,286	896,494,151
Special deposits and funds	36,785,822	27,826,772
Cash collateral on PCIR Bonds	3,066,807	3,632,164
Others	503,454,809	177,926,671
	₱4,753,956,565	₱5,819,128,238
Less: Allowance for doubtful accounts	2,907,331,961	3,597,567,122
	₱1,846,624,604	₱2,221,561,116

The composition of long-term receivables is as follows:

	2007	2006
Claims for value added tax (VAT) refund	₱1,894,719,994	₱1,894,719,994
NPC accounts and other receivables	1,087,056,517	1,765,356,248
	₱2,981,776,511	₱3,660,076,242

The decrease in long-term receivables pertains mainly to the reclassification to trade accounts receivable portion of the receivable from NPC brought about by the agreement between NPC and the Company on October 26, 2007.

In 2007, the allowance for doubtful accounts for trade receivables was established after the Company performed the regular review of the age and status of the accounts relative to historical collections, changes in customer payment terms and other factors that may affect ability to collect payments. Except for accounts covered by special agreements with NPC, it was estimated that accounts outstanding over one year or account subject to contractual interpretation-dispute should have 100% provision (see Note 38).

Likewise, for other receivables, it was also established that accounts outstanding less than one year should have no provision but accounts outstanding over one year should have a 100% provision, which was arrived at after assessing individually significant balances. Provision for individually non-significant balances was made on a portfolio or group basis after performing the regular review of the age and status of the individual accounts and portfolio/group of accounts relative to historical collections, changes in payment terms and other factors that may affect ability to collect payments.



The BIR-related claims pertain to the Company's claims for the refund of input VAT on BOT fees amounting to ₱1,894.72 million which was initially denied by the BIR regional level on July 2, 2002. Subsequently, on September 2, 2002, the Company submitted a letter for reconsideration, RDO 50 endorsed the request for reconsideration to the BIR Head Office legal department and the review of the claims is still on going.

The prepaid expenses pertain mainly to the 25% advance payment to Kanematsu Corporation for the construction of Northern Negros Geothermal Power Plant Project.

The special deposits and funds mainly consisted of the ₱11.73 million sinking fund required by the Department of Finance and ₱4.72 million escrow account in favor of terminated employees.

Cash amounting to US\$74,057.79 on PCIR Bonds was pledged and deposited with the Bangko Sentral ng Pilipinas as collateral to secure the Company's outstanding International Bank of Japan (IBJ) Loans which was converted into Republic of the Philippines' (ROP) bonds in a Memorandum of Agreement dated November 16, 1992 (see Note 20). The peso equivalent of the collateral as of December 31, 2007 and 2006 were ₱3.07 million and ₱3.63 million, respectively.

The accounts grouped as Others pertained mainly to the input VAT on the purchase of goods and services which will be claimed for refund from the BIR.

The rollforward analysis of the allowance for doubtful accounts pertaining to long-term receivables is presented below.

	2007	2006
January 1	₱3,597,567,122	₱4,034,910,390
Charges for the year	33,382,345	300,090,132
Recoveries	(723,617,506)	(737,433,400)
December 31	₱2,907,331,961	₱3,597,567,122

17. Trade and Other Payables

	2007	2006
Accounts payable - trade	₱3,392,254,842	₱5,303,670,215
Accrued interest and guarantee fees	139,924,021	1,011,270,018
Withholding and other taxes payable	56,557,449	95,908,096
SSS and other contributions	38,921,376	5,454,446
Deferred credits	6,297,836	6,846,940
Miscellaneous current liabilities	3,826,743	5,915,549
	₱3,637,782,267	₱6,429,065,264



Accounts payable - trade, which comprised mainly of the accrued capacity fees for build-operate-transfer (BOT) plants, decreased due to the full payment of obligations to power plant contractor for Malitbog, Mahanagdong and Leyte Optimization power plants. The comparative amounts include recognition of Department of Energy's (DOE) assessment amounting to ₱866.40 million representing royalty fees for the period 1996 to 1998 relative to the Company's service contracts for Southern Negros Geothermal Production Field. In 2007, a credit adjustment on this expense was made as a result of the re-computation of the recoverable costs with the DOE based on the amended provisions set in the geothermal service contracts, which allows recovery of the translation effects of the Company's foreign loans and financing costs.

The decrease in accrued interest and guarantee fees was due mainly to the settlement of guarantee fees on long-term loans.

18. Royalty Fee Payable

	2007	2006
Due to DOE (see Note 35)	₱1,477,653,457	₱1,619,678,292
Due to Local Government Units (LGUs) (see Note 35)	256,273,707	324,644,631
	1,733,927,164	1,944,322,923
Current portion	(456,273,707)	(524,644,631)
Long-term portion	₱1,277,653,457	₱1,419,678,292

A reconciliation of the recognized 'Day 1' gain and accretion on the deferred royalty fee due to the DOE is shown below:

	2007	2006
Net day 1 gain (loss), January 1	₱397,267,332	₱479,501,891
Additions	39,769,240	95,703,507
Accretion	(211,445,798)	(177,938,066)
Net day 1 gain (loss), December 31	₱225,590,774	₱397,267,332

As discussed in Note 35, by virtue of PD 1442, the Company entered into seven service contracts with the DOE granting the Company the right to explore, develop, and utilize the country's geothermal resource subject to sharing of net proceeds with the government. The Company pays royalty fees to the DOE and LGUs under the arrangement.

The royalty fees are paid to the Department of Energy based on an agreed payment schedule. As the liability is non-interest bearing, a day 1 gain is recognized upon accrual of royalty fee. The day 1 gain pertains to the difference between the maturity value and present value of the royalty fee due. ₱39.77 million, ₱95.70 million, and ₱182.22 million were recognized as day 1 gains for 2007, 2006, and 2005, respectively, and are included under "Miscellaneous - net" in the statements of income. Subsequent to initial recognition, royalty fee payable is accreted to its maturity value based on its effective interest rate.

The effective interest rate on royalty fee payable ranges from 12.38% to 12.72%, 11.75% to 12.26%, and 10.89% to 11.58% for 2007, 2006 and 2005, respectively.



Accretion recognized in 2007, 2006, and 2005 amounted to ₱211.45 million, ₱177.94 million, and ₱140.23 million, respectively. Such accretion is included under “Interest expense” in the statements of income. As of December 31, 2007 and 2006, the unamortized discount amounted to ₱255.59 million and ₱397.27 million, respectively.

19. Obligations to Power Plant Contractors

	Minimum Payments		Present Value of Minimum Payments	
	2007	2006	2007	2006
Amounts payable under BOT				
Contracts:				
Within one year	₱265,744,529	₱2,904,781,721	₱246,719,220	₱2,766,401,494
In the second to fifth years inclusive	100,347,856	434,680,911	96,287,392	413,180,565
Future finance charges	(23,085,773)	(159,880,573)	–	–
Present value of obligations	343,006,612	3,179,582,059	343,006,612	3,179,582,059
Amount due for settlement within 12 months (shown under current liabilities)	(246,719,220)	(2,766,401,494)	(246,719,220)	(2,766,401,494)
Amount due for settlement after 12 months	₱96,287,392	₱413,180,565	₱96,287,392	₱413,180,565

This account pertains to the balance of the obligations to the power plant contractors in connection with the construction of the geothermal power plants in some of the Company’s geothermal service contract areas.

20. Long-Term Debt

The Company’s foreign-currency denominated long-term debts were translated into Philippine pesos based on the prevailing foreign exchange rates at balance sheet date (USD1=JPY113.688: USD1=PHP41.411 on December 31, 2007 and USD1=JPY118.934: USD1=PHP49.045 on December 31, 2006).

The details of the Company’s long-term debts are as follows:

Creditor/Project	Maturities	Interest rate	2007	2006
International Bank for Reconstruction and Development				
2969 PH Bacon-Manito Geothermal Power Plant		½ of 1% over cost of qualified borrowings		
- USD41 million	1994 to 2008		₱213,917,487	₱464,006,909
3164 PH Energy Sector Loan		½ of 1% over cost of qualified borrowings		
- USD118 million	1995 to 2010		1,327,865,958	2,017,103,046

(Forward)



Creditor/Project	Maturities	Interest rate	2007	2006
3702 PH Geothermal Exploration Project - USD64 million	1999 to 2013	½ of 1% over cost of qualified borrowings	₱1,194,375,196	₱1,516,373,173
3747 PH Geothermal Exploration Project - USD114 million - JPY12.4 billion	1999 to 2014 1999 to 2014	½ of 1% over cost of qualified borrowings/3.5%	1,353,629,819 971,506,792	1,701,179,610 1,270,302,115
Overseas Economic Cooperation				
Fund				
8 th Yen Tongonan I Geothermal Power Plant (share in OECF-NPC loan) - JPY5.8 billion - JPY1.5 billion (Restructured)	1990 to 2010	3.0% 3.2%	259,486,510 117,990,135	411,272,172 163,260,896
9 th Yen Palinpinon I Geothermal Power Plant - JPY 10.8 billion	1991 to 2011	3.0%	529,623,002	770,899,584
15 th Yen Palinpinon I Geothermal Power Plant - JPY4.0 billion	1999 to 2019	5.7%	650,141,912	800,031,045
18 th Yen Palinpinon II Geothermal Power Plant - JPY77.4 million	2003 to 2023	3.0%	21,310,198	25,681,845
19 th Yen Mt. Labo Geothermal Project - JPY10.8 billion	2004 to 2024	4.9%	96,686,098	115,897,514
21 st Yen Northern Negros Geothermal Project - JPY14.5 billion, of which JPY5.9 billion was drawn during the year	2007 to 2027	2.7%/2.3%	3,612,377,416	4,299,364,022
National Government Principal Collateralized Interest Reduction Bonds (PCIR) - USD328 thousand	1992 to 2017	Year 1 - 4 ¼% 2 - 5 ¼% 3 - 5 ¾% 4-5 - 6 ¼% 6-25 - 6 ½%	13,579,092	16,082,359
Miyazawa I - JPY5.2 billion		Tranche A=3.78%	1,889,975,187	2,137,344,037
- JPY6.8 billion	June 1, 2009	Tranche B=1.60% + LIBOR	2,471,931,240	2,795,603,036

