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July 5, 2010

JANET A. ENCARNACION
HEAD, Disclosures Department
Philippine Stock Exchange
Tektite Building, Ortigas Center
Pasig City

Dear Ms. Encarnacion:

In compliance with the PSE disclosure requirement, we submit the attached Notice of Annual Stockholders' Meeting and SEC Form 20-IS (Definitive Information Statement).

Very truly yours,

A handwritten signature in blue ink, appearing to read "Erudito S. Recio", is written over a vertical blue line that extends downwards from the signature area.

Erudito S. Recio
Investor Relations Manager &
Company Information Officer



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NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To All Stockholders:

Please be advised that the annual meeting of the stockholders of Energy Development Corporation will be held on July 29, 2010, at 10:00 a.m. at the principal office of the Corporation located at Building 5, Energy Center, Merritt Road, Fort Bonifacio, Taguig City.

The following is the agenda of the meeting:

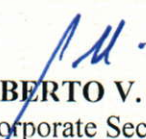
1. Call to order
2. Proof of notice and certification of quorum
3. Approval of minutes of previous stockholders' meeting
4. Management's report and audited financial statements
5. Ratification of acts of management
6. Amendment of corporate name
7. Election of directors
8. Appointment of external auditors
9. Other matters
10. Adjournment

For purposes of the meeting, stockholders of record as of May 7, 2010 are entitled to notice of and to vote at the said meeting. Registration for the said meeting begins at 8:30 a.m. For convenience in registering your attendance, please have available some form of identification, such as a driver's license, voter's ID, TIN card, SSS card or passport.

If you will not be able to attend the meeting but would like to be represented thereat, you may submit your proxy form, duly signed and accomplished, to the Office of the Corporate Secretary at the head office of Energy Development Corporation, Building 5, Energy Center, Merritt Road, Fort Bonifacio, Taguig City, on or before July 19, 2010. Beneficial owners whose shares are lodged with PDTC or registered under the name of a broker, bank or other fiduciary allowed by law must, in addition to the required I.D., present a notarized certification from the owner of record that he is the beneficial owner, indicating thereon the number of shares. Corporate shareholders shall likewise be required to present a notarized secretary's certificate attesting to the authority of its representative to attend and vote at the stockholders' meeting.

Validation of proxies will take place on July 23, 2010 at the office of the Company's stock transfer agent.

Taguig City, Metro Manila, Philippines, June 29, 2010.


ROBERTO V. SAN JOSE
Corporate Secretary

ENERGY DEVELOPMENT (EDC) CORPORATION
Annual Stockholders' Meeting
July 29, 2010

PART I: INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting of Security Holders:

The annual stockholders' meeting of **ENERGY DEVELOPMENT (EDC) CORPORATION** (hereafter the "Registrant" or "Company") will be held on **July 29, 2010** at 10:00 a.m. at the Company's head office located at Building 5, Merritt Road, Fort Bonifacio, Taguig City, Metro Manila, Philippines.

The complete mailing address of the principal office of the Registrant is P.O. Box 2102 Makati City Post Office, Makati City.

The approximate date when the information statement and proxy form will be first sent to security holders will be on **July 8, 2010**.

Item 2. Dissenters' Right of Appraisal

There are no matters to be taken up during the annual stockholders' meeting with respect to which the law allows the exercise of appraisal right by any dissenting stockholder. The Corporation Code limits the exercise of the appraisal right only in the following instances:

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of share, or of authorizing preferences in respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);
- b. In case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets (Section 81);
- c. In case of merger or consolidation (Section 81);
- d. In case of investments in another corporation, business or purpose (Section 42).

Since the matters to be taken up do not include any of the foregoing, the appraisal right will not be available.

However, if at any time after this Information Statement has been sent out, an action which may give rise to the right of appraisal is proposed at the meeting, any stockholder who votes against the proposed action and who wishes to exercise such right must make a written demand, within thirty (30) days after the date of the meeting or when the vote was taken, for the payment of the fair market value of his shares. Upon payment, he must surrender his certificates of stock. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.

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

No member of the Board of Directors or executive officer since the beginning of the last fiscal year, or nominee for election as director, or their associates, has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

No director has informed the Company in writing or otherwise that he intends to oppose any action to be taken up at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

The record date for the purpose of determining the stockholders entitled to notice of, and to vote at the Annual Stockholders' Meeting is **May 7, 2010**.

As of record date May 7, 2010, there are 18,750,000,000 outstanding unclassified common shares and 9,375,000,000 unclassified preferred shares entitled to notice and to vote at the meeting. A common or preferred share is entitled to one (1) vote each.

The election of directors for the current year will be taken up and all stockholders have the right to cumulate their votes in favor of their chosen nominees for director in accordance with Section 24 of the Corporation Code. Section 24 provides that a stockholder, may vote such number of shares registered in his name as of the record date for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The total number of votes cast by such stockholder should not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

Security Ownership of Certain Record and Beneficial Owners and Management

1) Persons Known to the Registrant to be Directly or Indirectly the Record or Beneficial Owner of More than 5% of Any Class of the Registrant's Voting Securities:

As of record date May 7, 2010, the Registrant has no knowledge of any individual or any party who beneficially owns more than 5% of its outstanding common stock except as set forth in the table below:

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	7,500,000,000 9,375,000,000	40.00% 100.00%
Common	PCD Nominee Corporation (Foreign) *	There are no beneficial owners of more than 5% of the outstanding shares. The Company has not received any proxy to vote shares lodged under	Foreign	7,840,226,142	41.81%

		PCD.			
Common	PCD Nominee Corporation (Filipino) *	There are no beneficial owners of more than 5% of the outstanding shares. The Company has not received any proxy to vote shares lodged under PCD.	Filipino	2,986,071,471	15.92%
Common	First Gen Corporation 3 rd Floor Benpres Bldg., Exchange Road cor. Meralco Ave., Pasig City Affiliate	Beneficial Owner of more than 5% - First Gen Corporation (1,043,643,750 common shares – 5.57%, inclusive of 585,000,000 common shares of stock covered by Call Option Agreements with Philplans First, Inc., Rescom Developers, Inc., Philhealthcare, Inc., and Systems Technology Institute, Inc. under which First Gen has been granted the right to vote the said shares)	Filipino	1,043,643,750	5.57%

* 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.

2) Security Ownership of Management (as of record date May 7, 2010):

Title of Class	Name of Beneficial Owner	Amount and	Nature of Class	Citizenship	Percent of Class
Directors					
Common	Oscar M. Lopez	12,501	Direct	Filipino	0.000%
Common	Paul A. Aquino	125,001	Direct	Filipino	0.001%
Common	Peter D. Garrucho, Jr.	5,670,000	Direct	Filipino	0.030%
Common	Federico R. Lopez	3,982,501	Direct	Filipino	0.021%
Common	Richard B. Tantoco	1,125,001	Direct	Filipino	0.006%
Common	Francis Giles B. Puno	367,501	Direct	Filipino	0.002%
Common	Ernesto B. Pantangco	37,501	Direct	Filipino	0.000%
Common	Jonathan C. Russell	2,513,751	Direct	British	0.013%
Common	Vicente S. Perez, Jr.	12,501	Direct	Filipino	0.000%
Common	Francis G. Estrada	1	Direct	Filipino	0.000%
Common	Cesar V. Purisima	1	Direct	Filipino	0.000%

Title of Class	Name of Beneficial Owner	Amount and	Nature of Class	Citizenship	Percent of Class
Key Executive Officers					
Common	Agnes C. De Jesus	125,000	Direct	Filipino	0.001%
Common	Anthony M. Mabasa	300,000	Direct	Filipino	0.002%
Common	Regina Pia B. Go	0	-	Filipino	0.000%
Common	Marcelino M. Tongco	187,500	Direct	Filipino	0.001%
Common	Manuel S. Ogena	686,251 215,625	Direct Indirect	Filipino Filipino	0.004% 0.001%
Common	Danilo C. Catigtig	62,500	Direct	Filipino	0.000%
Common	Glenn I. Funk	0	-	Filipino	0.000%
Common	Ernesto G. Espinoa	0	-	Filipino	0.000%
Common	Vincent Martin C. Villegas	500	Direct	Filipino	0.000%
Common	Roberto V. San Jose	1,250,000	Direct	Filipino	0.007%
Common	Ana Maria Katigbak-Lim	0	-	Filipino	0.000%
Common	Michael R. Rodriguez	241,250	Direct	Filipino	0.001%
Common	Francisco A. Palafox	3,001	Direct	Filipino	0.000%
Common	Erudito S. Recio	0	-	Filipino	0.000%
Common	Theresa P. Mañalac	0	-	Filipino	0.000%

As of record date May 7, 2010, the total number of shares owned by the Directors and key executive officers is 16,917,887 or 0.090% of total outstanding common shares.

(3) Voting Trust Holder of 5% or more

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

(4) Changes in control

No change in control of the Registrant has occurred since the previous fiscal year.

Item 5. Directors and Executive Officers

The following are the directors and executive officers of the Company, each having a term of one (1) year and to serve as such until their successors are elected and qualified, and their respective positions, ages and business experience in the past five years.

Directors

Oscar M. Lopez, 80

Mr. Lopez, Filipino, is the Chairman of the Company since November 2007. He is also Chairman of First Luzon Geothermal Energy Corporation (FLGEC) and Green Core Geothermal, Inc. (GCGI). He is Chairman Emeritus of First Philippine Holdings Corp. (FPHC) and all member-companies of the First Gen and First Gas groups 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.

A staunch supporter of corporate social responsibility, Mr. Lopez is involved in a number of social concerns – he is chairman of the Eugenio Lopez Foundation and the Lopez Group Foundation. Mr. Lopez was a recipient of MAP's Management Man of the Year Award for 2000; he was awarded the Officer's Cross of the Order of Merit of the Federal Republic of Germany (the very first time a Filipino businessman received this highest award that Germany confers). In 2006 he was honored in Monaco with the IMD-Lombard Odier Hentsch Distinguished Family Award for

“an outstanding commitment on philanthropy for the family’s achievement in excellence such as the clarity and sustainability of their social endeavors, exemplary corporate governance, a focus on family values, and the involvement of multiple generations.” He is a recipient of The Outstanding Filipino (TOFIL) Award in the field of Business for the year 2009.

Mr. Lopez has a Master’s 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, 67

Mr. Aquino, Filipino, is the Company’s Vice Chairman since July 2009 and CEO since February 2004. He is a Director of the Company and of First Gen Hydro Power Corporation, and an Independent Director of EastWest Bank. 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. He also serves as an Honorary Consul of the Republic of Malta. Since joining the Company, Mr. Aquino has raised EDC’s CSR program one notch higher with the “Schools for Excellence” project in Leyte, the “Energy Camp” in all project sites and the Kananga-EDC Institute of Technology (KEITECH) in Leyte.

Mr. Aquino holds a Bachelor of Arts degree from the Ateneo de Manila University, Philippines. From the Santa Clara University in California, he finished his Master in Business Administration and Bachelor of Science in Electrical Engineering.

Peter D. Garrucho, Jr., 65

Mr. Garrucho, Filipino, has been a Director of the Company since November 2007. He sits in the boards of First Gen, FPHC, First Private Power Corporation (FPPC), First Gas Holdings Corporation (FGHC), First Gas Power Corporation (FGPC), First Gas Pipeline Corp. (FGPipeline), FGP Corp., FGLand Corp., First Gen Renewables, Inc. (FGRI), First Gen Luzon Power Corp. (FGLuzon), FG Bukidnon Power Corp., Allied Gen Power Corp. (AlliedGen), First NatGas Power Corporation (FNPC), First Gen Geothermal Power Corp., First Gen Hydro Power Corporation, 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., First Gen Visayas Energy Inc., First Gen Prime Energy Corp. and FLGEC. 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 earned his AB-BSBA degree from the De La Salle University (1966) and his Master in Business Administration degree from Stanford University (1971).

Federico R. Lopez, 48

Mr. Lopez, Filipino, has been a Director of the Company since November 2007. He is the Chairman and CEO of FPHC, First Private Power Corp., Bauang Private Power Corp., FGPC, FGP, FGHC, AlliedGen, Unified Holdings Corp., FNPC, FGLand, FGPipeline, First Gen, FGLuzon, FG Bukidnon 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 Holdings Corp., First Gen Visayas Energy Inc., and First Gen Prime Energy Corp. He is Vice Chairman and CEO of FLGEC and GCGI. He is a member of the boards of ABS-CBN Broadcasting Corporation, FLGEC and GCGI. He is also President of First Philippine Conservation, Inc.

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, 43

Mr. Tantoco, Filipino, has been a Director of the Company since November 2007. He assumed the position of President and Chief Operating Officer (COO) of the Company in July 2009. He is also President and COO of FLGEC, GCGI, and all member-companies of the First Gas group of companies. He is Executive Vice-President of First Gen, FGLuzon, FG Bukidnon, 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, First Gen Visayas Energy Inc., and First Gen Prime Energy Corp. 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 the Ateneo de Manila University where he graduated with honors (1988).

Francis Giles B. Puno, 45

Mr. Puno, Filipino, has been a Director of the Company since November 2007. He is the President and COO of the First Gen group of companies, the Executive Vice-President and Chief Financial Officer (CFO) of the First Gas group of companies, and Senior Vice-President and CFO of FPHC. He sits in the boards of FLGEC, GCGI, FPPC and Bauang Private Power Corp., Red Vulcan, FG Bukidnon, FGLuzon, 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., FGHC, FGPC, FGP, AlliedGen, FNPC, FGLand, FGPipeline, and First Gen Renewables, Inc. 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 the Ateneo de Manila University (1985).

Ernesto B. Pantangco, 59

Mr. Pantangco, Filipino, has been a Director of the Company since November 2007. He was elected Executive Vice President of the Company on May 21, 2008. He is Executive Vice President of FLGEC, GCGI, and First Gen, and President and CEO of FPPC and BPPC. He also sits in the boards of FLGEC, GCGI, FGLuzon, FG Bukidnon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., and First Gen Mindanao Hydro Power Corp. He is Senior Vice-President of FGHPC and First Gen Northern Energy Corp., and Executive Vice President of First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., FGLuzon, and Red Vulcan. He is also President of the Philippine Independent Power Producers Association (PIPPA) for the last seven years.

Mr. Pantangco has a Bachelor of Science in Mechanical Engineering degree from the De La Salle University (1973) and Master of Business Administration degree from the 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, 45

Mr. Russell, British, has been a Director of the Company since November 2007. He is also a Director of GCGI. He is Executive Vice President of First Gen. He was previously Vice-President of Generation Ventures Associates (GVA), an international developer of independent power projects based in Boston, USA, responsible for the development of 1,720 MW of IPP projects in Asia. Prior to joining GVA, he worked for BG plc based in London and Boston, responsible for the development of power and natural gas distribution projects.

Mr. Russell has an MBA with Distinction in International Business & Export Management from the City University Business School, London, England (1989) and a Bachelor of Science with Honours in Chemical & Administrative Sciences from the City University, London, England (1987).

Francis G. Estrada, 60

Mr. Estrada, Filipino, has been an Independent Director of the Company since January 2008. He is a Triple A awardee and is the first alumnus to serve as president of Asian Institute of Management (AIM) from May, 2006 to April, 2009. He serves as independent director/adviser to thirteen “for profit” and “not for profit” institutions in the Philippines and overseas. These include: Ayala Land Inc (ALI), the Philippine American Life Insurance Corporation (“Philamlife”), Rizal Commercial Banking Corporation (“RCBC”), De La Salle University (where he serves as Chairman of the Board of Trustees), the Philippine Military Academy (where he serves as Chairman of the Board of Visitors), the Antai School of Economics and Management of the Jiao Tong University in Shanghai and the Graduate School of Management at the Universiti Putri Malaysia. He is also a co-founder and trustee of the Institute of Corporate Directors.

For over 36 years (22 years of which were spent 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 the De La Salle University (1971).

Vicente S. Pérez, Jr., 51

Mr. Pérez, Filipino, has been an Independent Director of the Company since June 2007. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is a director of Nido Petroleum, ST Telemedia (a Temasek company), Northwind Power (the first commercial wind farm in Southeast Asia) and SM Investments Corporation. He is also a member of the Advisory Board of Coca-cola Bottlers Philippines and the Advisory Board of the Center for Business and the Environment at Yale University. He is CEO of Alternergy Partners, a renewable power company, and is chairman of Merritt Partners, an energy advisory firm. In 2000 he founded Asian Conservation Company which acquired El Nido Resorts, an eco-tourism destination in Palawan. He was the youngest Secretary of the Department of Energy. He also served as Undersecretary for Industry at the Department of Trade and Industry and Managing Head of the Board of Investments. Currently, Mr. Pérez is Vice Chairman of the National Renewable Energy Board (NREB). He is Chairman of WWF Philippines and was recently elected to the Board of Trustees of WWF-International.

Mr. Pérez obtained his MBA from the Wharton School of the University of Pennsylvania and his bachelor's degree in Business Economics from the University of the Philippines.

Cesar V. Purisima, 50

Mr. Purisima, Filipino, has been an Independent Director of the Company since July 2009. He is currently Chairman of the Executive Committee of Ciba Capital, Inc. He also sits in the board of LIM Asia Special Situations Master Fund Limited-Hong Kong, Benguet Corporation, Ripple E-Business International Inc. and Prople Inc., a member of the Board of Trustees of De la Salle University and the Makati Business Club. Mr. Purisima served in the government of the Republic of the Philippines as Secretary of the Department of Trade and Industry in 2004 and Secretary of the Department of Finance in 2005.

He has extensive work experience in public accounting both here and abroad. Mr. Purisima was Area Managing Partner as head of the Asia Pacific Assurance Practice of Andersen Worldwide from 2001 to 2002 and was Regional Managing Partner as head of the Asean operation from 2000 to 2001. He was member of the Global Board of Andersen Worldwide from 1999 to 2002 and the Global Executive Board of Ernst & Young from 2002 to 2004. He was Chairman & Managing Partner of SGV & Co until January 2004. He has various memberships in several business organizations including the Management Association of the Philippines, Philippine Institute of Certified Public Accountants, Philippine-France Business Council, Philippine-Thailand Business Council and the Makati Business Club, among others.

Mr. Purisima obtained his Bachelor of Science in Commerce, Majors in Accounting & Management of Financial Institutions from De la Salle University (1979) and his MBA from JL Kellogg Graduate School of Management, Northwestern University in Chicago, Illinois (1983). He was among the top placers in the 1979 Philippine Board Examinations for Certified Public Accountants.

Key Executive Officers

Agnes C. de Jesus, 56 - Senior Vice-President for Environmental and External Relations, and Compliance Officer

Ms. de Jesus, Filipino, joined the Company in 1980 and has held her current position since April 2005. She was appointed as Compliance Officer last March 10, 2010. She is also Vice President of FLGEC and GCGI. She was the head of the Company's Environmental Management Division prior to her current position. She has had extensive experience in environmental and watershed management, government relations, policy formulation, Corporate Social Responsibility (CSR), public relations 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 is also a member of the Board of Consultants of the Kenya Geothermal Program and is an accredited Environmental Assessment Expert of the DENR. On the Corporate Social Responsibility front, she is the Chairman of the Environment Committee of the League of Corporate Foundations (LCF). The LCF is the association of CSR practitioners.

From 2006 to present she has been a Third Party Expert Reviewer of World Bank policies and country reports. She has reviewed the World Bank Country Reports and Safeguards Diagnostic on the Philippine Environmental Impact Statement System, Indigenous Peoples Rights, Involuntary Resettlement and Natural Habitats. Her environmental initiatives are recognized through awards she has given the company. At the personal level, she was one of the Ten Outstanding Pollution Control Officers for 2001 and lately as the EDC Team Leader, the team won the Lopez Achievement Awards on Business Communication and Reputation Building in 2009. Because of

the skills and knowledge of Ms. De Jesus, she was a speaker/lecturer in 15 foreign and 62 local for and has reviewed 20 Environmental Impact Assessment Reports on energy projects.

Ms. de Jesus obtained bachelor and master's degrees in Botany from the University of the Philippines in Diliman and completed the Management Development Program of AIM (1996).

Anthony M. Mabasa, 50 - Senior Vice President, Office of the President

Mr. Mabasa, Filipino, was appointed by the Board in June 2009. Concurrent to his appointment in the Company, he works as Vice President for First Philippine Holdings and serves as member of the board at First Balfour, Inc. He served as President and CEO of Tollways Management Corporation (TMC) from August 1, 2004 to November 12, 2008 and still sits in the Board of Directors of TMC. He also served as member of the board or as key executive officer to various companies including, First Electrodynamics Corp., First Philippine Industrial, Inc., Engineering & Construction Corp. of Asia and Philippine Electric Corp. He has extensive experience in general management with particular strengths in financial rehabilitation, corporate start-ups, restructuring and turnarounds. He also has significant exposure to financial planning, treasury operations, project management, quality, safety and environmental management systems.

Mr. Mabasa obtained a Masters in Business Administration at the University of the Philippines (1995). He graduated with a Bachelor's Degree in Commerce – Management of Financial Institutions from the De La Salle University (1979).

Regina Pia B. Go, 44 - Senior Vice President, Treasurer and Chief Financial Officer

Ms. Go, Filipino, was appointed by the Board in June 2009. Concurrent to her appointment in the Company, she also serves as CFO of FLGEC and GCGI, and Chief Operating Officer of Bauang Private Power Corp. (BPPC) under First Gen Corp. She has worked in various key positions at First Gen Corp. and other companies including Amtrust Financial Consultants, Inc., Amtrust Management, Inc. and CFC/URC Group of Companies.

Ms. Go obtained an Executive Masters in Business Administration with Academic Excellence honors at the Asian Institute of Management (2002). She graduated with a Bachelor's Degree in Management from the Ateneo de Manila (1985)

Marcelino M. Tongco, 55 - Vice-President for Operations

Mr. Tongco, Filipino, has been with the Company since 1979 and has held his current position since April 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 Bachelor of Science in Civil Engineering from the University of Santo Tomas and has pursued master's 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, 53 - Vice-President for Technical Services

Mr. Ogena, Filipino, joined the Company in 1979 and has held his current position since December 2005. He joined the Company as a Geologist and was appointed Supervisor under the Geoscientific department in 1983. He became the Exploration Manager in 1994, the Geoservices Manager in 1997, and Geoscientific Manager in 2003. He has been a regular speaker in various local & international Geothermal Conferences (GRC/WGC), a member of the board of directors of

the International Geothermal Association since May 2006, & the past president of National Geothermal Association of the Philippines.

Mr. Ogena graduated with a BS Geology degree from the University of the Philippines in Diliman in 1977, 8th placer in the Geologist licensure examination, and completed his MS Mechanical Engineering degree (with distinction) from the University of Auckland, New Zealand in 1989. He is also a graduate of the Management Development Program of AIM (1991) and earned his Master's Certificate in Project Management from George Washington University (1995).

Danilo C. Catigtig, 53 - Vice-President for Power Generation

Mr. Catigtig, Filipino, has been with the Company since February 1980 and has held his current position since January 2006. He has performed and supervised 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 Master's Certificate in Project Management from George Washington University (1995) and completed the Management Development Program of AIM (1999).

Glenn I. Funk, 46 – Vice-President for Supply Chain Management

Mr. Funk, Filipino, was appointed by the Board in August 2008. He is also the Vice-President for Supply Chain Management of First Gen. Prior to his appointment in the Company, he worked with Chevron Products, Inc. USA as Regional Procurement Manager for Asia Pacific; Regional Strategic Sourcing Manager for Africa, Middle East and Asia; and ultimately as Global Optimization Manager based in the US. He has a total of 21 years professional experience in Supply Chain and Procurement Management covering diverse global industries such as garment, pharmaceutical, electronics, semi-conductor and oil & gas multinational companies.

Mr. Funk has extensive professional training in Supply Chain Management in USA and UK. He obtained an Advanced Certificate in Supply Chain Management at the Arizona State University, USA (2007), completed the Supply Chain Management Course at the Robert Gordon University, UK (2006), and Category and Value Chain Management in Chevron Texaco Training, USA (2006). Mr. Funk is also a trainee Six-Sigma Black Belt in Supply Chain Management for the Philips Electronics Training Center in Eindhoven, Netherlands. He graduated with an A. B. History Political Science degree from the De La Salle University (1983).

Ernesto G. Espinosa, 58 - Vice-President for Human Resource Management

Mr. Espinosa, Filipino, was appointed by the Board in October 2009. Prior to his appointment in the Company, he worked with Fujitsu Computer Products Corporation of the Philippines as Vice President for Human Resource and General Affairs from 2004 to October 2009, Assistant Vice President from 2000 to 2004 and Director from 1995 to 2000. He is the President of the World Federation of People Management Association since 2008, the first Filipino to be elected in such position. He was also the President of Asia Pacific of Human Resource Management from 2006 to 2008 and People Management Association of the Philippines (PMAP) in 2002. He was awarded as People Manager of the Year by PMAP in 2006.

Mr. Espinosa obtained his Masters in Business Administration from the De La Salle University (1978). He graduated with a Bachelor of Science Degree in Commerce Major in Accounting from the University of Santo Tomas (1972).

Vincent Martin C. Villegas, 37 - Vice-President for Business Development

Mr. Villegas, Filipino, was appointed by the Board in October 2009. He is also a Vice President of First Gen Corporation, FLGEC and GCGI. Prior to joining First Gen Corporation, he worked with the Treasury Group of PHINMA, Inc. from 1994 to 1996.

Mr. Villegas has a Masters in Business Management from AIM (1998). He graduated with an AB in Management Economics from the Ateneo de Manila University (1993).

Roberto V. San Jose, 68 - Corporate Secretary

Atty. San Jose, Filipino, was appointed by the Board in January 2007. He is a Partner of the Castillo Laman Tan Pantaleon & San Jose Law Firm since 1995. Atty. San Jose 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 Katigbak-Lim, 41 - Assistant Corporate Secretary

Atty. Katigbak-Lim, Filipino, was appointed by the Board in January 2007. She is a member of the Castillo Laman Tan Pantaleon & San Jose Law Firm. Atty. Katigbak-Lim graduated *cum laude* at the University of the Philippines with an A. B. degree. She is a graduate of the U. P. College of Law Class (1994) and 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, 59 - Senior Manager, Internal Audit

Mr. Rodriguez, Filipino, has been with the Company since June 1993 and has held his current position 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 PNOC subsidiaries. He was also appointed as Director of PNOC – Shipping and Transport Corporation Board from 1998 to 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).

Francisco A. Palafox, 57 – Deputy Compliance Officer

Mr. Palafox, Filipino, has been with the Company since February 1981 and has held his current position since August 2007. He held various positions in the company such as Senior Manager for Power and Sales Division, Senior Manager of Purchasing and Traffic Division, and Project/Resident Manager of the Southern Negros Geothermal Project and Bacman Geothermal Production Field.

Mr. Palafox graduated with a B.S. in Civil Engineering from the University of Santo Tomas in Manila (1975). He earned credits in the MBA program at the Ateneo Graduate School of Business

in Makati City, and undertook Geothermal Management Project Management Training Program in New Zealand. He also completed the Management Development Program of AIM (1994). Mr. Palafox is an ICD Fellow, having completed the full requirements of its Professional Directors Program.

Erudito S. Recio, 52 - Senior Manager, Investor Relations

Mr. Recio, Filipino, has been with the Company since 1981. He was appointed to his current position in January 2007 but has performed his current duties since December 2006. He started with the Company as a Planning Engineer in 1981 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 the Ateneo de Manila University. He completed the Management Development Program of AIM (1996).

Theresa P. Mañalac, 43 - Deputy Treasurer

Ms. Mañalac, Filipino, was appointed by the Board in March 2010. Prior to her appointment in the Company, she was Adjunct Professor of Financial Management at Asian Institute of Management. She has over 20 years of experience in international treasury, strategy and acquisitions. She worked with Automatic Data Processing in Roseland, New Jersey as Vice President of Corporate Treasury from 2007 to 2008, Senior Director of Corporate Finance from 2004 to 2007, and Director of International Corporate Finance from 1999 to 2003. She also worked in various key positions at San Miguel Corporation, Citibank NA Manila and United Technologies – Carrier Corporation in Farmington, Connecticut.

Ms. Mañalac obtained her Masters in Business Administration with emphasis on Finance and International Business from the University of Michigan School of Business Administration (1992). She graduated with a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University (1987).

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.

Nominees for Directors

The following are the nominees for regular and independent directors:

For Regular Directors

1. OSCAR M. LOPEZ
2. FEDERICO R. LOPEZ
3. PETER D. GARRUCHO, JR.
4. ELPIDIO L. IBANEZ
5. ERNESTO B. PANTANGCO
6. FRANCIS GILES B. PUNO
7. JONATHAN C. RUSSELL
8. RICHARD B. TANTOCO

For Independent Directors

9. FRANCISCO ED. LIM
10. EDGAR O. CHUA
11. JOHN A. PRASETIO

All nominations for regular and independent director have been approved by the Company's Nomination and Compensation Committee.

Please refer to the above biographical details of current directors that have been renominated.

The following are the biographical details of new nominees to the Board:

Elpidio L. Ibañez, 59

Mr. Ibañez is President and Chief Operating Officer of FPHC. He is a member of the boards of First Gen Renewables Inc., FG Bukidnon Power Corp., Bauang Private Power Corp., First Private Power Corp., First Gas Holdings Corp., First Gas Power Corp., FGP Corp., Unified Holdings Corp., and First Gas Pipeline Corp. He is Chairman of the board of First Batangas Hotel Corp. and President of First Philippine Utilities Corp. He is also a director of various FPHC subsidiaries and affiliates such as First Balfour, Inc., First Philippine Electric Corp., First Philippine Industrial Corp., First Philippine Industrial Park, Philippine Electric Corp., and Securities Transfer Services, Inc. Mr. Ibañez obtained a Masters degree in Business Administration from the University of the Philippines (1975) and a Bachelor of Arts degree major in Economics from Ateneo de Manila University (1972).

Francisco Ed. Lim, 55

Mr. Lim, Filipino, served as past President and CEO and Director of Philippine Stock Exchange, Inc. (PSE), President & CEO of Securities Clearing Corporation of the Philippines (SCCP), Chairman of the Philippine Stock Exchange Foundation, Inc., (PSEFI) and Capital Market Development Center, Inc. (CMDCI), Director of the Philippine Dealing & Exchange Corporation (PDEX), Trustee of the Securities Investors Protection Fund (SIPF), and member of Capital Market Development Council (CMDC) from September 15, 2004 to February 15, 2010.

He successfully worked for the passage by Congress of several capital market development related laws, namely, Personal Equity Retirement Account Act (PERAA), Credit Investment System Act (CISA), Real Estate Investment Trust Act (REITA), Documentary Stamp Duty Exemption for secondary trading of listed stocks, and Financial Rehabilitation and Insolvency Act (FRIA). He was Chairman of the Technical Work Group on the Collective Investment Schemes Law (CISL) and Chairman of the Technical Work Group on Real Estate Investments Trusts (REITS) in the Fourteenth Congress of the Senate of the Republic of the Philippines.

Mr. Lim is currently a member of the Financial Executives of the Philippines (FINEX). He is a law professor at the College of Law of the Ateneo de Manila University and the Graduate School of Law of San Beda College, and Professorial Lecturer of the Philippine Judicial Academy. Prior to his role at PSE, he was a Co-Managing Partner of the Angara Abello Concepcion Regala & Cruz Law Offices (ACCRALAW).

Mr. Lim graduated *magna cum laude* in Bachelor of Philosophy and *cum laude* in Bachelor of Arts from the University of Santo Tomas. He completed with honors his Bachelor of Laws degree (Second Honors) from the Ateneo de Manila University and his Master of Laws degree from the University of Pennsylvania, USA.

Edgar O. Chua, 53

Mr. Chua, Filipino, is the Country Chairman of the Shell Companies in the Philippines, Guam, Palau and Saipan. He has corporate responsibility for the various Shell companies in the exploration, manufacturing and marketing sector of the petroleum business. Likewise, he oversees the Chemicals businesses and Shared Services. He is currently the Chairman of the Philippine

Business for the Environment, President of Pilipinas Shell Foundation, Inc., and Chairman of the Philippine Institute of Petroleum, Inc.

He has 31 years of experience in the business fields of chemicals, auditing, supply planning and trading, marketing and sales, lubricants, corporate affairs and general management. He held senior positions outside the Philippines as Transport analyst in Group Planning in the UK and as General Manager of the Shell Company of Cambodia. From July 1999 to August 2003, he held various regional positions in Shell Oil Products East including GM for Consumer Lubricants covering all countries East of Suez Canal including Saudi Arabia, China, India, Korea, ASEAN, Australia, New Zealand and the Pacific Islands.

Mr. Chua earned his Bachelor of Science degree in Chemical Engineering from De La Salle University (1978) and attended various international seminars and courses including the senior management course in INSEAD in Fontainebleau, France.

John A. Prasetio, 60

Mr. Prasetio, Indonesian, is the Chairman of CBA Asia, an Indonesian firm engaged in investment and business advisory activities. He also serves as an Independent Board Member of PT Sarana Menara Nusantara Tbk, PT Global Mediacom Tbk and PT Bank Permata Tbk. He is a member of the Council of Economic Advisers, appointed by Indonesia President Susilo Bambang Yudhoyono. He also serves as a Board Member of non-commercial organizations such as President's National Economic Committee, Association of Publicly Listed Companies, National Committee on Good Governance, Investment Committee of the Investment Coordinating Board, and Indonesia Forum Foundation.

In 2004, he was appointed Deputy President of the Indonesian Chamber of Commerce and Industry, and the Chairman of its International Economic Cooperation Department. He was previously the Executive Chairman of Ernst & Young Indonesia, and the Asia Pacific CEO/Area Managing Partner of Andersen Worldwide, Singapore responsible for managing 13 country operations of Andersen Worldwide in Asia Pacific, including Japan, Korea, China, Australia, and ASEAN. Prior to that, he was the ASEAN CEO/ Regional Managing Partner of Andersen Worldwide, Singapore and the Executive Chairman of Prasetio Utomo, Jakarta.

He represented Indonesia at the G-20 Business Summit in London (March 2009). His international exposure includes membership at APEC Business Advisory Council (since 2005), UNESCAP Business Advisory Council (2006-2009), East Asia Business Council (since 2005), Global Practice Council of Ernst & Young, London (2002-2004), Global Executive Board of Andersen Worldwide, New York (1999-2002), Board of Partners of Andersen Worldwide SC, Geneva (1994-1998), Executive Board of the SGV Group, Manila (1983-1986), and International Business Leader Advisory Council of Tianjin Municipality Government, China (2000-2001).

Mr. Prasetio earned his Degree in Economics at the University of Indonesia (1973). He completed the Finance, Leadership and Management Programs at Harvard Business School (1980) and Stanford University (1982).

Security Ownership of Nominees to the Board of Directors (as of record date May 7, 2010):

Title of Class	Name of Beneficial Owner	Amount of Shares	Nature of Ownership	Citizenship	Percent of Class
Directors					
Common	Oscar M. Lopez	12,501	Direct	Filipino	0.000%
Common	Peter D. Garrucho, Jr.	5,670,000	Direct	Filipino	0.030%
Common	Federico R. Lopez	3,982,501	Direct	Filipino	0.021%
Common	Richard B. Tantoco	1,125,001	Direct	Filipino	0.006%
Common	Francis Giles B. Puno	367,501	Direct	Filipino	0.002%
Common	Ernesto B. Pantangco	37,501	Direct	Filipino	0.000%
Common	Jonathan C. Russell	2,513,751	Direct	British	0.013%
Common	Elipidio L. Ibañez	1	Direct	Filipino	0.000%
Common	Francis Ed. Lim	0	-----	Filipino	0.000%
Common	Edgar O. Chua	0	-----	Filipino	0.000%
Common	John A. Prasetio	0	-----	Indonesian	0.000%

Independent Directors/Nomination Committee

In compliance with SRC Rule 38, which provides for the guidelines on the nomination and election of independent directors, a Nomination and Compensation Committee has been constituted to pre-screen and accept the nominations of regular and independent directors. It is headed by independent director Francis G. Estrada with members Federico R. Lopez and Richard B. Tantoco.

Accordingly, the Nomination and Compensation Committee has approved the nominations of Messrs. Francis Ed. Lim, Edgar O. Chua and John A. Prasetio as independent directors conformably with the criteria prescribed in SRC Rule 38, the Company's Code of Corporate Governance and the Charter of the Nomination and Compensation Committee.

The stockholders also approved on June 10, 2008 and June 30, 2009 certain amendment to the Company's By-laws incorporating among others, the provisions of SRC Rule 38, as amended, on the nomination and election of Independent Directors. The amendments to the By-laws were approved by the SEC on July 20, 2009.

Messrs. Lim, Chua and Prasetio were formally nominated by stockholder-director Federico R. Lopez. Mr. Lopez is not related to any of the nominees for independent director.

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 as of May 31, 2010 and 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. Tantoco in his capacity as President has been impleaded as respondent in one labor case filed by a former Company employee. The Company, however, does not believe that this claim affects Mr. Tantoco's ability or integrity as a Company Director.

Certain Relationships and Related Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The following are the transactions that the Company had with related parties in 2009 and 2008.

a. First Balfour, Inc. (First Balfour)

Following the usual bidding process in 2008, the Parent Company awarded to First Balfour a procurement contract amounting to ₱360.0 million for various civil, structural, mechanical and piping works for the LGPF. The advance payment of ₱54.0 million, 15% of the contract amount, was fully recouped from its progress billings.

As of December 31, 2009, net transactions amounted to ₱356.8 million with outstanding balance of ₱29.4 million in Due to related parties.

First Balfour is a wholly owned subsidiary of First Holdings, which is the ultimate parent company of EDC.

b. First Gen

First Gen provides financial consultancy, business development and other related services to the Parent Company under a consultancy agreement beginning September 1, 2008. Such agreement is for a period of three years up to August 31, 2011. Under the terms of the agreement, billings for consultancy services shall be ₱8.7 million per month plus applicable taxes. This was increased to ₱11.8 million effective September 2009 to cover the cost of additional officers and staff assigned to the Parent Company. Total consultancy services paid by the Parent Company to First Gen as of December 31, 2009 amounted to ₱176.5 million.

In 2009, FG Hydro availed of unsecured, interest-bearing and US dollar-denominated cash advance from First Gen. Said advances are due and demandable and bear interest of 5.29%. The outstanding balance as of December 31, 2009 included in the "Due to related parties" account amounted to ₱504.1 million (\$10.9 million).

c. IFC

The Parent Company entered into a loan agreement with the IFC, a shareholder of the Company, on November 27, 2008 for \$100.0 million or its peso equivalent of ₱4.1 billion. IFC has approximately 5% ownership interest in the Company. On January 7, 2009, the Parent Company opted to draw the loan in peso and received the proceeds amounting to ₱4,048.75 million, net of ₱51.25 million front-end fee. As of December 31, 2009, the outstanding loan stood at ₱4,026.88 million, net of unamortized transaction cost of ₱73.12 million.

The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another five to ten years. Under the loan agreement, the Company is restricted from creating liens and is subject to certain financial covenants.

d. Various Affiliates

In the ordinary course of business the Company avails of or grants advances from/to its affiliates for working capital requirements. Such advances are payable/collectible within 12 months and are non-interest bearing.

Following are the amounts of transactions and outstanding balances as of and for the years ended December 31, 2009 and 2008:

Related Party	Nature of Transaction	Transaction for the year ended December 31		Net amount Due to Related Parties December 31	
		2009	2008	2009	2008
First Gen	Consultancy fee	130,656,470	45,854,118	–	45,854,118
	Interest-bearing advances	440,660,560	54,332,615	504,135,656	63,475,096
	Interest-free advances	6,639,905	–	2,709,905	–
	Directors liability insurance	–	1,358,947	–	1,358,947
First Balfour, Inc.	Steam augmentation contract in Leyte	356,753,986	–	29,438,812	–
Buang Private Power Corp.	Interest-free advances (payment)	(150,286)	150,286	–	150,286
First Gas Holdings Corp.	Interest-free advances	491,800	82,300	574,100	82,300
First Gas Power Corp.	Interest-free advances	40,924	–	40,924	–
Eugenio Lopez Foundation, Inc.	Donation to Lopez Museum	2,400,000	–	–	–
Lopez Group Foundation, Inc.	Donation to support Group's CSR efforts	7,239,765	–	–	–
Benpres Holdings Corporation	Donation to support Group's CSR efforts	6,384,283	–	–	–
Red Vulcan	Interest-free advances	11,059	–	11,059	–
		951,238,220	100,419,319	537,020,210	110,920,747

Buang Private Power Corporation is a subsidiary of First Private Power Corporation, an associate of First Gen. First Gas Holdings Corporation, First Gas Power Corporation and FGP Corporation are wholly owned subsidiaries of First Gen.

There were no guarantees provided or received for any related party. The Company has not recognized any impairment losses on receivables from related parties as of December 31, 2009 and 2008.

Other than these, 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.

Item 6. Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the executive officers and directors of the Company are as follows:

Summary Compensation Table

Name	Position	Salaries/Director's Fees/Bonuses/Other Income
Oscar M. Lopez	Chairman	
Paul A. Aquino	Director Vice Chairman and Chief Executive Officer, July 20, 2009	
Peter D. Garuccho, Jr.	Director	
Federico R. Lopez	Director	
Richard B. Tantoco	Director President and Chief Operating Officer, July 20, 2009	
Francis Giles B. Puno	Director	
Ernesto B. Pantangco	Director and Executive Vice-President	
Jonathan C. Russell	Director	
Vicente S. Perez, Jr.	Independent Director	
Francis G. Estrada	Independent Director	
Cesar V. Purisima	Independent Director, July 21, 2009	
Agnes C. De Jesus	Sr. Vice-President for Environmental and External Affairs, Compliance Officer, March 10, 2010	
Anthony M. Mabasa	Sr. Vice-President, June 30, 2009	
Regina Pia B. Go	Sr. Vice-President, June 30, 2009 Chief Financial Officer, October 16, 2009	
Marcelino M. Tongco	Vice-President for Operations	
Manuel S. Ogena	Vice-President for Technical Services	
Danilo C. Catigtig	Vice-President for Power	
Glenn I. Funk	Vice-President for Supply Chain Management	
Ernesto G. Espinosa	Vice-President for Human Resource Management, October 14, 2009	
Vincent Martin C. Villegas	Vice-President for Business Development, October 14, 2009	
Aggregate compensation (all key executive officers and Directors as a group)	2008 Short-term benefits	₱ 79,192,591
	2008 Post employment benefits	₱ 82,218,181
	2009 Short-term benefits	₱ 75,170,646
	2009 Post employment benefits	₱ 90,670,000
	2010 Short-term benefits (estimate)	₱ 56,564,840
	2010 Post employment benefits (estimate)	₱ 82,680,000

Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

In compliance with 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

Warrants and Options Outstanding: Repricing

Not applicable. The Company has no outstanding warrants and options.

Item 7. Independent Public Accountants

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.

The Company shall comply with the requirement under SRC Rule 68, Paragraph 3(b)(iv) on the rotation of its external auditor or partner in charge every five years.

Representatives of SGV & Co. shall be present at the meeting, will have the opportunity to make a statement if they choose to do so, and will be available to respond to appropriate questions.

In 2010, the Company's Audit and Governance Committee (AGC) reviewed together with EDC Management and SGV & Co. the Company's 2009 Annual Financial Statements. They endorsed the statement's release to regulatory bodies and stockholders. The AGC is headed by independent director Cesar V. Purisima with members Vicente S. Perez, Jr., Francis G. Estrada, Ernesto B. Pantangco and Francis Giles B. Puno.

C. OTHER MATTERS

Item 8. Amendment of Corporate Name

Management is proposing to amend the name of the corporation from "Energy Development (EDC) Corporation" to "Energy Development Corporation", to be consistent with the public use of and references to the Company. If approved, the new corporate name "Energy Development Corporation" will then be identical with the Company's current registered marks in which the Company already has proprietary interests.

Item 9. Action with Respect to Reports:

The Minutes of the previous annual stockholders' meeting will be submitted for stockholder's approval. During the last stockholders' meeting held on June 30, 2009, the stockholders approved the following: (i) minutes of the previous annual meeting held on June 10, 2008; (ii) Management

report; (iii) ratification of Management's acts; (iv) Approval of increase in authorized capital stock by way of a 25% common stock dividend and subscription by the preferred shareholder to the extent of 25% of the increase in preferred shares; (v) Approval of denial of pre-emptive right in relation to the issuance and/or reissuance of common share pursuant to any of the Company's executive/employee stock ownership plans, provided that such denial of pre-emptive right shall not exceed 4% of the issued common capital; (vi) Approval of change in principal office; (vi) Approval of amendment to the By-laws to allow stockholders' meetings to held outside the principal office premises and within Metro Manila; (vii) Approval of amendment to the By-laws to require stockholders to submit their respective proxies to the Company at least 10 calendar days before a stockholders' meeting; (viii) Approval of amendment to the By-laws to separate the offices of the President and the Chief Executive Officer; (ix) Approval of amendment to the By-laws relating to the qualifications, disqualifications, nomination and election of directors; (x) election of directors; and (xi) appointment of the Company's independent auditors.

Approval of the Minutes constitutes a ratification of the accuracy and faithfulness of the Minutes to the events that transpired during the meeting. This does not constitute a second approval of the same matters taken up at the annual stockholders' meeting, which has been approved.

Attached is a summary of matters to be included in the acts of Management for ratification.

Item 10. Voting Procedure

For the election of 11 directors, 11 nominees receiving the most number of votes will be elected to the Board of Directors. Cumulative voting will apply. All common and preferred shareholders shall be entitled to vote.

For all other matters to be taken up, including the amendment of the By-laws, the approval by stockholders representing a majority of the outstanding common and preferred stock will be sufficient.

Voting shall be done *viva voce* or by raising of hands and the votes cast for or against the matter submitted shall be tallied by the Corporate Secretary in case of division of the house.

PART II: INFORMATION REQUIRED IN A PROXY FORM

Item 1. Identification

This proxy is solicited by the Board of Directors and Management of Energy Development Corporation. The solicited proxy shall be exercised by Mr. Richard B. Tantoco, the President and Chief Operating Officer of the Company or the stockholder's authorized representative.

Item 2. Instruction

- a. For agenda items other than election of directors, the proxy form shall be accomplished by marking in the appropriate box either "FOR", "AGAINST" or "ABSTAIN" according to the stockholder's/proxy's preference.

For election of directors, the stockholder/proxy shall mark with an "X" the space across the name of his chosen nominee for regular and independent director.

If no instructions are indicated on a returned and duly signed proxy, the shares represented by the proxy will be voted:

FOR the approval of the minutes of previous meeting of the stockholders;

FOR the approval of the Management Report and audited financial statements for year ended December 31, 2009;

FOR the confirmation and ratification of all acts and resolutions of Management and the Board of Directors from the beginning of the last fiscal year to date as reflected in the books and records of the Company;

FOR the approval of the change in corporate name;

FOR the approval of the appointment of SGV & Co. as the Company's external auditor;

and to authorize the Proxy to vote according to discretion of the Company's President or Chairman of the Meeting on the "Election of Board of Directors" and on any matter that may be discussed under "Other Matters."

A Proxy Form that is returned without a signature shall not be valid.

- b. The matters to be taken up in the meeting are enumerated opposite the boxes on the form. The names of the nominee directors are likewise enumerated opposite an appropriate space.

PLEASE USE THE ATTACHED PROXY FORM

Item 3. Revocability of Proxy

A shareholder may revoke his proxy on or before the date of the Annual Meeting. The proxy may be revoked by the shareholder's written notice to the Corporate Secretary advising the latter of the revocation of the proxy, or by a shareholder's personal attendance during the meeting.

Item 4. Persons Making the Solicitation

This solicitation is made by the Company. No director has informed the Company in writing or otherwise of his intention to oppose any action intended to be taken up at the meeting.

Solicitation of proxies will be done mainly by mail. Certain regular employees of the Company will also solicit proxies in person or by telephone.

The estimated amount to be spent by the Company to solicit proxies for the Board of Directors is Php 20,000. The cost of solicitation will be borne by the Company.

Item 5. Interest of Certain Persons in Matters to be Acted Upon

No member of the Board of Directors or executive officer since the beginning of the last fiscal year, or nominee for election as director, or their associates, has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

PART III: SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on June 29, 2010.

ENERGY DEVELOPMENT (EDC) CORP.

By:

(ORIGINAL SIGNED)

**Ana Maria A. Katigbak
Asst. Corporate Secretary**

The Company will provide without charge to each person solicited, upon his written request, a copy of the Company's annual report on SEC Form 17-A duly filed with the Securities and Exchange Commission. At the discretion of Management, a reasonable fee may be charged for the expense incurred in providing a copy of the exhibits. All requests may be sent to the Company's head office and addressed to:

**Attention: Mr. Erudito S. Recio
Senior Manager, Investor Relations
ENERGY DEVELOPMENT (EDC) CORPORATION**

Summary of Acts for Ratification

The acts for ratification from the date of the last stockholders' meeting include the following:

- Election of officers, designation of Board Committees, and approval of authorities;
- Election of replacement independent director;
- Extension of advances and credit facilities to subsidiaries;
- Approval of letters of credit;
- Approval of bidding authorities;
- Authorization for permit applications;
- Approval of interim financial statements and audited financial statements;
- Authority to open bank accounts;
- Approval of amendments to the employee stock grant plan;
- Authority to issue fixed rate retail bonds and appointment of financial arranger;
- Authority to incorporate wholly-owned subsidiaries;
- Authority to execute the Revised Listing Agreement with the Philippine Stock Exchange;
- Authority to change trustees for the Savings and Land Home Ownership Plan and Retirement Plan Funds;
- Authorities to implement the corporate social responsibility programs and resettlement lot awards;
- Approval of nominees for KEITECH Foundation;
- Authority for prepayment of PSALM loan;
- Authority to increase the authorized capital stock of certain subsidiaries;
- Opening of corporate credit accounts;
- Opening of direct investment management accounts;
- Authorities with respect to mining rights;
- Authority to obtain Board of Investment's registration under the Renewable Energy Act for certain projects;
- Authority to acquire rights of way, lease rights, land and other real rights for certain projects;
- Approval of Geronimo Z. Velasco Awards;
- Authority to purchase turbine rotor and wellhead assembly;
- Appointment of legal counsel and approval of pre-trial authorities;
- Authority to open special deposit accounts;
- Approval of cash dividends;
- Approval of donations;
- Authority to obtain a Club Loan;
- Appointment of external auditor, subject to stockholder approval;
- Approval of corporate structure for project bidding and operations;
- Amendment of corporate name;
- Authority to issue shares in scripless form in compliance with the PSE No-Jumbo Rule;
- Authorities for international projects;
- Authority to participate in WEDAP;
- Authority to prepay on-lent loans;
- Amendment to authorized signatories.

ENERGY DEVELOPMENT (EDC) CORPORATION

MANAGEMENT REPORT Pursuant to SRC Rule 20

For the Annual Stockholders' Meeting
On July 29, 2010

Audited Financial Statements for Fiscal Year Ended December 31, 2009

Please refer to the accompanying audited financial statements for 2009, and the first quarter report on SEC Form 17-Q for the period ended March 31, 2010.

General Nature and Business of the Company

Nature

Energy Development (EDC) Corporation, formerly the PNOG Energy Development Corporation 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.

EDC 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 (First Gen), a publicly listed entity with ticker symbol FGEN. The ultimate parent of EDC is First Philippine Holdings Corporation, also a publicly listed entity with ticker symbol FPH.

On November 17, 2008, EDC acquired 60% of First Gen Hydro Power Corporation (FG Hydro) from First Gen. FG Hydro, incorporated on March 13, 2006, owns and operates the up rated 110 MW Pantabangan and the 12 MW Masiway Hydroelectric Power Plants (PMHEPP), the first major operating assets of National Power Corporation (NPC) to be successfully transferred to the private sector. The 110 MW Pantabangan commenced operations in 1977 and consists of one 60 MW (up rated from 50 MW) and one 50 MW generating units, and the 12 MW Masiway commenced operations in 1981 and consists of one 12 MW operating unit. Both facilities are located in Pantabangan, Nueva Ecija Province, Central Luzon, 180 kilometers north of Metro Manila.

On September 2, 2009, Green Core Geothermal Inc. (GCGI), the Company's wholly-owned subsidiary through First Luzon Geothermal Energy Corporation, participated and won in PSALM's auction of the 192.5 MW Palinpinon and 112.5 MW Tongonan geothermal power plants for USD 220.0 million. On October 23, 2009, the Palinpinon and Tongonan geothermal power plants were turned over to Green Core.

Operational Highlights

From a consolidated sales volume of 8,214.2 GWh, the Company's gross revenues for 2009 from its steam and electricity business amounted to ₱19,027.4 million. As compared to 2008, gross revenue from the sale of steam and electricity increased by ₱2,266.7 million, or 13.5%, from ₱16,760.7 million even as sales volume decreased slightly by 212.5 GWh, or 2.5%, from 8,426.7 GWh.

Electricity and steam sales constitute majority of EDC's gross revenues at 69.1% and 17.1% of the total, or at ₱15,246.0 million and ₱3,781.4 million, respectively. Interest income on service concession, construction revenue and revenue from drilling services constitute the balance at 7.5% or ₱1,650.2 million, 2.5% or ₱541.4 million, and 3.8% or ₱847.9 million, respectively.

Steam Generation

For 2009, steam revenues from the sale of 2,520.8 GWh amounted to ₱3,781.4 million which is ₱461.1 million, or 10.9%, lower than the ₱4,242.5 million revenues from a sales volume of 3,095.9 GWh in 2008. The decrease was primarily due to the shift to electricity sales from steam sales of the reported revenues of Tongonan I and Palinpinon (now as Green Core Geothermal, Inc.) effective October 24, 2009.

Palinpinon I and II generated a total sales volume of 1,339.9 GWh, exceeding its 1,268.2 GWh take-or-pay volume by as much as 5.7%, or 71.7 GWh. Bacman I and II sales volume was lower by 15.2 GWh or 1.5% from the 988.2 GWh take-or-pay volume due to the force majeure affecting the Bacman facilities from May 2-30, 2009. Tongonan I sales volume was lower by 188.3 GWh, or 25%, from the 741.2 GWh take-or-pay volume due to generation loss incurred during the period.

Electricity Generation

For the current year, electricity revenues from the 5,693.3 GWh sold amounted to ₱15,246.0 million. It increased by ₱2,727.8 million, as compared with the ₱12,518.2 million revenues in 2008. The increase was primarily brought about by GCGI's revenue contribution starting October 24, 2009, higher average price due to increased inflation factor, No. Negros' higher sales volume with its recommissioning last May 13, 2009 after its temporary shutdown starting May 28, 2008 and Leyte's increase in annual nominated energy from 4,211 GWh to 4,288 GWh starting July 25, 2009. Also contributing to the increase was the full recognition of November and December 2009 billings as revenues from all electricity plants due to the scoping out of IFRIC 12 effective October 23, 2009 (as discussed in Notes 3 and 39 of the 2009 Audited Financial Statements). These were reduced by FG Hydro's lower revenue by 34.2 GWh due to the rehabilitation of Unit 1 of the hydroelectric power plant.

Of the total sales volume, 74.4% or 4,244.3 GWh was generated by Unified Leyte. Gross revenues for 2009 from Unified Leyte amounted to ₱10,872.9 million as compared to the ₱9,631.9 million in 2008.

Mindanao I and II generated a total sales volume of 791.2 GWh, higher by 3.2 GWh than its minimum energy off-take (MEOT) volume of 788 GWh. For 2009, revenues from the Mindanao I and II reached ₱1,841.8 million as compared to the ₱1,466.2 million in 2008.

Northern Negros generated a total sales volume of 53.3 GWh amounting to ₱238.4 million as compared to ₱36.6 million from the 15.8 GWh sold in 2008.

In 2009, electricity revenues recognized for FG Hydro amounted to ₱1,247.2 million from the

319.9 GWh sold, lower by ₱136.3 million or 9.9%, as compared to the ₱1,383.5 million recognized from the 354.2 GWh sold in 2008 due to the rehabilitation of Unit 1 of the hydroelectric power plant.

Third Party Drilling

Third Party Drilling contributed ₱847.9 million in 2009 as compared to the ₱726.1 million in 2008 primarily due to higher unit rates for various drilling services under the new drilling contract with Lihir Gold Limited. The drilling contract was extended up to December 2010.

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.

In 2009, incidence of personal accidents decreased by 28.65% to 20 as compared to the 28 in 2008. Vehicular and equipment accidents also dropped by 6.67%. EDC received ten recognition awards from the Department of Energy and the Safety and Health Association of the Philippine Energy Sector (SHAPES) for safety milestones in: Bacman, Leyte, Palinpinon and Mindanao production fields; Upper Mahiao, Malitbog and Mahanagdong power plants in Leyte; and Rigs 3, 4 and 12 drilling operations. It also received two safety recognition awards from the DOLE-Bureau of Working Conditions for safety milestone in Bacman and No. Negros production fields.

EDC ensures legal compliance with Philippine environmental rules and regulations, securing 70 environmental permits and 105 forestry permits in 2009 for its operating and expansion projects. It continues to support reforestation and replanting activities within existing reforestation areas in its geothermal project areas.

Corporate Social Responsibility

Through its comprehensive and sustained Corporate Social Responsibility (CSR) program, EDC continues to make significant headway in empowering the host communities of its geothermal and other renewable energy projects. From 1987 until 2009, an estimated half a million Filipinos in the countryside have benefited directly from this CSR program, which focuses on promoting community health, providing education support services, developing livelihood and enterprises, and enhancing community environment in the 44 so-called primary partner barangays of the Company.

Following are the program's accomplishments in 2009:

- Health Promotion

EDC improved the capacity of 244 community health workers to provide health-related services through various training programs conducted in partnership with the rural health units (RHUs) and local health agencies. Fifty-one barangay health centers also became more capable of delivering health services to their constituents as a result of various interventions such as new medical equipment provided, health centers constructed or repaired, and medicines and medical supplies distributed.

Likewise, close to 6,500 community residents from the six host provinces received medical, dental, immunization, and surgical treatments from the medical outreach projects

initiated by the Company. About 2,300 individuals also gained valuable insights from the responsible parenthood and substance abuse seminars facilitated by EDC.

- Educational Support

For its regular education projects, close to 22,000 grade school, 976 high school, 23 college and 5 technical-vocational education students received various forms of financial and material assistance to keep them in school (i.e., scholarships, miscellaneous fees payments, workbooks, school supplies). The school feeding project also improved the nutritional status of about 1,400 grade school pupils.

A total of 368 incoming 4th year high school students also took part in the 8th Energy Camp held in April and May. This annual activity is intended to inculcate in the youth an awareness of their social and environmental responsibility while providing them a venue for experiential and fun-filled learning.

The special education project, Leyte Schools for Excellence (SFE), continued to deliver impressive results in terms of dramatic increases in the enrolment, participation, survival and achievement rates from previous-year figures. As a result of these achievements, the two SFE schools received a total of 74 academic and non-academic awards in the last four years between them.

A breakthrough project, the Kananga-EDC Institute of Technology (KEITECH), opened its doors in June 2009 to a pioneering batch of 120 trainees. Envisioned to become a world-class post-secondary technical-vocational training center that will produce highly skilled, disciplined and in-demand graduates, the school offers nine competency-based training courses in the areas of Construction; Metals and Engineering; and Tourism, Health and Social Services. The Technical Education and Skills Development Authority (TESDA) made KEITECH the benchmark for tech-voc education in Eastern Visayas owing to its high training standards and top-notch training facilities and equipment.

Education service providers also benefited from the Company's CSR projects, as about 300 teachers underwent trainings and seminars organized in partnership with the Department of Education and the Ateneo Center for Educational Development. More than 30 schools became better equipped and more conducive for learning and instruction with the various school construction or repair works and purchase of new facilities/equipment undertaken through EDC.

- Livelihood Development

EDC's 104 farmers/community associations (FAs/CAs) implemented a total of 21 major livelihood projects in 2009, which generated a combined gross income of ₱28.3 million. These livelihood modules include rice production, banana plantation, production of vegetables and high-value crops, abaca plantation, and ecotourism.

Likewise, about 1,624 small-scale contracts with a combined amount of ₱138.8 million were awarded by the Company to the federations of these FAs/CAs, giving the members additional income sources. These contracts consist of maintenance and support work for the continued operation of the Company's geothermal facilities.

EDC was also able to negotiate a credit facility with the Land Bank of the Philippines for the operational needs of farmer federations in Bicol and Negros Oriental. This arrangement raised a total of ₱5.6 million funds, which were used as working capital for the various small-scale projects performed by these federations for EDC.

On the aspect of capacity-building, EDC facilitated the conduct of eight technical and skills trainings for both association members and CSR staff, including a training on grassroots entrepreneurship for the CSR program implementors based in the field.

- Environmental Enhancement

One year after its newest environmental project, *BINHI: A Greening Legacy* program was launched, EDC has planted close to 700 hectares of open land in six host provinces with more than 726,000 trees under the program's *Tree for Life* module. Meanwhile, about 364 hectares in Albay, Sorsogon, Leyte, Negros Oriental and Nueva Ecija were planted with 116,675 trees under the *Tree for Food* module, which aims to establish forest plantations and agro forestry farms for forest occupants.

As for the *Tree for the Future* module, EDC initiated the planting of about 250 seedlings of 23 rare or endangered but premium value native tree species in 14 different locations in Metro Manila, Negros Occidental and Leyte. These seedlings are now being grown to become "mother trees" that would proliferate and secure the gene pool of threatened and premium Philippine trees.

The *BINHI* program is EDC's commitment to action to the Clinton Global Initiative.

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 generation and sale of electricity through Company-owned geothermal power plants to NPC and privately-owned distribution utilities, pursuant to Power Purchase Agreements (PPAs) and Electricity Sales Agreement (ESA), respectively.

For the Company's third business segment, EDC provides drilling equipment and rig personnel to the Lihir Gold Limited in Papua New Guinea.

With its acquisition of a 60% equity stake in First Gen Hydro Power Corporation (FG Hydro) last November 17, 2008, EDC now finds itself already involved in the operation of hydro power plants. FG Hydro's 110 MW (Unit 1 recently up rated to 60 MW from 50 MW) Pantabangan and 12 MW Masiway Hydroelectric Power Plants (PMHEPP), located in Pantabangan, Nueva Ecija Province, Central Luzon, inject electricity into the Luzon grid to service the consumption of its customers which include the Wholesale Electricity Spot Market (WESM) and distribution utilities clients covered by Transition Supply Contract (TSC).

With this development, the Company has now evolved into being the country's premier pure renewable energy play, possessing interests in geothermal energy and hydro power. For geothermal energy, its expertise spans the entire geothermal value chain, i.e., from geothermal energy exploration and development, reservoir engineering and management, drilling, engineering design and construction, environmental management and energy research and development. With FG Hydro, the Company has not only acquired expertise in hydropower operation and maintenance, but also the capability to sell power on a merchant basis.

The Company has included into its strategic plans the Company's participation in PSALM's auction of the NPC-owned geothermal power generation facilities.. On September 2, 2009, Green Core Geothermal Inc. (Green Core), the Company's wholly-owned subsidiary through First Luzon Geothermal Energy Corporation, participated and won in PSALM's auction for the 192.5 MW Palinpinon and 112.5 MW Tongonan I geothermal power plants for USD 220.0 million. On October 23, 2009, Green Core successfully completed all conditions precedent required for the PSALM's turnover of the Palinpinon and Tongonan I geothermal power plants. With this, the Company now operates a total of 10 geothermal power plants with an aggregate capacity of 1,048.8 MW.

Percentage of sales or revenues contributed by foreign sales

The Company generated ₱847.9 million from the contract it entered into with Lihir Gold Limited (LGL) in Papua, New Guinea. This represents 3.8% of the Company's ₱22,066.9 million gross revenues for 2009. The Company's contract with LGL was extended up to December 2010.

Distribution methods of products or services

About 88.2% of the 8,567.7 GWh generated by the Company from its steam and electricity business was sold to NPC. Electricity production of about 319.9 GWh, i.e., pertaining to electricity generated by the hydro power plants of FG Hydro, was sold to the WESM and its distribution utility clients comprised of electric cooperatives in the province of Nueva Ecija while 337.8 GWh generated by the geothermal power plants in Tongonan I, Palinpinon and No. Negros was sold to electric cooperatives and industrial customers in the Visayas region. The Company's total generation comprised of 5,382.0 GWh coming from electricity production in Leyte, Mindanao, No. Negros, Tongonan I and Palinpinon geothermal power plants; 2,865.8 GWh pertaining to steam operations in Tongonan I, Palinpinon and Bacman; and 319.9 GWh generated from hydro power plant operations in Pantabangan, Nueva Ecija.

The electricity generated, by either NPC's or the Company's geothermal power plants, is transmitted to NPC's customers i.e., distribution utilities, electric cooperatives or bulk power customers by the National Grid Corporation of the Philippines (NGCP) through its high voltage backbone system. In the case of No. Negros, it is EDC's responsibility to deliver its electricity production to NGCP Bacolod sub-station for the eventual transmission to ILECO, EDC's customer.

FG Hydro generated 319.94 GWh of electricity in 2009, of which 77.7% or 248.48 GWh, was consumed by its contracted customers and 22.3% or 71.46 GWh was sold to the Wholesale Electricity Spot Market (WESM).

New Products or Services

On November 17, 2008, EDC acquired 60% of First Gen Hydro Power Corporation (FG Hydro) from First Gen. FG Hydro owns and operates the 110 MW Pantabangan and the 12 MW Masiway Hydroelectric Power Plants (PMHEPP), located in Pantabangan, Nueva Ecija Province, Central Luzon. Its customers include the WESM and TSC clients.

On September 2, 2009, Green Core Geothermal Inc. (Green Core), the Company's wholly-owned subsidiary through First Luzon Geothermal Energy Corporation, participated and won in PSALM's auction of the 192.5 MW Palinpinon and 112.5 MW Tongonan geothermal power plants for USD 220.0 million. On October 23, 2009, Green Core successfully completed all conditions precedent required for the PSALM's turnover of the Palinpinon and Tongonan geothermal power plants. Green Core was awarded 12 transition power supply contracts under its Asset Purchase Agreement with PSALM.

Competition

The Company competes with other energy sources used for the production of power, particularly coal, gas and oil, substantially all of which is imported.

The following table sets out the Department of Energy's (DOE) estimate of the breakdown of total installed capacity as of December 31, 2009 and electricity production by energy source for 2009.

Energy Source	Installed Capacity		Power Generation	
	MW	%	GWH	%
Coal	4,213.1	26.9	15,191.3	25.5
Oil Based	3,343.5	21.3	4,265.1	7.2
Geothermal	1,958.4	12.5	10,722.8	18.0
EDC	1,198.8	7.7	6,534.3	11.0
Chevron	759.6	4.8	4,188.5	7.0
Hydro	3,289.0	21.0	9,801.9	16.4
Natural Gas	2,834.0	18.1	19,575.9	32.8
Renewable/Others	34.0	0.2	59.1	0.1
Total	15,672.0	100.0	59,616.1	100.0

Under the Company's Geothermal Renewable Energy Service Contracts (GRES Cs), it has long-term exclusive rights to explore, develop, and utilize geothermal steam resources in specific areas. Substantially all of the Company's steam and power capacity is sold through various offtake agreements, such as SSAs for the supply of steam to NPC-owned power plants, and PPAs for the supply of electricity to NPC; under an ESA, it supplies power to a contracted DU. Since most these agreements provide for take-or-pay quantities, the Company is not subject to direct competition. Although the take-or-pay provision of the steam supply will not apply to the Geothermal Resource Sales Contracts (GRSCs) that will replace the SSAs upon the privatization of the NPC geothermal power plants, this covers only three geothermal power plants: namely the Palinpinon, Tongonan and BacMan Geothermal power plants. On October 23, 2009, Green Core successfully completed all conditions precedent required for the PSALM's turnover of the Palinpinon and Tongonan geothermal power plants. Furthermore, the supply of steam is location-specific, such that each power plant can only source its fuel from a dedicated nearby steamfield.

The only other Philippine company engaged in the production of steam is Chevron Geothermal Philippines Holdings. Recently, Aboitiz Power Corporation, a power distribution and generation company, successfully bid for the 747 MW Tiwi-Makban geothermal power plant. Non-Philippine companies that are actively engaged in geothermal consultancy in the Asia-Pacific region are West Japan Engineering Consultancy, GeothermEx, Sinclair Knight Merz Engineering Consultancy and PB Power. For drilling services in the Philippines, the Company's lone competitor is DESCO, Inc.

With the Government committed to implement the privatization of the majority of NPC-owned power generation facilities and the establishment of the WESM, the Company will face competition from other power generation plants, particularly the dominant NPC during the privatization phase. Several of these competitors have greater financial resources, and have more extensive operational experience and other capabilities than the Company, giving them the ability to respond to operational, technology-related, financial and other challenges more quickly than the Company. The Company will face competition from newly developed power generation facilities and existing power plants acquired through the privatization process. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition from new power projects may increase in line with the long-term economic growth in the Philippines.