(Forward)



Creditor/Project	Maturities	Interest rate	2007	2006
Miyazawa II				
- JPY22.0 billion	June 26, 2010	2.37%	₱7,738,708,293	₱9,516,416,274
ING Syndicated US\$90 Million 5-Year Loan				
- USD45.7 million		Tranche 1=3.70% + 6 mos. LIBOR	-	2,327,388,315
- USD44.3 million	February 21, 2008	Tranche 2=3.39% + 6 mos. LIBOR	-	1,414,168,571
Land Bank of the Philippines				
- PHP1.5 Billion	June 29, 2008	Ave. 91-day T-Bill + 2%	378,409,091	882,954,546
Standard Chartered 5-Year Loan				
-USD75 million	August 4, 2009	LIBOR + 2.22%	-	3,834,671,914
Total			₱22,841,513,426	₱36,480,000,983
Current portion			(2,031,565,879)	(3,171,351,515)
Long-term portion			₱20,809,947,547	₱33,308,649,468

The Principal Collateralized Interest Reduction Bonds (PCIRBs) represents converted outstanding International Bank of Japan (IBJ) loans equivalent to USD327,910 to Republic of the Philippines (ROP) bonds in a Memorandum of Agreement dated November 16, 1992. The ROP bonds carry interest rate of 6.5% per annum payable semi-annually with bullet principal payment in 2017. A cash collateral amounting to US\$74,057 was deposited with the Bangko Sentral ng Pilipinas as part of the agreement and will be returned to the Company without interest upon full settlement of the bonds.

Embedded prepayment (call) options were bifurcated from the USD90 million ING syndicated loan and USD75 million Standard Chartered term loan and presented in the balance sheet as Derivative assets. The changes in fair value of the embedded options are presented below.

	2007	2006
January 1	₱344,000,988	₱522,904,483
Changes in fair value during the year	56,011,569	(178,903,496)
Settlement during the year	(400,012,557)	-
December 31	₱-	₱344,000,987

The changes in fair value during the year are included under Derivative gain (loss) in the statement of income. All bifurcated embedded prepayment (call) options were exercised during 2007.



The long-term debts are presented net of unamortized transaction costs. A rollforward analysis of unamortized transactions costs is shown below.

	2007	2006
January 1	₱95,844,697	₱154,441,805
Amortization	(57,416,753)	(48,803,340)
Foreign exchange gain	(4,297,629)	(9,793,768)
December 31	₱34,130,315	₱95,844,697

Amortization during the year is included under “Interest Expense” in the statement of income.

Transaction costs include arrangement/management fee and documentary stamps for ING Syndicated (USD 90 million), USD 75 million Standard Chartered, Miyazawa I (JPY 12 billion) and Miyazawa II (JPY 22 billion) loans.

21. Other Long-Term Liabilities

This account consists of accrued vacation and sick leave entitlement and post-retirement medical/life insurance benefits of employees.

22. Capital Stock and Additional Paid-In Capital

The Company is subject to the nationality requirement that at least sixty percent (60%) of its capital stock must be owned by Filipino citizens since it is engaged in the exploration and exploitation of the country’s energy resources.

Details are as follows:

	2007	2006
Capital stock		
Common stock authorized and issued - 15,000,000,000 shares @ ₱1 par value	₱15,000,000,000	₱15,000,000,000
Preferred stock authorized and issued - 7,500,000,000 shares @ ₱0.01 par value	75,000,000	-
Additional paid-in capital	6,278,075,648	6,278,075,648

On June 30, 2007, the SEC approved the Company’s issuance of 7.5 billion preferred shares with 8% cumulative interest and with voting rights, at a par value of ₱0.01 share and with a limitation that only Filipino citizens can purchase. The 4.5 billion shares were subscribed and paid by PNOC while the remaining 3 billion shares were subscribed and paid by the PNOC EDC Retirement Fund.

On July 10, 2007, PNOC made a follow-on offering of another 3 billion common shares resulting to a total of 9 billion common shares, representing 60.00% of the Company’s outstanding common shares, being listed and traded with the Philippine Stock Exchange. Thus, the controlling interest of PNOC was reduced to 46.70%.



On November 29, 2007, the Company was fully privatized through the sale by PNOC of the combined 6 billion common shares (or 40.00% of total outstanding common shares) and the 7.5 billion preferred shares from PNOC and PNOC EDC Retirement Fund, to Red Vulcan Holdings Corporation, a subsidiary of First Gen Corporation. As a result, the Company is now considered a public company under Section 17.2 of the Securities Regulation Code, with First Philippine Holdings Corporation as the ultimate Parent Company, also a listed company in the Philippines.

As of year of December 31, 2007, there are 656 common stockholders and one (1) preferred shareholder of the Company.

23. Retained Earnings

On April 17, 2007, the BOD approved a cash dividend of ₱0.099 per share or a total of ₱1.485 billion to stockholders on record as of May 15, 2007 payable on June 5, 2007.

The Company's retained earnings include a revaluation increment deemed as part of cost of certain property and equipment and investment property amounting to ₱2,077.89 million, of which ₱1,438.56 million is related to land classified as Noncurrent asset held for sale (see Note 11). This amount is not available for dividend declaration until realized.

24. Purchased Services and Utilities

	2007	2006 (Restated)	2005 (Restated)
BOT fees	₱2,105,680,050	₱4,782,877,101	₱6,438,272,867
Professional and technical services	387,199,262	180,015,600	170,838,255
Other purchased utilities	219,335,104	2,933,363	3,309,962
Other purchased services	166,636,601	97,174,098	81,641,346
Rig mobilization charges	85,527,042	4,043,465	5,778,151
Hauling and handling costs	40,958,297	17,085,706	18,191,343
Contractual employee costs	28,278,317	8,227,076	7,915,974
Others	4,381,485	4,666,364	3,811,222
	₱3,037,996,158	₱5,097,022,773	₱6,729,759,120

The 2006 and 2005 balances of some accounts were reclassified to conform to the 2007 presentation.



25. Operations and Maintenance Expenses

	2007	2006 (Restated)	2005 (Restated)
Employee costs	₱1,258,171,369	₱1,073,803,172	₱1,041,481,591
Rental, insurance and taxes	948,320,803	781,286,614	875,151,527
Maintenance and repairs	647,829,416	451,424,582	350,693,484
Materials and supplies	569,879,759	416,312,987	463,279,097
Royalty fees	499,577,821	470,394,682	528,839,664
Business and other expenses	12,482,584	48,734,673	30,770,558
Grantor assessment adjustment	(866,399,332)	–	–
	₱3,069,862,420	₱3,241,956,710	₱3,290,215,921

The royalty fee adjustment was the result of the re-computation of the recoverable costs with the DOE based on the amended provisions set in the geothermal service contracts, which allows recovery of the translation effects of the Company's foreign loans and financing costs. The amended provisions and the royalty adjustments were agreed with the DOE in July 2007.

The 2006 and 2005 balances of some accounts were reclassified to conform to the 2007 presentation.

26. General and Administrative Expenses

	2007	2006 (Restated)	2005 (Restated)
Employee costs	₱968,231,017	₱768,231,969	₱1,026,341,053
Rental, insurance and taxes	547,152,473	240,029,847	188,204,585
Purchased services and utilities	345,802,058	254,840,285	225,002,928
Provision for doubtful accounts	286,828,060	299,176,115	238,503,085
Materials and supplies	112,145,705	70,789,787	65,432,633
Business and other expenses	87,303,846	97,237,692	61,351,980
Depreciation	39,944,942	30,443,300	31,985,421
Maintenance and repairs	28,145,359	24,156,921	24,493,676
Others	3,268,160	–	–
Credit adjustment on allowance for doubtful accounts	(43,130,239)	(737,558,359)	–
	₱2,375,691,381	₱1,047,347,557	₱1,861,315,361

27. Interest Expense

	2007	2006	2005
Interest on long-term loans	₱1,567,138,662	2,325,188,938	₱2,604,498,658
Interest on short-term loans	–	5,704,019	–
	1,567,138,662	2,330,892,957	2,604,498,658
Amounts included in the cost of qualifying assets	(99,927)	(106,600)	(122,840)
	₱1,567,038,735	2,330,786,357	₱2,604,375,818



This account pertains to interest charges on long-term and short-term loans. The amount included in the cost of qualifying assets represents the capitalized interest charges on loans utilized for the development of Northern Negros Geothermal Project.

28. **Foreign Exchange Gains - Net**

	2007	2006	2005
Foreign exchange gains on long-term loans	₱4,239,574,615	₱2,189,474,403	₱6,607,781,514
Foreign exchange losses on other accounts	(339,228,371)	(148,460,380)	(165,030,990)
Net	₱3,900,346,244	₱2,041,014,023	₱6,442,750,524

This account pertains to foreign exchange gains (losses) on repayment and realignment of foreign loans, short-term placements in US dollar denomination and cash in banks in US dollar and Japanese yen currencies. The foreign exchange gain was attributed largely to the realignment of foreign loans because of the appreciation of the yen and the peso against the US dollar (December 31, 2007: USD1=JPY113.688/ PHP41.411; December 31, 2006: USD1-JPY118.934/PHP49.045; December 31, 2005 USD1-JPY117.855/PHP53.062).