With its acquisition of a 60% equity stake in First Gen Hydro Power Corporation (FG Hydro) last

November 17, 2008, EDC now finds itself also involved in the operation of hydro power plants. FG Hydro's PMHEPP injects electricity into the Luzon grid to service the consumption of its customers which include the Wholesale Electricity Spot Market (WESM) and Transition Supply Contract (TSC) clients.

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

Close to 86.7% of the Company's steam and electricity revenues are derived from existing long-term Steam Sales Agreements (SSAs) and Power Purchase Agreements (PPAs) with NPC, respectively.

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

The five geothermal service contract areas where the EDC'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 2042)
- No. Negros Geothermal Production Field (expiring in 2044)

These contract areas are located in four islands of the Philippines, namely Luzon, Leyte, Negros and Mindanao. The following table provides a summary of the Company's geothermal projects, grouped by the contract areas in which they are located:

Geothermal Renewable Energy Service Contract (GRESK) Areas

Contract Area	Expiration of GRESK	Project	Installed Capacity (in MWe)	Product	Expiration of Offtake Agreement	Minimum Take-or-pay Capacity ¹ (in GWh/year)	Plant Owner
Leyte Geothermal Production Field	2031	Tongonan	112.5	Steam and Electricity	2009 (SSA) ² 2031 (GRSC)	4,288.0	GCGI ⁵
		Upper Mahiao	125.0	Steam and Electricity	2022 (PPA) ⁴		EDC
		Malitbog	232.5	Steam and Electricity	2022 (PPA) ⁴		EDC
		Mahanagdong	180.0	Steam and Electricity	2022 (PPA) ⁴		EDC
		Optimization	50.9	Steam and Electricity	2022 (PPA) ⁴		EDC
Northern Negros Geothermal Production Field	2044 ³	Northern Negros	49.4	Steam and Electricity	2012 (ESA)	N/A	EDC
Southern Negros Geothermal Production Field	2031	Palinpinon I	112.5	Steam and Electricity	2008 (SSA) ² 2031 (GRSC)		GCGI ⁵
		Palinpinon II	80.0	Steam and Electricity	2018 (SSA) 2031 (GRSC)		GCGI ⁵
BacMan Geothermal Production Field	2031	BacMan I	110.0	Steam	2018 (SSA)	722.7	NPC
		BacMan II	40.0	Steam	2019/2023 (SSA)	262.8	NPC
Mindanao Geothermal Production Field	2042 ³	Mindanao I	52.0	Steam and Electricity	2022 (PPA)	390.0	EDC
		Mindanao II	54.0	Steam and Electricity	2024 (PPA)	398.0	EDC
Total			1,198.8			8,065.3	

¹ Refers to 1-year period, ending in July 2009. Minimum Take-or-pay capacity varies from year to year.

² The SSAs that govern the sale of steam for use at the NPC-owned Tongonan I and Palinpinon I power plants expired in December 2008 but were extended to a date when these plants are sold or privatized, pursuant to the privatization process under the EPIRA.

³ Includes a 25-year extension period to GRESC.

⁴ Unified Leyte PPA

⁵ On October 23, 2009, the Palinpinon and Tongonan geothermal power plants were turned over to Green Core, which won the PSALM's auction of the said plants last September 2, 2009.

On August 28, 2009, EDC submitted its letter of intent to the Department of Energy (DOE) for the conversion to Geothermal Renewable Energy Service Contracts (GRESCs) of the above enumerated Geothermal Service Contracts (GSCs). The DOE granted the GRESCs to EDC on October 23, 2009, entitling the Company to avail of incentives provided for in the RE law relative to its operations in the stated areas.

The conversion to Geothermal Renewable Energy Service Contract of the existing Service Contracts is pursuant to Section 4.b.ii (2nd paragraph) of the Department Circular No. DC2009-07-0011, or the "Guidelines Governing a Transparent and Competitive System of Awarding Renewable Energy Service/Operating Contracts and Providing for the Registration Process of Renewable Energy Developers.

On September 14, 2009, the EDC entered into Wind Energy Service Contract with the DOE granting the company the right to explore and develop the Burgos wind project for a period of 25 years, inclusive of 2 years exploration period, extendible for another 25 years. The service contract provide that, among other privileges provided by the RE Law, all materials, equipment, plants and other installations erected or placed on the contract area shall remain the property of the Company throughout the term of the contract and after its termination.

On December 4, 2009, EDC was awarded by the Bureau of Patents of the Intellectual Property Office a patent for its on-line System Purity Monitoring system. The system, developed by the Company's geoscientists and technical services engineers, and installed in all its project sites since 1996, provides quick, reliable and continuous real time data of geothermal steam supplied during normal plant operations for immediate response to system upsets.

As the winning bidder of the 100 MW Pantabangan and the 12 MW Masiway Hydroelectric Power Plants, FG Hydro was awarded eight transition power supply contracts under its Asset Purchase Agreement with PSALM. FG Hydro is bound to service these customers for the remainder of the stipulated terms, the range of which falls between June 2007 and 2010. Some contracts were renewed upon renegotiation with the customers and due process as stipulated by the ERC. FG Hydro is continually serving five (5) bilateral contracts and WESM.

Related Contracts	Expiry Date	Other developments
Nueva Ecija II Electric Cooperative, Inc., Area 2 (NEECO II-Area 2)	December 2009	FG Hydro and NEECO II - Area 2 have executed a new power supply agreement that that will be filed to ERC. Until the issuance of a provisional authority for said agreement or final resolution of the application for the approval thereof, the ERC approved the extension of the TPSC on a month-to-month or on a per billing period basis.
Pantabangan Municipal Electric System (PAMES)	December 25, 2008	FG Hydro is presently evaluating whether it can continue to supply electricity to PAMES. In the meantime, while there is no new agreement executed between the parties yet, FG Hydro has continued to supply electricity to PAMES on a per billing period basis.
Nueva Ecija I Electric Cooperative, Inc. (NEECO I)	December 25, 2007	A new agreement was signed by FG Hydro and NEECO 1 in December 2007 for the supply of power in the succeeding five years. The ERC has provisionally approved this agreement pending final resolution of the application for the approval thereof. This is the first power supply agreement (PSA) that FGHPC has entered in to.
Cabanatuan Electric Corporation	June 25, 2007	Not Renewed
Aurora Electric Cooperative	December 25, 2008	Not Renewed
San Jose City Electric Cooperative (SAJELCO)	December 25, 2008	Not Renewed
Martin Cold Storage and Ice Plant (MCS/EIPCS)	December 25, 2010	For Renewal
NIA-UPRIIS	October 25, 2010	For Renewal

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 2008 and 2009 were approximately ₱107.0 million and ₱130.6 million, respectively.

Employees and Labor Relations

As of December 31, 2009, the Company employs 2,583 employees consisting of 12 Executives, 1,359 Managerial, Professional and Technical (MPT) employees, and 1,212 Rank and File (R&F) employees. In particular, the distribution of employees by sector is as follows:

Sector	Number	%
General Management	138	5
Environment and External Relations	117	4
Steamfield Operations	1,184	46
Power Generation	377	15
Technical Services	330	13
Drilling Services	264	10
Administrative Services	40	2
Supply Chain Management	133	5
Total Headcount	2,583	100

The Company plans to significantly increase its workforce for the ensuing 12 months.

There are 14 labor unions within the Company, each representing a specific collective bargaining unit allowed by law. 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)	66
2. National Union of Rig Workers (NURIWO)	Leyte Geothermal Production Field	109
3. Tongonan Workers' Union (TWU)	Leyte Geothermal Production Field	106
4. Leyte A Geothermal Project Employees' Union (LAGPEU)	Leyte Geothermal Production Field	297
5. United Power Employees' Union (UPEU)	Leyte Geothermal Production Field	51
6. PNOC EDC- LGPF and TIPF Association of Technical, Supervisory and Professional Employees (PELT ATSAPPE)	Leyte Geothermal Production Field	140
7. PNOC EDC NNGP Employees Rank and File (PENERFU)	Northern Negros Geothermal Project	74
8. Demokratikong Samahang Manggagawa ng BGPF (DSM-BGPF)	Bacon-Manito Geothermal Production Field	158
9. EDC-BGPF Supervisory Employees' Union (EBSEU)	Bacon-Manito Geothermal Production Field	21
10. BAC-MAN Professional and Technical Employees Union (BAPTEU)	Bacon-Manito Geothermal Production Field	66
11. Mt. Apo Workers Union (MAWU)	Mt. Apo Geothermal Production Field	146
12. Mt. Apo Professional and Technical Employees Union (MAPTEU)	Mt. Apo Geothermal Production Field	45
13. PNOC EDC SNGP Rank and File Union	Southern Negros Geothermal Production Field	169
14. PNOC EDC SNGP Supervisory Association	Southern Negros Geothermal Production Field	76

These unions enter into regular collective bargaining agreements (CBAs) with the Company as regards to number of working hours, compensation, employee benefits, and other employee entitlements as provided under Philippine labor laws. In 2009, only one out of six CBAs due for negotiations was signed. Six other CBAs are for renewal in 2010.

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 in the last nine years any strikes, lock-outs or work stoppages as a result of labor disagreements.

First Gen Hydro Power Corporation (FG Hydro) is the Company that operates the 122 MW Pantabangan and Masiway Hydro Electric Plants (PAHEP/MAHEP). EDC had acquired a 60% equity stake in First Gen Hydro Power Corporation (FG Hydro) from First Gen last

November 17, 2008.

For this, FG Hydro employs 61 personnel (as follows):

Position	Number of Regular Employees
Senior Manager	2
Manager	5
Supervisor	22
Staff	<u>32</u>
Total	61

Note: FG Hydro has no labor union.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 EDC to NPC pursuant to Power Purchase Agreements (PPAs).

Currently, EDC provides drilling equipment and rig personnel to the Lihir Gold Limited in Papua, New Guinea based on the contract signed in March 2007.

In November 2008, the company acquired 60% of First Gen Hydro Power Corporation (FG Hydro) through the subscription to and the purchase of common shares. FG Hydro operates the 112 Megawatt (MW) Pantabangan and Masiway Hydro-Electric Power Plants in Pantabangan, Nueva Ecija. With the acquisition, EDC is now involved in the operation of hydro power plants. EDC-Parent accounted for this acquisition using the pooling-of-interests methods and started the consolidation of the financial statements on November 29, 2007, the time that both EDC and FG Hydro came under common control of First Gen Corporation.

In September 2009, Green Core Geothermal Inc. (GCGI), the Company's wholly-owned subsidiary through First Luzon Geothermal Energy Corporation, participated and won in PSALM's auction of the 192.5 MW Palinpinon and 112.5 MW Tongonan geothermal power plants for USD 220.0 million. On October 23, 2009, the Palinpinon and Tongonan geothermal power plants were turned over to Green Core. EDC-Parent accounted for the acquisition of power plants in accordance with PFRS 3.

The following discussion focuses on the results of operations of EDC and its major subsidiaries, FG Hydro and Green Core Geothermal Inc.

A. FINANCIAL RESULTS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

Financial results for the years ended December 31, 2009, 2008 and 2007

(Amounts in Million Pesos)	CONSOLIDATED (AUDITED)		
	2009	2008	2007
Income Statement Data			
Revenues	22,066.9	20,526.9	19,000.6
Income before income tax	7,280.0	2,652.8	12,936.5
Foreign exchange gains (losses)	1,291.2	(9,357.1)	3,995.8
Net income	3,368.3	1,345.3	8,768.3
Net Income attributable to Equity Holders of the Parent	3,322.7	1,308.0	8,692.2

(Amounts in Million Pesos)	As at December 31		
	2009	2008	2007
Balance Sheet Data			
ASSETS			
Total current assets	19,137.8	13,724.2	15,176.9
Property, plant and equipment	59,877.2	5,280.1	4,712.2
Service concession assets			
Concession receivables - net of current portion	-	32,647.3	34,695.4
Intangible assets	-	9,389.2	8,738.8
Intangible assets	2,397.5	2,493.7	2,589.9
Deferred tax assets	959.3	3,410.4	3,052.8
Exploration and evaluation assets	1,038.0	999.8	1,171.9
Derivative assets	9.6	34.9	-
Other non-current assets	1,355.6	1,366.0	1,851.7
Total Assets	84,775.0	69,345.6	71,989.7
LIABILITIES AND EQUITY			
Total current liabilities	21,763.6	15,702.7	11,453.9
Long-term debts - net of current portion	30,533.7	23,557.0	23,347.9
Royalty fee payable - net of current portion	566.7	-	1,277.7
Obligations to a power plant contractor - net of current portion	-	-	96.3
Deferred tax liabilities, net	17.3	11.3	39.3
Retirement and other post retirement benefits	1,237.1	1,026.4	919.8
Other long-term liabilities	324.7	312.8	322.4
Total Liabilities	54,443.1	40,610.3	37,457.3
Equity attributable to equity holders of the parent	28,802.1	27,251.2	31,187.5
Minority interest	1,529.8	1,484.1	3,344.9
Total Equity	30,331.9	28,735.3	34,532.4
Total Liabilities and Equity	84,775.0	69,345.6	71,989.7

FINANCIAL HIGHLIGHTS

December 2009 vs. December 2008 Results

- 1) The recurring net income generated in 2009 increased by 26.5% or ₱1,545.7 million to ₱7,380.9 million from ₱5,835.1 million in 2008.

The favorable variance was mainly due to the following:

- ₱1,540.0 million increase in total revenue mainly from electricity sales
- ₱2,096.9 million decrease in provision for income tax due to the reduced corporate income tax rate of 10% under the RE Law and ₱277.4 million due lower taxable recurring income in 2009
- ₱560.2 million realized foreign exchange gain in 2009 versus ₱733.7 million foreign exchange loss in 2008.
- ₱102.8 million higher interest income due to higher investible funds

These were offset by:

- ₱2,990.1 million increase in operating expenses inclusive of the ₱1,116.2 million one-time reduction of allowance for doubtful accounts in 2008
- ₱778.7 million increase in interest expense due to the availment of IFC loan and issuance of FRCN and Peso public bonds.

- 2) Net income increased by 150.4% or ₱2,023.0 million to ₱3,368.3 million in 2009 from ₱1,345.3 million in 2008 primarily due to a ₱2,727.8 million increase in revenue from sale of electricity.

The favorable foreign exchange gain position of ₱1,291.2 million in 2009 versus ₱9,357.1 foreign exchange loss in 2008 enabled the Company to absorb the following increase in expenses:

- Write-down of ₱2,959.2 million deferred tax assets with the reduced corporate income tax rate of 10% under the RE Law starting February 2009 and 30% for January 2009.
- One-time adjustments in 2008 aggregating to ₱3,183.5 million pertaining to prior years' contested revenues in Unified Leyte and the reduction in allowance for doubtful accounts which were resolved through arbitration with NPC.
- ₱2,222.2 million increase in operating expenses inclusive of the Leyte Steam Augmentation Project.
- Higher interest expense by ₱734.7 million
- Higher miscellaneous charges by ₱598.8 million inclusive of the ₱349.0 million impairment loss on property, plant and equipment of No. Negros Geothermal Production Field.
- Write-off of replaced machineries and equipment amounting to ₱273.6 million relative to FG Hydro's refurbishment program

The net income in 2009 represented 15.3% of total revenue as compared to 6.6% in 2008.

Major Transactions for CY 2009

- Passage of Renewable Energy Act of 2008 (R.A. 9513) which led to:
 - Conversion of five GSCs to GRESCs allowing the Company to avail of incentives provided for under RA 9513 which include reduced corporate income tax rate of 10% and lower royalty fees.
 - Scoping out of IFRIC 12 due to the conversion of the GSCs to GRESCs
 - Write-down of deferred tax assets amounting to ₱2,959.2 million with the reduction in corporate income tax rate from 30% to 10% under the RE Law.
- Availment of IFC loan and issuance of Peso public bonds and Fixed Rate Corporate Notes
- Settlement of Miyazawa I loan
- Acquisition of Palinpinon-Tongonan Geothermal Power Plant
- Turn-over of Mindanao I and II power plants to the Company by the BOT contractor
- Recognition of loss on impairment on Northern Negros Geothermal Production Field
- Reissuance of treasury shares to Employee Trust Account

RESULTS OF OPERATIONS

December 2009 vs. December 2008 Results

CONSOLIDATED INCOME STATEMENT

(Amounts in PHP millions)	Dec. 2009	Dec. 2008	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS	
			Amount	%	2009	2008
Sale of electricity	15,246.0	12,518.2	2,727.8	21.8%	69.1%	61.0%
Sale of steam	3,781.4	4,242.5	(461.1)	-10.9%	17.1%	20.7%
Interest income on service concession	1,650.2	2,107.8	(457.6)	-21.7%	7.5%	10.3%
Drilling services	847.9	726.1	121.8	16.8%	3.8%	3.5%
Construction revenue	541.4	932.3	(390.9)	-41.9%	2.5%	4.5%
TOTAL REVENUES	22,066.9	20,526.9	1,540.0	7.5%	100.0%	100.0%
Operations and maintenance	(5,444.4)	(5,046.0)	(398.4)	7.9%	-24.7%	-24.6%
Purchased services and utilities	(2,073.1)	(1,523.9)	(549.2)	36.0%	-9.4%	-7.4%
General and administrative	(3,498.2)	(1,294.0)	(2,204.2)	170.3%	-15.9%	-6.3%
Construction costs	(467.3)	(803.7)	336.4	-41.9%	-2.1%	-3.9%
Depreciation and amortization	(1,198.8)	(675.8)	(523.0)	77.4%	-5.4%	-3.3%
Total Operating Expenses	(12,681.8)	(9,343.4)	(3,338.4)	35.7%	-57.5%	-45.5%
Interest income	403.0	332.6	70.4	21.2%	1.8%	1.6%
Interest expense	(2,887.2)	(2,152.5)	(734.7)	34.1%	-13.1%	-10.5%
Total Financial Income (Expenses)	(2,484.2)	(1,819.9)	(664.3)	36.5%	-11.3%	-8.9%
Foreign exchange gains (losses), net	1,291.2	(9,357.1)	10,648.3	-113.8%	5.9%	-45.6%
Write-off of replaced machineries and equipment	(273.6)	-	(273.6)	-100.0%	-1.2%	0.0%
Derivatives gain (loss), net	(198.8)	420.0	(618.8)	-147.3%	-0.9%	2.0%
Revenue from arbitration award	-	2,067.3	(2,067.3)	-100.0%	0.0%	10.1%
Miscellaneous, net	(439.7)	159.1	(598.8)	-376.4%	-2.0%	0.8%
Total Other Income (Expenses)	379.1	(6,710.7)	7,089.8	-105.6%	1.8%	-32.7%
INCOME BEFORE INCOME TAX	7,280.0	2,652.9	4,627.1	174.4%	33.0%	12.9%
Provision for (benefit from) Income Tax						
Current	(1,454.4)	(2,142.6)	688.2	-32.1%	-6.6%	-10.4%
Deferred						
Effect of Renewable Energy Law	(2,959.2)	-	(2,959.2)	-100.0%	-13.4%	0.0%
Others	501.9	835.0	(333.1)	-39.9%	2.3%	4.1%
	(3,911.7)	(1,307.6)	(2,604.1)	199.2%	-17.7%	-6.3%
NET INCOME	3,368.3	1,345.3	2,023.0	150.4%	15.3%	6.6%
Attributable to:						
Equity holders of the Parent Company	3,322.7	1,308.0	2,014.7	154.0%	15.1%	6.4%
Minority Interests	45.6	37.3	8.3	22.3%	0.2%	0.2%
EBITDA	10,583.9	11,859.3	(1,275.4)	-10.8%	48.0%	57.8%
Recurring Net Income	7,380.9	5,835.1	1,545.8	26.5%	33.4%	28.4%

Revenues

Total revenues for the year ended December 31, 2009 increased by 7.5% or ₱1,540.0 million to ₱22,066.9 million from ₱20,526.9 million in 2008 primarily due to higher average price from the increased inflation factor driven by the average Peso depreciation against the US dollar and the full recognition of revenue billings starting November 2009 due to the scoping out of IFRIC 12 effective October 23, 2009.

Sale of Electricity

Revenue from sale of electricity increased by 21.8% or ₱2,727.8 million to ₱15,246.0 million in 2009 from ₱12,518.2 million in 2008 on account of the following:

- Higher average price by ₱0.1872/KWh due to increased inflation factor resulting in additional revenue of ₱1,067.4 million. In 2009, the average Peso was weaker against US dollar at ₱47.64:US\$1.00 versus the 2008 average of ₱44.47:US\$1.00.
- ₱1,067.1 million revenue generated by Green Core Geothermal, Inc. which started its operations on October 24, 2009;
- Impact of the full recognition of revenue billings starting November 2009 due to the scoping out of IFRIC 12 effective October 23, 2009 amounting to ₱576 million.

Sale of Steam

Revenue from sale of steam decreased by 10.9% or ₱461.1 million to ₱3,781.4 million in 2009 from ₱4,242.5 million in 2008. The decrease was primarily contributed by the following:

- Shifting to electricity from steam the reported revenues of Tongonan I and Palinpinon (now as Green Core Geothermal, Inc.) from October 24, 2009 to December 31, 2009 in the amount of ₱779.0 million;
- Lower billed volume by 230 GWh, equivalent to ₱379.8 million, largely attributed to the recognition of 188.3 GWh generation loss for Tongonan 1, lower surplus revenue for Palinpinon by 26.7 GWh and lower billed volume for Bacman by 15.2 GWh due to force majeure affecting Bacman's facilities from May 2-30, 2009

Offsetting the foregoing unfavorable variances were the following:

- Higher average prices by ₱0.1141/KWh due to increased inflation factor resulting in additional revenues of about ₱327 million;
- Full recognition of ₱289.8 million Palinpinon I and Tongonan I billings as revenues effective January and February 2009, respectively, due to the full amortization of their concession receivables as per IFRIC 12;
- Impact of the full recognition of revenue billings starting November 2009 due to the scoping out of IFRIC 12 effective October 23, 2009 amounting to ₱84.9 million.

Interest Income on Service Concession

Interest income on concession receivable decreased by 21.7% or ₱457.6 million to ₱1,650.2 million in 2009 from ₱2,107.8 million in 2008. The decrease was brought about by the full amortization of concession receivable for Palinpinon I and Tongonan I in December 2008 and January 2009, respectively, and the scoping out of IFRIC 12 effective October 23, 2009.

Drilling Services

Revenue from drilling services increased by 16.8% or ₱121.8 million to ₱847.9 million in 2009 from ₱726.1 million in 2008. The positive variance was mainly attributed to the increased unit rates for various drilling services based on the new contract. Higher average Php:US\$ exchange rate for 2009 of ₱47.64:US\$1.00 versus ₱45.03:US\$1.00 for 2008 also contributed to the increase.

Construction Revenue

Construction revenue decreased by 41.9% or ₱390.9 million to ₱541.4 million in 2009 from ₱932.3 million in 2008 due to the scoping out of IFRIC 12 effective October 23, 2009.

Operating Expenses

Operating expenses increased by 35.7% or ₱3,338.4 million to ₱12,681.8 million in 2009 from ₱9,343.4 million in 2008 mainly due to higher general & administrative expenses (G&A), purchased services and utilities (PSU) and depreciation and amortization.

Operations and Maintenance

Operations and maintenance increased by 7.9% or ₱398.4 million to ₱5,444.4 million in 2009 from ₱5,046.0 million in 2008. Excluding the ₱248.4 million reversal in 2008 of provision for business tax for Unified Leyte, the net increase of ₱150 million is accounted for by the following:

- Higher expenses by ₱274.2 million relative to the implementation of Leyte Steam Augmentation Program; and
- Purchase of Turbine Rotor Blades for the Mahanagdong power plant in Leyte amounting to ₱297.0 million in 2009.
- Higher real property tax for Mindanao and Leyte by ₱91 million in 2009.

The foregoing variances were reduced by the following:

- Lower royalty fees for 2009 by ₱375.7 million starting January 30, 2009 as per incentives provided under Renewable Energy Act of 2008. The applicable royalty fee has been reduced to 1.5% of gross income on steam and electricity sales;
- Insurance reimbursement on company's claim for the damages incurred by typhoon/force majeure in Mindanao and Bacman amounting to ₱91.2 million; and
- Reversal in 2009 of ₱43.6 outstanding local business tax accrual in 2004.

Purchased Services and Utilities

Purchased services and utilities increased by 36.0% or ₱549.2 million to ₱2,073.1 million in 2009 from ₱1,523.9 million in 2008 largely on account of higher expenses on professional/consultancy services particularly for Leyte Steam Augmentation Project (₱295.0 million), higher rig mobilization charges to geothermal wells (₱164.0 million), other outsourced services for the augmentation activities (₱114.0 million), rehabilitation works undertaken in Bacman steamfield project for the damages caused by Typhoon Dante (₱107.0 million) and hauling services for the shipment of drilling materials to field geothermal projects (₱90.0 million).

The increase was partly offset by lower BOT fees (₱215.0 million) with the completion of the contracts for Mindanao I & II geothermal power plants.

General and Administrative

General and administrative expenses increased by 170.3% or ₱2,204.2 million to ₱3,498.2 million in 2009 from ₱1,294.0 million in 2008. Excluding the ₱1,116.2 million one-time reduction in 2008 for allowance in doubtful accounts, the net increase amounted to ₱1,088.0 million and is accounted for by the following:

- ₱363.3 million income tax due on the 3rd and 4th tranches of revenue from arbitration award;
- Higher consultancy services by ₱214.3 million incurred in 2009 primarily for legal services relative to the real property assessments to EDC-Parent and for financial, business development and other services rendered by First Gen Corporation;

- Higher employee related costs by ₱206.3 million;
- ₱106.2 million provision for impairment of inventory materials with none in 2008;
- Higher expenditures by ₱78 million on purchases of steam/electricity assets charged to expense under IFRIC 12 and other business expenses.
- ₱26.1 million office space rental with none in 2008;

Construction Costs

Construction costs decreased by 41.9% or ₱336.4 million to ₱467.3 million in 2009 from ₱803.7 million in 2008 due to the scoping out of IFRIC 12 effective October 23, 2009.

Depreciation and Amortization

Depreciation and amortization charges increased by 77.4% or ₱523.0 million to ₱1,198.8 million in 2009 from ₱675.8 million in 2008 due mainly to the depreciation/amortization charges incurred for November and December 2009 resulting from reclassification of service concession receivable and intangible asset to property, plant and equipment effective October 23, 2009. This amounts to ₱347.3 million coupled with the depreciation of newly acquired assets assigned to head office and drilling groups in the amount of ₱105.5 million.

Financial Income (Expenses)

Financial expenses increased by 36.5% or ₱664.3 million to ₱2,484.2 million in 2009 from ₱1,819.9 million in 2008 due to higher debt servicing costs largely on account of the IFC loan, Peso public bonds and the Fixed Rate Corporate Notes (FRCN) availed in 2009.

Interest Income

Interest income increased by 21.2% or ₱70.4 million to ₱403.0 million in 2009 from ₱332.6 million in 2008. The favorable variance was contributed by higher balances of investible funds primarily attributed from the drawdowns from IFC loan in January 2009 and Fixed Rate Corporate Notes (FRCN) in July & September 2009 (₱102.8 million) reduced by lower interest income accretion on outstanding arbitrated NPC receivable (₱32.4 million).

Interest Expense

Interest expense increased by 34.1% or ₱734.7 million to ₱2,887.2 million in 2009 from ₱2,152.5 million in 2008. The unfavorable variance was mainly on account of the following:

- Interest expense on the newly acquired loans from FRCN, IFC and Peso public bonds amounting to ₱391.4 million, ₱316.1 million and ₱54.9 million respectively;
- Higher short-term financing charges amounting to ₱129.8 million from the local banks;
- Accrual of interest charges amounting to ₱111.9 million on liability from various litigations with none in 2008; and
- ₱76.5 million interest expense of Green Core Geothermal, Inc. on 60% staple financing from PSALM from October 24, 2009 to December 16, 2009.

The foregoing variances were reduced by the following:

- Lower interest charges on loans by ₱184.6 million due to the full settlement of the Miyazawa I loan in June 2009 and lower outstanding balances of IBRD and JBIC

- loans due to repayment of principal amortization; and
- Lower accretion of Day 1 gain on royalty fee payable by ₱155.7 million due to amortization payments.

Other Income (Charges)

A ₱379.1 million net other income was recognized in 2009 as against a ₱6,710.7 million net other charges in 2008. The favorable variance was primarily contributed by the foreign exchange gain position in 2009 in contrast with the foreign exchange loss position in 2008, partly offset by the ₱2,067.3 million other income from NPC for the arbitral award recognized in March 2008.

Foreign Exchange Gains (Losses), net

Net foreign exchange gain of ₱1,291.2 million was recognized in 2009 as against a net foreign exchange loss of ₱9,357.1 million in 2008, primarily due to JPY depreciation vs. US\$ in 2009 as compared to the JPY appreciation vs. US\$ in 2008. Contributing to this was the PhP appreciation vs. the US\$ in 2009 as compared to the PhP depreciation vs. US\$ in 2008.

The comparative foreign exchange rates against the USD were as follows:

December 31, 2007 - JPY113.688; PHP41.411

December 31, 2008 - JPY90.942; PHP47.520

December 31, 2009 - JPY91.634; PHP46.200

Write-off of Replaced Machineries and Equipment

The ₱273.6 million recognized in 2009 pertained to FG Hydro's retired/written-off net book value of replaced machineries and equipment for Unit 1 of PAHEP.

Derivatives Gain (Loss), Net

A derivatives loss of ₱198.8 million was recognized in 2009 in contrast with a derivatives gain of ₱420.0 million gain in 2008. Derivative loss in 2009 pertained to the ₱165.1 million realized loss on forward currency contracts with Calyon for Japanese Yen and ₱10.5 million loss with various banks for US dollar currency. All hedging contracts were consummated on May 28, 2009.

FG Hydro's recognition of ₱23.2 million derivatives loss as against the ₱35.3 million derivatives gain during the same period in 2008 on embedded currency options in its PRUP Contract with VA TECH HYDRO GmbH, now known as Andritz Hydro GmbH (Contractor), contributed further to the unfavorable variance.

Revenue from Arbitration Award

The ₱2,067.3 million recognized in 2008 pertained to prior years' contested revenues in Unified Leyte which were resolved through arbitration with NPC. The arbitral award in March 2008 was in favor of EDC. No equivalent transaction occurred in 2009.

Miscellaneous, Net

Miscellaneous charges, net increased by 376.4% or ₱598.8 million to ₱439.7 million loss in 2009 from ₱159.1 million income in 2008, mainly on account of the following:

- ₱349.0 million provision for impairment of No. Negros Geothermal Production Field;

- Lower recognition by ₱206.6 million of materials inventory turned over by the BOT contractors - booked at appraised value;
- ₱126.8 million loss on sale of FB assets to PNOC mother company;
- Write-off of input VAT claims from the BIR amounting to ₱178.6 million with none in 2008;
- Write-off of non-productive well in Mindanao amounting to ₱83.5 million with none;
- ₱46.3 million gain on sale of available for sale assets/investments in 2008; and
- ₱3.3 million impairment loss on available for sale securities in 2009.

The foregoing variances were reduced by the following:

- ₱189.8 million Day 1 loss on NPC receivable recognized in 2008 with none in 2009;
- ₱168.3 million Day 1 gain on royalty payable due DOE recognized in 2009 with none in 2008;
- ₱38.2 million remuneration received from the BOT contractor for the rehabilitation of Mindanao I/II power plants turned over in June 2009.

Provision for Income Tax

Current tax expense decreased by 32.1% or ₱688.2 million to ₱1,454.4 million in 2009 from ₱2,142.6 million in 2008.

This was mainly due to the following:

- ₱1,294.2 million from the reduced corporate income tax rate of 10% under the RE Law starting February 2009 and 30% for January 2009 versus 35% in 2008;
- ₱194.5 million income tax paid in 2008 on Tranches 1 & 2 of the arbitral award; and
- Green Core Geothermal, Inc. current tax for 2009 amounting to ₱26.2 million.

These were partly offset by the ₱826.7 million payment of income tax on the sale of FB land and building.

A deferred tax expense of ₱2,457.3 million was recognized in 2009 in contrast to a deferred tax benefit of ₱835.0 million in 2008 mainly due to the following:

- Write-down of ₱2,959.2 million deferred tax assets from the reduced corporate income tax rate of 10% under the RE Law starting February 2009 and 30% for January 2009; and
- Lower deferred tax assets on unrealized foreign exchange loss on realignment of foreign loans - net of depreciation/amortization of IFRIC 12 assets (₱1,344.5 million).

The unfavorable variances were reduced by the following:

- Income tax benefit on the reduction in allowance for doubtful accounts in 2008 brought about by the arbitral award (₱390.7 million); and
- Reclassification to current tax expense of the settlement in 2009 of deferred tax liabilities recognized in prior year on 3rd and 4th tranches arbitration income (₱311.4 million) and income on the sale of FB land and building (₱309.3 million).

Net Income

Net income increased by 150.4% or ₱2,023.0 million to ₱3,368.3 million in 2009 from ₱1,345.3 million in 2008 primarily due to a ₱2,727.8 million increase in revenue from sale of electricity.

The favorable foreign exchange gain position of ₱1,291.2 million in 2009 versus ₱9,357.1 foreign exchange loss in 2008 enabled the Company to absorb the following increase in expenses:

- Write-down of ₱2,959.2 million deferred tax assets with the reduced corporate income tax rate of 10% under the RE Law starting February 2009 and 30% for January 2009.
- One-time adjustments in 2008 aggregating to ₱3,183.5 million pertaining to prior years' contested revenues in Unified Leyte and the reduction in allowance for doubtful accounts which were resolved through arbitration with NPC.
- ₱2,222.2 million increase in operating expenses inclusive of the Leyte Steam Augmentation Project.
- Higher interest expense by ₱734.7 million
- Higher miscellaneous charges by ₱598.8 million inclusive of the ₱349.0 million impairment loss on property, plant and equipment of No. Negros Geothermal Production Field.
- Write-off of replaced machineries and equipment amounting to ₱273.6 million relative to FG Hydro's refurbishment program

The net income in 2009 represented 15.3% of total revenue as compared to 6.6% in 2008.