29. **Miscellaneous Income (Charges) - Net**

	2007	2006 (Restated)	2005 (Restated)
Day 1 gain	₱39,769,239	₱95,703,507	₱182,218,941
Waste disposal fees	17,893,896	18,011,912	-
Profit on sale of securities	7,937,724	1,081,651	-
Sale/retirement of fixed assets	7,416,775	-	-
Gain on retirement of parts and supplies inventory	5,683,609	-	-
Upper Mahiao Plant materials inventory turned over by contractor	-	125,636,878	-
Others	(283,114,180)	(262,501,969)	(279,589,410)
	(₱204,412,937)	(₱22,068,021)	(₱97,370,469)

30. **Income Taxes**

	2007	2006
Deferred tax assets	₱6,753,386,479	₱8,047,196,850
Deferred tax liability	(3,700,593,892)	(3,127,242,783)
Net	₱3,052,792,587	₱4,919,954,067

The deferred tax assets consist mainly of the undepreciated balance of the foreign exchange losses on payment and realignment of the payable to contractors capitalized under BIR reporting, unrealized foreign exchange losses on foreign loans and allowance for doubtful accounts. The account is net of deferred tax liability on the deductible expenses provided under PD 1442 and the increase in fair value of property and equipment applied as deemed costs recognized during the conversion to PFRS.



The components of the Company's deferred income tax assets and liabilities follow:

Deferred Tax Assets

	Foreign exchange losses (gains) BOT Power Plants	Unrealized foreign exchange losses (gains)	Allowance for doubtful accounts	Financial/Tangible Assets	Others	Total
At January 1, 2007	₱4,673,833,358	₱1,229,264,289	₱1,064,246,930	₱509,705,776	₱570,146,497	₱8,047,196,850
Charged to income for the period	(327,283,783)	(1,013,929,250)	85,184,203	(70,683,170)	32,901,629	(1,293,810,371)
At December 31, 2007	₱4,346,549,575	₱215,335,039	₱1,149,431,133	₱439,022,606	₱603,048,126	₱6,753,386,479

	Foreign exchange losses (gains) BOT Power Plants	Unrealized foreign exchange losses (gains)	Allowance for doubtful accounts	Financial/Tangible Assets	Others	Total
At January 1, 2006	₱4,924,077,551	₱2,459,898,738	₱1,217,680,715	₱711,713,444	₱63,779,855	₱9,377,150,303
Charged to income for the period	(250,244,193)	(1,230,634,449)	(153,433,785)	(202,007,668)	506,366,642	(1,329,953,453)
At December 31, 2006	₱4,673,833,358	₱1,229,264,289	₱1,064,246,930	₱509,705,776	₱570,146,497	₱8,047,196,850

Deferred Tax Liability

	Deductible expenses per PD 1442	Others	Total
At January 1, 2007	(₱3,085,955,501)	(₱41,287,282)	(₱3,127,242,783)
Charged to income for the period	(575,913,974)	2,562,865	(573,351,109)
At December 31, 2007	(₱3,661,869,475)	(₱38,724,417)	(₱3,700,593,892)

	Deductible expenses per PD 1442	Others	Total
At January 1, 2006	(₱2,986,489,231)	₱56,947,740	(₱2,929,541,491)
Charged to income for the period	(99,466,270)	(98,235,022)	(197,701,292)
At December 31, 2006	(₱3,085,955,501)	(₱41,287,282)	(₱3,127,242,783)

	Deferred Tax Assets	Deferred Tax Liability	Net Deferred Tax Assets
At January 1, 2007	₱8,047,196,850	(₱3,127,242,783)	₱4,919,954,067
Charged to income for the period	(1,293,810,371)	(573,351,109)	(1,867,161,480)
At December 31, 2007	₱6,753,386,479	(₱3,700,593,892)	₱3,052,792,587

	Deferred Tax Assets	Deferred Tax Liability	Net Deferred Tax Assets
At January 1, 2006	₱9,377,150,303	(₱2,929,541,491)	₱6,447,608,812
Charged to income for the period	(1,329,953,453)	(197,701,292)	(1,527,654,745)
At December 31, 2006	₱8,047,196,850	(₱3,127,242,783)	₱4,919,954,067

Components of income tax expense are as follows:

	2007	2006	2005
Current tax	₱2,293,832,941	₱1,697,975,135	₱1,677,383,618
Deferred tax	1,867,161,480	1,527,654,745	1,749,122,609
	₱4,160,994,421	₱3,225,629,880	₱3,426,506,227



A reconciliation between tax expense and the product of accounting income multiplied by the tax rates of 35.00% in 2007, 2006 and 32.50% in 2005 is as follows:

	2007	2006	2005
Accounting income	₱12,812,475,607	₱10,088,971,107	₱12,600,669,496
Tax expense	4,484,366,462	3,531,139,887	4,095,217,586
Tax effect of non-deductible interest expense	53,375,602	55,866,123	56,284,818
Non-deductible foreign contractor's tax - excess	4,389,682	2,200,505	-
Interest income - net of final tax	(106,342,260)	(114,072,117)	(121,088,650)
Non-deductible gains on embedded Derivatives	-	(113,444,854)	(604,699,566)
Effect of change in tax rate	(274,795,065)	(136,059,664)	792,039
	₱4,160,994,421	₱3,225,629,880	₱3,426,506,227

31. Earnings Per Share (EPS)

The EPS amount was computed as follows:

	2007	2006	2005
Net income attributable to common shareholders	₱8,651,481,186	₱6,863,341,226	₱9,174,163,269
Weighted average numbers of shares for EPS	15,000,000,000	12,142,584,872	12,000,000,000
Basic/diluted EPS	₱0.577	₱0.565	₱0.765

Computation of weighted average number of shares for EPS calculation is as follows:

	Beginning Balance	Shares Issued	Outstanding Shares	Number of Days ⁽¹⁾	Weighted Average Number of Shares
December 31, 2005	10,000,000,000	2,000,000,000 ⁽¹⁾	12,000,000,000	365	12,000,000,000
December 31, 2006	10,000,000,000	2,000,000,000 ⁽¹⁾		365	
		2,608,695,652		18	
		391,304,348	15,000,000,000	13	12,142,584,872
December 31, 2007	15,000,000,000	-	15,000,000,000	365	15,000,000,000

⁽¹⁾ Retroactive effect of stock dividends declared in 2006

32. Personnel Expenses

	2007	2006	2005
Salaries and other benefits	₱2,018,742,958	₱1,968,065,036	₱1,905,208,595
Retirement benefit costs (see Note 39)	329,567,591	121,063,507	504,917,081
Social security costs	42,316,907	35,299,516	35,626,807
	₱2,390,627,456	₱2,124,428,059	₱2,445,752,483



33. Business Segment Information

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Electricity segment refers to the revenue from sale of electricity out of the power plant operations. Revenue of this segment is covered by long-term power purchase agreements. The Steam segment pertains to the revenue from the sale of steam which is covered by the Geothermal Service Contracts. The Services segment comprises revenues from construction and drilling operations. The Others segment includes corporate and technical and administrative support groups.

The Company operates and generates revenues principally in the Philippines. Thus, geographical business information is not required.

Financial information on the business segments are summarized as follows:

2007

	Electricity	Steam	Services	Others	Total
Revenue	₱13,215,638,368	₱4,834,399,396	₱733,591,782	₱-	₱18,783,629,546
Segment expenses	(6,784,168,707)	(1,351,068,572)	(668,262,070)	(1,297,258)	(8,804,796,607)
Segment results	6,431,469,661	3,483,330,824	65,329,712	(1,297,258)	9,978,832,939
Interest income	-	-	-	648,736,545	648,736,545
Interest expense	-	-	-	(1,567,038,735)	(1,567,038,735)
Unallocated corporate income	-	-	-	3,751,944,858	3,751,944,858
Income taxes	-	-	-	(4,160,994,421)	(4,160,994,421)
Net income	₱6,431,469,661	₱3,483,330,824	₱65,329,712	(₱1,328,649,011)	₱8,651,481,186
Other information:					
Segment assets	₱54,348,783,001	₱975,955,001	₱634,356,803	₱-	₱55,959,094,805
Unallocated corporate assets	-	-	-	9,111,640,061	9,111,640,061
Total assets	₱54,348,783,001	₱975,955,001	₱634,356,803	₱9,111,640,061	₱65,070,734,866
Segment liabilities	(₱16,907,127,255)	(₱11,570,477,888)	(₱90,057,472)	₱-	(₱28,564,662,615)
Unallocated corporate liabilities	-	-	-	(1,652,791,645)	(1,652,791,645)
Total liabilities	(₱16,907,127,255)	(₱11,570,477,888)	(₱90,057,472)	(₱1,652,791,645)	(₱30,217,454,260)
Capital expenditure	₱-	₱-	₱131,276,344	₱26,890,139	₱158,166,483
Depreciation and amortization	164,294,068	-	95,759,928	-	260,053,996
Other non-cash items	(2,042,556,482)	(1,249,671,902)	-	39,754,981	(3,252,473,403)