December 2008 vs. December 2007 Results

CONSOLIDATED INCOME STATEMENT

(Amounts in PHP millions)	Dec. 2008	Dec. 2007	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS	
			Amount	%	2008	2007
					Favorable (Unfavorable) Variance	
Sale of electricity	12,518.2	11,508.9	1,009.3	8.8%	61.0%	60.6%
Sale of steam	4,242.5	4,521.2	(278.7)	-6.2%	20.7%	23.8%
Interest income on service concession	2,107.8	2,236.9	(129.1)	-5.8%	10.3%	11.8%
Drilling services	726.1	624.9	101.2	16.2%	3.5%	3.2%
Construction revenue	932.3	108.8	823.5	756.9%	4.5%	0.6%
TOTAL REVENUES	20,526.9	19,000.7	1,526.2	8.0%	100.0%	100.0%
Operations and maintenance	(5,046.0)	(3,078.9)	(1,967.1)	63.9%	-24.6%	-16.2%
Purchased services and utilities	(1,523.9)	(3,111.4)	1,587.5	-51.0%	-7.4%	-16.4%
General and administrative	(1,294.0)	(2,385.7)	1,091.7	-45.8%	-6.3%	-12.6%
Construction costs	(803.7)	(101.1)	(702.6)	695.0%	-3.9%	-0.5%
Depreciation and amortization	(675.8)	(284.3)	(391.5)	137.7%	-3.3%	-1.5%
Total Operating Expenses	(9,343.4)	(8,961.4)	(382.0)	4.3%	-45.5%	-47.2%
Interest income	332.6	650.0	(317.4)	-48.8%	1.6%	3.4%
Interest expense	(2,152.5)	(1,600.1)	(552.4)	34.5%	-10.5%	-8.4%
Total Financial Income (Expenses)	(1,819.9)	(950.1)	(869.8)	91.5%	-8.9%	-5.0%
Foreign exchange gains (losses), net	(9,357.1)	3,995.8	(13,352.9)	-334.2%	-45.6%	21.0%
Derivatives gain (loss), net	420.0	56.0	364.0	650.0%	2.0%	0.3%
Revenue from arbitration award	2,067.3	-	2,067.3	100.0%	10.1%	0.0%
Miscellaneous, net	159.1	(204.4)	363.5	-177.8%	0.8%	-1.0%
Total Other Income (Expenses)	(6,710.7)	3,847.4	(10,558.1)	-274.4%	-32.7%	20.3%
INCOME BEFORE INCOME TAX	2,652.9	12,936.6	(10,283.7)	-79.5%	12.9%	68.1%
Provision for (benefit from) Income Tax						
Current	(2,142.6)	(2,311.0)	168.4	-7.3%	-10.4%	-12.2%
Deferred	835.0	(1,857.3)	2,692.3	-145.0%	4.1%	-9.8%
	(1,307.6)	(4,168.3)	2,860.7	-68.6%	-6.3%	-22.0%
NET INCOME	1,345.3	8,768.3	(7,423.0)	-84.7%	6.6%	46.1%
Attributable to:						
Equity holders of the Parent Company	1,308.0	8,692.2	(7,384.2)	-85.0%	6.4%	45.7%
Minority Interests	37.3	76.1	(38.8)	-51.0%	0.2%	0.4%
EBITDA	11,859.3	10,323.4	1,535.9	14.9%	57.8%	54.3%
Recurring Net Income	5,835.1	6,265.0	(429.9)	-6.9%	28.4%	33.0%

Revenues

Total revenues for the year ended December 31, 2008 increased by 8% or ₱1,526.2 million to ₱20,526.9 million from ₱19,000.7 million in 2007 primarily due to consolidation of FG Hydro's full year electricity revenue to EDC in 2008 compared to only the December 2007 revenue. The purchase by EDC of 60% in FG Hydro is deemed effective on November 29, 2007, the date EDC and FG Hydro came under common control of First Gen. This was augmented by higher construction revenue in 2008.

Sale of Electricity

Revenue from sale of electricity increased by 8.8% or ₱1,009.3 million to ₱12,518.2 million in 2008 from ₱11,508.9 million in 2007 on account of the following:

- Higher FGHPC's revenue by ₱1,166.5 million with the full year recognition in 2008 as against one month in 2007;

- Higher average price, by ₱0.0330/KWh, due to the increased inflation factor with the appreciation of the US dollar against the peso in 2008 (₱164.2 million); and
- Additional ₱10.6 million revenue from inflation adjustments of prior year's billings recognized in 2008 as against the ₱24.0 million reduction in revenue from inflation adjustments of prior year's billings recognized in 2007 based on the final indices from the National Statistics Office.

The foregoing favorable variances were partly offset by the decrease in billed volume by 122.9 GWh amounting to ₱356.0 million mainly due to the following:

- Breakdown of Mindanao 1's transformer from July 2008 to October 2008 (80.5 GWh); and
- Temporary shutdown of Northern Negros, which dropped its electricity generation to 15.8 GWh in 2008 from its 115.7 GWh generation in 2007, due to the accumulation of calcite deposits in the production wells (54.4 GWh)

Sale of Steam

Revenue from sale of steam decreased by 6.2% or ₱278.7 million to ₱4,242.5 million in 2008 from ₱4,521.2 million in 2007. The decrease was primarily contributed by the following:

- Higher revenue recognition in 2007 due to NPC's acceptance of Tongonan 1 shortfall generations from 1985 to 1989 amounting to ₱321 million whereas no such type of transaction was recognized in 2008; and
- Lower prior year's inflation billing adjustments recognized in 2008 by ₱15 million compared with 2007 due to preceding year's drop in final indices as published by the National Statistics Office.

Offsetting the foregoing unfavorable variances were the following:

- Increase by ₱0.0190/KWh in average price due to higher inflation factor amounting to ₱58.8 million; and
- Higher sales volume by 2.2 GWh brought about by Palinpinon II's 26.2 GWh increment in generation volume and the 7.0 GWh increase in billable volume accounted by the additional one (1) day for 2008 due to its being a leap year, partly reduced by Palinpinon I's 28.7 GWh drop in generation volume (₱3.7 million).

Interest Income on Service Concession

Interest income on concession receivable decreased by ₱129.1 million, or 5.8%, to ₱2,107.8 million in 2008 from ₱2,236.9 million in 2007. The unfavorable variance was brought about by the decreasing balance of concession receivable due to its regular amortization.

Drilling Services

Revenue from drilling services increased by 16.2% or ₱101.2 million to ₱726.1 million in 2008 from ₱624.9 million in 2007. The favorable variance was attributed to higher drilling-revenue days (2008 = 362 days vs. 2007 = 280 days) and increased rates for the various services rendered to Lihir Gold Limited in 2008.

Construction Revenue

Construction revenue increased by 756.9% or ₱823.5 million to ₱932.3 million in 2008 from ₱108.8 million in 2007. The revenue in 2008 pertained to the recognition of intangible asset for the Northern Negros buffer zone (₱681.3 million) and Tanawon project in Albay (₱250.94 million) as these projects are already in the development stage. On the other hand, the revenue in 2007 pertained to the remaining works undertaken for the Northern Negros FCRS and power plant, which were completed in February 2007.

Operating Expenses

Operating expenses increased by 4.3% or ₱382 million to ₱9,343.4 million in 2008 from ₱8,961.4 million in 2007 mainly due to higher maintenance of field facilities and construction costs mitigated by lower purchased services and utilities, and general and administrative expenses.

Operations and Maintenance

Operations and maintenance increased by 63.9% or ₱1,967.1 million to ₱5,046 million in 2008 from ₱3,078.9 million in 2007 mainly due to the grantor assessment adjustment in 2007 as a result of the re-computation of the recoverable costs with the DOE (₱866.4 million). No such type of adjustment was made in 2008. Excluding the impact of the grantor's assessment, the adjusted increase of ₱1,100.7 million was primarily accounted by the following:

- Higher costs incurred in 2008 for the construction of pads and for the Fluid Collection and Reinjection System (FCRS) in Unified Leyte and Tongonan 1 (₱442.1 million);
- Higher material consumption in 2008 (₱399.2 million) mainly for the civil works activities and for the work-over of geothermal wells, particularly in Leyte;
- Increase in maintenance expenditures, particularly on the power plant facilities already turned over to the Company in Leyte (₱212.4 million);
- Higher drilling rigs operating expenses charged to geothermal operations due to the increased number of wells work-over (2008 = 28 wells vs. 2007 = 17 wells) in certain project locations (₱91.6 million);
- Higher personnel costs largely attributed to additional personnel hired for the operations of turned over power plants in Leyte coupled with the start of NNGPF's commercial operations in June 2007 and by the merit increase granted in 2008 (₱155.5 million);
- Higher royalty fees attributed to the hike in deemed steam prices effected starting July 2007 for the electricity plants in Leyte and Mindanao, coupled with the decrease in Palinpinon area's recovery level from 30% to 10% starting January 2008 (₱90.5 million); and
- Full year recognition of FGHPC's operations and maintenance expenses in 2008 versus the one month recognition in 2007 (₱112.4 million).

The aforementioned variances were partly reduced by:

- Lower business tax on electricity revenues and real property tax on power plants in Leyte, Mindanao and Northern Negros (₱312.4 million); and
- Higher proceeds from insurance claims (2008 = ₱205.2 million vs. 2007 = ₱63.7 million) on typhoon damages (₱141.5 million).

Purchased Services and Utilities

Purchased services and utilities significantly decreased by 51% or ₱1,587.5 million to

₱1,523.9 million in 2008 from ₱3,111.4 million in 2007 largely on account of lower BOT fees amounting to ₱1,711.7 million given the completion of the BOT contracts for Malitbog and Mahanagdong Power Plants on July 25, 2007 and Leyte Optimization Power Plants on September 25, 2007. These were reduced by higher expenses in 2008 for professional and consultancy services particularly on drilling activities in Lihir, Papua, New Guinea and for well work-over activities in Leyte and Northern Negros amounting to ₱209.8 million.

General and Administrative

The ₱1,091.7 million, or 45.8%, drop to ₱1,294.0 million in 2008 from ₱2,385.7 million in 2007, was mainly accounted for by higher reduction in allowance for doubtful accounts - net by ₱1,353.8 million in 2008 as a favorable result of the arbitration between EDC and NPC on the royalty component of the revenue from shortfall generation, which was awarded in favor of EDC. This was reduced by higher third party services for geothermal operations amounting to ₱129.1 million and FGHPC's full year recognition field administrative expenses in 2008 versus the one month recognition in 2007 amounting to ₱156.3 million.

Construction Costs

Construction costs increased by 695.0% or ₱702.6 million to ₱803.7 million in 2008 from ₱101.1 million in 2007. The construction costs in 2008 pertained to the recognition of intangible asset for the Northern Negros buffer zone (₱587.4 million) and Tanawon project in Albay (₱216.3 million) as these projects are already in the development stage. On the other hand, the construction costs in 2007 pertained to the remaining works undertaken for the Northern Negros FCRS and power plant, which were completed in February 2007.

Depreciation and Amortization

The ₱391.5 million, or 137.7%, increase to ₱675.8 million in 2008 from ₱284.3 million in 2007 was mainly due to the full year recognition of FGHPC's power plant depreciation in 2008 compared to the one month depreciation recognized in 2007 (₱268.7 million) coupled with the full year amortization of intangible assets in Northern Negros Geothermal Project in 2008 versus the seven months in 2007.

Financial Income (Expenses)

The ₱869.8 million increase in financial expenses, or 91.5%, in 2008 to ₱1,819.9 million from ₱950.1 million in 2007, is largely due to higher debt servicing for geothermal operations arising from the Peso depreciation and Yen appreciation against the US dollar coupled with the full year recognition of FGHPC's interest expense in 2008 versus the one month recognition in 2007 and the lower interest income on reduced funds placements.

Interest Income – net

Interest income-net of final tax decreased by 48.8% or ₱317.4 million to ₱332.6 million in 2008 from ₱650 million in 2007. The unfavorable variance was largely contributed by this year's lower interest income on funds placements (₱425.5 million), partly offset by the recognition of interest income accretion on arbitrated receivables from NPC starting March 25, 2008 (₱108.1 million).

Interest Expense

Interest expense increased by 34.5% or ₱552.4 million to ₱2,152.5 million in 2008 from ₱1,600.1 million in 2007. The unfavorable variance was mainly on account of the following:

- Peso depreciation and Yen appreciation against the US dollar which largely influenced the increase of interest expense on foreign loans (₱472.8 million);
- Recognition of FGHPC's full year interest expense in 2008 versus the one month recognition in 2007 (₱322.6 million);
- Higher short-term financing costs incurred in 2008 (₱17.3 million); and
- Interest accretion on day 1 gain from royalty payable (₱14.2 million).

The aforementioned factors were reduced by the drop in interest charges due to the reduction of outstanding loans mainly from the prepayment of two term loans in 2007 (₱274.4 million).

Other Income (Charges)

Net other charges in 2008 amounted to ₱6,710.7 million as compared to ₱3,847.4 million net other income in 2007, primarily due to foreign exchange losses incurred in 2008 against the foreign exchange gains earned in 2007, reduced by other income from NPC for the arbitral award recognized in March 2008.

Foreign Exchange Gains (Losses)

A net foreign exchange loss of ₱9,357.1 million was registered in 2008 as compared to ₱3,995.8 million gain in 2007, primarily due to higher rate of JPY appreciation vs. US\$ in 2008 compared to the same period in 2007. The exchange rate depreciation in the current period of PhP vs. the US\$ was also a marked reversal of the appreciation posted for the same period in 2007.

The comparative foreign exchange rates against the USD were as follows:

December 31, 2006	-	JPY118.934;	PHP49.045
December 31, 2007	-	JPY113.688;	PHP41.411
December 31, 2008	-	JPY90.942;	PHP47.520

Derivatives Gain (Loss), Net

Derivatives gain significantly increased by ₱364 million, or 650%, to ₱420.0 million in 2008 from ₱56.0 million in 2007. This year's derivative gain of ₱384.7 million pertained to the fair valuation of the hedging contracts covering JPY8 billion of the Miyazawa 1 loan and the recognition of FGHPC's derivative gains on currency options in 2008 (₱35.3 million) while the derivative gain in 2007 of ₱56 million attributed to the prepayment options on term loans which were prepaid in 2007.

Revenue from arbitration award

The ₱2,067.3 million recognized in 2008 pertained to prior years' contested revenues in Unified Leyte which were resolved through arbitration with NPC. The arbitral award in March 2008 was in favor of EDC. No such type of transaction occurred in 2007.

Miscellaneous, Net

Miscellaneous income - net increased by 177.8% or ₱363.5 million to ₱159.1 million income in 2008 from ₱204.4 million miscellaneous charges in 2007 mainly due to the fair value recognition of the power plants' inventories turned over by the BOT contractor amounting to ₱260.6million and the higher gain on sale of AFS investments amounting to ₱38.4 million.

Provision for Income Tax

Current tax expense decreased by 7.3% or ₱168.4 million to ₱2,142.6 million in 2008 from ₱2,311 million in 2007 largely due to higher steam charges on electricity sales starting July 2007 and higher deductible expenses on electricity operations reduced by the ₱191.4 million income tax payment on the ₱1.0 billion collection in July 2008 of arbitrated receivables from NPC.

A deferred tax income of ₱835.0 million was recognized in 2008 as compared to ₱1,857.3 million deferred tax expense in 2007 mainly because of the unrealized foreign exchange loss on realignment of long-term foreign loans in 2008 in contrast to the unrealized foreign exchange gain incurred in 2007, reduced by the deferred tax liability on unsettled other income from the arbitral award recognized in March 2008.

Net Income

Resulting net income decreased by ₱7,423.0 million, or 84.7%, to ₱1,345.3 million in 2008 from ₱8,768.3 million in 2007. In 2008, net income represented 6.6% of total revenue compared to 46.1% of total revenue in 2007, primarily due to higher foreign exchange losses, higher interest charges and higher operating expenses, partly offset by higher revenues and lower provision for income tax.

BALANCE SHEET

Horizontal and Vertical Analysis of Material Changes as of December 31, 2009 and 2008

(Amounts In PHP millions)	Dec. 2009	Dec. 2008	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS	
			Increase (Decrease) Amount	%	2009	2008
ASSETS						
Current Assets						
Cash and cash equivalents	11,220.9	957.1	10,263.8	1072.4%	13.2%	1.4%
Trade and other receivables	5,487.2	5,412.1	75.1	1.4%	6.5%	7.8%
Current portion of concession receivable	-	2,048.1	(2,048.1)	-100.0%	0.0%	3.0%
Available-for-sale (AFS) investments	734.8	674.5	60.3	8.9%	0.9%	1.0%
Parts and supplies inventories	1,553.8	1,563.3	(9.5)	-0.6%	1.8%	2.3%
Derivative assets	-	614.1	(614.1)	-100.0%	0.0%	0.9%
Other current assets	141.0	657.4	(516.4)	-78.6%	0.2%	0.9%
	19,137.7	11,926.6	7,211.1	60.5%	22.6%	17.2%
Noncurrent assets held for sale	-	1,797.6	(1,797.6)	-100.0%	0.0%	2.6%
Total Current Assets	19,137.7	13,724.2	5,413.5	39.4%	22.6%	19.8%
Noncurrent Assets						
Property, plant and equipment	59,877.2	5,280.1	54,597.1	1034.0%	70.6%	7.6%
Service concession assets						
Concession receivables - net of current portion	-	32,647.3	(32,647.3)	-100.0%	0.0%	47.1%
Intangible assets	-	9,389.2	(9,389.2)	-100.0%	0.0%	13.5%
Intangible assets	2,397.5	2,493.7	(96.2)	-3.9%	2.8%	3.6%
Deferred tax assets	959.3	3,410.4	(2,451.1)	-71.9%	1.1%	4.9%
Exploration and evaluation assets	1,038.1	999.8	38.3	3.8%	1.2%	1.4%
Derivative assets	9.6	34.9	(25.3)	-72.5%	0.0%	0.1%
Other noncurrent assets	1,355.5	1,366.0	(10.5)	-0.8%	1.6%	2.0%
Total Noncurrent Assets	65,637.2	55,621.4	10,015.8	18.0%	77.4%	80.2%
TOTAL ASSETS	84,774.9	69,345.6	15,429.3	22.2%	100.0%	100.0%
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities						
Loan payable	-	2,000.0	(2,000.0)	-100.0%	0.0%	2.9%
Trade and other payables	3,985.0	2,979.9	1,005.1	33.7%	4.7%	4.3%
Income tax payable	66.4	84.8	(18.4)	-21.7%	0.1%	0.1%
Due to related parties	537.0	110.9	426.1	384.2%	0.6%	0.2%
Derivative liabilities	-	54.3	(54.3)	-100.0%	0.0%	0.1%
Current portion of:						
Long-term debts	16,930.8	8,672.4	8,258.4	95.2%	20.0%	12.5%
Royalty fee payable	244.3	1,688.3	(1,444.0)	-85.5%	0.3%	2.4%
Obligations to a power plant contractor	-	112.2	(112.2)	-100.0%	0.0%	0.2%
Total Current Liabilities	21,763.5	15,702.8	6,060.7	38.6%	25.7%	22.6%
Noncurrent Liabilities						
Long-term debts - net of current portion	30,533.7	23,557.0	6,976.7	29.6%	36.0%	34.0%
Royalty fee payable - net of current portion	566.7	-	566.7	100.0%	0.7%	0.0%
Deferred tax liabilities, net	17.3	11.3	6.0	53.1%	0.0%	0.0%
Retirement and other post-retirement benefits	1,237.1	1,026.4	210.7	20.5%	1.5%	1.5%
Other long-term liabilities	324.7	312.8	11.9	3.8%	0.5%	0.6%
Total Noncurrent Liabilities	32,679.5	24,907.5	7,772.0	31.2%	38.6%	36.0%
EQUITY						
Equity Attributable to Equity Holders of the Parent						
Preferred stock	93.8	75.0	18.8	25.0%	0.1%	0.1%
Common stock	18,750.0	15,000.0	3,750.0	25.0%	22.1%	21.6%
Common stock in employee trust account	(391.6)	-	(391.6)	-100.0%	-0.5%	0.0%
Additional paid-in capital	6,262.0	6,278.1	(16.1)	-0.3%	7.4%	9.1%
Equity reserve	(3,706.4)	(3,706.4)	-	0.0%	-4.4%	-5.3%
Accumulated unrealized gain on AFS investments	113.1	30.8	82.3	267.2%	0.1%	0.0%
Retained earnings	7,681.2	9,977.9	(2,296.7)	-23.0%	9.1%	14.4%
Cost of treasury stock held	-	(404.2)	404.2	-100.0%	0.0%	-0.6%
	28,802.1	27,251.2	1,550.9	5.7%	33.9%	39.2%
Minority Interest	1,529.8	1,484.1	45.7	3.1%	1.8%	2.1%
Total Equity	30,331.9	28,735.3	1,596.6	5.6%	35.7%	41.3%
TOTAL LIABILITIES AND EQUITY	84,774.9	69,345.6	15,429.3	22.2%	100.0%	100.0%

The Company's total resources increased by 22.2% or ₱15,429.3 million to ₱84,774.9 million as of December 31, 2009 from ₱69,345.6 million as of December 31, 2008. EDC's debt ratio increased to 61:39 as of December 31, 2009 from 53:47 as of December 31, 2008. This year current ratio of 0.88:1 was higher than last year's 0.87:1.

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.

Cash and cash equivalents as of December 31, 2009 stood at ₱11,220.9 million, 1,072.4% or ₱10,263.8 million higher than the December 31, 2008 balance of ₱957.1 million. The increase was primarily accounted for by the following:

- ₱9,733.8 million internal cash generation for 2009, inclusive of the ₱1,000 million collection from NPC for Tranche 3 of the arbitral award;
- ₱12,000 million proceeds of Peso public bonds, ₱9,000.0 million proceeds of fixed rate corporate notes and ₱4,100.0 million proceeds of IFC loan; and,
- ₱1,402.3 million proceeds from the sale of Fort Bonifacio (FB) properties to PNOC

The increase was partly offset by the acquisition of Palinpinon-Tongonan Geothermal Power Plant (₱10,165.3 million), settlement of Miyazawa I (₱6,270.4 million), net payment of short-term loans (₱1,997.3 million), regular principal debt servicing of other long-term loans (₱2,535.8 million), combined capital expenditures of both FG Hydro and EDC (₱3,221.3 million) and payment of cash dividend (₱1,869.4 million).

Trade and other receivables

This account, consisting of receivables from NPC, contractors and employees, increased by 1.4% or ₱75.1 million to ₱5,487.2 million as of December 31, 2009 from ₱5,412.1 million as of December 31, 2008. The increase was primarily due to the ₱541.2 million increase in trade receivables driven by the ₱813.3 million Tranche 4 of the arbitral award, net of unamortized Day 1 loss, reclassified from the noncurrent assets account.

This was offset by:

- ₱160.2 million decrease in non-trade accounts receivable and
- ₱293.1 million input VAT refund claim reclassified to the noncurrent assets account as the processing of the refund already extends beyond 2 years.

Current portion of concession receivable

This account dropped 100% or ₱2,048.1 million due to scoping out of IFRIC 12 effective October 23, 2009.

Available-for-sale (AFS) investments

This account increased by 8.9% or ₱60.3 million to ₱734.8 million as of December 31, 2009 from the ₱674.5 million balance as of December 31, 2008 primarily due to the favorable increase in fair value of the ROP dollar-denominated bonds as of end-December 2009.

Derivative assets

This account decreased by 100% from the ₱614.1 million balance as of end-December 2008 with the settlement of the hedging arrangements consisting of range bonus forward and plain vanilla

foreign currency forward contracts on May 28, 2009 as the JPY 12 billion Miyazawa I was paid in full last June 1, 2009.

Other current assets

Other current assets decreased by 78.6% or ₱516.4 million to ₱141.0 million as of December 31, 2009 from ₱657.4 million as of December 31, 2008 mainly due to application of ₱459.3 million withholding tax.

Noncurrent assets held for sale

The ₱1,797.6 million decrease in this account was due to the completion of the sale to PNOC of the portion of land on which the EDC headquarters are situated.

Property, plant and equipment

This account significantly increased by 1,034% or ₱54,597.1 million to ₱59,877.2 million as of December 31, 2009 from ₱5,280.1 million as of December 31, 2008 primarily due to service concession receivable and intangible asset reclassified to property and equipment with the signing of the geothermal renewable energy service contracts (GRES Cs) by virtue of RA 9513.

Service concession receivable – net of current portion

The ₱32,647.3 million decrease was brought about mainly by the reclassification to property, plant and equipment with the signing of the geothermal renewable energy service contracts (GRES Cs) by virtue of RA 9513.

Service concession intangible assets

The ₱9,389.2 million decrease was brought about mainly by the reclassification to property, plant and equipment with the signing of the geothermal renewable energy service contracts (GRES Cs) by virtue of RA 9513.

Intangible assets

This account pertains to the goodwill and water rights of FG Hydro. This account dropped 3.9% or ₱96.2 million to ₱2,397.5 million at December 31, 2009 from ₱2,493.7 million at December 31, 2008 due to amortization of water rights.

Deferred tax assets

This account dropped 71.9% or ₱2,451.1 million to ₱959.3 million as of December 31, 2009 from ₱3,410.4 million as of December 31, 2008 mainly due to the reduction of corporate income tax rate from 30% to 10% under the RE Law.

Exploration and evaluation assets

This account increased by 3.8% or ₱38.3 million to ₱1,038.1 million as of December 31, 2009 from the ₱999.8 million balance as of December 31, 2008 primarily due to additional exploration costs incurred for Mindanao III, Dauin and North Luzon Wind Projects.

Derivative assets (non-current)

This account pertains to the fair value of the outstanding embedded currency options on FG Hydro's contract with Andritz Hydro GmbH for the Pantabangan Plant Refurbishment and Upgrade Project (PRUP).

This account decreased by 72.5% or ₱25.3 million to ₱9.6 million as of December 31, 2009 from the ₱34.9 million balance as of December 31, 2008 due to scheduled payments made by FG Hydro.

Loan payable

This account decreased by ₱2,000 million due to the settlement of the short-term loan from a local bank.

Trade and other payables

This account increased by 33.7% or ₱1,005.1 million to ₱3,985 million as of December 31, 2009 from the ₱2,979.9 million balance as of December 31, 2008 primarily due to the ₱534.9 million rise in accrued interest expense with the new long-term loans availed and ₱352.62 million in accrued liabilities.

Income tax payable

This account decreased by 21.7% or ₱18.4 million to ₱66.4 million as of December 31, 2009 from ₱84.8 million as of December 31, 2008 primarily due to the reduction of corporate income tax rate from 30% to 10% under the RE Law plus the application of creditable withholding tax to the 4th quarter 2009 income tax liabilities. This was offset by income tax due on the sale to PNOC of the portion of land on which the EDC headquarters are situated.

Due to related parties

This account increased by 384.2% or ₱426.1 million to ₱537 million as of December 31, 2009 from the ₱110.9 million balance as of December 31, 2008 primarily due to loans availed by FG Hydro from First Gen.

Derivative liabilities

This account decreased by 100% from the ₱54.3 million balance as of December 31, 2008 with the settlement of the hedging arrangements consisting of range bonus forward and plain vanilla foreign currency forward contracts on May 28, 2009 as the JPY 12 billion Miyazawa I was paid in full last June 1, 2009.

Current portion of long-term debt

This account increased by 95.2% or ₱8,258.4 million to ₱16,930.8 million as of December 31, 2009 from ₱8,672.4 million as of December 31, 2008 due to the reclassification to the current portion of all maturing debt obligations, primarily the JP¥22 billion Miyazawa II maturing in June 2010 and the OECF & IBRD relent loans maturing in November 2010 offset by the ₱6,270.4 million settlement of Miyazawa I loan and ₱2,535.8 million principal amortization payments on OECF and IBRD loans and FG Hydro's deferred payment facility with PSALM.

Current portion of royalty fee payable

This account decreased by 85.5% or ₱1,444.0 million to ₱244.3 million as of December 31, 2009 from ₱1,688.3 million as of December 31, 2008 due to the reclassification to non-current portion of ₱566.7 million outstanding royalty fee due to DOE, net of Day 1 gain, in view of the renewal of the deferred payment arrangement with DOE last July 7, 2009 and the ₱1,026.8 million royalty fee payments in CY 2009 offset by ₱247.9 million royalty fee incurred during the year.

Obligations to a power plant contractor

Obligations to Marubeni as BOT contractor for the Mindanao power plants were fully settled with the completion of the cooperation period on June 17, 2009.

Long-term debts – net of current portion

Long-term debt, consisting of JP¥, US\$ and PhP loans, increased by 29.6% or ₱6,976.7 million to ₱30,533.7 million as of December 31, 2009 from ₱23,557 million due mainly to the proceeds from ₱4.1 billion IFC loan and the issuance of ₱12,000 million Peso public bonds and ₱9.0 billion fixed rate corporate notes (FRCN) offset by the reclassification to the current portion of the maturing principal obligations, primarily the JP¥22 billion Miyazawa II maturity on June 26, 2010.

Royalty fee payable – net of current portion

This account increased by ₱566.7 million on account of the reclassification from the current portion of ₱612.8 million outstanding royalty fees payable to the DOE with the renewal of the deferred royalty fee agreement with the DOE on July 7, 2009 reduced by the ₱46.1 million non-current portion of unamortized Day 1 gain.

Deferred tax liabilities, net

This account pertains to the deferred tax liability on unrealized foreign exchange gain arising from the restatement of FG Hydro's US\$-denominated Deferred Payment Facility with PSALM.

This account increased by 53.1% or ₱6 million to ₱17.3 million as December 31, 2009 from the ₱11.3 million balance as of December 31, 2008 due to the unrealized foreign exchange gain due to appreciation of PhP vs. US\$.

Retirement and other post-retirement benefits

This account pertains to the funded, non-contributory, defined benefit retirement plan maintained which covers all EDC-Parent permanent employees.

This account increased by 20.5% or ₱210.7 million to ₱1,237.1 million as of December 31, 2009 from ₱1,026.4 million as of December 31, 2008 due to the accrual of retirement benefits.

Other long-term liabilities

This account increased by 3.8% or ₱11.9 million to ₱324.7 million as of December 31, 2009 from ₱312.8 million as of December 31, 2008 mainly due to the accrual of vacation and sick leave benefits.

Preferred stock

This account increased by 25% or ₱18.8 million to ₱93.8 million as of December 31, 2009 from ₱75 million due to the issuance by EDC-Parent of preferred shares during the year.

Common stock

This account increased by 25% or ₱3,750 million to ₱18,750 million as of December 31, 2009 from ₱15,000 million due to the issuance by EDC-Parent of common shares during the year.

Common shares in employee trust account

The ₱391.6 million increase in this account was due to the reissuance of treasury shares to the trustee bank for the benefit of the employee grantees net of actual grants in 2009.

Additional paid-in capital

This account decreased by 0.3% or ₱16.1 million to ₱6,262 million as of December 31, 2009 from ₱6,278.1 million due to incidental costs on the issuance of stock dividends.

Accumulated unrealized gain on AFS investments

This account increased by 267.2% or ₱82.3 million to ₱113.1 million as of December 31, 2009 from ₱30.8 million at December 31, 2008 mainly due to increase in fair value of the investments.

Retained earnings

Retained earnings decreased by 23% or ₱2,296.7 million to ₱7,681.2 million as of December 31, 2009 from ₱9,977.9 million as of the December 31, 2008 mainly due to:

- ₱3,750 million total stock dividend distributed on November 23, 2009 to stockholders as of October 27, 2009 record date; and
- ₱1,869.4 million total cash dividend paid on May 11, 2009 to stockholders as of April 16, 2009 record date.

These were cushioned by the ₱3,322.7 million net income attributable to equity holders of the Parent Company for 2009.

Cost of treasury stocks held

The ₱404.2 million decrease in this account was due to the reissuance of treasury shares to the trustee bank for the benefit of the employee grantees.

Horizontal and Vertical Analysis of Material Changes as of December 31, 2008 and 2007.

(Amounts In PHP millions)	HORIZONTAL ANALYSIS				VERTICAL ANALYSIS	
	Dec. 2008	Dec. 2007	Increase (Decrease)		2008	2007
			Amount	%		
ASSETS						
Current Assets						
Cash and cash equivalents	957.1	3,296.6	(2,339.5)	-71.0%	1.4%	4.6%
Trade and other receivables	5,412.1	5,127.0	285.1	5.6%	7.8%	7.1%
Current portion of concession receivable	2,048.1	2,200.0	(151.9)	-6.9%	3.0%	3.1%
Available-for-sale (AFS) investments	674.5	1,177.6	(503.1)	-42.7%	1.0%	1.6%
Parts and supplies inventories	1,563.3	1,140.8	422.5	37.0%	2.3%	1.6%
Derivative assets	614.1	-	614.1	100.0%	0.9%	0.0%
Other current assets	657.4	562.4	95.0	16.9%	0.9%	0.8%
	11,926.6	13,504.4	(1,577.8)	-11.7%	17.2%	18.8%
Noncurrent assets held for sale	1,797.6	1,672.5	125.1	7.5%	2.6%	2.3%
Total Current Assets	13,724.2	15,176.9	(1,452.7)	-9.6%	19.8%	21.1%
Noncurrent Assets						
Property, plant and equipment	5,280.1	4,712.2	567.9	12.1%	7.6%	6.5%
Service concession assets						
Concession receivables - net of current portion	32,647.3	34,695.4	(2,048.1)	-5.9%	47.1%	48.2%
Intangible assets	9,389.2	8,738.8	650.4	7.4%	13.5%	12.1%
Intangible assets	2,493.7	2,589.9	(96.2)	-3.7%	3.6%	3.6%
Deferred tax assets	3,410.4	3,052.8	357.6	11.7%	4.9%	4.2%
Exploration and evaluation assets	999.8	1,171.9	(172.1)	-14.7%	1.4%	1.6%
Derivative assets	34.9	-	34.9	100.0%	0.1%	0.0%
Other noncurrent assets	1,366.0	1,851.8	(485.8)	-26.2%	2.0%	2.6%
Total Noncurrent Assets	55,621.4	56,812.8	(1,191.4)	-2.1%	80.2%	78.9%
TOTAL ASSETS	69,345.6	71,989.7	(2,644.1)	-3.7%	100.0%	100.0%
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities						
Loan payable	2,000.0	-	2,000.0	100.0%	2.9%	0.0%
Trade and other payables	2,979.9	3,806.4	(826.5)	-21.7%	4.3%	5.3%
Income tax payable	84.8	436.1	(351.3)	-80.6%	0.1%	0.6%
Due to related parties	110.9	4,123.8	(4,012.9)	-97.3%	0.2%	5.7%
Derivative liabilities	54.3	-	54.3	100.0%	0.1%	0.0%
Current portion of:						
Long-term debts	8,672.4	2,384.6	6,287.8	263.7%	12.5%	3.3%
Royalty fee payable	1,688.3	456.3	1,232.0	270.0%	2.4%	0.6%
Obligations to a power plant contractor	112.2	246.7	(134.5)	-54.5%	0.2%	0.3%
Total Current Liabilities	15,702.8	11,453.9	4,248.9	37.1%	22.6%	15.9%
Noncurrent Liabilities						
Long-term debts - net of current portion	23,557.0	23,347.9	209.1	0.9%	34.0%	32.4%
Royalty fee payable - net of current portion	-	1,277.7	(1,277.7)	-100.0%	0.0%	1.8%
Obligations to a power plant contractor - net of current portion	-	96.3	(96.3)	-100.0%	0.0%	0.1%
Deferred tax liabilities, net	11.3	39.3	(28.0)	-71.2%	0.0%	0.1%
Retirement and other post-retirement benefits	1,026.4	919.8	106.6	11.6%	1.5%	1.3%
Other long-term liabilities	312.8	322.4	(9.6)	-3.0%	0.6%	0.5%
Total Noncurrent Liabilities	24,907.5	26,003.4	(1,095.9)	-4.2%	36.0%	36.2%
EQUITY						
Equity Attributable to Equity Holders of the Parent						
Preferred stock	75.0	75.0	-	0.0%	0.1%	0.1%
Common stock	15,000.0	15,000.0	-	0.0%	21.6%	20.8%
Additional paid-in capital	6,278.1	6,278.1	-	0.0%	9.1%	8.7%
Equity reserve	(3,706.4)	(3,706.4)	-	0.0%	-5.3%	-5.1%
Accumulated unrealized gain on AFS investments	30.8	368.5	(337.7)	-91.6%	0.0%	0.5%
Retained earnings	9,977.9	13,172.3	(3,194.4)	-24.3%	14.4%	18.3%
Cost of treasury stock held	(404.2)	-	(404.2)	-100.0%	-0.6%	0.0%
	27,251.2	31,187.5	(3,936.3)	-12.6%	39.2%	43.2%
Minority Interest	1,484.1	3,344.9	(1,860.8)	-55.6%	2.1%	4.6%
Total Equity	28,735.3	34,532.4	(5,797.1)	-16.8%	41.3%	47.9%
TOTAL LIABILITIES AND EQUITY	69,345.6	71,989.7	(2,644.1)	-3.7%	100.0%	100.0%

The Company's total resources as of December 31, 2008, amounted to ₱69,345.6 million, 3.7% or ₱2,644.1 million lower than the December 31, 2007 year-end level of ₱71,989.6 million. EDC's debt ratio increased to 53: 47 as of December 31, 2008 from 43:57 as of December 31, 2007. This year current ratio of 0.87:1 was lower than last year's 1.33:1.