2006

	Electricity	Steam	Services	Others	Total
Revenue	₱14,309,670,214	₱4,550,567,548	₱6,861,433,729	₱-	₱25,721,671,491
Segment expenses	(6,919,572,964)	(2,276,708,328)	(6,308,448,005)	(441,081)	(15,505,170,378)
Segment results	7,390,097,250	2,273,859,220	552,985,724	(441,081)	10,216,501,113
Interest income	-	-	-	330,161,680	330,161,680
Interest expense	-	-	-	(2,330,786,357)	(2,330,786,357)
Unallocated corporate income	-	-	-	1,873,094,670	1,873,094,670
Income taxes	-	-	-	(3,225,629,880)	(3,225,629,880)
Net income	₱7,390,097,250	₱2,273,859,220	₱552,985,724	(₱3,353,600,968)	₱6,863,341,226

Other information:

Segment assets	₱60,898,234,211	₱1,309,574,832	₱674,401,033	₱-	₱62,882,210,076
Unallocated corporate assets	-	-	-	14,510,252,706	14,510,252,706
Total assets	₱60,898,234,211	₱1,309,574,832	₱674,401,033	₱14,510,252,706	₱77,392,462,782
Segment liabilities	(₱33,137,844,428)	(₱12,776,508,799)	(₱89,064,522)	₱-	(₱46,003,417,749)
Unallocated corporate liabilities	-	-	-	(4,014,332,055)	(4,014,332,055)
Total liabilities	(₱33,137,844,428)	(₱12,776,508,799)	(₱89,064,522)	(₱4,014,332,055)	(₱50,017,749,804)

Capital expenditure	₱-	₱-	₱504,974,708	₱35,855,711	₱540,830,419
Depreciation and amortization	-	-	128,893,367	-	128,893,367
Other non-cash items	(1,331,094,503)	(728,440,287)	-	(387,307,683)	(2,446,842,473)

2005

	Electricity	Steam	Services	Others	Total
Revenue	₱15,346,083,592	₱4,530,035,664	₱2,343,858,042	₱-	₱22,219,977,298
Segment expenses	(9,405,338,809)	(2,250,373,216)	(2,329,418,126)	(21,609,714)	(14,006,739,865)
Segment results	5,940,744,783	2,279,662,448	14,439,916	(21,609,714)	8,213,237,433
Interest income	-	-	-	446,165,085	446,165,085
Interest expense	-	-	-	(2,604,375,818)	(2,604,375,818)
Unallocated corporate income	-	-	-	6,545,642,796	6,545,642,796
Income taxes	-	-	-	(3,426,506,227)	(3,426,506,227)
Net income	₱5,940,744,783	₱2,279,662,448	₱14,439,916	₱939,316,122	₱9,174,163,269

Other information:

Segment assets	₱62,726,984,575	₱7,597,498,410	₱880,346,557	₱-	₱71,204,829,542
Unallocated corporate assets	-	-	-	9,781,409,610	9,781,409,610
Total assets	₱62,726,984,575	₱7,597,498,410	₱880,346,557	₱9,781,409,610	₱80,986,239,152

(Forward)



	Electricity	Steam	Services	Others	Total
Segment liabilities	(₱40,642,849,970)	(₱14,067,308,381)	(₱132,020,248)	₱-	(₱54,842,178,599)
Unallocated corporate liabilities	-	-	-	(5,595,381,932)	(5,595,381,932)
Total liabilities	(₱40,642,849,970)	(₱14,067,308,381)	(₱132,020,248)	(₱5,595,381,932)	(₱60,437,560,531)
Capital expenditure	₱-	₱-	₱21,584,504	₱23,099,475	₱44,683,979
Depreciation and amortization	-	-	639,351,921	-	639,351,921
Other non-cash items	(3,441,571,268)	(2,472,429,444)	-	(667,567,778)	(6,581,568,490)

34. Description of The Service Concession and Related Arrangements

All geothermal resources in public and/or private lands in the Philippines, whether found in, on or under the surface of dry lands, creeks, rivers, lakes, or other submerged lands within the waters of the Philippines belong to the State, inalienable and imprescriptible, and their exploration, development and exploitation are governed under Presidential Decree No. 1442 (PD 1442, An Act to promote the exploration and development of geothermal resources). Under PD 1442, the Government may enter into service contracts for the exploration, development and exploitation of geothermal resources.

Pursuant to PD 1442, the Company has entered into the following service contracts with the Government of the Republic of the Philippines (Government, represented by the Ministry/Department of Energy) for the exploration, development and production of geothermal fluid for commercial utilization:

- a. Tongonan, Leyte, dated May 14, 1981
- b. Southern Negros, dated October 16, 1981
- c. Bacman, Sorsogon, dated October 16, 1981
- d. Mt. Apo, Kidapawan, Cotabato, dated March 24, 1992
- e. Mt. Labo, Camarines Norte and Sur, dated March 19, 1994
- f. Northern Negros, dated March 24, 1994
- g. Mt. Cabalian, Southern Leyte, dated January 13, 1997

The exploration period under the service contracts shall be five (5) years from the effective date, renewable for another two (2) years if the Company has not been in default in its exploration, financial and other work commitments and obligations and has provided a work program for the extension period acceptable to the Government. Where geothermal resource in commercial quantity is discovered during the exploration period, the service contracts shall remain in force for the remainder of the exploration period or any extension thereof and for an additional period of twenty-five (25) years thereafter, provided that, if the Company has not been in default in its obligations under the contracts, the Government may grant an additional extension of fifteen (15) to twenty (20) years.

The Company shall acquire for the geothermal operations materials, equipment, plants and other installations as are required and necessary to carry out the geothermal operations. All materials, equipment, plants and other installations erected or placed on the contract areas of a movable



nature by the Company shall remain the property of the Company unless not removed therefrom within one year after the expiration and/or termination of the related service contract in which case, ownership shall be vested in the Government.

The service contracts provide that, among other privileges, the Company shall have the right to enter into agreements for the disposition of the geothermal resources produced from the contract areas, subject to the approval of the Government.

Pursuant to such right, the Company has entered into agreements for the sale of the geothermal resources produced from the service contract areas principally with the NPC, a government owned and controlled corporation. These agreements are for 25 years and may be opened for renegotiation by either party after 5 years from the date of commercial operations.

Pursuant to such right also, the Company has also entered into agreements with NPC for the development, construction and operation of a geothermal power plant by the Company in its geothermal service contract areas and the sale to NPC of the electrical energy generated from such geothermal power plants. These agreements are for 25 years of commercial operations and may be extended upon the request of the Company by notice of not less than 12 months prior to the end of the contract period, the terms and conditions of any such extension to be agreed upon by the parties.

The Company's agreements with NPC for the sale of the geothermal resources produced from the service contract areas and the sale of the electrical energy generated from the geothermal power plants contain certain provisions relating to pricing control in the form of a cap in the Company's internal rate of return for specific contracts; as well as for payment by NPC of minimum guaranteed monthly remuneration and nominated capacity.

For the Northern Negros service contract, the Company does not have agreements with NPC for the sale of the geothermal resources and electrical energy produced from the service contract area. The Company instead enters into contracts with distribution utilities, electric cooperatives and other third party buyers of electricity for the sale of the electrical energy generated from the service contract.

The Company has made a judgment that these service concessions and related arrangements qualify for accounting under Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Accordingly, the Company has recognized the consideration received or receivable in exchange for its infrastructure construction services or its acquisition of infrastructure to be used in the arrangements as either a financial asset to the extent that the Company has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor, or an intangible asset for the right to charge users of the public service.

Revenue and profits recognized in 2007, 2006 and 2005, on exchanging construction services for a financial or an intangible asset amounted to ₱108.81 million, ₱6,599.98 million, and ₱2,194.33 million, respectively; and ₱7.68 million, ₱578.83 million and ₱151.61 million, respectively.

The disclosures have been provided in aggregate since management believes that the service concession arrangements are similar in nature.



35. Service Contracts

As discussed in Note 34, by virtue of PD 1442, the Company entered into seven service contracts with the DOE granting the Company the right to explore, develop, and utilize the country's geothermal resource subject to sharing of net proceeds with the government. The net proceeds is what remains after deducting from the gross proceeds the allowable recoverable costs, which include development, production and operating costs.

The allowable recoverable costs shall not exceed 90% of the gross proceeds. The Company pays 60% of the net proceeds as government share and retains the remaining 40%.

The 60% government share is comprised of royalty fees and income taxes. The royalty fees are shared by the Government through DOE (60%) and the LGU (40%).

The Company secured an approval from the DOE to defer remittance of the royalty portion of the Government share at P180 million per year. A portion of said payment was applied to the amortization of the deferred royalty fees as of December 31, 1998, and the balance to 1999 and future obligations. On March 23, 2004, the Company and DOE agreed to increase the royalty payment plan to P200 million per year starting 2004. A portion of the revised payment shall be applied to the amortization of the deferred royalty fees as of December 31, 2003 and the balance to 2004 and future obligations for existing Company operating projects. However, remittances to the local government units of their share in royalty fees are made as they fall due pursuant to the Local Government Code.

Total royalty fees due to DOE and to LGUs are shown in Note 18.

The DOE approved the application of the Company for the 20-year extension of the Tongonan, Palinpinon and Bacon-Manito Geothermal Service Contracts (GSCs). The extension is embodied in the fourth amendment to the GSCs dated October 30, 2003. The amendment extended the Tongonan GSC from May 15, 2011 to May 16, 2031, while the Palinpinon and Bacon-Manito GSCs are extended from October 16, 2011 to October 17, 2031.

36. Geothermal Resources Sales Contract

The geothermal energy currently produced by the Company's geothermal projects is supplied to the power plants owned and operated by NPC pursuant to the following steam sales contracts:

Tongonan I

Under the steam sales contract entered in June 1984 for Tongonan I, NPC agrees to pay the Company a base price per kilowatt-hour of net generation, subject to inflation adjustments and based on a guaranteed take-or-pay rate at 75% plant factor for a period of twenty-five years.