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 ₱2,339.5 million reduction resulted primarily from the payment to First Gen for its 43% equity interest in FG Hydro.

Trade and other receivables

The ₱285.1 million increase was mainly due to lower provision for doubtful accounts this year.

Current portion of service concession receivable

This account decreased by 6.9% or ₱151.9 million to ₱2,048.1 million from ₱2,200.0 million due to amortization offset by reclassification from non-current portion of service concession receivable.

Available-for-sale (AFS) investments

This account includes placements primarily in dollar-denominated ROP bonds, which can be converted to cash anytime should a need arise. The ₱503.1 million decrease was accounted for by the sale of ROP bonds amounting to US\$6.8 million and partly by the foreign exchange losses in translating the outstanding placements to the yearend peso-dollar exchange rate.

Parts and supplies inventories

This account increased by 37.0% or ₱422.5 million to ₱1,563.3 million from ₱1,140.8 million primarily due to ₱260.6 million power plant materials inventory turned over by the BOT contractor.

Derivative assets

The ₱614.1 million increase in this account was due to the hedging arrangements consisting of range bonus forward and plain vanilla foreign currency forward contracts entered in 2008 for the JPY 12 billion Miyazawa I loan which fell due on June 1, 2009.

Other current assets

This account consists mainly of BIR's tax credit certificate, prepaid expenses and advances to contractors. The ₱95.0 million increase was attributed mainly by ₱245.7 million increase in advances to contractors and ₱122.0 million recognition of royalty fees chargeable to NPC in 2008, partially offset by the application of ₱387.0 tax credit certificate in the 2008 income tax payments.

Noncurrent assets held for sale

Noncurrent assets held for sale of ₱1,797.6 million consist of the land, buildings, improvements and equipment owned by the Company in Fort Bonifacio which the Company agreed to sell to PNOC as part of the former's full privatization. The Company expects the sale to be completed within one year from December 31, 2008.

Property, plant and equipment - net

Property and equipment account increased by ₱567.9 million mainly due to capital expenditures for the period.

Service concession receivable – net of current portion

This account decreased by ₱2,048.1 million or 5.9% to ₱32,647.3 million from ₱34,695.4 million due to reclassification to the current portion.

Service concession intangible asset

The increase by ₱650.4 million was mainly due to the reclassification of Northern Negros buffer zone and Tanawon exploration and evaluation expenses amounting to ₱681.4 million and ₱250.9 million, respectively, as the projects are already in the development stage. These were partly offset by the ₱281.9 million amortization expenses for the year.

Intangible assets

This account pertains to the goodwill and water rights of FG Hydro. This account dropped 3.7% or ₱96.2 million to ₱2,493.7 million at December 31, 2009 from ₱2,589.9 million at December 31, 2008 due to amortization of water rights.

Deferred tax assets

The increase of ₱357.6 million was mainly due to unrealized foreign exchange loss on translation to Peso of the foreign-currency denominated loans.

Exploration and evaluation assets

This account consists of expenses incurred for exploring areas for potential project development. It reduced by ₱ 172.1 million with the ₱734.0 million reclassification of the exploration costs of Tanawon and Northern Negros buffer zone to the intangible asset account offset by the ₱561.9 million expenditures for the current period.

Derivative assets - noncurrent

The ₱34.9 million increase in this account was due to FG Hydro's embedded currency options in its PRUP Contract with VA TECH HYDRO, GmbH.

Other noncurrent assets - net

Other noncurrent assets decreased by ₱485.8 million mainly due to the final application of the 10% retention on advances to Kanematsu Corporation for the construction of the Northern Negros geothermal power plant.

Loan payable

The ₱2,000.0 million increase in this account was due to the availment of short-term loan from a local bank.

Trade and other payables

Trade and other payables decreased by 21.7% or ₱826.5 million to ₱2,979.9 million from ₱3,806.4 million mainly due to the ₱1,167.2 million decrease in accounts payable due to settlement partly offset by ₱175.1 million accrued premium on range bonus forwards.

Income tax payable

Income tax payable decreased by 80.6% or ₱351.3 million to ₱2,979.9 million from ₱3,806.4 million mainly due to lower current tax expense in 2008.

Due to related parties

Due to related parties decreased by 97.3% or ₱4,012.9 million to ₱110.9 million from ₱4,123.8 million mainly due to the payment of amounts due to First Gen for the acquisition of 60% interest in FG Hydro.

Derivative liabilities

The ₱54.3 million increase in this account was due to the hedging arrangements consisting of range bonus forward and plain vanilla foreign currency forward contracts entered in 2008 for the JPY 12 billion Miyazawa I loan which fell due on June 1, 2009.

Current portion of long-term debt

This account increased by 263.7% or ₱6,287.8 million to ₱8,672.4 million from ₱2,386.4 million primarily due to the reclassification to current portion of the JPY 12 billion Miyazawa I loan maturing on June 1, 2009 partly offset by the ₱2,528.5 million principal amortization payments on OECF and IBRD loans and FG Hydro's deferred payment facility with PSALM.

Current portion of royalty fee payable

This account increased by 270.0% or ₱1,232.0 million to ₱1,688.3 million from ₱456.3 million primarily due to the reclassification from the noncurrent portion of ₱1,277.7 million currently maturing royalty fee payable partly offset by royalty payments made in 2008.

Current portion of obligations to a power plant contractor

This account decreased by 54.5% or ₱134.5 million to ₱112.2 million from ₱246.7 million primarily due to payment of regular capital cost recovery fees to BOT contractors partly offset by the reclassification from the noncurrent portion maturing obligations.

Long-term debts – net of current portion

Long-term debt went up 0.9% or ₱209.1 million to ₱23,557.0 million in 2008 from ₱23,347.9 million in 2007 primarily due to foreign exchange losses on translation of foreign currency denominated outstanding loans to the yearend exchange rate offset by the reclassification to current portion of maturing debt.

Royalty fee payable – net of current portion

The ₱1,277.7 million decrease was due to the reclassification to current portion of maturing royalty fee payable.

Obligations to a power plant contractor – net of current portion

The ₱96.3 million decrease was due to the reclassification to current portion of maturing obligations.

Deferred tax liabilities, net

This account primarily pertains to the deferred tax liability on unrealized foreign exchange gain arising from the restatement of FG Hydro's US\$-denominated Deferred Payment Facility with PSALM.

This account decreased by 71.2% or ₱28.0 million to ₱11.3 million as December 31, 2008 from ₱39.3 million as of December 31, 2007 due to the unrealized foreign exchange loss due to depreciation of PhP vs. US\$.

Retirement and other post-retirement benefits

This account pertains to the funded, non-contributory, defined benefit retirement plan maintained which covers all EDC-Parent permanent employees.

This account increased by 11.6% or ₱106.6 million to ₱1,026.4 million as of December 31, 2008 from ₱919.8 million as of December 31, 2007 due to the accrual of retirement benefits.

Other long-term liabilities

This account decreased by 3.0% or ₱9.6 million to ₱312.8 million as of December 31, 2008 from ₱322.4 million as of December 31, 2007 mainly due to the payment of vacation and sick leave benefits.

Accumulated unrealized gain on AFS investments

This account decreased by 91.6% or ₱337.7 million to ₱30.8 million as of December 31, 2008 from ₱368.5 million at December 31, 2007 mainly due to decrease in fair value of the investments.

Retained earnings

Retained earnings decreased by ₱3,194.4 million from the December 31, 2007 balance mainly due to:

- ₱4,053.0 million total cash dividend declared on February 19, 2008 to the stockholders on record as of March 5, 2008 and paid on March 17, 2008; and
- ₱449.4 million adjustments of the deferred tax liability on the appraisal increase on the fair value deemed cost of the Company's properties that are held for sale to PNOC.

This account was increased by ₱1,308.0 million net income attributable to equity holders of the Parent Company for 2008.

Cost of treasury stocks held

This account pertains to the 93,000,000 common shares which the company bought back up to end-October 2008 for the Company's programmed stock-based benefits plans.

Minority interest

Minority interest decreased by 55.6% or ₱1,860.8 million to ₱1,484.1 million from ₱3,344.9 million primarily due to ₱1,250.0 million cash dividends declared by FG Hydro.

CASH FLOWS

2009 vs. 2008

The Company's net cash from operating activities increased by 8.8% or ₱784.6 million to ₱9,733.8 million in 2009 from ₱8,949.2 million in 2008. This was primarily accounted by the ₱1,032.2 million decrease in the income taxes paid mainly due to the reduction of corporate income tax rate from 30% to 10% under the RE Law.

The net cash flows used in investing activities increased by 199.2% or ₱8,596.7 million to ₱12,912.1 million in 2009 from ₱4,315.4 million in 2008. This was primarily due to the ₱10,165.3 million payments for acquisition of Palinpinon-Tongonan Geothermal Power Plant (PTGPP) partly offset by ₱1,402.3 million proceeds from the sale of FB land and buildings to PNOOC.

The Company registered in 2009 ₱13,449.7 million net cash flow from financing activities as compared to the ₱6,975.6 million net cash flow used in financing activities in 2008. This was primarily due to the ₱25,100.0 million proceeds of loans from IFC, FRCN and Peso Public Bonds partly offset by the ₱6,270.4 million full settlement of Miyazawa I loan and ₱4,030.4 million payment of short-term loans. The Company also paid cash dividends of ₱1,869.4 million in 2009 as compared to ₱5,303.0 million in 2009.

2008 vs. 2007

The Company's net cash from operating activities surged to ₱8,949.2 million in 2008, ₱3,828.3 million or 74.8% higher compared to ₱5,120.8 million in 2007, primarily due to the drop in cash disbursement to settle trade and other payables with the completion of the Northern Negros construction activities and decrease in trade and other receivable due to the collection of claims from NPC for the shortfall generation of Tongonan I and royalty fee-DOE share of Palinpinon I.

The net cash flows used in investing activities amounted to ₱4,315.4 million in contrast with net cash flows from investing activities of ₱2,243.4 million in 2007. This was primarily accounted by the ₱4,114.6 million payment to First Gen corporation for the acquisition of 60% equity interest on First Gen Hydro Power Corporation.

The Company posted in 2008 a lower net cash flow used in financing activities of ₱6,975.6 million as compared to the 2007 level of ₱14,059.3 million. This was primarily due to ₱7,314.1 million decline in the payment of long-term debts and ₱2,561.4 million decrease in the payment of BOT obligations given the full turnover of Leyte BOT Plants and proceeds from short-term loan availments of ₱2,000.0 million. This was partially offset by higher payment of cash dividend in 2008 by ₱3,818.0 million, payment to First Gen Corporation of the deposit for future stock subscription of ₱648.0 million and cash disbursement to purchase treasury stock of ₱404.2 million.

Selected Financial Data

Financial Statements (Amounts in PHP millions)	2009	2008	2007
a) Cash and Cash Equivalents			
Cash on hand and in bank (Peso)	228.3	15.0	61.6
Cash in bank (US\$)	31.7	12.5	3.9
Cash in bank (Yen)	-	0.4	2.4
Marketable securities (Peso)	9,238.1	132.3	3,104.0
Marketable securities (US\$)	1,722.8	796.9	124.7
Total	11,220.9	957.1	3,296.6
b) Accounts Receivables – Others			
Non-trade accounts receivable	77.3	237.5	518.4
Loans and notes receivable	67.6	60.4	54.5
Advances to employees	20.8	26.7	22.5
Employee receivables	15.0	31.4	27.5
Claims receivable	0.2	293.1	7.6
Total	180.9	649.1	630.5
c) General and Administrative Expenses			
Personnel costs	1,110.0	958.4	916.6
Purchased services and utilities	858.6	579.8	362.9
Rental, insurance and taxes	808.7	408.9	591.1
Business and related expenses	313.7	229.6	127.0
Materials and supplies issued	160.6	159.7	112.6
Repairs and maintenance	118.6	58.1	31.9
Write-down of parts and supplies inventories	106.2	-	-
Provision for doubtful accounts	24.4	15.6	286.8
Credit adjustment on allowance for doubtful accounts	(2.6)	(1,116.2)	(43.1)
Total	3,498.2	1,293.9	2,385.8
d) Other Income, Interest Expense and Others			
Interest income	403.0	332.6	650.0
Interest expense	(2,887.2)	(2,152.5)	(1,600.1)
Foreign exchange gains (losses), net	1,291.2	(9,357.1)	3,995.8
Write-off of replaced machineries and equipment	(273.6)	-	-
Derivatives gain (loss), net	(198.8)	420.0	56.0
Revenue from arbitration award	-	2,067.3	-
Miscellaneous, net	(439.6)	159.1	(204.4)
Total	(2,105.0)	(8,530.6)	2,897.3

DISCUSSION ON THE SUBSIDIARY COMPANIES

Green Core Geothermal Inc.

December 2009 Results

(in PHP millions)	2009*
Revenues	1,067.1
Expenses	(981.4)
Operating income	85.7
Provision for income tax	(26.2)
Net income	59.5
Total Current Assets	602.0
Total Non-Current Assets	10,082.4
Total Current Liabilities	6,457.9
Total Equity	4,226.5

**GCGI was incorporated in the Philippines on June 22, 2009.*

GCGI's revenues for the period October 24 to December 31, 2009 amounted to ₱1,067.1 million (net of the 3% prompt payment discount availed by the customers). Revenues came from sale of electricity amounting to ₱1,045.7 million to distribution utilities, private corporations and Iloilo Provincial Government covered by Transition Supply Contract and ₱21.4 million to EDC.

Expenses were largely attributable to the ₱779.0 million fuel-geothermal steam purchased from EDC, ₱84.6 million depreciation, ₱65.9 million general & administrative and ₱30.8 million operations & maintenance. Meanwhile, the Company spent ₱83.8 million in interest expense offset by the ₱98.2 million foreign exchange gain on USD-denominated PSALM facility loan paid on December 16, 2009 and ₱23.4 million for the cash support extended by EDC for the Company's operations.

Total current assets of ₱602.0 million were mainly for the ₱579.2 million trade receivables while the non-current assets of ₱10,081.3 million pertained to the Palinpinon and Tongonan power plants.

Total liabilities were accounted mainly by the ₱5,432.9 million cash support extended by EDC to prepay the 60% PSALM deferred payment facility and ₱1,001.7 million trade & other payables.

Total equity pertained to the ₱4,166.7 million deposit for future stocks subscription, this year's income of ₱59.5 million and ₱0.3 million common stock.

FG Hydro

December 2009 vs. December 2008 Results

(Amounts in PHP millions)	FY 2009	FY 2008
Revenues	1,247.2	1,383.5
Operating expenses	(594.8)	(620.6)
Other income (charges)	(531.8)	(697.7)
Income before income tax	120.6	65.2
Provision for income tax	(6.5)	27.9
Net income	114.1	93.1
Total Current Assets	552.9	363.2
Total Non-Current Assets	7,064.9	6,670.9
Total Current Liabilities	1,884.3	855.3
Total Noncurrent Liabilities	1,909.1	2,468.5
Total Equity	3,824.4	3,710.3

FG Hydro's revenues decreased by ₱136.3 million, or 9.9%, to ₱1,247.2 million in 2009 from ₱1,383.5 million in 2008 due to shortfall in electricity sales.

Other income (expenses) decreased by ₱169.5 million, or 23.8%, to ₱531.8 million in 2009 from ₱697.7 million in 2008 primarily due to the ₱109.2 million foreign exchange gain in 2009 on realignment of foreign currency-denominated loan as compared to ₱388.7 million foreign exchange loss in 2008. This was partly offset by ₱273.6 million net book value of the replaced machineries and equipment for Unit 1 of Pantabangan Hydro Electric Power Plant (PAHEP) in 2009 while none in 2008

Provision for income tax increased by ₱34.4 million, or 123.3%, to ₱6.5 million in 2009 from the ₱27.9 million benefit from in 2008 primarily due to lower availment of income tax holiday incentives in the current year.

Total current assets increased by ₱189.7 million, or 52.2%, to ₱552.9 million in 2009 from ₱363.2 million in 2008 primarily due to the ₱174.5 million net increase in input VAT.

Total liabilities increased by 14% or ₱469.6 million to ₱3,793.4 million in 2009 from ₱3,323.8 million in 2008 attributed mainly to the increased availment of advances from affiliates cushioned by the amortization of deferred payment facility with PSALM.

Top Five (5) Key Performance Indicators

Ratio	Dec – 09	Dec – 08
Current Ratio	0.88:1	0.87:1
Debt-to-Equity Ratio	1.56:1	1.20:1
Net Debt-to-Equity Ratio	1.19:1	1.16:1
Return on Assets (%)	4.4	1.9
Return on Equity (%)	11.4	4.3

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 peso-dollar exchange rate impacts on EDC, both in terms of revenues and its operating and capital expenditures. As the peso depreciates, revenues increase as the bulk of the company's sales agreements have included the peso-dollar rate in their inflator indices; and the cost of imported materials, services and equipment increases. Conversely, as the peso appreciates, costs decrease and revenues also decrease.

At the same time, 47.9% of EDC's total long-term debt as of December 31, 2009 are foreign currency-denominated, 10.4% in USD and 37.5% in JPY. Any USD or JPY movement therefore affects the debt portfolio of EDC.

Inflation and Interest Rates

Philippine annual inflation in 2009 averaged 3.2%, slightly below the midpoint of the central bank's 2.5-4.5% inflation target for the year and much lower than the 9.3% average in 2008. Despite the spike of inflation rate in December to an eight-month high of 4.4% due to high oil prices and crop damages from typhoons, actual average inflation remained well within government target mainly on account of the positive economic growth as the global economy starts to recover from worst recession in decades.

The central bank's 2010 inflation target ranged 3.5 to 5.5% with risks to inflation remain biased to the upside due to an expected rise in power and water rates probably in the second and third quarter of the year.

In 2009, the 91-day Treasury bill rate averaged 4.2687%, 42 basis points lower than 2008 average of 4.6859% due mainly to lesser inflationary pressures.

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

EDC, as a previously government-owned corporation, has outstanding long-term loans with international financial institutions, including the JBIC, the World Bank and International Finance

Corporation (IFC), for its various development projects and working capital requirements. For some of these loans, either the National Government or PNOG is the direct borrower with the sub-lending arrangements with the Company. For other loans, EDC is the direct borrower with the obligations guaranteed by the National Government. For these transactions, EDC pays a guarantee fee which is now at 2% per annum starting January 1, 2008. It shall be increased by 0.25% per annum up to a maximum of 3%.

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 1.0:1. 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, 2007, and 2008.

On September 30, 2009, the IFC has approved the Parent Company's requests for waivers and temporary amendments to the provisions of the Loan Agreement which prohibit EDC from issuing any guarantees and for EDC to maintain at all times on an Unconsolidated Basis, a Financial Debt to EBITDA Ratio of not more than 3.6, such temporary waiver to be effective for the period from September 30, 2009 to earlier of (a) December 31, 2010 or (b) the date falling at the end of any quarter ending prior to December 31, 2010 on which EDC has submitted evidence satisfactory to IFC that EDC's Financial Debt to EBITDA on a unconsolidated basis for such quarter is not more than 3.6 ("Temporary Waiver Period").

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

There were no significant elements of income or loss from continuing operations, except for the write-down of deferred tax assets with the reduction in corporate income tax rate from 30% to 10% under the RE Law.

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.

Material Commitments for Capital Expenditures

The Company has a total budget for capital expenditures of approximately ₱8,577.4 million for 2010. Major portion equivalent to 79.0% of the total budget is allotted to the construction of fluid collection and re-injection systems (FCRS), transmission lines, drilling and other activities of growth projects namely, Tanawon (₱1,682.0 million), Mindanao 3 (₱1,027.3 million), Nasulo (₱29.6 million) and other projects (₱4,037.8 million). The budget also includes expenditures amounting to ₱972.1 million for the acquisition of drilling equipment.

B. FINANCIAL RESULTS FOR FIRST QUARTER 2010 VS. FIRST QUARTER 2009

Please refer to the first quarter report on SEC Form 17-Q (Attached)

Information on Independent Accountant / External Auditor

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.

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 SGV & Co. from 2007 to 2009.

	Year-ended December 31,		
	2009	2008	2007
Audit and Audit-Related Fees	4,376,755	4,160,437	3,685,000
All Other Fees ¹	-	309,220	11,088
	<u>4,376,755</u>	<u>4,469,657</u>	<u>3,696,088</u>

Tax Fees

There were no professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services in 2008 and 2009. In 2007, such professional services were rendered by the external auditor, and the related fees are included in the Audit and Audit-Related Fees mentioned above.

All Other Fees

Professional services relating to the conduct of seminars on accounting standards were rendered by the external auditor in 2007 and 2008. The fees for these services are included under "All Other Fees" in the table above.

Audit Committee Approval Policies and Procedures for the Above Services

All matters relating to the above audit and audit-related services that may be rendered by the Company's external auditor are first reviewed by the Company's Audit and Governance Committee and thereafter endorsed to the Board of Directors for approval.

¹ For services relating to conduct of seminars.

Board of Directors and Executive Officers

The following are the directors and executive officers of the Company, each having a term of one (1) year and to serve as such until their successors are elected and qualified, and their respective positions, ages and business experience in the past five years

Oscar M. Lopez, 80

Mr. Lopez, Filipino, is the Chairman of the Company since November 2007. He is also Chairman of First Luzon Geothermal Energy Corporation (FLGEC) and Green Core Geothermal, Inc. (GCGI). He is Chairman Emeritus of First Philippine Holdings Corp. (FPHC) and all member-companies of the First Gen and First Gas groups 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.

A staunch supporter of corporate social responsibility, Mr. Lopez is involved in a number of social concerns – he is chairman of the Eugenio Lopez Foundation and the Lopez Group Foundation. Mr. Lopez was a recipient of MAP's Management Man of the Year Award for 2000; he was awarded the Officer's Cross of the Order of Merit of the Federal Republic of Germany (the very first time a Filipino businessman received this highest award that Germany confers). In 2006 he was honored in Monaco with the IMD-Lombard Odier Hentsch Distinguished Family Award for "an outstanding commitment on philanthropy for the family's achievement in excellence such as the clarity and sustainability of their social endeavors, exemplary corporate governance, a focus on family values, and the involvement of multiple generations." He is a recipient of The Outstanding Filipino (TOFIL) Award in the field of Business for the year 2009.

Mr. Lopez has a Master's 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, 67

Mr. Aquino, Filipino, is the Company's Vice Chairman since July 2009 and CEO since February 2004. He is a Director of the Company and of First Gen Hydro Power Corporation, and an Independent Director of EastWest Bank. 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. He also serves as an Honorary Consul of the Republic of Malta. Since joining the Company, Mr. Aquino has raised EDC's CSR program one notch higher with the "Schools for Excellence" project in Leyte, the "Energy Camp" in all project sites and the Kananga-EDC Institute of Technology (KEITECH) in Leyte.

Mr. Aquino holds a Bachelor of Arts degree from the Ateneo de Manila University, Philippines. From the Santa Clara University in California, he finished his Master in Business Administration and Bachelor of Science in Electrical Engineering.

Peter D. Garrucho, Jr., 65

Mr. Garrucho, Filipino, has been a Director of the Company since November 2007. He sits in the boards of First Gen, FPHC, First Private Power Corporation (FPPC), First Gas Holdings Corporation (FGHC), First Gas Power Corporation (FGPC), First Gas Pipeline Corp. (FGPipeline), FGP Corp., FGLand Corp., First Gen Renewables, Inc. (FGRI), First Gen Luzon Power Corp. (FGLuzon), FG Bukidnon Power Corp., Allied Gen Power Corp. (AlliedGen), First NatGas Power Corporation (FNPC), First Gen Geothermal Power Corp., First Gen Hydro Power Corporation,

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., First Gen Visayas Energy Inc., First Gen Prime Energy Corp. and FLGEC. 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 earned his AB-BSBA degree from the De La Salle University (1966) and his Master in Business Administration degree from Stanford University (1971).

Federico R. Lopez, 48

Mr. Lopez, Filipino, has been a Director of the Company since November 2007. He is the Chairman and CEO of FPHC, First Private Power Corp., Bauang Private Power Corp., FGPC, FGP, FGHC, AlliedGen, Unified Holdings Corp., FNPC, FGLand, FGPipeline, First Gen, FGLuzon, FG Bukidnon 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 Holdings Corp., First Gen Visayas Energy Inc., and First Gen Prime Energy Corp. He is Vice Chairman and CEO of FLGEC and GCGI. He is a member of the boards of ABS-CBN Broadcasting Corporation, FLGEC and GCGI. He is also President of First Philippine Conservation, Inc.

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, 43

Mr. Tantoco, Filipino, has been a Director of the Company since November 2007. He assumed the position of President and Chief Operating Officer (COO) of the Company in July 2009. He is also President and COO of FLGEC, GCGI, and all member-companies of the First Gas group of companies. He is Executive Vice-President of First Gen, FGLuzon, FG Bukidnon, 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, First Gen Visayas Energy Inc., and First Gen Prime Energy Corp. 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 the Ateneo de Manila University where he graduated with honors (1988).

Francis Giles B. Puno, 45

Mr. Puno, Filipino, has been a Director of the Company since November 2007. He is the President and COO of the First Gen group of companies, the Executive Vice-President and Chief Financial Officer (CFO) of the First Gas group of companies, and Senior Vice-President and CFO of FPHC. He sits in the boards of FLGEC, GCGI, FPPC and Bauang Private Power Corp., Red Vulcan, FG Bukidnon, FGLuzon, FGHC, 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., FGHC, FGPC, FGP, AlliedGen, FNPC, FGLand, FGPipeline, and First Gen Renewables, Inc. 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 the Ateneo de Manila University (1985).

Ernesto B. Pantangco, 59

Mr. Pantangco, Filipino, has been a Director of the Company since November 2007. He was elected Executive Vice President of the Company on May 21, 2008. He is Executive Vice President of FLGEC, GCGI, and First Gen, and President and CEO of FPPC and BPPC. He also sits in the boards of FLGEC, GCGI, FGLuzon, FG Bukidnon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., and First Gen Mindanao Hydro Power Corp. He is Senior Vice-President of FGHPC and First Gen Northern Energy Corp., and Executive Vice President of First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., FGLuzon, and Red Vulcan. He is also President of the Philippine Independent Power Producers Association (PIPPA) for the last seven years.

Mr. Pantangco has a Bachelor of Science in Mechanical Engineering degree from the De La Salle University (1973) and Master of Business Administration degree from the 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, 45

Mr. Russell, British, has been a Director of the Company since November 2007. He is also a Director of GCGI. He is Executive Vice President of First Gen. He was previously Vice-President of Generation Ventures Associates (GVA), an international developer of independent power projects based in Boston, USA, responsible for the development of 1,720 MW of IPP projects in Asia. Prior to joining GVA, he worked for BG plc based in London and Boston, responsible for the development of power and natural gas distribution projects.

Mr. Russell has an MBA with Distinction in International Business & Export Management from the City University Business School, London, England (1989) and a Bachelor of Science with Honours in Chemical & Administrative Sciences from the City University, London, England (1987).

Francis G. Estrada, 60

Mr. Estrada, Filipino, has been an Independent Director of the Company since January 2008. He is a Triple A awardee and is the first alumnus to serve as president of Asian Institute of Management (AIM) from May, 2006 to April, 2009. He serves as independent director/adviser to thirteen "for profit" and "not for profit" institutions in the Philippines and overseas. These include: Ayala Land Inc (ALI), the Philippine American Life Insurance Corporation ("Philamlife"), Rizal Commercial Banking Corporation ("RCBC"), De La Salle University (where he serves as Chairman of the Board of Trustees), the Philippine Military Academy (where he serves as Chairman of the Board of Visitors), the Antai School of Economics and Management of the Jiao Tong University in Shanghai and the Graduate School of Management at the Universiti Putri Malaysia. He is also a co-founder and trustee of the Institute of Corporate Directors.

For over 36 years (22 years of which were spent 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 the De La Salle University (1971).

Vicente S. Pérez, Jr., 51

Mr. Pérez, Filipino, has been an Independent Director of the Company since June 2007. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is a director of Nido Petroleum, ST Telemedia (a Temasek company), Northwind Power (the first commercial wind farm in Southeast Asia) and SM Investments Corporation. He is also a member of the Advisory Board of Coca-cola Bottlers Philippines and the Advisory Board of the Center for Business and the Environment at Yale University. He is CEO of Alternergy Partners, a renewable power company, and is chairman of Merritt Partners, an energy advisory firm. In 2000 he founded Asian Conservation Company which acquired El Nido Resorts, an eco-tourism destination in Palawan. He was the youngest Secretary of the Department of Energy. He also served as Undersecretary for Industry at the Department of Trade and Industry and Managing Head of the Board of Investments. Currently, Mr. Pérez is Vice Chairman of the National Renewable Energy Board (NREB). He is Chairman of WWF Philippines and was recently elected to the Board of Trustees of WWF-International.

Mr. Pérez obtained his MBA from the Wharton School of the University of Pennsylvania and his bachelor’s degree in Business Economics from the University of the Philippines.

Cesar V. Purisima, 50

Mr. Purisima, Filipino, has been an Independent Director of the Company since July 2009. He is currently Chairman of the Executive Committee of Ciba Capital, Inc. He also sits in the board of LIM Asia Special Situations Master Fund Limited-Hong Kong, Benguet Corporation, Ripple E-Business International Inc. and Prople Inc., a member of the Board of Trustees of De la Salle University and the Makati Business Club. Mr. Purisima served in the government of the Republic of the Philippines as Secretary of the Department of Trade and Industry in 2004 and Secretary of the Department of Finance in 2005.

He has extensive work experience in public accounting both here and abroad. Mr. Purisima was Area Managing Partner as head of the Asia Pacific Assurance Practice of Andersen Worldwide from 2001 to 2002 and was Regional Managing Partner as head of the Asean operation from 2000 to 2001. He was member of the Global Board of Andersen Worldwide from 1999 to 2002 and the Global Executive Board of Ernst & Young from 2002 to 2004. He was Chairman & Managing Partner of SGV & Co until January 2004. He has various memberships in several business organizations including the Management Association of the Philippines, Philippine Institute of Certified Public Accountants, Philippine-France Business Council, Philippine-Thailand Business Council and the Makati Business Club, among others.

Mr. Purisima obtained his Bachelor of Science in Commerce, Majors in Accounting & Management of Financial Institutions from De la Salle University (1979) and his MBA from JL Kellogg Graduate School of Management, Northwestern University in Chicago, Illinois (1983). He was among the top placers in the 1979 Philippine Board Examinations for Certified Public Accountants.

Key Executive Officers

Agnes C. de Jesus, 56 - Senior Vice-President for Environmental and External Relations, and Compliance Officer

Ms. de Jesus, Filipino, joined the Company in 1980 and has held her current position since April 2005. She was appointed as Compliance Officer last March 10, 2010. She is also Vice President of FLGEC and GCGI. She was the head of the Company's Environmental Management Division prior to her current position. She has had extensive experience in environmental and watershed management, government relations, policy formulation, Corporate Social Responsibility (CSR), public relations 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 is also a member of the Board of Consultants of the Kenya Geothermal Program and is an accredited Environmental Assessment Expert of the DENR. On the Corporate Social Responsibility front, she is the Chairman of the Environment Committee of the League of Corporate Foundations (LCF). The LCF is the association of CSR practitioners.

From 2006 to present she has been a Third Party Expert Reviewer of World Bank policies and country reports. She has reviewed the World Bank Country Reports and Safeguards Diagnostic on the Philippine Environmental Impact Statement System, Indigenous Peoples Rights, Involuntary Resettlement and Natural Habitats. Her environmental initiatives are recognized through awards she has given the company. At the personal level, she was one of the Ten Outstanding Pollution Control Officers for 2001 and lately as the EDC Team Leader, the team won the Lopez Achievement Awards on Business Communication and Reputation Building in 2009. Because of the skills and knowledge of Ms. De Jesus, she was a speaker/lecturer in 15 foreign and 62 local forums and has reviewed 20 Environmental Impact Assessment Reports on energy projects.

Ms. de Jesus obtained bachelor and master's degrees in Botany from the University of the Philippines in Diliman and completed the Management Development Program of AIM (1996).

Anthony M. Mabasa, 50 - Senior Vice President, Office of the President

Mr. Mabasa, Filipino, was appointed by the Board in June 2009. Concurrent to his appointment in the Company, he works as Vice President for First Philippine Holdings and serves as member of the board at First Balfour, Inc. He served as President and CEO of Tollways Management Corporation (TMC) from August 1, 2004 to November 12, 2008 and still sits in the Board of Directors of TMC. He also served as member of the board or as key executive officer to various companies including, First Electrodynamics Corp., First Philippine Industrial, Inc., Engineering & Construction Corp. of Asia and Philippine Electric Corp. He has extensive experience in general management with particular strengths in financial rehabilitation, corporate start-ups, restructuring and turnarounds. He also has significant exposure to financial planning, treasury operations, project management, quality, safety and environmental management systems.

Mr. Mabasa obtained a Masters in Business Administration at the University of the Philippines (1995). He graduated with a Bachelor's Degree in Commerce – Management of Financial Institutions from the De La Salle University (1979).

Regina Pia B. Go, 44 - Senior Vice President, Treasurer and Chief Financial Officer

Ms. Go, Filipino, was appointed by the Board in June 2009. Concurrent to her appointment in the Company, she also serves as CFO of FLGEC and GCGI, and Chief Operating Officer of Bauang Private Power Corp. (BPPC) under First Gen Corp. She has worked in various key positions at First Gen Corp. and other companies including Amtrust Financial Consultants, Inc., Amtrust Management, Inc. and CFC/URC Group of Companies.

Ms. Go obtained an Executive Masters in Business Administration with Academic Excellence honors at the Asian Institute of Management (2002). She graduated with a Bachelor's Degree in Management from the Ateneo de Manila (1985)

Marcelino M. Tongco, 55 - Vice-President for Operations

Mr. Tongco, Filipino, has been with the Company since 1979 and has held his current position since April 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 Bachelor of Science in Civil Engineering from the University of Santo Tomas and has pursued master's 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, 53 - Vice-President for Technical Services

Mr. Ogena, Filipino, joined the Company in 1979 and has held his current position since December 2005. He joined the Company as a Geologist and was appointed Supervisor under the Geoscientific department in 1983. He became the Exploration Manager in 1994, the Geoservices Manager in 1997, and Geoscientific Manager in 2003. He has been a regular speaker in various local & international Geothermal Conferences (GRC/WGC), a member of the board of directors of the International Geothermal Association since May 2006, & the past president of National Geothermal Association of the Philippines.

Mr. Ogena graduated with a BS Geology degree from the University of the Philippines in Diliman in 1977, 8th placer in the Geologist licensure examination, and completed his MS Mechanical Engineering degree (with distinction) from the University of Auckland, New Zealand in 1989. He is also a graduate of the Management Development Program of AIM (1991) and earned his Master's Certificate in Project Management from George Washington University (1995).

Danilo C. Catigtig, 53 - Vice-President for Power Generation

Mr. Catigtig, Filipino, has been with the Company since February 1980 and has held his current position since January 2006. He has performed and supervised 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 Master's Certificate in Project Management from George Washington University (1995) and completed the Management Development Program of AIM (1999).

Glenn I. Funk, 46 – Vice-President for Supply Chain Management

Mr. Funk, Filipino, was appointed by the Board in August 2008. He is also the Vice-President for Supply Chain Management of First Gen. Prior to his appointment in the Company, he worked with Chevron Products, Inc. USA as Regional Procurement Manager for Asia Pacific; Regional Strategic Sourcing Manager for Africa, Middle East and Asia; and ultimately as Global

Optimization Manager based in the US. He has a total of 21 years professional experience in Supply Chain and Procurement Management covering diverse global industries such as garment, pharmaceutical, electronics, semi-conductor and oil & gas multinational companies.

Mr. Funk has extensive professional training in Supply Chain Management in USA and UK. He obtained an Advanced Certificate in Supply Chain Management at the Arizona State University, USA (2007), completed the Supply Chain Management Course at the Robert Gordon University, UK (2006), and Category and Value Chain Management in Chevron Texaco Training, USA (2006). Mr. Funk is also a trainee Six-Sigma Black Belt in Supply Chain Management for the Philips Electronics Training Center in Eindhoven, Netherlands. He graduated with an A. B. History Political Science degree from the De La Salle University (1983).

Ernesto G. Espinosa, 58 - Vice-President for Human Resource Management

Mr. Espinosa, Filipino, was appointed by the Board in October 2009. Prior to his appointment in the Company, he worked with Fujitsu Computer Products Corporation of the Philippines as Vice President for Human Resource and General Affairs from 2004 to October 2009, Assistant Vice President from 2000 to 2004 and Director from 1995 to 2000. He is the President of the World Federation of People Management Association since 2008, the first Filipino to be elected in such position. He was also the President of Asia Pacific of Human Resource Management from 2006 to 2008 and People Management Association of the Philippines (PMAP) in 2002. He was awarded as People Manager of the Year by PMAP in 2006.

Mr. Espinosa obtained his Masters in Business Administration from the De La Salle University (1978). He graduated with a Bachelor of Science Degree in Commerce Major in Accounting from the University of Santo Tomas (1972).

Vincent Martin C. Villegas, 37 - Vice-President for Business Development

Mr. Villegas, Filipino, was appointed by the Board in October 2009. He is also a Vice President of First Gen Corporation, FLGEC and GCGI. Prior to joining First Gen Corporation, he worked with the Treasury Group of PHINMA, Inc. from 1994 to 1996.

Mr. Villegas has a Masters in Business Management from AIM (1998). He graduated with an AB in Management Economics from the Ateneo de Manila University (1993).

Roberto V. San Jose, 68 - Corporate Secretary

Atty. San Jose, Filipino, was appointed by the Board in January 2007. He is a Partner of the Castillo Laman Tan Pantaleon & San Jose Law Firm since 1995. Atty. San Jose 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, 41 - Assistant Corporate Secretary

Atty. Katigbak-Lim, Filipino, was appointed by the Board in January 2007. She is a member of the Castillo Laman Tan Pantaleon & San Jose Law Firm. Atty. Katigbak-Lim graduated *cum laude* at the University of the Philippines with an A. B. degree. She is a graduate of the U. P. College of Law Class (1994) and 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, 59 - Senior Manager, Internal Audit

Mr. Rodriguez, Filipino, has been with the Company since June 1993 and has held his current position 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 PNOC subsidiaries. He was also appointed as Director of PNOC – Shipping and Transport Corporation Board from 1998 to 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).

Francisco A. Palafox, 57 – Deputy Compliance Officer

Mr. Palafox, Filipino, has been with the Company since February 1981 and has held his current position since August 2007. He held various positions in the company such as Senior Manager for Power and Sales Division, Senior Manager of Purchasing and Traffic Division, and Project/Resident Manager of the Southern Negros Geothermal Project and Bacman Geothermal Production Field.

Mr. Palafox graduated with a B.S. in Civil Engineering from the University of Santo Tomas in Manila (1975). He earned credits in the MBA program at the Ateneo Graduate School of Business in Makati City, and undertook Geothermal Management Project Management Training Program in New Zealand. He also completed the Management Development Program of AIM (1994). Mr. Palafox is an ICD Fellow, having completed the full requirements of its Professional Directors Program.

Erudito S. Recio, 52 - Senior Manager, Investor Relations

Mr. Recio, Filipino, has been with the Company since 1981. He was appointed to his current position in January 2007 but has performed his current duties since December 2006. He started with the Company as a Planning Engineer in 1981 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 the Ateneo de Manila University. He completed the Management Development Program of AIM (1996).

Theresa P. Mañalac, 43 - Deputy Treasurer

Ms. Mañalac, Filipino, was appointed by the Board in March 2010. Prior to her appointment in the Company, she was Adjunct Professor of Financial Management at Asian Institute of Management. She has over 20 years of experience in international treasury, strategy and acquisitions. She worked with Automatic Data Processing in Roseland, New Jersey as Vice President of Corporate Treasury from 2007 to 2008, Senior Director of Corporate Finance from 2004 to 2007, and Director of International Corporate Finance from 1999 to 2003. She also worked in various key positions at San Miguel Corporation, Citibank NA Manila and United Technologies – Carrier Corporation in Farmington, Connecticut.

Ms. Mañalac obtained her Masters in Business Administration with emphasis on Finance and International Business from the University of Michigan School of Business Administration (1992). She graduated with a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University (1987).

Market Price of and Dividends on the Registrant's Common Equity
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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 2008, 2009 and 1st quarter of 2010 are indicated in the following table:

Period	Highest Close		Lowest Close	
	Price (₱)	Date	Price (₱)	Date
2008				
1 st Quarter	6.80	Jan. 2, 2008	5.00	Jan. 22, 2008
2 nd Quarter	5.90	April 2, 2008	5.00	May 8, 2008
3 rd Quarter	5.20	July 1, 2008	2.95	Sept. 18, 2008
4 th Quarter	4.05	Oct. 2, 2008	1.86	Dec. 23, 2008
2009				
1 st Quarter	3.90	Mar. 31, 2009	2.10	Feb. 4, 2009
2 nd Quarter	4.45	April 8, 2009	3.30	April 15, 2009
3 rd Quarter	4.90	Sept. 8-11, 2009	3.80	July 14, 2009
4 th Quarter	4.90	Oct. 15 & 21, 2009	3.90	Oct. 22, 2009*
2010				
1 st Quarter	5.20	Jan. 10, 2010	4.45	Jan. 4, 2010

* ex-date for the 25% stock dividend

As of March 31, 2010, the total number of stockholders was 677.

As of June 22, 2010, the stock price closed at ₱4.70.

List of Top 20 Stockholders as of May 31, 2010

Rank	Name	Nationality	Number of Shares			%
			Preferred	Common	Total	
1	Red Vulcan Holdings Corporation	Filipino	9,375,000,000	7,500,000,000	16,875,000,000	60.00
2	PCD Nominee Corporation	Foreign	-	7,840,226,142	7,840,226,142	27.88
3	PCD Nominee Corporation	Filipino	-	2,594,595,171	2,594,595,171	9.23
4	First Gen Corporation	Filipino	-	458,643,750	458,643,750	1.63
5	Banco de Oro Unibank Inc. – Trust and Investment Group	Filipino	-	116,250,000	116,250,000	0.41
6	Spathodea Campanulata, Inc.	Filipino	-	90,000,000	90,000,000	0.32
7	Philhealth Care, Inc.	Filipino	-	63,725,350	63,725,350	0.23
8	Regina Capital Dev. Corp.	Filipino	-	35,002,500	35,002,500	0.12
9	Systems Technology, Inc.	Filipino	-	12,745,200	12,745,200	0.05
10	The Insular Life Assurance Co., Ltd.	Filipino	-	8,423,750	8,423,750	0.03
11	Peter D. Garrucho, Jr.	Filipino	-	5,350,000	5,350,000	0.02
12	Ernesto B. Rufino, Jr.	Filipino	-	2,175,000	2,175,000	0.01
13	Ronaldo C. Sabella	Filipino	-	1,018,750	1,018,750	0.00
14	ALG Holdings Corporation	Filipino	-	875,000	875,000	0.00
15	Tan Ben Kuan	Filipino	-	875,000	875,000	0.00
16	CROSL0 Holdings Corporation	Filipino	-	875,000	875,000	0.00
17	Mapazon Corporation	Filipino	-	840,000	840,000	0.00
18	Hi-Light Corporation	Filipino	-	827,500	827,500	0.00
19	Rosalind Camara	Filipino	-	663,750	663,750	0.00
20	Rodolfo R. Waga, Jr.	Filipino	-	658,750	658,750	0.00

COMPANY'S SHARE CAPITAL

On October 12, 2009, the SEC approved the Company's increase in authorized capital stock from ₱15,075,000,000.00 divided into 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, to ₱30,150,000,000.00 divided into 30,000,000,000 common shares and 15,000,000,000 preferred shares with a par value of ₱1.00 and ₱0.01 per share, respectively, by way of a common stock dividend (totaling 3,750,000,000 common shares with fractional shares subscribed by the EDC Retirement Fund) and the subscription by the current preferred stockholders to 1,875,000,000 preferred shares, representing 25% of the increase in the preferred shares at par value. On October 14, 2009, the Company reissued the 93,000,000 treasury shares to a Trust Fund with the BDO (for the employee stock ownership plan). Total issued and outstanding stock as of December 31, 2009 consists of 18,750,000,000 common shares and 9,375,000,000 preferred shares.

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. 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 May 11, 2009, the following cash dividends were paid to all stockholders of record as of April 16, 2009:

- cash dividend of ₱0.0008 per share on the preferred shares; and
- regular cash dividend of ₱0.125 per share on the common shares.

On November 23, 2009, a 25% common stock dividend was distributed from the increase in authorized capital stock to all stockholders of record as of October 27, 2009.

On March 25, 2010, the Board of Directors declared the following cash dividends to stockholders of record as of April 13, 2010, payable on or before April 30, 2010:

- cash dividend of ₱0.0008 per share on the preferred shares; and
- regular cash dividend of ₱0.12 per share on the common shares.

The Company's Board of Directors is authorized to declare dividends as long as the Company has unrestricted retained earnings. Moreover, in the case of stock dividends, stockholders representing at least two-thirds of the Company's outstanding capital stock must approve the stock dividend declaration.

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.

Holders of the preferred shares shall be entitled to receive out of the unrestricted retained earnings when an as declared by the Board of Directors, cumulative dividends at the rate of eight percent (8%) of the par value of preferred shares, before any dividends shall be set apart and paid to holders of the common shares. Holders of the preferred shares shall not be entitled to participate

with holders of the common shares in any further dividends payable by the Company.

EXEMPT SECURITIES AND EXEMPT TRANSACTIONS

On June 25, 2007, the SEC approved the increase of the Company's authorized capital stock by way of creation and issuance of 7,500,000,000 preferred shares with a par value of ₱ 0.01 per share. The preferred shares are exempt securities.

On October 12, 2009, the SEC approved the increase of the Company's authorized capital stock from Fifteen Billion Seventy Five Million Pesos (Php15,075,000,000.00) divided into (i) Fifteen Billion (15,000,000,000) common shares with a par value of One Peso (Php1.00) per share, or an aggregate par value of Fifteen Billion Pesos (Php15,000,000,000.00); and (ii) Seven Billion Five Hundred Million (7,500,000,000) preferred shares with a par value of 1/100 Peso (Php0.01) per share, or an aggregate par value of Seventy Five Million Pesos (Php75,000,000.00), to Thirty Billion One Hundred Fifty Million Pesos (Php30,150,000,000.00) divided into (i) Thirty Billion (30,000,000,000) common shares with a par value of One Peso (Php1.00) per share, or an aggregate par value of Thirty Billion Pesos (Php30,000,000,000.00); and (ii) Fifteen Billion (15,000,000,000) preferred shares with a par value of 1/100 Peso (Php0.01) per share, or an aggregate par value of One Hundred Fifty Million Pesos (Php150,000,000.00), by way of a common stock dividend (totaling 3,750,000,000 common shares with any fractional shares being subscribed by the EDC Retirement Fund and/or Trust for the EDC Executive/Employee Stock Ownership Plan) and the subscription by the current preferred stockholders to 1,875,000,000 preferred shares, representing 25% of the increase in the preferred shares at par value.

G. Compliance with Corporate Governance Practices

For 2009, the Energy Development Corporation (EDC) has achieved significant milestones as it brings its level corporate governance performance "one-notch-higher".

Initially, EDC through the Compliance Office, worked jointly with the Asian Institute of Management's R.V. del Rosario, Sr. - C.V. Starr Center for Corporate Governance in conducting the review and evaluation of EDC corporate governance activities. For five months, surveys, policy review, interviews and caucuses were conducted. A comprehensive report prepared, together with the appropriate recommendation was presented to the EDC Board in May 2009. Since the time they were given, the recommendations have been implemented by the Board and Management with the Compliance Office monitoring the progress.

EDC received local and international recognition for its corporate governance practices as follows:

- For the second time, EDC was recognized by the Institute of Corporate Directors (ICD) as it placed among the 15 top-ranked publicly-listed Philippine companies (PLCs) for Corporate Governance. Of 169 participating PLCs, EDC was given a Silver Award for receiving a corporate governance rating of 91%, improving by as much as seven percent from the previous year's 84%. Its overall average rating greatly exceeds the 72% average obtained by the 169 PLCs and the 82% average of other companies in the same industry. In particular, EDC obtained excellent ratings in all categories, namely, (I) Rights of Stockholders; (II) Equitable Treatment of Stockholders; (III) Role of Stakeholders; (IV) Disclosure and Transparency; and (V) Board Responsibility.
- For the second consecutive year, EDC received recognition in the Best Annual Report (BAR) Awards by the Management Association of the Philippines (MAP), based on the Company's stringent adherence with the best practices on corporate governance, disclosures and financial reporting.

- During the 10th Anniversary meeting of the Asian Roundtable on Corporate Governance (ARCG), EDC was recognized by the Organization for Economic Cooperation and Development (OECD) as one of the top Philippine corporations on corporate governance. The ARCG is a regional forum for exchanging experiences and advancing the reform agenda on corporate governance while promoting awareness and use of OECD Principles of Corporate Governance. It gathers the most prominent, active and influential policy-makers, practitioners and experts on corporate governance in the region, from OECD countries and relevant international institutions.

Compliance with Policies, Rules and Regulations on Corporate Governance

EDC fully complied with the SEC's reportorial requirements on Corporate Governance, such as, the Compliance Officer's certification of compliance to the company's CG Manual, certification on Board Attendance, and numerous reports involving EDC's financial statements, not to mention the timely disclosure of material information and important events in the Company. The Company likewise made sure that the compliance requirements under its Manual on Corporate Governance have been faithfully observed, such as, but not limited to, training requirements for the members of the Board and Key Officials.

The Corporate Governance Manual

EDC's Corporate Governance Manual was adopted and approved by the Board of Directors of the Corporation and made effective on November 15, 2006 in compliance with the Corporate Governance Code of the SEC under SEC Memorandum Circular No. 2, series of 2002 dated April 5, 2002. Since its adoption, EDC Corporate Governance Manual has undergone the following revisions:

- on April 26, 2007, concerning the adoption of the provisions of the Securities Regulation Code (SRC) concerning the disqualification of an Independent Director based on his past affiliation (*sub-paragraphs E and F, paragraph 2, SRC Rule 38*);
- on November 20, 2007, concerning the Compliance Officer's functional and administrative reporting line and specifying his primary duty of making sure that the Company is compliant with the rules of the SEC and PSE; and,
- on January 22, 2008, concerning the establishment of a corporate governance evaluation system, as well as revisions on Board Committees.

For 2009, the Corporate Governance Manual started undergoing another update in compliance with the SEC Corporate Governance Code under SEC Memorandum Circular No. 6, series of 2009.

EDC's Governance Policies

The importance given by EDC to corporate governance is reinforced by various governance-related policies espousing the principles of ethical conduct, fairness, accountability and transparency by all Directors, Officers and employees. These policies while already established, undergo regular review by the Company in compliance with existing laws, rules, regulations and best practices on corporate governance.

a. Code of Conduct and Business Ethics

EDC's Code of Conduct and Business Ethics was launched on September 13, 2004 when EDC was still a government-owned and controlled corporation.

The Code provides company's mission, vision and credo, as well as the policy guidelines and key principles to help EDC and its employees and officers re-align their personal values,

actions and concepts of business behavior and governance based on enduring moral values. The Code likewise encourages the right actions through sometimes difficult choices and to act with unflinching integrity when faced with situations involving ethical issues.

The Code states the values that motivate the Company and its workforce to persevere and aim for excellence while maintaining favorable relations with co-workers as well as with other stakeholders. We believe and practice teamwork, trust, respect/courtesy, integrity, and social responsibility.

The Code lays down the key principles which guide in dealing with investors, principal stakeholders and critical issues and concerns facing the Company, such as the Government, the Employees, EDC's Business Partners, the Environment, the Communities around the Company, Company Books and Records, Confidential Information, a Healthy and Safe Workplace, and the Media, among others.

b. Conflict of Interest Policy

EDC's Conflict of Interest Policy is generally covered under EDC's Personnel Manual and serves as the guide for EDC personnel in the conduct of their day-to-day transactions in the Company. Recently revised in order to address the ever-changing needs of a private corporation, the policy provides the guidelines and directives for all Directors, officers and all other employees, as well as their relatives within a certain degree of affinity or consanguinity, in order to avoid any conflict of interest between their personal interest and that of the Company in dealing with suppliers, customers, and all other organizations or individuals doing or seeking to do business with the Company.

Instances identified under Conflict of interest include, but are not limited to, the following: (a) interest in any group or organization which has, or is seeking to have, business or financial dealings with the Company or where there is an opportunity for preferential treatment to be given or received; (b) sale or lease any kind of property, facilities or equipment to the Company; (c) participation or involvement, direct or indirect, in any transaction involving any person, firm, corporation or any business enterprise with which the Company, directly or indirectly, has a commercial relationship, where such participation or involvement is improper or undesirable in the interest of the Company; (d) accepting commissions, share in profits, gifts in cash, gift certificates, etc. from an organization, firm or individual doing or seeking to do business with the Company; (e) accepting appointments in the national or local government in any capacity, run for elective office, or actively engaged in partisan political activities, when it may tend to prejudice the Company.

In addition to the instances covered by the definition of "Conflict of Interest", the policy provides the accepted exceptions thereto, as well the guidelines on the procedure for actions against involved personalities charged with having Conflicts of Interest, emphasizing the need for due process.

c. Guidelines on Trading Rules and Restrictions

Since EDC's listing in the Philippine Stock Exchange in December 13, 2006, the Company has continued to observe strict compliance with the Exchange's Trading Rules and Restrictions, emphasizing the need for transparency and fairness in its transactions in order to fully apprise its investors of its current activities.

One of the matters which were given much importance is the principle of transparency, wherein directors and officers are required to disclose their stock transactions involving company security, using SEC Forms 23-A and 23-B whenever necessary.

Another matter given much importance is the manner by which the Company, its Directors and officers treat material information which they may come by in the Company. Management has advised time and again that material information should be treated delicately so as to comply with the PSE and SEC Rules on Disclosure.

A consolidated Company Manual on the Guidelines on Disclosure Rules and Trading Restrictions is under review for a more consistent company-wide policy implementation.

d. Fraud Policy

The corporate fraud policy is established to facilitate the development of controls which will aid in the detection and prevention of fraud against the Company and promotion of consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls.

The policy defines fraud and enumerates the instances wherein fraud is committed, and designates the office primarily responsible for investigating corporate fraud cases. It emphasizes that in the process of investigating corporate fraud cases, the Company shall, at all times, accord all individuals concerned with all the rights and privileges emanating from due process.

e. Whistleblower Policy

EDC's Whistleblower policy is intended to encourage and enable employees and others to raise serious concerns within the company prior to seeking resolution outside the company. The EDC whistleblower policy is a guarantee that no person who reports a violation of company policies shall suffer harassment, retaliation, or adverse employment consequence.

The EDC Whistleblower Policy identifies who could be whistleblowers, laying down the matters which are reportable thereunder, the procedures for whistleblowing, as well as their rights and responsibilities under the said policy.

The EDC Board of Directors

The EDC Board is composed of eleven highly-qualified and very experienced professionals from the field of business, local & international finance, and power generation, among others. Of the eleven members of the Board, three are independent directors possessing expertise in the field of banking, finance, and power, both locally and internationally, namely: Vicente S. Pérez, Jr., Francis G. Estrada, and Cesar V. Purisima, who was elected to take-over the vacancy left by Independent Director Eric O. Recto.

The EDC Board of Directors are the primary guardians of EDC's compliance with corporate governance policies and practices, as it ensures a high standard of governance, as well as promotes and protects the interests of the Company, the stockholders and its stakeholders.

Independent Directors

EDC fully and strictly adheres to the definition of an "Independent Director" which states that he is *"a person who is independent of management and who, apart from his fees and shareholdings, is free from any business or other relationship with the Company, which could, or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Company, and one who possesses all the qualifications and none of the disqualifications for an independent director under existing laws, issuance or rules and regulations."* EDC even goes beyond this definition when it required that an independent director should provide independent judgment and outside experience that transcends beyond operational considerations on all issues which come before the Board, where he is expected to be self-reliant and with objectivity unimpaired by other interests.

In compliance with the foregoing definition of an independent director, as well as legal and regulatory requirements thereof, EDC has three (3) of eleven (11) members of the Board, or approximately 27% thereof as independent directors, who have extensive hands-on experience in finance, business, management, government service and the academe, namely, Messrs. Vicente S. Pérez, Jr., Francis G. Estrada and Cesar V. Purisima, vice Mr. Eric O. Recto.

All independent directors of the Board are very active participants during meetings and in all instances of major corporate undertaking. They indeed have provided indispensable independent judgment and outside experience and objectivity on all issues presented to the Board.

Board Committees

In furtherance to adherence to best practices in corporate governance, the EDC Board has created five Board Committees to support it in the performance of its functions, namely: Audit and Governance, Nomination and Compensation, Risk Management, Corporate Social Responsibility (CSR) and Operations Committees.

1. Audit and Governance Committee (AGC)

The AGC duties pertain to assisting the Board in fulfilling its oversight responsibility as regards the Company's integrity of financial reporting process, effectiveness and soundness of internal audit control environment, adequacy of internal and external audit functions, and compliance with rules, policies, laws, regulations, contracts and the code of conduct.

In 2009, the AGC reviewed with management and the current external auditor (SGV & Co.) the 2008 annual financial statements and 2009 quarterly financial statements (for the 1st, 2nd and 3rd quarters) and endorsed the same for the Board's approval. It monitored the effectiveness of the internal control environment, promoting a culture of integrity and ethical values of the Company. It reviewed the overall scope and audit plan of the external auditor, and approved the Internal Audit annual plan and ensured that independence is maintained. It monitored the Company's compliance with laws, rules and regulations, and took steps to strengthen the governance framework such as: endorsement of changes to the Corporate Governance Manual to align it with regulatory requirements, corporate policies and best practices; providing oversight in the completion of the Corporate Governance Improvement Project between EDC and AIM; ensuring that all directors comply with the corporate governance training requirements; endorsing the conduct of an annual evaluation of the Board's performance; and, approval of recommendations to enhance the company's participation in the Corporate Governance Scorecard of the ICD, SEC and PSE.

Please refer to Exhibit 3 for the 2009 Audit and Governance Committee Report.

2. Nominations and Compensation Committee (NCC)

In fulfillment of its mandate, the NCC met several times in 2009 to discuss and address the following matters:

- Pre-screened the nominees for Directors and Independent Directors for the 2009 Annual Stockholders' Meeting in accordance with the qualifications and disqualifications of the Corporation Code, Securities Regulation Code, related issuances by the SEC, EDC's Articles and By-Laws and EDC's Corporate Governance Manual
- Pre-screened the nominees for Corporate Officers for the 2009 Organizational Board Meeting in accordance with the procedures set forth in EDC's Articles and By-Laws and EDC's Corporate Governance Manual
- Reviewed the creation of new Management positions and the qualifications of nominees thereto
- Conducted a study on the Stock Grant Plan and endorsed the same for Board approval
- Conducted a study on the mechanics and plan rules for the Stock Financing Plan
- Presently studying the various options for the Employee Stock Option Plan for Managers and Officers
- Presently studying the proposals for a revised table of organization in some sectors of the Company in line with the corporate objective of restructuring the organization to increase effectiveness of leadership and improve accountability.

3. Risk Management Committee (RMC)

The key activities of the Risk Management Committee for 2009 were as follows:

- a. Risk Administration – with the financial crisis that started in the 3rd Quarter of 2008, the RMC identified three major risk exposures of the Company relating thereto, and subsequently implemented measures to mitigate them. Other strategic, operational, financial and hazard risk exposures of EDC were identified, validated and documented in the Company's risk profile. On the top five (5) priority risks identified, the risk owners implemented risk management strategies and the Risk Management Group conducted quarterly risk monitoring.
- b. Risk Management Program Enhancement – The Committee sees to it that there is an effective risk management program that ensures that the company's risk exposures are proactively addressed and critical risk concerns are communicated on a timely basis to top management and across the organization. With the recent publication of the Risk Management – Principles and Guidelines (ISO 31000:2009), the RMC initiated the review of its current policies and procedures so as to reflect the latest thinking in enterprise risk management.
- c. Roll-out of Business Continuity Plan (BCP) – the BCP will provide the formal framework to ensure that EDC will be able to continue its business operations the soonest possible time after the occurrence of a catastrophic event, thus, minimizing business interruption and revenue losses, at the same time ensuring the stockholders' confidence in the company. EDC's BCP was completed in 2009 at EDC's LGPF where the corresponding BCP deliverables will be finalized in 2010. The roll-out of the BCP in other sites is scheduled in 2010.
- d. Risk Surveys and the Insurance Program – in coordination with EDC's insurance brokers, risk surveys in the field have been conducted to determine EDC's various risk exposures and the implementation of mitigating measures.

4. Corporate Social Responsibility Committee (CSRC)

The CSR Committee performed its oversight functions on the implementation of the Company's CSR Program in 2009, which focused on health, education, livelihood, and environmental situation in the 43 primary partner barangays within EDC's five (5) geothermal project areas.

In the five (5) Committee meetings held in 2009, the following major items were discussed and resolved:

- a. Mission, goals and CSR organization
- b. CSR Program and project issues
- c. Stakeholder profiling across EDC sites
- d. Social acceptability assessment of EDC, its people and the CSR projects
- e. Climate change concerns and watershed organization
- f. Implementation of the *BINHI: A Greening Legacy* Program
- g. Resettlement projects and turn-over of allocated lots/houses to beneficiaries
- h. Financial and operational performance of the Kananga-EDC Educational Foundation, Inc. (KEEFI) and the Kananga-EDC Institute of Technology (KEITECH)
- i. Review of other special projects: Trees for Asia Book (co-publication with Harvard University, Lopez Museum, SIKAT solar project)
- j. Laying the groundwork for the attainment of a socially and economically sustainable CSR program.

5. *Operations Committee (OpsComm)*

In the performance of its mandate, the Operations Committee conducted a total of 29 meetings for 2009, with almost 90% having been attended by at least four (4) directors, which is more than the prescribed number to constitute a quorum.

In these meetings, the Operations Committee approved/endorsed approval of 40 high-valued procurement items, approved 15 budget items, 13 matters on policy formulation, among others.

Directors’ Attendance in Board Meetings

The EDC Board of Directors’ diligence in the performance of their tasks is seen not only in the performance of functions in their respective Board committees, but also in their diligence in performance in the Board itself.

We have an excellent record of Directors’ attendance in Board meetings and Committee meetings, as seen in Tables 1 and 2 below:

Table 1. Director’s Attendance in EDC Board Meetings in 2009
LEGEND: Present (√) Absent (x) Not Applicable (NA)

Name of Directors	Dec. 15	Nov. 26	Oct. 14	Sept. 22	Aug. 18	July 21	June 30 ORG	June 30 ASM	June 16	May 19	April 28	Mar. 30	Feb. 24	Jan. 23
OSCAR M. LOPEZ	√	√	√	√	√	√	√	√	√	X	√	√	√	√
PAUL A. AQUINO	√	√	√	√	√	√	√	√	√	√	√	√	√	√
RICHARD B. TANTOCO	√	√	√	√	√	√	√	√	√	√	√	X	√	√
PETER D. GARRUCHO, JR.	√	√	√	X	√	√	√	√	√	√	X	√	√	√
FEDERICO R. LOPEZ	√	√	√	√	√	√	√	√	√	√	√	√	√	√
FRANCIS GILES B. PUNO	√	√	√	√	√	√	√	√	√	√	√	√	√	√
JONATHAN C. RUSSELL	√	√	√	√	√	√	√	√	√	√	X	√	√	√
ERNESTO B. PANTANGCO	X	√	√	√	√	√	√	√	X	√	√	√	√	√
VICENTE S. PEREZ, JR. -Independent Director	√	X	√	√	√	√	√	√	√	√	X	√	X	X
FRANCIS G. ESTRADA -Independent Director	X	√	√	√	√	√	√	√	X	X	X	√	√	√
ERIC O. RECTO -Independent Director (resigned May 2009)	NA	NA	NA	NA	NA	NA	NA	NA	NA	√	√	√	√	X
ELPIDIO L. IBAÑEZ (elected June 2009/ resigned July 2009)	NA	NA	NA	NA	NA	NA	√	√	NA	NA	NA	NA	NA	NA
CESAR V. PURISIMA -Independent Director (elected July 2009)	X	√	√	√	√	√	NA	NA	NA	NA	NA	NA	NA	NA

Table 2. Director's Attendance in EDC Committee Meetings in 2009

NAME OF DIRECTORS	AUDIT & GOVERNANCE COMMITTEE (5 Meetings)	NOMINATION & COMPENSATION COMMITTEE (9 Meetings)	RISK MANAGEMENT COMMITTEE (4 Meetings)	CORPORATE SOCIAL RESPONSIBILITY COMMITTEE (5 Meetings)	OPERATIONS COMMITTEE (29 Meetings)
PAUL A. AQUINO	5	8	3	5	25 (Member)
RICHARD B. TANTOCO	3	9 (Member up to June 2009)	1 (Member up to 1 st Semester only. Attended 2 meetings in 2 nd Semester)	3	23 (Member)
PETER D. GARRUCHO, JR.	2	5 (Member from July – December 2009)	1 (Member June 2009-present. 3 meetings during term)		24 (Member)
FEDERICO R. LOPEZ	1	6 (Member)	1	5 (Chairman)	8 (Member)
FRANCIS GILES B. PUNO	5 (Member)	2	3 (Chairman June 2009-present. 3 meetings during term)	2	10 (Member)
JONATHAN C. RUSSELL	3	5	4 (Member)	1	23 (Member)
ERNESTO B. PANTANGCO	3 (Member July –present. Attended all meetings during the period)	6	1	5 (Member)	24 (Member)
VICENTE S. PEREZ, JR. –Independent Director	4 (Chairman Jan-Aug 2009. Member Sept - present)	2		3 (Member since July 2009. 4 meetings during term)	
FRANCIS G. ESTRADA –Independent Director	2 (Member)	9 (Chairman)		1	1
ERIC O. RECTO –Independent Director (resigned May 2009)	2 (Member up to May 2009. Attended all 2 meetings during the period)		1 (Chairman up to May 2009. Only 1 Meeting in 1 st Semester)		
ELPIDIO L. IBANEZ (elected June 2009/ resigned July 2009)		1			
CESAR V. PURISIMA –Independent Director (elected July 2009)	2 (Chairman Sept–present. Attended all 2 meetings during the period)				

NOTES:

1. Directors who are non-members of Committees are allowed to attend and participate in the discussion, pursuant to a Board Resolution. If they are present at Committee meetings, their attendance shall be counted
2. For the Operations Committee, there is no Committee Chairman, pursuant to the OpsComm Charter.
3. Data Source: Committee Secretariats and EDC Director Relations Office Records

Board Strategic Retreat

In compliance with the provision under the Company's Corporate Governance Manual, all 11 members of the EDC Board of Directors underwent a two-day off-site strategy retreat in Tagaytay City on the 26th and 27th of August 2009 to discuss and firm up their role in corporate strategy formulation of the Company, including strategy execution for all sectors and units of the Corporation. This retreat also provided the opportunity for the Board to focus on the Company's strategic direction.