Palinpinon I

The steam sales contract for Palinpinon I provides, among others, that NPC shall pay the Company a base price per kilowatt-hour of gross generation, subject to inflation adjustments and based on a guaranteed take-or-pay rate at 75% plant factor. The contract is for a period of twenty years commencing on December 25, 1988.



Palinpinon II

In June 1996, the Company and NPC signed a steam sales contract for Palinpinon II's four modular plants - Nasuji, Okoy, Sogongon I and Sogongon II. Under the terms and conditions, NPC agrees to pay the Company a base price per kilowatt-hour of gross generation, subject to inflation adjustments and based on a guaranteed take-or-pay rate commencing from the established commercial operation period, using the following plant factors: 50% for the first year, 65% for the second year and 75% for the third and subsequent years. The contract is for a period of twenty-five years for each module commencing on December 13, 1993 for Nasuji; November 28, 1994 for Okoy; January 28, 1995 for Sogongon I and March 23, 1995 for Sogongon II.

Bacon-Manito I

The steam sales contract for the Bacon-Manito (Bacman) geothermal resources entered in November 1988 provides, among others, that NPC shall pay the Company a base price per kilowatt-hour of gross generation, subject to inflation adjustments and based on a guaranteed take-or-pay rate at 75% plant factor. The contract is for a period of twenty-five years commencing in May 1993.

Bacon-Manito II

Bacman II's steam sales contract with NPC was signed in June 1996 for its two 20-MW capacity modular plants - Cawayan and Botong. The terms and conditions under the contract contain, among others, NPC's commitment to pay the Company a base price per kilowatt-hour of gross generation, subject to inflation adjustments and based on a guaranteed take-or-pay rate, commencing from the established commercial operation period, using the following plant factors: 50% for the first year, 65% for the second year and 75% for the third and subsequent years. The contract is for a period of twenty-five years commencing in March 1994 for Cawayan and December 1997 for Botong.

37. Build-Operate-Transfer (BOT) Contracts

Pursuant to Republic Act Number 7718 dated May 5, 1994 (Amended BOT Law), the Company entered into Energy Conversion Agreements (ECA) with various international geothermal power producers for the construction and operation of power plants in Leyte and Mindanao to convert the geothermal steam to be supplied by the Company to electricity. Under these contracts, the BOT Contractor shall deliver electricity to NPC on behalf of the Company.

Leyte

Under the ECA with the BOT Contractors, namely: California Energy for a) 125 MW Power Plant - Upper Mahiao Agreement; b) 231 MW Power Plant - Malitbog Agreement; and c) 180 MW Power Plant - Mahanagdong Agreement and with Ormat Inc. for the Leyte Optimization Project BOT Agreement, the Company shall pay the BOT Contractors monthly energy fees to be computed based on actual energy delivered and capacity fees, which include capital and fixed operating cost recovery fees and service fees, to be computed on a per kilowatt nominated capacity basis.



Except for the capital cost recovery portions, the fees are subject to inflation adjustments. The contracts are for a period of ten years commencing July 1996 for the Upper Mahiao Agreement, July 1997 for the Malitbog and Mahanagdong Agreements and September 1997 for the Optimization Agreement. The ownership of the Upper Mahiao Power Plant was transferred to the Company on June 25, 2006; Malitbog and Mahanagdong Power Plants were transferred on July 25, 2007; and the Optimization Power Plants on September 25, 2007.

Mindanao

Under the terms and conditions of the ECA with Oxbow Power Corporation and Marubeni Corporation, the Company shall pay the BOT Contractor monthly energy efficiency fees and capacity fees, which include capital and fixed operating cost recovery fees and service fees, to be computed on a per kilowatt nominated capacity basis and excess energy fees which are payment for the share of BOT Contractor for the revenues from surplus energy generation on top of the nominated energy. Except for energy efficiency payments and capital cost recovery portion of capacity fees, the fees are subject to inflation adjustments. The contract is for a period of ten years commencing in March 1997 for Mindanao I (47 MW) and June 1999 for Mindanao II (48.25 MW). An Amendment to the Mindanao I ECA was signed on November 17, 2006 extending the contract period to June 2009 with corresponding restructuring of BOT fees.

The fair value of these BOT contracts are included as part of the fair value of the construction services accounted for under Philippine Interpretation IFRIC 12 as discussed in Note 34.

38. Power Purchase Agreements

The electricity produced by the Company is sold to NPC, pursuant to the following Power Purchase Agreements (PPA):

Leyte-Cebu, Leyte-Luzon

The PPA provides, among others, that NPC shall pay the Company a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a contracted annual energy of 1,370 GWH for Leyte-Cebu and 3,000 GWH for Leyte-Luzon throughout the cooperation period. It also stipulates a nominated energy of not lower than 90% of the contracted annual energy.

On November 12, 1999, NPC agreed to accept from PNOC EDC a combined average annual nominated energy of 4,455 GWH for the period July 25, 1999 to July 25, 2000 for both Leyte-Cebu and Leyte-Luzon PPA. The annual nominated energy starting July 25, 2000 and onwards is being contested by NPC, which is one of the issues of the ongoing arbitration with NPC. The contracts are for a period of twenty-five years commencing in July 1996 for Leyte-Cebu and July 1997 for Leyte-Luzon (see Note 16).

47 MW Mindanao I

The PPA provides, among others, that NPC shall pay the Company a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a minimum offtake energy of 330 GWH for the first year and 390 GWH per year for the succeeding years. The contract is for a period of twenty-five years commencing in March 1997.



48.25 MW Mindanao II

The PPA provides, among others, that NPC shall pay the Company a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a minimum offtake energy of 398 GWH per year. The contract is for a period of twenty-five years commencing in June 1999.

39. Retirement and Other Post-Retirement Benefit Plans

The Company maintains a funded, non-contributory, defined benefit retirement plan. The plan covers all permanent employees and is administered by a trustee bank. The Company also provides post-retirement medical and life insurance benefits which are unfunded.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the balance sheets:

	2007	2006	2005
Current service cost	₱137,976,928	₱97,756,610	₱119,616,100
Interest cost on benefit obligation	154,587,224	150,770,729	192,005,800
Expected return on plan assets	(102,814,445)	(122,261,769)	(197,662,400)
Net actuarial gain recognized in the year	-	(33,404,348)	(43,356,400)
Net benefit expense	₱189,749,707	₱92,861,222	₱70,603,100
Actual return on plan assets	₱45,943,657	₱152,765,772	₱144,715,700

	2007	2006
Present value of defined benefit obligations	₱2,692,826,116	₱2,187,879,669
Fair value of plan assets	(1,626,128,399)	(1,468,777,785)
	1,066,697,717	719,101,884
Unrecognized actuarial gains (losses)	(154,627,960)	150,467,454
Benefit liability	₱912,069,757	₱869,569,338

Changes in the present value of the defined benefit obligation are as follows:

	2007	2006
Defined benefit obligation at beginning of year	₱2,187,879,669	₱1,507,707,292
Interest cost	154,587,224	150,770,729
Current service cost	137,976,928	97,756,610
Benefits paid	(48,593,043)	(33,418,770)
Actuarial losses gains on obligation	260,975,338	465,063,808
Defined benefit obligation at end of year	₱2,692,826,116	₱2,187,879,669



Changes in the fair value of plan assets are as follows:

	2007	2006
Fair value of plan assets at beginning of year	₱1,468,777,785	₱1,222,617,694
Expected return	102,814,445	122,261,769
Contributions by employer	160,000,000	126,813,090
Benefits paid	(48,593,043)	(33,418,770)
Actuarial gains (losses)	(56,870,788)	30,504,002
Fair value of plan assets as at end of year	₱1,626,128,399	₱1,468,777,785

The Company expects to contribute ₱134.00 million to its defined benefit retirement plan in 2008. The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2007	2006
	%	%
Fixed Income	88.23	86.80
Equities	10.05	10.67
Real Properties	0.51	0.56
Others	1.21	1.97
	100.00	100.00

The principal actuarial assumptions used in determining retirement and post-retirement medical and life insurance benefit obligations are as follows:

	2007	2006
Discount rate	7.00%	7.00%
Expected rate of return on assets	7.00%	10.00%
Future salary increases	6.00%	6.00%
Medical trend rate	3.00%	-

The assumption on the discount rate is based on the long-term government bond rates approximating the expected working life of the employees as published by the Philippine Dealing Exchange Corporation. The assumption on the expected rate of return on plan assets is based on the asset allocation while the expected rate of salary increases is based on discussion with the management which is around 2.00% - 3.00% more than the projected inflation rate of about 3.00% - 4.00%.

Amounts for the current and previous four periods are as follows:

	2007	2006	2005	2004	2003
Defined benefit obligation	(₱2,672,620,165)	(₱2,187,879,669)	(₱1,791,112,900)	(₱1,758,346,900)	(₱2,338,457,300)
Plan assets	1,626,128,399	1,468,777,785	1,222,617,700	1,594,938,200	1,398,086,630
Deficit	(₱1,046,491,766)	(₱719,101,884)	(₱568,495,200)	(₱163,408,700)	(₱940,370,670)

The experience adjustments on plan liabilities amounted to ₱7.62 million in 2007 and ₱137.09 million in 2006.