Corporate Governance Evaluation

For the second year since it was approved by the Board, the Board conducted its annual Board Self-Assessment where the individual Directors rate the Board's specific and overall performance for the previous year, and the President/CEO Evaluation where the President's performance, leadership, management, working relations with the Board and his financial management is likewise reviewed

and evaluated. The results of both evaluations were highly satisfactory, showing a marked improvement from the previous year.

Deviations

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

Plan to Improve

The Company, through the Board of Directors, recognizes the stockholders and other stakeholders' expectations of high standards of behavior and accountability from directors and officers, and firmly requires strict adherence to the governance principles of fairness, accountability, transparency and integrity. All Directors, Officers and employees of EDC are required and expected to carry out their respective duties and responsibilities effectively and in compliance with these governance principles.

The Company is continually reviewing its policies and processes for further improvements in corporate governance practices within the Company and to address the changes in government legislation, administrative regulations and international best practices. To this end, EDC has likewise strengthened its partnership with regulatory government agencies and SEC-accredited corporate governance institutions such as the Institute of Corporate Directors (ICD), the Philippine Securities Consultancy Corporation (PhilSeCC), and the Asian Institute of Management (AIM), among others.

The Company will provide without charge to each person solicited, upon his written request, a copy of the Company's annual report on SEC Form 17-A duly filed with the Securities and Exchange Commission. At the discretion of Management, a reasonable fee may be charged for the expense incurred in providing a copy of the exhibits. All requests may be sent to the Company's head office and addressed to:

**Attention: Mr. Erudito S. Recio
Senior Manager, Investor Relations**

2009 Audit and Governance Committee Report

The Board of Directors

Energy Development Corporation

The Audit and Governance Committee (AGC) assists the Board in fulfilling its oversight responsibility as regards the Company's: a) integrity of financial reporting process; b) effectiveness and soundness of internal control environment; c) adequacy of audit functions, both external and internal audits; and d) compliance with rules, policies, laws, regulations, contracts and the code of conduct.

In fulfilling our responsibilities as stated in the AGC Charter, we confirm for 2009 that:

Financial Reporting

- We have reviewed with management and the external auditor (SGV & Co.) the annual audited financial statements and endorsed these to the Board for approval and release to regulatory bodies and stockholders. We have discussed with the external auditor the key accounting issues and the results of their examinations.
- We have reviewed with management the quarterly unaudited financial statements and endorsed these to the Board for approval and release to appropriate regulatory bodies.

Internal Control Environment

- We have monitored the effectiveness of the internal control environment through various measures such as: the review of the results of the external auditor; exercising functional responsibility over Internal Audit and Compliance Office and receiving reports on work done in assessing key control components; discussion with management on major control issues and recommendations to improve policies and processes; and promoting a culture of integrity and ethical values in the company.

External and Internal Audit

- We have reviewed the overall scope and audit plan of the external auditor. We have also reviewed and affirmed the management evaluation on the performance of the external auditor for the 2008 audit and endorsed the engagement of SGV & Co. for up to the 2009 audit (final year of the contract period).
- We have approved the Internal Audit annual plan and ensured that independence is maintained, the scope of work is sufficient and resources are adequate.

Compliance

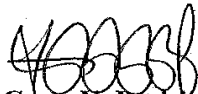
- We have monitored the Company's compliance to laws, regulations and policies.
- We have approved the annual plans and programs of the Compliance Office.
- We have taken steps to strengthen the governance framework such as: endorsement of changes to the Corporate Governance Manual to align it with regulatory requirements, corporate policies and best practices; providing oversight in the completion of the Corporate Governance Project with the Asian Institute of Management; ensuring that all directors comply with the corporate governance training requirements; endorsing the conduct of the annual evaluation of the Board's performance; and, approval of

recommendations to enhance the company's participation in the Corporate Governance Scorecard project.

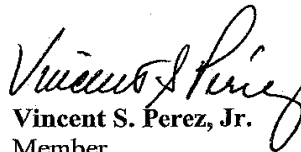
Committee Meetings

- We conducted five meetings in 2009. Almost all the Committee members were able to attend at least a majority of the meetings.

January 20, 2010



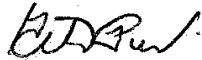
Cesar V. Purisima
Chairman
(September 2009 to present)



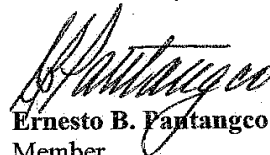
Vincent S. Perez, Jr.
Member
(Chairman – January to
August 2009)



Francis G. Estrada
Member



Francis Giles B. Puno
Member



Ernesto B. Pantangco
Member
(July 2009 to present)



Energy Center, Merritt Road, Fort Bonifacio
1201 Taguig City, Philippines
Tel: +63 (2) 893 6001 to 47; 893 1320 to 64
Fax: +63 (2) 840 1575

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

March 25, 2010

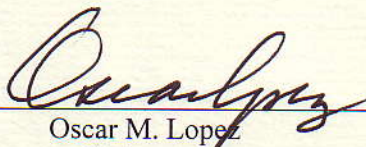
Securities and Exchange Commission
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

The management of Energy Development (EDC) Corporation is responsible for all information and representations contained in the consolidated statement of financial position as at December 31, 2009 and 2008 and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flow for each of the three years in the period ended December 31, 2009. The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

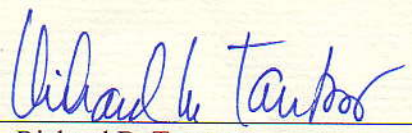
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditors: (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.

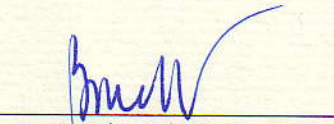
SyCip, Gorres, Velayo & Co., the independent auditors appointed by the Board of Directors and Stockholders, has audited the consolidated financial statements of the Company in accordance with the Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and Stockholders.



Oscar M. Lopez
Chairman



Richard B. Tantoco
President / COO



Regina Pia B. Go
Senior Vice-President/CFO

SUBSCRIBED AND SWORN TO before me this MAR 25 2010 in Taguig City, Metro Manila; affiants exhibiting to me their respective Passport numbers, as follows:

<u>Name</u>	<u>Passport No.</u>	<u>Date/Place of Issue</u>
Oscar M. Lopez	ZZ196921	August 17, 2006 / Manila
Richard B. Tantoco	ZZ148789	August 9, 2005 / Manila
Regina Pia B. Go	XX4242257	July 28, 2009 / Manila

Mb



[Handwritten Signature]

ATTY. OLIVER D. BAYOT
 Notary Public for the City of Taguig until 12/31/2010
 Appointment No. 74 (2009-2010)
 Energy Development Corporation
 3rd Flr., Building V Energy Center, Alvaro Road, Fort Bonifacio, Taguig City
 Roll No. 45887, May 24, 2001
 PTR No. 0938880-D January 5, 2010, Taguig City
 IBP No. 805639 January 5, 2010 Rizal/San Juan/Mandaluyong

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 SERIES OF 2010

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Energy Development (EDC) Corporation
Merritt Road, Fort Bonifacio
Taguig City

We have audited the accompanying financial statements of Energy Development (EDC) Corporation and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

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

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Energy Development (EDC) Corporation and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-1

Tax Identification No. 152-884-272

PTR No. 2087540, January 4, 2010, Makati City

March 16, 2010



ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 37)	₱11,220,897,157	₱957,088,260
Trade and other receivables (Notes 8, 16, 27, 31 and 37)	5,487,246,002	5,412,135,610
Current portion of concession receivables (Notes 3, 37 and 39)	–	2,048,110,310
Available-for-sale (AFS) investments (Notes 3, 9, 32 and 37)	734,811,000	674,494,128
Parts and supplies inventories (Notes 3, 10, 26 and 27)	1,553,803,487	1,563,284,383
Derivative assets (Note 37)	–	614,081,623
Other current assets (Notes 11, 21, 24 and 37)	140,998,551	657,407,901
	19,137,756,197	11,926,602,215
Noncurrent assets held for sale (Notes 12, 32 and 46)	–	1,797,587,000
Total Current Assets	19,137,756,197	13,724,189,215
Noncurrent Assets		
Property, plant and equipment (Notes 3, 5 and 13)	59,877,186,791	5,280,149,541
Service concession assets:		
Concession receivables - net of current portion (Notes 3, 37 and 39)	–	32,647,323,888
Intangible assets (Notes 3, 14 and 39)	–	9,389,193,091
Intangible assets (Notes 3, 14 and 15)	2,397,497,635	2,493,688,792
Deferred tax assets - net (Notes 3 and 34)	959,273,421	3,410,392,338
Exploration and evaluation assets (Notes 3, 14, 15, 29 and 32)	1,038,052,272	999,757,259
Derivative assets (Note 37)	9,611,022	34,907,195
Other noncurrent assets (Notes 8, 9, 16, 27, 31, 32 and 37)	1,355,560,188	1,365,986,414
Total Noncurrent Assets	65,637,181,329	55,621,398,518
TOTAL ASSETS	₱84,774,937,526	₱69,345,587,733

LIABILITIES AND EQUITY

Current Liabilities		
Loan payable (Notes 17 and 37)	₱–	₱2,000,000,000
Trade and other payables (Notes 18 and 37)	3,985,053,445	2,979,859,848
Income tax payable (Note 34)	66,400,060	84,807,510
Due to related parties (Notes 24 and 37)	537,020,209	110,920,747
Derivative liabilities (Note 37)	–	54,250,018
Current portion of:		
Long-term debts (Notes 21, 24 and 37)	16,930,776,636	8,672,427,694
Royalty fee payable (Notes 19, 29, 37 and 40)	244,306,963	1,688,282,467
Obligations to a power plant contractor (Notes 20 and 42)	–	112,187,446
Total Current Liabilities	21,763,557,313	15,702,735,730

(Forward)



	December 31	
	2009	2008
Noncurrent Liabilities		
Long-term debts - net of current portion (Notes 21, 24 and 37)	₱30,533,721,755	₱23,557,027,591
Royalty fee payable - net of current portion (Notes 19, 29, 37 and 40)	566,697,746	-
Deferred tax liabilities, net (Note 34)	17,340,023	11,294,373
Net retirement and other post-retirement benefits (Notes 3 and 33)	1,237,097,147	1,026,394,482
Other long-term liabilities (Note 22)	324,661,737	312,816,858
Total Noncurrent Liabilities	32,679,518,408	24,907,533,304
Total Liabilities	54,443,075,721	40,610,269,034
Equity		
Attributable to Equity Holders of the Parent Company:		
Preferred stock (Note 23)	93,750,000	75,000,000
Common stock (Note 23)	18,750,000,000	15,000,000,000
Common shares in employee trust account (Notes 23 and 36)	(391,643,364)	-
Additional paid-in capital (Notes 23, 34 and 36)	6,262,027,052	6,278,075,648
Equity reserve (Note 4)	(3,706,430,769)	(3,706,430,769)
Net accumulated unrealized gain on AFS investments (Notes 9 and 32)	113,177,323	30,826,354
Retained earnings (Note 23)	7,681,220,446	9,977,933,235
Cost of treasury stock held (Note 23)	-	(404,219,068)
Total Equity	28,802,100,688	27,251,185,400
Minority Interest	1,529,761,117	1,484,133,299
Total Equity	30,331,861,805	28,735,318,699
TOTAL LIABILITIES AND EQUITY	₱84,774,937,526	₱69,345,587,733

See accompanying Notes to Consolidated Financial Statements.



ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2009	2008	2007
REVENUES			
Sale of electricity (Notes 3, 42, 43, 44 and 50)	₱15,245,966,218	₱12,518,203,534	₱11,508,902,796
Sale of steam (Notes 3 and 41)	3,781,367,064	4,242,467,491	4,521,232,474
Interest income on service concessions (Notes 3 and 39)	1,650,208,827	2,107,841,224	2,236,906,585
Drilling services (Note 3)	847,879,359	726,145,231	624,777,831
Construction revenue (Notes 3 and 39)	541,458,209	932,254,227	108,813,951
	22,066,879,677	20,526,911,707	19,000,633,637
OPERATING EXPENSES			
Operations and maintenance (Notes 10, 19, 26, 28 and 46)	(5,444,412,947)	(5,046,039,223)	(3,078,917,173)
Purchased services and utilities (Notes 25 and 46)	(2,073,123,457)	(1,523,933,710)	(3,111,431,764)
General and administrative (Notes 8, 10, 16, 24, 27, 28, 31 and 46)	(3,498,219,579)	(1,293,989,935)	(2,385,741,183)
Construction costs (Notes 3 and 39)	(467,262,081)	(803,667,437)	(101,137,594)
Depreciation and amortization (Notes 13 and 14)	(1,198,827,607)	(675,803,008)	(284,257,242)
	(12,681,845,671)	(9,343,433,313)	(8,961,484,956)
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 7, 16 and 37)	402,950,235	332,562,785	650,045,922
Interest expense (Notes 17, 18, 19, 21 and 29)	(2,887,155,929)	(2,152,523,656)	(1,600,053,654)
	(2,484,205,694)	(1,819,960,871)	(950,007,732)
OTHER INCOME (CHARGES)			
Foreign exchange gains (losses), net (Note 30)	1,291,239,839	(9,357,131,312)	3,995,789,095
Loss on disposal of machineries and equipment of subsidiary (Note 13)	(273,575,293)	-	-
Derivatives gain (loss), net (Note 37)	(198,809,759)	420,019,743	56,011,571
Revenue from arbitration award (Note 31)	-	2,067,343,343	-
Miscellaneous, net (Notes 9, 13, 16, 19, 20 and 32)	(439,660,616)	159,074,890	(204,411,933)
	379,194,171	(6,710,693,336)	3,847,388,733
INCOME BEFORE INCOME TAX	7,280,022,483	2,652,824,187	12,936,529,682
PROVISION FOR INCOME TAX (Note 34)			
Current	(1,454,387,054)	(2,142,562,014)	(2,310,961,224)
Deferred:			
Effect of Renewable Energy Law (Note 49)	(2,959,213,001)	-	-
Others	501,867,601	835,013,077	(1,857,314,253)
	(3,911,732,454)	(1,307,548,937)	(4,168,275,477)
NET INCOME	₱3,368,290,029	₱1,345,275,250	₱8,768,254,205
Net income attributable to:			
Equity holders of the Parent Company	₱3,322,662,211	₱1,308,021,833	₱8,692,170,755
Minority interest	45,627,818	37,253,417	76,083,450
	₱3,368,290,029	₱1,345,275,250	₱8,768,254,205
Basic/Diluted Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 35)			
	₱0.177	₱0.070	₱0.463

See accompanying Notes to Consolidated Financial Statements.



ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
NET INCOME	₱3,368,290,029	₱1,345,275,250	₱8,768,254,205
OTHER COMPREHENSIVE INCOME (LOSS)			
Changes in fair value of AFS investment recognized in equity (Note 9)	79,022,336	(291,399,507)	245,024,166
Impairment loss on AFS removed from equity and recognized in profit or loss (Notes 9 and 32)	3,328,633	–	–
Net unrealized gain removed from equity and recognized in profit or loss (Notes 9 and 32)	–	(46,323,392)	(7,937,724)
	82,350,969	(337,722,899)	237,086,442
Adjustment of related deferred tax liability of properties stated at appraised values and designated at deemed cost (Note 23)	–	(449,433,875)	–
	82,350,969	(787,156,774)	237,086,442
TOTAL COMPREHENSIVE INCOME	₱3,450,640,998	₱558,118,476	₱9,005,340,647
Total comprehensive income attributable to:			
Equity holders of the Parent Company	₱3,405,013,180	₱520,865,059	₱8,929,257,197
Minority interest	45,627,818	37,253,417	76,083,450
	₱3,450,640,998	₱558,118,476	₱9,005,340,647

See accompanying Notes to Consolidated Financial Statements.



ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Equity Attributable to Equity Holders of the Parent Company											
	Preferred Stock	Common Stock	Common Shares in Employee Trust Account	Additional Paid-in Capital	Equity Reserve	Net Accumulated Unrealized Gain on AFS Investments	Retained Earnings		Cost of Treasury Stock Held	Subtotal	Minority Interest	Total Equity
							Appropriated	Unappropriated				
Balance, January 1, 2007	₱-	₱15,000,000,000	₱-	₱6,278,075,648	₱-	₱131,462,811	₱1,653,315,043	₱4,311,859,476	₱-	₱27,374,712,978	₱-	₱27,374,712,978
Total comprehensive income (loss)	-	-	-	-	-	237,086,442	-	8,692,170,755	-	8,929,257,197	76,083,450	9,005,340,647
Issuance of preferred shares (Note 23)	75,000,000	-	-	-	-	-	-	-	-	75,000,000	-	75,000,000
Effect of acquisition of First Gen Hydro Power Corporation (Note 5)	-	-	-	-	(3,706,430,769)	-	-	-	-	(3,706,430,769)	3,268,824,032	(437,606,737)
Cash dividends (Note 23)	-	-	-	-	-	-	-	(1,485,000,000)	-	(1,485,000,000)	-	(1,485,000,000)
Balance, December 31, 2007	75,000,000	15,000,000,000	-	6,278,075,648	(3,706,430,769)	368,549,253	1,653,315,043	11,519,030,231	-	31,187,539,406	3,344,907,482	34,532,446,888
Total comprehensive income (loss)	-	-	-	-	-	(337,722,899)	-	858,587,958	-	520,865,059	37,253,417	558,118,476
Purchase of treasury stock (Note 23)	-	-	-	-	-	-	-	-	(404,219,068)	(404,219,068)	-	(404,219,068)
Reversal of appropriations for exploration projects (Note 23)	-	-	-	-	-	-	(1,653,315,043)	1,653,315,043	-	-	-	-
Return of deposit for future stock subscriptions of First Gen Hydro Power Corporation to minority interest (Note 23)	-	-	-	-	-	-	-	-	-	-	(648,027,600)	(648,027,600)
Cash dividends (Note 23)	-	-	-	-	-	-	-	-	-	(4,052,999,997)	-	(4,052,999,997)
Cash dividends to minority interest (Note 23)	-	-	-	-	-	-	-	-	-	-	(1,250,000,000)	(1,250,000,000)
Balance, December 31, 2008	75,000,000	15,000,000,000	-	6,278,075,648	(3,706,430,769)	30,826,354	-	9,977,933,235	(404,219,068)	27,251,185,400	1,484,133,299	28,735,318,699
Total comprehensive income	-	-	-	-	-	82,350,969	-	3,322,662,211	-	3,405,013,180	45,627,818	3,450,640,998
Stock dividend (Note 23)	-	3,750,000,000	-	-	-	-	-	-	-	-	-	-
Preferred shares subscription (Note 23)	18,750,000	-	-	-	-	-	-	-	-	18,750,000	-	18,750,000
Documentary stamp tax on common stock dividends	-	-	-	(18,750,000)	-	-	-	-	-	(18,750,000)	-	(18,750,000)
Documentary stamp tax on preferred shares subscription	-	-	-	(93,725)	-	-	-	-	-	(93,725)	-	(93,725)
Assignment of treasury shares to employee trust account (Note 23)	-	-	(404,219,068)	-	-	-	-	-	404,219,068	-	-	-
Share-based payment (Note 36)	-	-	12,575,704	2,614,296	-	-	-	-	-	15,190,000	-	15,190,000
Deferred tax effect of share-based payment (Notes 34 and 36)	-	-	-	180,833	-	-	-	-	-	180,833	-	180,833
Cash dividends (Note 23)	-	-	-	-	-	-	-	(1,869,375,000)	-	(1,869,375,000)	-	(1,869,375,000)
Balance, December 31, 2009	₱93,750,000	₱18,750,000,000	₱(391,643,364)	₱6,262,027,052	₱(3,706,430,769)	₱113,177,323	-	₱- ₱7,681,220,446	₱-	₱28,802,100,688	₱1,529,761,117	₱30,331,861,805

See accompanying Notes to Consolidated Financial Statements.



ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱7,280,022,483	₱2,652,824,187	₱12,936,529,682
Adjustments for:			
Interest expense (Note 29)	2,887,155,929	2,152,523,656	1,600,053,654
Interest income on service concessions	(1,650,208,827)	(2,107,841,224)	(2,236,906,585)
Depreciation and amortization (Notes 13 and 14)	1,198,827,607	675,803,008	284,257,242
Unrealized foreign exchange losses (gains), net	(815,455,990)	8,815,719,940	(3,139,530,508)
Interest income	(402,950,235)	(332,562,785)	(650,045,922)
Provision for:			
Retirement and other post-retirement benefits, net (Note 33)	396,716,593	231,125,943	276,236,218
Doubtful accounts (Notes 8 and 16)	24,377,257	15,617,282	286,828,060
Share-based benefit cost (Note 36)	15,190,000	-	-
Impairment loss on:			
Property, plant and equipment of Northern Negros Geothermal Production Field (Notes 13 and 32)	349,000,000	-	-
Noncurrent AFS investments (Notes 9 and 32)	3,328,633	-	-
Loss on:			
Disposal of machineries and equipment of subsidiary (Note 13)	273,667,334	-	-
Sale of noncurrent assets held for sale (Notes 12 and 32)	129,867,348	-	-
Unused tax credit certificates and others (Note 32)	12,207,982	-	-
Derivatives loss (gain), net (Note 37)	198,809,759	(420,019,743)	(56,011,571)
Write-off of input Value Added Tax (VAT) claimed (Note 32)	178,639,119	-	-
“Day 1” gain on deferred royalties (Notes 19 and 32)	(168,284,986)	-	(39,769,241)
Write-down of:			
Inventories for disposal (Notes 10 and 27)	106,206,646	-	-
Exploration and evaluation assets (Notes 15 and 32)	83,531,992	-	-
Income from receipt of inventories from power plant contractor (Note 32)	(53,992,600)	(260,614,700)	-
Reversal of allowance for doubtful accounts (Notes 8 and 16)	(2,594,751)	(1,116,185,993)	(43,130,239)
“Day 1” loss on NPC receivable (Notes 16 and 32)	-	189,790,628	-
Gain on sale of AFS investments (Notes 9 and 32)	-	(46,323,392)	(7,937,724)
Operating income before working capital changes	10,044,061,293	10,449,856,807	9,210,573,066
Decrease (increase) in:			
Trade and other receivables	(600,913,880)	341,833,292	(1,342,869,270)
Service concession receivables	3,356,946,305	4,307,827,550	4,307,827,550
Parts and supplies inventories	(42,733,150)	(161,884,316)	26,404,099
Other current assets	93,241,853	(745,659,204)	(291,710,988)
Increase (decrease) in:			
Trade and other payables	1,317,258,253	(861,715,447)	(3,013,540,542)
Royalty fee payable	(842,909,314)	(738,431,448)	(737,750,974)
Due to related parties	(14,943,535)	47,213,065	-
Cash generated from operations	13,310,007,825	12,639,040,299	8,158,932,941
Interest and financing charges paid	(2,700,414,973)	(1,824,642,785)	(1,170,469,216)
Income tax paid	(701,657,001)	(1,731,066,639)	(1,707,623,763)
Retirement and other post-retirement benefits paid (Note 33)	(174,169,047)	(134,153,008)	(160,000,000)
Net cash flows from operating activities	9,733,766,804	8,949,177,867	5,120,839,962

(Forward)



	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of:			
Palinpinon-Tongonan Geothermal Power Plants (Note 5)	(₱10,165,337,657)	₱–	₱–
First Gen Hydro Power Corporation (Note 5)	–	(4,114,597,818)	–
Acquisition of property, plant and equipment (Note 13)	(3,221,335,750)	(1,072,520,719)	(183,363,930)
Proceeds from sale of noncurrent assets held for sale	1,402,330,152	–	–
Additions to intangible assets arising from service concessions (Note 14)	(541,458,209)	(932,254,227)	(108,813,951)
Interest received	330,024,062	222,740,387	650,045,922
Decrease (increase) in:			
Amounts due from related parties	(648,282,396)	(96,365,150)	(559,410)
Exploration and evaluation assets	29,963,765	264,098,324	461,679,361
Other noncurrent assets	(97,999,704)	1,114,834,803	688,629,644
AFS investments	–	298,122,708	164,092,099
Proceeds from sale of property and equipment	–	537,690	3,210,008
Cash acquired from First Gen Hydro Power Corporation	–	–	523,511,145
Proceeds from sale of investment	–	–	45,000,000
Net cash flows from (used in) investing activities	(12,912,095,737)	(4,315,404,002)	2,243,430,888
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Short-term loans	(4,030,376,500)	–	–
Long-term debts	(8,806,243,829)	(2,528,459,825)	(9,842,606,061)
Cash dividends (Note 23)	(1,869,375,000)	(5,302,999,997)	(1,485,000,000)
Obligations to a power plant contractor (Note 20)	(112,187,446)	(245,241,580)	(2,806,654,077)
Documentary stamp tax on stock issuances	(18,843,725)	–	–
Return to minority interest of deposit for future stock subscriptions (Note 23)	–	(648,027,600)	–
Proceeds from:			
Short-term loans (Note 17)	2,033,113,100	2,000,000,000	–
Long-term debts (Note 21)	25,100,000,000	–	–
Subscription to preferred shares of stock (Note 23)	18,750,000	–	–
Issuance of preferred shares (Note 24)	–	–	75,000,000
Increase in amounts due to related parties	1,134,854,786	153,386,379	–
Purchase of treasury stock (Note 23)	–	(404,219,068)	–
Net cash flows from (used in) financing activities	13,449,691,386	(6,975,561,691)	(14,059,260,138)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,271,362,453	(2,341,787,826)	(6,694,989,288)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(7,553,556)	2,299,136	(7,635,989)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	957,088,260	3,296,576,950	9,999,202,227
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱11,220,897,157	₱957,088,260	₱3,296,576,950

See accompanying Notes to Consolidated Financial Statements.



ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Energy Development (EDC) Corporation (the “Parent Company” or “EDC”) is a subsidiary of Red Vulcan Holdings Corporation, (Red Vulcan). The Parent Company and its subsidiaries (collectively hereinafter referred to as the “Company”), are separately incorporated and registered with the Philippine Securities and Exchange Commission (SEC). Below are the Parent Company’s ownership interests in its subsidiaries:

	Percentage of Ownership	
	2009	2008
First Luzon Geothermal Energy Corporation (FL Geothermal)	100%	100%
Green Core Geothermal Inc. (GCGI)*	100%	–
EDC Drillco Corporation (EDC Drillco)	100%	–
First Gen Hydro Power Corporation (FG Hydro)	60%	60%

*GCGI is a wholly owned subsidiary through FL Geothermal.

Beginning December 13, 2006, the common shares of EDC were listed and traded on the Philippine Stock Exchange (PSE). Up to November 2007, EDC was controlled by the Philippine National Oil Company (PNOC), a government-owned and controlled corporation, and the PNOC EDC Retirement Fund.

On November 29, 2007, PNOC and PNOC EDC Retirement Fund sold their combined interests in EDC to Red Vulcan (a Philippine corporation). Red Vulcan was then a wholly owned subsidiary of First Gen Corporation (First Gen, a publicly listed Philippine corporation) through Prime Terracota Holdings Corporation (Prime Terracota). First Gen’s indirect interest in EDC consists of 6.0 billion common shares and 7.5 billion preferred shares. Control was established through First Gen’s 60% indirect voting interest in EDC. Meanwhile, First Philippine Holdings Corporation (First Holdings) owns directly 66.2% of the common shares of First Gen. Accordingly, First Holdings became then the ultimate parent of the Company.

On May 12, 2009, First Gen’s indirect voting interest in Red Vulcan was reduced to 45% with the balance taken up by Lopez Inc. Retirement Fund (40%) and Quialex Realty Corporation (15%) through the issuance of preferred shares by Prime Terracota. As a result of this transaction, Prime Terracota replaced First Holdings as the ultimate parent of EDC effective May 12, 2009.

The Parent Company operates 12 geothermal projects in five geothermal service contract areas, namely Leyte Geothermal Production Field (LGPF), Southern Negros Geothermal Production Field (SNGPF), BacMan Geothermal Production Field (BGPF), Mindanao Geothermal Production Field (MGPF) and Northern Negros Geothermal Production Field (NNGPF) under the Geothermal Service Contracts (GSCs, see Note 39) entered into with the Department of Energy (DOE) pursuant to the provisions of Presidential Decree (P.D.) 1442. These GSCs were replaced by Geothermal Renewable Energy Service Contracts (GRESs, see Note 39) on October 23, 2009. Geothermal steam produced is sold to the National Power Corporation (NPC) or are fed to the Parent Company’s Build-Operate-Transfer (BOT) contractors’ power plants to produce electricity. EDC sells steam and power to NPC under the Steam Sales Agreements (SSAs) and Power Purchase Agreements (PPAs), respectively (see Notes 41 and 42). EDC also sells electricity to Iloilo 1 Electric Cooperative (ILECO) under the Electricity Sales Agreement (see Note 43). Separately, it also has drilling activities in Papua New Guinea.



On October 20 and November 17, 2008, in line with its objective of focusing on renewable energy, the Parent Company acquired a total of 60% interest in FG Hydro from First Gen. FG Hydro operates the 112 Megawatt (MW) Pantabangan and Masiway Hydro-Electric Power Plants (PAHEP/MAHEP) located in Nueva Ecija, Philippines. FG Hydro buys from and sells electricity to the Wholesale Electricity Spot Market (WESM) and to various distribution utilities under the Transition Power Supply Contracts (TPSC, see Note 50).

FL Geothermal is a special-purpose company incorporated on April 9, 2008 to participate in the bid for another local power plant. The bid was won by and awarded to another local entity. Thereafter, there has been no business activity yet as far as FL Geothermal is concerned other than the investment holding company of its wholly owned subsidiary, GCGI.

GCGI is a special-purpose company incorporated on June 22, 2009 that participated in the bid for another local power plant. GCGI has an authorized capital stock of ₱1.0 million divided into 100,000 shares with a par value of ₱10.00 per share. Total subscribed and paid-up capital is ₱0.25 million, 25% of the authorized capital stock. The bid was successfully awarded to GCGI on September 2, 2009 as discussed in Note 5.

EDC Drillco is a company incorporated on September 28, 2009 to act as an independent service contractor, consultant, specialized technical adviser for well construction and drilling and other allied activities. EDC Drillco has an authorized capital stock of ₱1.0 million divided into 1,000,000 shares with a par value of ₱1.00 per share. Total subscribed and paid-up capital is ₱0.25 million, 25% of the authorized capital stock.

The registered office address of the Parent Company is Merritt Road, Fort Bonifacio, Taguig City.

On March 10, 2010, the Board of Directors (BOD) reviewed and discussed the consolidated financial statements and instructed and authorized the Audit and Governance Committee (AGC) to review and approve the issuance of the consolidated financial statements. Pursuant to such authority from the BOD, on March 16, 2010, the AGC approved and authorized the issuance of the consolidated financial statements.

2. **Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for derivatives and AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretations, which became effective beginning January 1, 2009.



New Standards and Interpretations

- PAS 1, *Presentation of Financial Statements* effective January 1, 2009
- PAS 23, *Borrowing Costs* (Revised) effective January 1, 2009
- PFRS 8, *Operating Segments* effective January 1, 2009
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* effective July 1, 2008
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* effective July 1, 2009
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* effective July 1, 2009

Amendments to Standards

- PAS 1 and 32 Amendments - *Puttable Financial Instruments and Obligations Arising on Liquidation* effective January 1, 2009
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity of Associate* effective January 1, 2009
- PFRS 2 Amendment - *Vesting Conditions and Cancellations* effective January 1, 2009
- PFRS 7 Amendment - *Improving Disclosures about Financial Instruments* effective January 1, 2009
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments, *Embedded Derivatives* effective June 30, 2009
- Improvements to PFRSs (2008)
- Improvements to PFRSs (2009), with respect to the amendment to Appendix to PAS 18, *Revenue*
- PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present two linked statements.
- PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. The Company concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14. PFRS 8 disclosures are shown in Note 6, including the related revised comparative information.
- PFRS 7 Amendments – *Improving Disclosures about Financial Instruments*
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 38. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 38.



Adoption of the following changes in PFRS did not have an impact on the consolidated financial statements.

- *PFRS 2, Amendment – Vesting Conditions and Cancellations*
The amendment to PFRS 2, *Share-based Payments*, clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled.
- *PAS 23, Borrowing Costs (Revised)*
The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of 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.
- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*
This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed.
- *Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation*
This interpretation is to be applied prospectively. Philippine Interpretation IFRIC–16 provides guidance on the accounting for a hedge of a net investment. As such, it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.
- *Philippine Interpretation IFRIC 18, Transfers of Assets from Customers*
This interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. When the transferred item meets the definition of an asset, the asset is measured at fair value on initial recognition as part of an exchange transaction. The service delivered are identified and the consideration received (the fair value of the asset) allocated to each identifiable service. Revenue is recognized as each service is delivered by the entity.
- *Amendments to PAS 32, Financial Instruments: Presentation, and PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria.
- *PFRS 1 and PAS 27 Amendments – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, allowed an entity to determine the ‘cost’ of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, *Consolidated and Separate Financial Statements*, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or



associate to be recognized in the income statement in the separate financial statement. The revision to PAS 27 was applied prospectively. The new requirement affects only the parent's separate financial statements and does not have an impact on the consolidated financial statements.

- **Philippine Interpretation IFRIC 9 and PAS 39 Amendments – *Embedded Derivatives***
This amendment to Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives, requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39, Financial Instruments: Recognition and Measurement, now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

Improvements to PFRSs 2008 and 2009

The omnibus amendments to PFRSs issued in 2008 and 2009 were issued primarily with a view of removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the said amendments in 2008 did not have any significant impact on the consolidated financial statements.

The following amendment to PAS 18 arose from the 2009 improvements to PFRS;

- **PAS 18, *Revenue*:** The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
 - Has primary responsibility for providing the goods or service
 - Has inventory risk
 - Has discretion in establishing prices
 - Bears the credit risk

The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, 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 consolidated financial statements:



Functional Currency

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

Service Concession Arrangements

In applying Philippine Interpretation IFRIC 12, Service Concession Arrangements (IFRIC 12), up to October 22, 2009, the Company had made a judgment that its GSCs (see Note 39) were within the scope of IFRIC 12 primarily because the grantor controls the significant residual interest over the steam field, power plants and related facilities at the end of the concession period.