A one percentage point change in the assumed rate of increase in medical costs would have the following effects:

	Increase	Decrease
2007		
Effect on the aggregate current service cost and interest cost	15.91%	13.47 %
Effect on the defined benefit obligation	13.22%	11.47%
2006		
Effect on the aggregate current service cost and interest cost	-	-
Effect on the defined benefit obligation	14.09%	12.16%

40. Supplementary Disclosures of Geothermal Reserves

In October 2004, the Company has contracted GeothermEX to provide an independent review of the updated geothermal energy reserves estimation made by the Company's Reservoir Engineering Department for four geothermal fields: Bacon-Manito (Luzon), Mindanao (Mindanao), Palinpinon (Southern Negros) and Greater Tongonan (Leyte).

Five available methods of estimating geothermal reserves were considered as regards their applicability to the Company's fields: empirical methods, volumetric reserve estimation, decline curve analysis, lumped-parameter modeling and numerical simulation of the reservoir. It was concluded that, of these methods, only volumetric estimation and numerical simulation are generally useful to the Company in estimating reserves. The Company has conducted numerical simulation to most of its fields. A detailed review of one such simulation study, for Mindanao field, showed it to be reasonable. It is pointed out that while numerical simulation is more sophisticated than volumetric reserve estimation, the latter can be readily conducted in a probabilistic way, while the former cannot.

GeothermEX, in their report released in December 2004, used the same volumetric reserve estimation method used by PNOG EDC for the various geothermal fields patterned after the United States Geological Survey but differ only in the heat recovery factor. GeothermEX concluded that the Company's estimation is conservative due to the low heat recovery factor values of 0.10 to 0.30. On the other hand, GeothermEX estimates of reserves in these field locations are 2.25 times more than those of the Company.

Proved geothermal reserves refer to reserves which can be produced with known certainty and delineated in known production limits as confirmed by drilling and production history.

Probable reserves refer to those that could be proven by normal step-out drilling as well as those that could be extracted by improved recovery techniques like acidizing.

Possible reserves refer to those reserves that are currently unextractable because of resource and technology problems but may be found to be commercial in the future.

The following table shows a comparison of estimated geothermal energy reserves from the Company and GeothermEX:



Estimated Geothermal Energy Reserves

Field	Mean Reserves Company Estimates (MWe)	Mean Reserves GeothermEX Estimates (MWe)	Proved Reserves GeothermEX Estimates (MMBFOE)	Proved Reserves GeothermEX Estimates (GWh of energy)
Greater Tongonan (Leyte)	415	867	145.4	96,940
Palinpinon (Negros Oriental)	170	440	74.4	49,612
Bacon-Manito (Luzon)	185	421	65.3	43,542
Mindanao	203	478	54.1	36,105
Total	973	2,206	339.2	226,199

Source: GeothermEX Report, December 2004

GeothermEX Estimates of Reserves in Million Barrels of Oil Equivalent

Field	Proved Reserves (MMBFOE)	Proved Probable Reserves (MMBFOE)	Proved Probable Possible Reserves(MMBFOE)
Greater Tongonan	145.4	247.2	455.6
Bacon-Manito	65.3	98.2	222.9
Palinpinon	74.4	189.0	211.8
Mindanao	54.1	97.3	171.9
Total	339.2	631.7	1,062.2

Source: GeothermEX Report, December 2004

41. Remuneration of Key Management Personnel

The remuneration of the directors and other members of key management personnel by benefit type follow:

	2007	2006	2005
Short-term employee benefits	₱39,626,921	₱40,419,545	₱23,437,384
Post-employment benefits	76,699,639	60,434,375	58,194,080
	₱116,326,560	₱100,853,920	₱81,631,464

42. Financial Risk Management Objectives and Policies

The Company's financial instruments consist mainly of cash and cash equivalents, AFS investments, and long-term debt. The main purpose of these financial instruments is to finance the Company's operations and accordingly manage its exposure to financial risks. The Company has various financial assets and liabilities such as trade receivables, trade payables and other liabilities which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, liquidity risk, and foreign currency risk. The Company's Enterprise Wide Risk Management Program identifies these risks based on the likelihood of occurrence and impact to the business,



formulates risk management strategies, assesses risk management capabilities and continuously monitors the risk management efforts. The BOD's Risk Committee reviews and promulgates policies for managing each of these risks as summarized below.

Credit risk

The Company's geothermal and power generation business trades with only one major customer - the NPC, a government-owned-and-controlled corporation. Any failure on the part of NPC to pay its obligations to the Company would significantly affect the Company's business operations. The Company monitors closely its collection with NPC. Receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is not significant. The maximum exposure of trade receivable is equal to the carrying amount.

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents, non-trade and other receivables, AFS financial assets, deferred royalty fee and cash collateral on PCIR bonds, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company trades only with recognized, creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness and which have passed the financial evaluation and accreditation of the Company.

The table below shows the Company's aging analysis of past due but not impaired receivables as of December 31, 2007:

In thousand Pesos	Neither past due nor impaired	Past due but not impaired				Past due or impaired	Total
		Less than 30 days	31 days to 1 year	Over 1 year up to 3 years	Over 3 years		
Trade receivables	₱4,297,225	₱-	₱-	₱-	₱-	₱1,401,809	₱5,699,034
Interest receivable	34,120	-	-	-	-	-	34,120
Due from employees	97,020	-	4,845	1,472	41	-	103,378
Due from contractors/suppliers	18,158	-	12,018	-	-	13,070	43,246
Due from others	43,246	-	417,536	-	-	1,944,116	2,404,898
Total	₱4,489,769	₱-	₱434,399	₱1,472	₱41	₱3,358,995	₱8,284,676

Foreign currency risk

The Company's exposure to foreign currency risk resulted from the financial assets and liabilities that are denominated in U.S. dollar and Japanese yen. This primarily arise from future payments of foreign loans, BOT lease obligations and other commercial transactions and the Company's investment in ROP Bonds.

The Company's exposure to foreign currency risk to some degree is mitigated by some provisions in the Company's geothermal service contracts, steam sales agreements and power purchase agreements. The service contracts allow full cost recovery while the sales contracts include billing adjustments covering the movements in Philippine peso and the US dollar rates, US Price and Consumer Indices, and other inflation factors.



To mitigate the effects of foreign currency risk, the Company will prepay, refinance or hedge its foreign currency denominated loans, whenever deemed feasible.

The Company's foreign currency-denominated financial assets and liabilities (translated in Philippine peso) as of December 31, 2007 are as follows:

	2007			2006		
	Original Currency Yen	US Dollar	Peso Equivalent ¹	Original Currency Yen	US Dollar	Peso Equivalent ²
Current Financial Assets						
Cash equivalents	–	2,757,445	114,188,538	–	5,425,000	266,069,125
Cash on hand and in banks	6,458,189	65,265	5,055,106	4,508,865	497,639	26,266,015
Trade and other receivables	–	1,151,599	49,294,872	–	1,158,735	61,578,524
Investment in AFS securities	–	–	–	–	–	–
Quoted investments	–	–	–	–	–	–
Government debt securities	–	28,436,647	1,177,589,987	–	27,357,563	1,341,751,679
Total Current Financial Assets	6,458,189	32,410,956	1,346,128,503	4,508,865	34,438,937	1,695,665,343
Total Financial Assets	6,458,189	32,410,956	1,346,128,503	4,508,865	34,438,937	1,695,665,343

	2007			2006		
	Original Currency Yen	US Dollar	Peso Equivalent ¹	Original Currency Yen	US Dollar	Peso Equivalent ²
Current Financial Liabilities						
Trade and other payables	–	1,817,746	75,274,681	1,017,262,067	4,427,423	636,631,670
Due to parent companies	–	–	–	45,067,955	1,555,445	90,639,645
Current portion of interest-bearing financial liabilities	680,746,571	972,410,217	1,653,156,788	1,854,675,232	95,185,940	5,433,207,555
Total Current Financial Liabilities	680,746,571	974,227,963	1,728,431,469	2,917,005,254	101,168,808	6,160,478,870
Noncurrent Financial Liabilities						
Interest-bearing financial liabilities - net of current portion	17,929,855,693	3,130,957,335	21,060,813,028	51,197,880,324	233,431,062	32,561,114,727
Total Noncurrent Financial Liabilities	17,929,855,693	3,130,957,335	21,060,813,028	51,197,880,324	233,431,062	32,561,114,727
Total Financial Liabilities	18,610,602,264	4,105,185,298	22,789,244,497	54,114,885,578	334,599,870	38,721,593,597

¹USD1=JPY113.688 and USD1= ₱41.411

²USD1=JPY118.934 and USD1= ₱49.045



The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and Japanese yen exchange rates, with all other variables held constant, of the Company's profit before tax as at December 31, 2007.

	Foreign currency appreciates (depreciates) by	Effect on profit before tax
USD	PHP0.50	(40,283,248)
	(PHP3.00)	241,699,488
JPY	PHP0.010	(505,302,869)
	(PHP0.003)	162,559,770

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates and AFS investments.

The interest rates of some of the Company's long-term borrowings, AFS debt investments and finance leases (to which the Company is a lessee) are fixed at the inception of the loan agreement and/or lease.

The Company regularly evaluates its interest rate risk by taking into account the cost of qualified borrowings being charged by its creditors. Prepayment, refinancing or hedging the risks are undertaken when deemed feasible and advantageous to the Company.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax and equity as of December 31, 2007.

	Increase/decrease in basis points	Effect on profit before tax	Effect on Equity
PHP	+25	(461,348)	-
	50	922,696	-
USD	+25	(9,683,970)	(9,759,410)
	50	19,367,940	19,888,289
JPY	+10	(2,476,908)	-
	10	2,476,908	-

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Company manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Company regularly evaluates and considers the maturity of both its financial investments and financial assets (e.g. trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured



placements are not enough to meet its daily working capital requirements. To ensure immediate availability of short-term borrowings, the company maintains credit lines with banks on a continuing basis.

The table below summarizes the maturity analysis of the Company's financial liabilities at December 31, 2007 based on contractual undiscounted payments:

In Thousand Pesos	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
2007							
Trade and other payables	₱-	₱3,032,940	₱604,431	₱411	₱-	₱-	₱3,637,782
Trade payables	-	2,787,413	604,431	411	-	-	3,392,255
Accrued interest and guarantee fees	-	139,924	-	-	-	-	139,924
Withholding and other taxes payable	-	56,557	-	-	-	-	56,557
SSS and other contributions	-	38,921	-	-	-	-	38,921
Deferred credits	-	6,298	-	-	-	-	6,298
Miscellaneous current liabilities	-	3,827	-	-	-	-	3,827
Royalty fee payables	-	306,274	50,000	100,000	1,503,244	-	1,959,518
Liability to power plant contractors	-	66,436	66,436	132,872	100,348	-	366,092
Long-term debt	-	264,201	1,425,032	1,305,986	19,906,853	3,113,768	26,015,840
Total	₱-	₱3,669,851	₱2,145,899	₱1,539,269	₱21,510,445	₱3,113,768	₱31,979,232

In Thousand Pesos	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
2006							
Trade and other payables	₱-	₱5,120,778	₱942,721	₱365,566	₱-	₱-	₱6,429,065
Trade payables	-	3,994,144	942,721	365,566	-	-	5,302,431
Accrued interest & guarantee fees	-	1,011,270	-	-	-	-	1,011,270
Withholding and other taxes payables	-	95,908	-	-	-	-	95,908
SSS and other contributions	-	5,454	-	-	-	-	5,454
Deferred credits	-	6,847	-	-	-	-	6,847
Miscellaneous current liabilities	-	7,155	-	-	-	-	7,155
Royalty fee payables	-	374,645	50,000	100,000	1,816,946	-	2,341,591
Liability to power plant contractors	-	1,111,477	1,109,923	683,382	434,681	-	3,339,463
Long-term debt	-	1,020,393	1,459,594	3,193,621	31,065,801	4,106,251	40,845,660
Total	₱-	₱7,627,293	₱3,562,238	₱4,342,569	₱33,317,428	₱4,106,251	₱52,955,779



Financial assets and financial liabilities

Fair value

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations without deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.

Set out below is a comparison of carrying amounts and fair values of the Company's financial instruments as of December 31, 2007 and 2006.

Financial assets	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	₱2,797,581,577	₱2,797,581,577	₱10,032,415,184	₱10,032,415,184
Trade and other receivables	4,925,681,584	4,925,681,584	4,355,257,059	4,355,257,059
Due from affiliated companies	–	–	4,785,103	4,785,103
AFS investments (debt investments)	1,177,589,987	1,177,589,987	1,341,751,679	1,341,751,679
AFS investments (equity investments)	16,410,656	16,410,656	12,146,829	12,146,829
Derivative assets	–	–	344,000,987	344,000,987
	₱8,917,263,804	₱8,917,263,804	₱16,090,356,841	₱16,090,356,841

Financial liabilities	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Trade and other payables	₱3,637,782,267	₱3,637,782,267	₱6,429,065,264	₱6,429,065,264
Due to PNOG	–	–	350,844,177	350,844,177
Royalty fee payable	1,733,927,164	2,083,225,515	1,944,322,923	2,129,184,108
Long-term debt	23,092,378,906	21,231,466,800	36,831,709,967	30,577,653,733
	₱28,464,088,337	₱26,952,474,582	₱45,555,942,331	₱39,486,747,282

The methods and assumptions used by the Company in estimating the fair value of financial instruments are:

Cash and other cash equivalents

Carrying amounts approximate fair values.

Trade and other receivables, due from affiliated companies, trade and other payables

These are instruments with relatively short maturity. Carrying amounts approximate fair values.



AFS investments

Fair values of debt securities are based on quoted market prices. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments

Fair values are estimated based on prices derived using the binomial pricing methodology.

Long-term debt and royalty fee payable

Fair values are estimated using the discounted cash flow methodology using the Company's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any.

The Company classifies its financial instruments in the following categories.

2007	Cash	Loans and Receivables	AFS	Derivative Assets	Liabilities at Amortized Cost	Total
FINANCIAL ASSETS						
Cash and cash equivalents	₱2,797,581,577	₱-	₱-	₱-	₱-	₱2,797,581,577
Trade and other receivables	-	4,351,678,817	-	-	-	4,351,678,817
Trade receivable - net	-	4,297,224,927	-	-	-	4,297,224,927
Loans and notes receivable (included in Other receivables)	-	54,453,890	-	-	-	54,453,890
AFS investments (equity investments)	-	-	16,410,656	-	-	16,410,656
Quoted	-	-	16,336,106	-	-	16,336,106
Unquoted	-	-	74,550	-	-	74,550
AFS investments (debt investments)	-	-	1,177,589,987	-	-	1,177,589,987
Quoted	-	-	1,177,589,987	-	-	1,177,589,987
FINANCIAL LIABILITIES						
Accounts payable - trade	-	-	-	-	3,392,254,846	3,392,254,846
Royalty fee payable	-	-	-	-	1,733,927,166	1,733,927,166
Long-term debt	-	-	-	-	23,092,378,906	23,092,378,906
Total	₱2,797,581,577	₱4,351,678,817	₱1,194,000,643	₱-	₱28,218,560,918	₱36,561,821,955

2006	Cash	Loans and Receivables	AFS	Derivative Assets	Liabilities at Amortized Cost	Total
FINANCIAL ASSETS						
Cash and cash equivalents	₱10,032,415,184	₱-	₱-	₱-	₱-	₱10,032,415,184
Trade and other receivables	-	4,259,439,729	-	-	-	4,259,439,729
Trade receivable - net	-	4,232,642,072	-	-	-	4,232,642,072
Loans and notes receivable (included in Other receivables)	-	26,797,657	-	-	-	26,797,657
Available for sale investments (equity investments)	-	-	12,146,829	-	-	12,146,829
Available for sale investments (debt investments)	-	-	1,341,751,679	-	-	1,341,751,679
Derivative assets	-	-	-	344,000,987	-	344,000,987

(Forward)



2006	Cash	Loans and Receivables	AFS	Derivative Assets	Liabilities at Amortized Cost	Total
FINANCIAL LIABILITIES						
Accounts Payable - trade	₱-	₱-	₱-	₱-	₱5,303,670,215	₱5,303,670,215
Due to PNOC	-	-	-	-	350,844,177	350,844,177
Royalty fee payable	-	-	-	-	1,944,322,923	1,944,322,923
Long-term debt	-	-	-	-	36,831,709,967	36,831,709,967
Total	₱10,032,415,184	₱4,259,439,729	₱1,353,898,508	₱344,000,987	₱44,430,547,282	₱60,420,301,690

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to comply with its financial loan covenants and support its business operations.

The Company manages and makes adjustment to its capital structure as it deems necessary. To maintain or adjust its capital structure, the Company may increase the levels of capital contributions from its creditors and owners/shareholders through debt and new shares issuance, respectively.

The Company monitors capital using the debt to equity ratio, which is long-term liabilities divided by total liabilities plus stockholders' equity. The Company's policy is to keep the debt to equity ratio not more than 70:30. The Company's long-term liabilities include royalty fees payable (net of current portion), obligations to power plant contractors (net of current portion), long-term debt (net of current portion), retirement benefit obligation and other long-term liabilities. Total liabilities are current liabilities (which includes trade and other payables, income tax payable, current portion of long-term debt and obligations to power plant contractors) plus long-term liabilities. Equity includes capital stock attributable to common and preferred shares, unrealized gains reserve and retained earnings.

Table below shows the Company's debt to equity ratio as at December 31, 2007 and 2006.

	2007	2006
Current liabilities	₱6,791,327,461	₱13,750,239,296
Noncurrent liabilities	23,426,126,799	36,267,510,508
Stockholders' equity	34,853,280,606	27,374,712,978
Debt to equity ratio	36.0%	46.9%



43. Commitments and Contingencies

Stored Energy

On various dates, the Company entered into Addendum Agreements to the PPA for the Unified Leyte and GRSC for BacMan 2 projects, where any excess generation above the nominated energy or take-or-pay volume will be credited against payments made by NPC for the periods it was not able to take electricity or steam, where applicable. As of December 31, 2007, the commitment for stored energy follows (in gigawatt-hours):

Unified Leyte	4,326.6
BacMan 2 - Cawayan	306.1

44. Prior Period Adjustments

The financial statements for 2006 and 2005 have been restated to effect the following prior period adjustments:

In million pesos

	Effect on retained earnings as of January 31, increase (decrease)		
	2007	2006	2005
Adjustment in provision for taxes	(P615.74)	(P451.65)	(P379.65)
Adjustment in accounting for financial instruments and embedded derivatives	(963.92)	(203.83)	(338.63)
Net effect of recognition and reversal of expenses	1.69	(571.55)	-
	(P1,577.97)	(P1,227.03)	(P718.28)

These corrections including effects of early adoption of Philippine Interpretation IFRIC 12 brought about an increase in net income in 2006 by P80.42 million and a decrease of P741.93 million in 2005's net income. Relatively, these adjustments resulted in an increase and a decrease of the basic/diluted earnings per share in 2006 and 2005 by P0.007 per share and P0.062 per share, respectively.



**Independent Auditors' Report
On Supplementary Schedules**

The Stockholders and the Board of Directors
PNOC Energy Development Corporation
Energy Complex, Merritt Road
Fort Bonifacio, Taguig

We have audited in accordance with auditing standards generally accepted in the Philippines, the financial statements of PNOC Energy Development Corporation included in this Form 17-A and have issued our report thereon dated January 22, 2008. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code (SRC) Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Ladislao Z. Avila, Jr.

Partner

CPA Certificate No. 69099

SEC Accreditation No. 0111-AR-1

Tax Identification No. 109-247-891

PTR No. 0017573, January 3, 2008, Makati City

January 22, 2008



PNOC ENERGY DEVELOPMENT CORP.

**INDEX TO SUPPLEMENTARY SCHEDULES
Form 17-A, Item 7**

Supplementary Schedules

- A. Marketable Securities – (Current Marketable Equity Securities and Other Short-Term Cash Investments) *
- B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
- C. Non-Current Marketable Equity Securities, Other Long-Term Investment in Stocks, and other Investments *
- D. Indebtedness of Unconsolidated Subsidiaries and Related Parties *
- E. Intangible Assets – Other Assets
- F. Long-Term Debt
- G. Indebtedness to Related Parties (Long-Term Loan from Related Companies) *
- H. Guarantees of Securities of Other Issuers *
- I. Capital Stock

* Not Applicable

PNOG ENERGY DEVELOPMENT CORPORATION

SCHEDULE A - MARKETABLE SECURITIES

(Current Marketable Securities and Other Short-Term Cash Investments)

Name of Issuing Entity	Principal Amount in Original Currency	Principal Amount in Peso	Amount per Balance Sheet	Market Price	Interest Received & Accrued Income
		NOT APPLICABLE			

PNOC ENERGY DEVELOPMENT CORPORATION**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES
AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

As of December 31, 2007

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Accounts Written-off	Current	Not Current	Balance at End of Period
Employees	27,191,129	14,053,600	12,910,695	-	28,334,034	-	28,334,034
Directors	1,204,328	-	170,000	-	1,034,328	-	1,034,328
TOTAL	28,395,457	14,053,600	13,080,695	-	29,368,362	-	29,368,362

Note: The Company keeps the information on the name & designation of employees and other details confidential. As per written agreement with the concerned employees, any outstanding balance at the time of retirement shall be deducted from the retirement benefit proceeds.

PNOC ENERGY DEVELOPMENT CORPORATION

SCHEDULE C - NON-CURRENT MARKETABLE EQUITY SECURITIES,

OTHER LONG-TERM INVESTMENTS IN STOCK, AND OTHER INVESTMENTS

Name of Issuing Entity & Description of Investment	Number of shares or principal amount of bonds	Amount in Pesos	Equity in earnings (losses) of investees for the period	Other	Number of shares or principal amounts of bonds	Amounts in Pesos	Dividends received from investments not accounted for by the equity method
			NOT APPLICABLE				

PNOG ENERGY DEVELOPMENT CORPORATION

SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND RELATED PARTIES

Name of Related Parties	Balance at beginning of period	Balance at end of period
	NOT APPLICABLE	

PNO ENERGY DEVELOPMENT CORPORATION
SCHEDULE E - INTANGIBLE ASSETS - OTHER ASSETS
As of December 31, 2007

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
NNGP Service Concession Intangible Asset	8,794,316,944	108,813,951	164,294,068			8,738,836,827

Note:

The Company recognized an intangible asset for the right to charge users of the electrical energy produced by its Northern Negros Geothermal Project. This is in line with PNO EDC's early adoption of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, on its service concession and related arrangements.

The intangible asset is valued based on the fair value of the Company's construction services for its Northern Negros Geothermal Project recognized on a percentage-of-completion basis and is being amortized over the term of the related Geothermal Service Contract.

PNO ENERGY DEVELOPMENT CORPORATION
SCHEDULE F - LONG-TERM DEBT
As of December 31, 2007

Title of Issue and Type of Obligation	Amount Authorized by Indenture		Current Portion of Long-Term Debt		Long-Term Debt (Net of Current Portion)		Interest Rate	Amount and Number of Periodic Payments			Maturity Date	
	(In original currency)	(In PhP)	(In original currency)	(In PhP)	(In original currency)	(In PhP)		(In original currency)	(Approx in PhP)			
Foreign Loans:												
IBRD 3164	\$ 99,932,225	3,061,845,380	\$ 11,306,230	468,202,304	\$ 20,759,307	859,663,654	1/2 of 1% over cost of qualified borrowings	(ave) \$ 3,331,074	137,943,113	30 semi-annual payments	April 15, 2010	
IBRD 2969	\$ 41,000,000	1,003,859,529	\$ 4,405,000	182,415,455	\$ 760,717	31,502,032	1/2 of 1% over cost of qualified borrowings	(ave) \$ 1,366,667	56,595,033	30 semi-annual payments	August 1, 2008	
IBRD 3702	\$ 53,031,933	1,149,447,563	\$ 3,894,400	161,270,998	\$ 24,947,579	1,033,104,198	1/2 of 1% over cost of qualified borrowings	(ave) \$ 1,767,731	73,203,512	30 semi-annual payments	November 15, 2013	
IBRD 3747 - \$	\$ 55,158,206	1,600,281,535	\$ 3,876,300	160,521,459	\$ 28,811,387	1,193,108,360	1/2 of 1% over cost of qualified borrowings	(ave) \$ 1,838,607	76,138,549	30 semi-annual payments	March 15, 2014	
IBRD 3747 - ¥	¥ 6,157,654,410	1,640,911,351	¥ 413,354,000	150,564,672	¥ 2,253,780,410	820,942,120	3.5% / 3.85%	(ave) ¥ 205,255,147	74,764,425	30 semi-annual payments	March 15, 2014	
OECF 8th Yen	¥ 6,561,412,998	1,292,240,000	¥ 356,936,598	130,014,568	¥ 679,372,109	247,462,076	3% / 3.2%	¥ 142,476,699	51,897,302	41 semi-annual payments	June 20, 2010	
						-		¥ 35,991,600	13,109,982	20 semi-annual payments	January 31, 2012	
OECF 9th Yen	¥ 8,516,352,319	2,104,600,000	¥ 415,430,000	151,320,858	¥ 1,038,575,000	378,302,144	3%	¥ 207,715,000	75,660,429	41 semi-annual payments	June 20, 2011	
OECF 15th Yen	¥ 3,181,768,195	721,408,047	¥ 155,206,314	56,534,079	¥ 1,629,666,297	593,607,833	5.7%	¥ 77,603,157	28,267,040	41 semi-annual payments	May 20, 2019	
OECF 18th Yen	¥ 77,377,486	18,883,164	¥ 3,774,460	1,374,851	¥ 54,729,672	19,935,346	3%+2.5%	¥ 1,887,230	687,426	41 semi-annual payments	January 20, 2023	
OECF 19th Yen	¥ 320,145,638	74,640,000	¥ 15,614,000	5,687,418	¥ 249,824,000	90,998,681	4.9%	¥ 7,807,000	2,843,709	41 semi-annual payments	December 20, 2024	
OECF 21st Yen	¥ 10,425,977,324	4,299,364,022	¥ 508,578,000	185,250,124	¥ 9,408,693,000	3,427,127,291	2.7% / 2.3%	¥ 254,292,130	92,626,202	41 semi-annual payments	March 20, 2027	
IBJ/PCIRB	\$ 327,910	8,402,240			\$ 327,910	13,579,092	4 1/4% to 6 1/2%	\$ 327,910	13,579,092	bullet payment	December 1, 2017	
Miyazawa I	¥ 12,000,000,000	3,956,379,310			¥ 12,000,000,000	4,361,906,427	Tranche A = 3.78% Tranche B = 1.6% + LIBOR	¥ 12,000,000,000	4,371,013,872	bullet payment	June 1, 2009	
Miyazawa II	¥ 22,000,000,000	9,007,934,562			¥ 22,000,000,000	7,738,708,292	2.37%	¥ 22,000,000,000	8,013,525,432	bullet payment	June 26, 2010	

PNOG ENERGY DEVELOPMENT CORPORATION

SCHEDULE F - LONG-TERM DEBT

As of December 31, 2007

Title of Issue and Type of Obligation	Amount Authorized by Indenture		Current Portion of Long-Term Debt		Long-Term Debt (Net of Current Portion)		Interest Rate	Amount and Number of Periodic Payments			Maturity Date
	(In original currency)	(In PhP)	(In original currency)	(In PhP)	(In original currency)	(In PhP)		(In original currency)	(Approx in PhP)		
Domestic Loan: Land Bank of the Philippines		1,500,000,000	P 378,409,091	378,409,091	-	-	Ave 91-day T-bill + 2%		112,500,000 13,636,364	12 quarterly payments 11 quarterly payments	August 29, 2008
TOTAL				2,031,565,879		20,809,947,547					

PNOG ENERGY DEVELOPMENT CORPORATION
SCHEDULE G - INDEBTEDNESS TO RELATED PARTIES
(Long-Term Loans from Related Companies)

Name of related party	Balance at beginning period	Balance at end of period
	NOT APPLICABLE	

PNOC ENERGY DEVELOPMENT CORPORATION
SCHEDULE H - GUARANTEES OF SECURITIES OF OTHER ISSUERS

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
		NOT APPLICABLE		

PNOG ENERGY DEVELOPMENT CORPORATION

SCHEDULE I - CAPITAL STOCK

As of December 31, 2007

Title of Issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by Directors, officers and employees
Common Stock	15,000,000,000	15,000,000,000	0	6,000,000,000 (40%)	4,693,504 (0.03%)
Preferred Stock	7,500,000,000	7,500,000,000	0	7,500,000,000	N/A