The Company also made a judgment that the GSCs for Tongonan, Leyte; Palimpinon, Negros Oriental; Bacon-Manito in Albay and Sorsogon; and Mt. Apo in North Cotabato qualified under the financial asset model; meanwhile, its GSCs for Northern Negros and the expansion development of Tanawon project in Bacon-Manito service contract area qualified under the intangible asset model. Under the financial asset model, the Company had 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 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. Under the intangible asset model, the Company had recognized an intangible asset for the right to charge users of the public service.

Starting October 23, 2009, with the conversion of its GSCs to GRESCs (see Note 39), the Company has made a judgment that its GRESCs are no longer within the scope of IFRIC 12 since the Company already has control over any significant residual interest over the steam field, power plants and related facilities throughout the concession period and even after the concession period.

The Company accounted for its service concession arrangements as follows:

Prior to October 23, 2009:

- 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 (financial asset model) to the extent that the Company has an unconditional right to receive cash or other financial asset for its construction services from or at the direction of the grantor (recorded as "Concession receivables"), or an intangible asset (intangible asset model) for the right to charge users of the public service (recorded as "Intangible assets arising from service concessions");
- Recognized interest income on service concession under the financial asset model;
- Recognized construction revenue and construction expenses in accordance with PAS 11, *Construction Contracts*;
- Amortized intangible assets arising from the service concession over the concession period under the intangible asset model;
- Recognized revenue from sale of electricity and steam, net of the portion of the billings representing collection of concession receivables and related interest charges; and,
- Expensed subsequent capital expenditures as incurred under the financial asset model and intangible asset model, unless proven that the upgrades will be able to generate revenues by charging the users of the public service.



Starting October 23, 2009:

- Derecognized the concession receivables and intangible assets arising from service concessions, with their carrying amounts of ₱32.99 billion and ₱9.69 billion, respectively, as of October 22, 2009; and
- Recognized the property, plant and equipment items corresponding to the steamfield, power plants and related facilities using the total carrying value of the related concession receivables and intangible assets arising from the service concessions of ₱42.68 billion as of October 23, 2009 (see Note 13).

Subsequent to October 23, 2009:

- Depreciated the property, plant and equipment items over their estimated remaining useful lives;
- Recognized revenue from sale of electricity and steam at full invoice price (no deduction for billings representing collection of concession receivables and related interest charges); and
- Capitalized subsequent capital expenditures as part of property, plant and equipment.

Acquisition of Palinpinon and Tongonan Power Plants

GCGI acquired the Palinpinon and Tongonan power plants and accounted for the acquisition in accordance with PFRS 3 under which the acquisition falls within the definition of a business combination (see Note 5).

Implementation of Renewable Energy Act

On January 30, 2009, Republic Act (R.A.) No. 9513, “An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes,” also known as the “Renewable Energy Act of 2008”, became effective. As early as May 20, 2009, the Parent Company submitted its letter of intent to register with the DOE as an Renewable Energy (RE) Developer. The DOE Circular No. 2009-07-0011, which took effect on August 10, 2009, provided the guidelines for the registration process of RE Developers. On September 10, 2009, the Parent Company was granted the Provisional Certificate of Registration as an RE Developer for its existing projects. Upon receipt of the Provisional Certificate of Registration, the Parent Company has made a judgment to recognize the applicable benefits as an RE Developer retroactive from February 1, 2009, which is the effective date of the RE Law. On October 23, 2009, EDC received the GRESCs, which replaced the GSCs, and the corresponding DOE Certificate of Registration for EDC’s geothermal production fields (see Note 49).

Deferred Revenue on Stored Energy

Under its addendum agreements with NPC, the Parent Company has a commitment to NPC with respect to certain volume of stored energy that NPC may lift for a specified period, provided that the Parent Company is able to generate such energy over and above the nominated energy for each given year in accordance with the related PPAs. 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 Note 46 to the consolidated financial statements.

Classification of Financial Instruments

On initial recognition, the financial instruments, or its component parts, are classified as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.



In addition, the Company classifies financial assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting 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.

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.

The carrying amounts of current and noncurrent trade and other receivables and receivables arising from service concession arrangements are ₱5,976.84 million and nil, respectively, as of December 31, 2009 and ₱6,232.00 million and ₱34,695.43 million, respectively, as of December 31, 2008. The total amount of impairment losses recognized in 2009, 2008 and 2007 amounted to ₱24.38 million, ₱15.62 million and ₱286.83 million, respectively (see Notes 8, 16 and 27).

Estimating Useful Lives of Intangible Assets Arising from Service Concession Arrangement, Water Rights and Property, Plant and Equipment

The Company estimates the useful lives of intangible assets arising from service concession arrangement, property, plant and equipment and water rights based on the period over which each asset is expected to be available for use and on the collective assessment of industry practices, internal evaluation and experience with similar arrangements. For purposes of determining the estimated useful life of each 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 estimated useful life is revisited at the end of each reporting period and updated if expectations differ materially from previous estimates.



Starting October 23, 2009, the GSCs (now converted to GRESCs) were no longer accounted for under IFRIC 12. Accordingly, the Company recognized the steamfields, power plants and related infrastructure assets that were previously accounted for as concession receivables and intangible assets arising from service concession arrangements, and estimated their useful lives as follows:

	Number of Years
Power plants	15–30
Production wells	10–40
Fluid Collection Reinjection System (FCRS)	13–20
Buildings, improvements and other structures	5–35
Exploration, machinery and equipment	2–25
Transportation equipment	5–10
Furniture, fixtures & equipment	3–10
Laboratory equipment	5–10

There is no change in the estimated useful lives of intangible assets arising from water rights.

The carrying amounts of the intangible assets arising from service concession arrangements, property, plant and equipment and water rights are nil, ₱59,877.19 million and ₱2,104.18 million, respectively, as of December 31, 2009; and ₱9,389.19 million, ₱5,280.15 million and ₱2,200.37 million, respectively, as of December 31, 2008 (see Notes 13 and 14).

Estimating Net Realizable Value of Parts and Supplies Inventories

The Company carries inventories at net realizable value when such value is lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The carrying amounts of parts and supplies inventories as of December 31, 2009 and 2008 amounted to ₱1,553.80 million and ₱1,563.28 million, respectively (see Note 10). Materials and supplies for disposal amounting to ₱106.20 million were written down to zero net realizable value in 2009 (see Note 27).

Exploration and Evaluation Assets

Exploration and evaluation costs are recognized as assets in accordance with PFRS 6, *Exploration for and Evaluation of Mineral Resources*. Capitalization of these costs is based, to a certain extent, on management's judgment of the degree to which the expenditure may 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, 2009 and 2008, the carrying amount of capitalized exploration and evaluation costs was ₱1,038.05 million and ₱999.76 million, respectively (see Note 15). The Company wrote off ₱83.53 million exploration and evaluation assets in 2009 (see Note 32).

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 the projected unit credit method of actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, medical trend rate, mortality and disability rates and employee turnover rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net retirement benefit liability at December 31, 2009 and 2008 was ₱1,237.10 million and ₱1,026.39 million, respectively. The detailed information with respect to the Company's retirement and other post-retirement benefits is presented in Note 33 to the consolidated financial statements.



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, 2009 and 2008.

Provision for Liabilities on Regulatory Assessments and Other Contingencies

There are pending assessments from various regulatory agencies on the Company and certain legal cases. The Company's estimate of the probable costs for the resolution of these assessments and legal cases has been developed in consultation with in-house and outside counsels and is based upon the analysis of the potential outcomes. 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. At December 31, 2009 and 2008, provision for these liabilities, included under "Trade and other payables" account, amounted to ₱406.02 million and ₱678.82 million, respectively (see Note 18).

Impairment of AFS Investments

The Company classifies certain financial assets as AFS investments 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 the consolidated statement of income. Impairment loss amounting to ₱3.33 million in 2009 and nil in 2008 and 2007 were recognized on AFS investments. The total carrying amount of current and noncurrent AFS investments was ₱750.20 million and ₱688.09 million as of December 31, 2009 and 2008, respectively (see Notes 9 and 32).

The Company recognizes impairment losses should there be an objective evidence of impairment as a result of any of the following events that occurred after initial recognition of the asset and such event has an impact on the estimated cash flows of the financial asset that can be reliably estimated:

- a. significant difficulty of the issuer or obligor;
- b. a breach of contract, such as a default or delinquency in interest or principal payments;
- c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d. it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- e. the disappearance of an active market for that financial asset because of financial difficulties;
or
- f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or national or economic conditions that correlate with defaults on the assets in the group.

In addition to the foregoing events, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also being considered by the Company as an objective evidence of impairment. The determination of what is "significant" and "prolonged" requires judgment. The Company considers a decline significant or prolonged whenever it reaches 20% or more and lasts longer than six months, respectively. The Company further evaluates other factors, such as volatility in share price for quoted equities and the discounted cash flows for unquoted equities in determining the amount to be impaired.



Impairment of Non-financial Assets other than Goodwill

The Company assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill, at each reporting date. These non-financial assets [property, plant and equipment, intangible assets arising from service concession arrangements, water rights, and claim for excess input value-added tax (VAT)] are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Where the collection of tax claims is uncertain based on the assessment of management and Company's legal counsel, the Company provides an allowance for impairment. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and discounts such cash flows using the sensitivity analysis of key assumptions to calculate the present value as of the reporting date.

The recoverable amount of NNGPF is determined based on a value in use calculation using the expected cash flow projections. The five-year cash flow projections of the Company used for impairment testing were based on the budget approved by the senior management. The Company uses the Perpetuity Growth Model to determine the terminal value, which accounts for the value of free cash flows that continue in perpetuity beyond the five-year period projection, growing at an assumed constant rate. The assumed growth rate was 5% in 2009 and 2008, which does not exceed the average annual demand growth of 6% in 2009 and 2008 for the Visayas power industry market where the unit operates. The pre-tax discount rate used was 10.28% in 2009 and 9.9% in 2008 computed based on the cash-generating unit's weighted average cost of capital.

Based on the foregoing, the Company recorded an impairment loss of ₱349.00 million in 2009, and nil in 2008 for NNGPF's property, plant and equipment (see Note 13). The impairment loss in 2009 was recorded under the "Miscellaneous income (charges)" account in the 2009 consolidated statement of income (see Note 32).

The carrying value of intangible assets arising from service concession arrangements amounted to nil in 2009 and ₱9,389.19 million as of December 31, 2008 (see Note 14). The carrying amount of property, plant and equipment as of December 31, 2009 and 2008 was ₱59,877.19 million and ₱5,280.15 million, respectively (see Note 13). The carrying amount of water rights as of December 31, 2009 and 2008 was ₱2,104.18 million and ₱2,200.37 million, respectively (see Note 14). The carrying amount of input VAT as of December 31, 2009 and 2008 was ₱657.73 million and ₱423.00 million, respectively (see Note 16).

Impairment of Goodwill

The Company performs impairment review on goodwill, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating value in use requires the Company to estimate the expected future cash flows from the cash-generating units and discounts such cash flows using weighted average cost of capital to calculate the present value of those future cash flows.

The recoverable amounts have been determined based on value in use calculation using cash flow projections based on financial budgets approved by senior management of FG Hydro covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9.78% and the cash flows beyond the remaining term of the existing agreements are extrapolated using growth rates of 4.70% and 4.18% for the years ended December 31, 2009 and 2008, respectively.



Following are the key assumptions used:

- Budgeted Gross Margin

Budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year, increased for expected efficiency improvements.

- Discount Rate

Discount rate reflects the current market assessment of the risk specific to each cash-generating unit. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted.

No impairment loss on goodwill was recognized in the consolidated financial statements in 2009, 2008 and 2007. The carrying value of goodwill as of December 31, 2009 and 2008 amounted to ₱293.32 million (see Note 14).

Deferred Tax Assets

Deferred tax assets are recognized to the extent that it is probable that sufficient future taxable profit will be available against which the assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. This includes the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets amounted to ₱2,150.16 million and ₱21,413.26 million as of December 31, 2009 and 2008, respectively (see Note 34).

Construction Revenue Recognition

The Company's revenue from construction services in relation to its service concession arrangement is recognized using the percentage-of-completion method and, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract.

An authority for expenditure is issued to cover the work program for the development of the concession area. When the costs incurred to date exceed the authorized amount, an assessment is conducted to determine the cause of the cost overrun. Cost overruns arising from uncontrollable factors such as oil price, wage increases and changes in technical work programs due to unforeseen geological conditions are capitalized while all other cost overruns are treated as period costs.

Fair Values of Financial Instruments

The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, fair values 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 (see Note 37).



4. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and the subsidiaries mentioned in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intercompany balances, transactions, income and expenses and profits and losses resulting from intercompany transactions are eliminated in full.

Subsidiaries are fully consolidated from the date control is transferred to the Parent Company and cease to be consolidated from the date control is transferred out of the Parent Company.

The accounts of FG Hydro have been included in the 2008 and 2007 consolidated financial statements using the pooling-of-interests method beginning November 29, 2007, the date the Parent Company and FG Hydro came under common control of First Gen (see Note 1).

Minority interest represents the portion of profit or loss and net assets in FG Hydro not held by the Parent Company and is presented in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separate from equity attributable to equity holders of the parent. Acquisitions of minority interests are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share in the net assets acquired is recognized as an equity transaction.

Business Combination

Business combination, except for business combination of entities under common control, is accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value with any difference recognized as goodwill.

Business combination of entities under common control is accounted for using the pooling-of-interests method. The assets and liabilities of the combining entities are reflected at their carrying amounts and no additional goodwill is recognized as a result of the business combination. The difference between the carrying amount and purchase price is recognized directly in equity under "Equity reserve" account. Comparative consolidated financial statements are restated to reflect consolidated financial statements as if the combination had occurred at the date that the entities came under common control.

Foreign Currency-denominated Transactions

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 using the functional currency rate of exchange ruling as at reporting date. All differences are taken to consolidated statement of income under "Foreign exchange gains (losses)" account. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the 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.



Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash in 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.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before these are utilized. This account comprises prepaid rentals and insurance premiums, creditable withholding tax and advances to contractors. The prepaid rentals and insurance premiums are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred; creditable withholding taxes are deducted from income tax payable on the same year the revenue was recognized; and the advances to contractors are reclassified to the proper asset or expense account and deducted from the contractor’s billings as specified on the provision of the contract. Prepayments that are expected to be realized for a period of no more than twelve months after the reporting period are classified as current asset otherwise these are classified as other noncurrent asset.

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, Plant and Equipment

Property, plant and equipment, except land, is stated at cost less accumulated depreciation and impairment in value, if any. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. All other repairs and maintenance costs are recognized in the consolidated statement of income, as incurred. Land is carried at cost less accumulated impairment losses, if any.

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

	Prior to October 23, 2009	Starting October 23, 2009
	<i>(in years)</i>	
Power plants	–	15-30
Production wells	–	10-40
Fluid Collection Reinjection System (FCRS)	–	13-20
Buildings, improvements and other structures	5-20	5-35
Exploration, machinery and equipment	2-20	2-25
Transportation equipment	5	5-10
Furniture, fixtures & equipment	3-10	3-10
Laboratory equipment	5-10	5-10

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

Property, plant and equipment are recognized based on their significant parts. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.



Construction in progress and major spares and others are stated at cost and is not depreciated until such time that the assets are put into operational use.

Noncurrent Assets Held for Sale

An asset is classified as noncurrent asset held for sale if its carrying amount 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, except when there is delay of the sale caused by events or circumstances beyond the Company's control.

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.

Service Concession Arrangements under IFRIC 12

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 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.

IFRIC 12 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, plant and equipment of the Company. Under the terms of contractual arrangements within the scope of 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 and PAS 18 for the construction 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 contract 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*, at the best estimate of the expenditure that would be required to settle the present obligation at the statement of reporting date.

In accordance with PAS 23, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred under the financial asset model and are capitalized during the construction phase of the arrangement under the intangible asset model.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Where the costs of the business combination and the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities are determined provisionally, goodwill is initially measured using those provisional values. The Company recognizes any adjustments to these provisional values and to the goodwill initially recognized, as a result of completing the initial accounting within 12 months from the acquisition date. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible Assets

The Company's intangible assets arising from service concessions pertain 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 until October 22, 2009 (see Note 3).

The cost of water rights of FG Hydro is measured on initial recognition at cost. The cost of water rights acquired in a business combination is the fair value as of the date of acquisition.

Following initial recognition, the intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are expensed and reflected in the consolidated statement of income in the year the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The intangible assets arising from service concession arrangements are amortized using the straight-line method over the estimated useful economic life which is the service concession period. Water rights are amortized using the straight-line method over 25 years, which is the term of the Agreement with the National Irrigation Administration (NIA).

The amortization periods and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.



Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognized in the consolidated statement of income 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 to expense in the year such are incurred.

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 in the consolidated statement of financial position.

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.

If 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.

Once the technical feasibility and commercial viability of the project to produce proved reserves are established, the exploration and evaluation assets shall be reclassified to property, plant and equipment, intangible asset or concession receivable at its fair value at the date of reclassification.

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. The 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. When 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 or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.



For non-financial 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. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, 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 the consolidated statement of income.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount of the cash-generating unit or group of cash-generating units to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income. Impairment loss relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Company performs its annual impairment test of goodwill at each reporting date.

Financial Instruments

Financial instruments are recognized in the consolidated statement of financial position, when the Company becomes a party to the contractual provisions of the instrument. 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. Derivatives are also recognized on a trade date basis.

Financial instruments are recognized initially at fair value. Except for financial instruments valued at fair value through profit or loss (FVPL), the initial measurement includes transaction costs. The Company classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. For financial liabilities, the Company classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefit.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position 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 at gross in the consolidated statement of financial position.



Fair Value of Financial Instruments

The fair value of financial instruments traded in active markets at reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without deduction for transaction costs. When current bid and ask 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 traded 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” Differences

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” difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

Financial Assets and Financial Liabilities at FVPL

Financial assets and financial liabilities at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

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

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial instrument contains an embedded derivative that would need to be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as at FVPL, except where the embedded derivative does not significantly modify the cash flow or it is clear that separation of the embedded derivative is prohibited.

Classified under this category are the Company’s derivative assets and liabilities (see Note 37).

HTM Investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investment when the Company has the positive intention and ability to hold to maturity. If the Company were to sell more than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments.



Furthermore, the Company would be prohibited to classify any financial assets as HTM investments for the following two years. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Company has no HTM investments as of December 31, 2009 and 2008.

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 the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

Classified under loans and receivables are cash and cash equivalents, trade and other receivables, service concession receivable, cash collateral on Principal Collateralized Interest Reduction (PCIR) Bonds and royalty fee chargeable to NPC (see Notes 7, 8, 11 and 37).

AFS Investments

AFS investments are those non-derivative financial assets that are designated as such or are not classified as financial assets designated at FVPL, HTM 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.

AFS investments are initially measured at fair value plus directly attributable transaction costs. After initial measurement, AFS investment are subsequently measured at fair value with unrealized gains and losses being recognized as 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 the consolidated statement of comprehensive income. The Company uses the specific identification method in determining the cost of securities sold. Unquoted equity securities are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investment are recognized in the consolidated statement of income when the right of payment has been established.

AFS investments are classified as current if these are expected to be realized within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

AFS investments include quoted and unquoted investments in government securities, proprietary and equity shares (see Notes 9 and 37).

Other Financial Liabilities

Other financial liabilities, which include loan payable, trade and other payables, due to related parties, long-term debt, obligations to a power plant contractor and royalty fee payable (see Notes 17, 18, 19, 20, 21, 24 and 37) 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 consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

Derivative Financial Instruments

Derivative instruments, including bifurcated embedded derivatives are initially recognized at fair value on the date that a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company first becomes party to the contract. An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not clearly and 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 instrument is not recognized at FVPL.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Impairment of Financial Asset

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost

For assets carried at amortized cost, the Company first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.



If there is an objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate which is the effective interest rate computed at initial recognition. The carrying value of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income. If in case the receivable has proven to have no realistic prospect of future recovery, any allowance provided for such receivable is written off against the carrying value of the impaired receivable. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

AFS Investments

For AFS Investments, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of changes in comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

AFS Investments Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The carrying amount of the asset is reduced through the use of an allowance account.

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 right to receive cash flows from the asset has expired;



- the Company retains the right to receive cash flows from the asset, but has assumed as obligation to them in full without material delay to a third party under a “pass through” arrangement; or
- the Company has transferred its right 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 consolidated statement of income.

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 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. 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. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans. 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.



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 the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as under "Interest expense" in the consolidated statement of income.

Contingencies

Contingent liabilities are not recognized in the consolidated 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 consolidated financial statements but disclosed when an inflow of resources is probable.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settled the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against the "Equity reserve" account.

Equity Reserve

Equity reserve is the difference between the acquisition cost of an entity under common control and the Company's share in the paid-in capital of the entity acquired. (See accounting policy for business combinations of entities under common control.)

Cost of Treasury Stock Held

Acquisition of treasury shares by the Company is recorded at purchase cost and shown as a deduction in the equity section of the consolidated statement of financial position. Upon reissuance of treasury shares, the "Cost of treasury stock held" account is credited at cost. The excess of proceeds from reissuance over the cost of treasury shares is credited to "Additional paid-in capital" account. The excess of cost of treasury shares over the proceeds from reissuance is debited to the "Additional paid-in capital" account but only to the extent of previously set-up additional paid-in capital for the same class of stock. Otherwise, this is debited against "Retained earnings" account.



Common Shares in Employee Trust Account

Common shares in the employee trust, which consist of common shares irrevocably assigned to the Banco de Oro Trust and Investment Group (BDO) Trust account, are recognized at the amount at which such common shares were reacquired by the Company for the purpose of its executive/employee stock option or such similar plans, and proportionately reduced upon vesting of the benefit to the executive/employee grantee of the related number of common shares. This account is shown as a separate line item in the equity section of the consolidated statement of financial position.

Employee Stock Ownership Plan

Equity-settled transactions with executives/employees are measured at fair value at grant date, which is the date at which the employee and the Company agree to a share-based payment arrangement. Where an award of share-based payment vests immediately, the cost of the equity instrument granted is expensed in full at grant date. However, where the award is subject to vesting conditions, the expense is recognized over the vesting period. Should the employee's employment with the Company terminate during the vesting period, the unvested grants shall immediately be cancelled and the employee shall forfeit any rights or interest with respect to such award.

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 expense in the consolidated statement of income 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.

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 measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and other sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Electricity and Steam

Sale of electricity using geothermal energy is consummated whenever the electricity generated by the Company is transmitted through the transmission line designated by 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.



Until October 22, 2009, 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. Starting October 23, 2009, revenues from sale of electricity and steam are based on sales price (see Note 3).

Sale of electricity using hydroelectric power is composed of generation fees from spot sales to the WESM and TPSC with various electric companies and is recognized monthly based on the actual energy delivered.

Construction Revenue

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

Drilling Services

Revenue is recognized as drilling services are rendered.

Interest Income

Revenue is recognized as interest accrues, using the effective interest rate, which 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.

Purchased Services and Utilities and Operations and Maintenance Expenses

These include expenses incurred by the departments directly responsible for the generation of revenues from steam, electricity and drilling services (i.e., Plant Operations, Production, Maintenance, Transmission and Dispatch, Wells Drilling and Maintenance Department) at operating project locations. Purchased services and utilities and operations and maintenance expenses are expensed as incurred.

General and Administrative Expenses

General and administrative expenses constitute cost of administering the business and normally include the expenses incurred by the departments in the Head Office (i.e., Management and Services, and Project Location's Administrative Services Department). General and administrative expenses are expensed as incurred.

Construction Costs

In conjunction with the policy on Service Concession Arrangements, the Company accounts and measures construction costs in accordance with PAS 11 and IFRIC 12. This includes costs that relate directly to the construction of the infrastructure project that the Company incurs for the purpose of the service concession arrangement with the Philippine Government. These costs include costs that are related directly to the specific contract such as well drilling costs and costs incurred by departments directly responsible for the infrastructure project and costs that are attributable to the contract activity in general and can be allocated to the contract. This also includes accumulated exploration and evaluation costs incurred by the project once the technical, commercial and economic viability of the project are established.

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 temporary investment of specific borrowings, pending the expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. Borrowing costs include interest



charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance the project to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are recognized in the consolidated statement of income in the period in which they are incurred.

Taxes

Current Tax

Current 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 authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Tax

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

- where the deferred 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 tax assets are recognized for all deductible temporary differences, carryforward 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 carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred 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 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 tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future 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 reporting date and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred 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 as at the reporting date.

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.



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

Value-Added Tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT 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 VAT included.

The net amount of VAT recoverable from the tax authority is included as part of “Other current assets” account in the consolidated statement of financial position.

Earnings Per Share (EPS)

Basic earnings per share is computed by dividing net income for the year attributable to equity holders of the Parent Company 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 in the same manner, with the net income for the year attributable to equity holders of the Parent Company and the weighted average number of common shares issued and outstanding during the year, adjusted for the effect of all dilutive potential common shares.

As of December 31, 2009 and 2008, the Company does not have any dilutive potential common shares. Hence, diluted EPS is the same as basic EPS.

Segment Reporting

The Company’s operating businesses are organized and managed separately according to the nature of the products and services provided (see Note 6).

Events After the Financial Reporting Period

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

Future Changes in Accounting Policies

The Company will adopt the following standards, amendments and interpretations enumerated below when these become effective and, as they are applicable. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements.

Amendments to Standards and new Philippine Interpretations

- PFRS 3, *Business Combinations* (Revised), and PAS 27, *Consolidated and Separate Financial Statements* (Amended)
The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the



accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

- **Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate***
This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.
- **Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners***
This interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.
- **PAS 39 Amendment – *Eligible Hedged Items***
The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.
- **PFRS 2 Amendments – *Group Cash-settled Share-based Payment Transactions***
The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Improvements to PFRS

The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view of removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010, except otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- **PFRS 2, *Share-based Payment***: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.



- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
 - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.



- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

5. Business Combinations

Acquisition of Palinpinon and Tongonan Geothermal Power Plants

On September 2, 2009, GCGI acquired the 192.5 MW Palinpinon and 112.5 MW Tongonan 1 geothermal power plants in an auction conducted by Power Sector Assets and Liabilities Management Corporation (PSALM) where GCGI submitted the highest complying financial bid of US\$220 million.

The newly acquired power plants, located in Negros Oriental and Leyte, were turned over to GCGI on October 23, 2009 after paying PSALM ₱3.84 billion (\$82.55 million) representing 40% of the purchase price plus ₱0.33 billion (\$6.9 million) for the purchase orders, rental, option price, performance security deposit on land lease, and industrial all-risks insurance policy and comprehensive general liability. For the remaining balance of ₱5.82 billion (\$123.80 million), GCGI initially tapped PSALM's staple financing scheme allowing for deferred payments of up to seven years in 14 equal semi-annual installments.

On October 12, 2009, the Company has reduced the financial bid of US\$220 million by \$6.7 million as PSALM agreed that the Company will directly assume the obligations to procure the equipment/services indicated in the Purchase Requisitions (PRs) being processed by NPC under Schedule R-Purchase Orders (POs) in the Asset Purchase Agreement (APA).

On November 27, 2009, GCGI formally notified PSALM of its intention to prepay all deferred payments on December 29, 2009. This was consistent with the provision in the Asset Purchase Agreement (APA) that GCGI shall have the option to prepay the Deferred Payments at anytime, subject to the delivery of a written notice of such intent at least (20) business days prior to any such prepayment.

Actual prepayment was made on December 15, 2009 when the PSALM Board has ratified the waiver of the 20-day prepayment notification period and accepted GCGI's request to settle in Philippine peso. GCGI has remitted to PSALM the total amount of ₱5.8 billion representing the Philippine peso equivalent of the outstanding principal and accrued interest of the loan.

The provisional fair values of the identifiable assets and liabilities that were recognized on acquisition date are as follows:

Property, plant and equipment	₱9,982,596,319
Prepaid expenses	5,232,152
Liabilities	—
Net assets	9,987,828,471
Percentage of ownership acquired	100%
Share in the net assets acquired	9,987,828,471
Provisional goodwill arising from acquisition	—
Total acquisition cost	₱9,987,828,471



The net assets recognized in the December 31, 2009 consolidated financial statements were based on a provisional assessment of their fair values since the valuation of the identifiable net assets acquired was not yet completed as of such date, including the identification and valuation of any intangible assets and contingent liabilities. The carrying values of the identifiable assets immediately before the acquisition cannot be reasonably and practicably determined since the Company has no access to PSALM's records. Thus, the fair values recognized on acquisition date were based on the actual purchase price.

The net income of GCGI from the acquisition date until December 31, 2009 amounted to ₱59.51 million, which has been included in the Company's results of operations in 2009. The revenue and net income (loss) of Palinpinon and Tongonan Geothermal Power Plants for the year ended December 31, 2009, as though the acquisition date for the business combination effected during the year had been as of January 1, 2009, is impracticable to determine since the Company has no access to PSALM's records.

The cash outflow related to the acquisition amounted to ₱10.17 billion which includes the ₱9.99 billion acquisition cost and ₱0.18 billion direct transaction costs.

Acquisition of FG Hydro

On October 16, 2008, EDC, First Gen and FG Hydro entered into a Share Purchase and Investment Agreement (SPIA), whereby EDC shall own 60% of the outstanding equity of FG Hydro, which was a wholly owned subsidiary of First Gen prior to the SPIA. The acquisition by EDC was through a combination of primary issuance by FG Hydro of up to 17% interest and sale of secondary shares by First Gen of up to 43% interest in FG Hydro. FG Hydro and EDC were subsidiaries of First Gen at that time and were therefore, under common control of First Gen. FG Hydro operates the 112MW Pantabangan-Masiway hydroelectric power plants in Nueva Ecija, Philippines.

Consistent with the SPIA, on October 20, 2008, FG Hydro issued 101,281,942 shares of its common stock to EDC for a total subscription price of ₱1,648.03 million. Thereafter, on November 17, 2008, EDC acquired 249,287,223 common shares held by First Gen for US\$85.22 million (₱4,114.59 million). Total direct cost related to the transaction amounted to ₱73.44 million. The total cost of the acquisition of FG Hydro amounted to ₱5,836.06 million. The acquisition was funded through internally generated cash flows.

The transaction was accounted for using the pooling-of-interests method since First Gen controlled FG Hydro and EDC before and after the execution of the transaction in the SPIA. In accordance with the pooling-of-interests method, the 2007 consolidated financial statements of EDC were restated to reflect the acquisition as if it occurred on November 29, 2007, the date when First Gen acquired and controlled EDC (see Note 1).

6. Operating 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 Company's identified operating segments below are consistent with the segments reported to the BOD, which is the Chief Operating Decision Maker (CODM) of the Company.

- a. Electricity segment - These are EDC's power plants covered mainly by long-term PPAs with NPC and FG Hydro's spot sales to and buying from the WESM and with various distribution utilities covered by TPSCs.
- b. Steam segment - These relate to sale of steam to NPC plants covered by SSAs.
- c. All other segments - These relate to segment performing drilling services for Lihir Gold Ltd. and construction services accounted for under IFRIC 12 up to October 22, 2009.

The Company has one geographical segment since it derives principally all its revenues from domestic operations. Revenue from drilling services outside the Philippines is not material.

Management monitors the operating results of the business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Finance costs, finance income, income taxes and other charges and income are managed on a group basis. All of the Company's operations are in the Philippines and revenues generated are from domestic operations except for revenue from drilling services, included in "All Other Segments" category, which is from foreign services rendered to Lihir Gold Ltd.

NPC is the main customer for the electricity segment which comprised 85% of the total electricity revenue and the only external customer for the steam segment.

Financial information on the operating segments are summarized as follows:

	Electricity	Steam	All Other Segments	Eliminations	Total
Year Ended December 31, 2009					
Segment revenue from external customers	₱16,713,988,665	₱3,963,553,444	₱1,389,337,568	₱-	₱22,066,879,677
Intersegment revenue	21,382,627	779,011,141	-	(800,393,768)	-
Total segment revenue*	16,735,371,292	4,742,564,585	1,389,337,568	(800,393,768)	22,066,879,677
Segment expenses	(8,824,856,364)	(3,369,878,868)	(1,273,503,000)	800,393,768	(12,667,844,464)
Unallocated segment expenses					(14,001,207)
Segment results	7,910,514,928	1,372,685,717	115,834,568	-	9,385,034,006
Unallocated interest income					402,950,235
Unallocated interest expense					(2,887,155,929)
Unallocated other income - net					379,194,171
Unallocated income taxes					(3,911,732,454)
Net income	₱7,910,514,928	₱1,372,685,717	₱115,834,568	₱-	₱3,368,290,029
Year Ended December 31, 2008					
Segment revenue from external customers	₱14,361,157,358	₱4,507,354,891	₱1,658,399,458	₱-	₱20,526,911,707
Intersegment revenue	-	-	-	-	-
Total segment revenue*	14,361,157,358	4,507,354,891	1,658,399,458	-	20,526,911,707
Segment expenses	(5,292,743,008)	(2,626,391,450)	(1,412,789,310)	-	(9,331,923,768)
Unallocated segment expenses					(11,509,545)
Segment results	9,068,414,350	1,880,963,441	245,610,148	-	11,183,478,394
Unallocated interest income					332,562,785
Unallocated interest expense					(2,152,523,656)
Unallocated other charges - net					(6,710,693,336)
Unallocated income taxes					(1,307,548,937)
Net income	₱9,068,414,350	₱1,880,963,441	₱245,610,148	₱-	₱1,345,275,250

(Forward)



	Electricity	Steam	All Other Segments	Eliminations	Total
Year Ended December 31, 2007					
Segment revenue from external customers	₱13,437,294,733	₱4,829,747,122	₱733,591,782	₱-	₱19,000,633,637
Intersegment revenue	-	-	-	-	-
Total segment revenue*	13,437,294,733	4,829,747,122	733,591,782	-	19,000,633,637
Segment expenses	(6,794,864,536)	(1,423,625,484)	(668,262,070)	-	(8,886,752,090)
Unallocated segment expenses					(74,732,866)
Segment results	6,642,430,197	3,406,121,638	65,329,712	-	10,039,148,681
Unallocated interest income					650,045,922
Unallocated interest expense					(1,600,053,654)
Unallocated other income - net					3,847,388,733
Unallocated income taxes					(4,168,275,477)
Net income	₱6,642,430,197	₱3,406,121,638	₱65,329,712	₱-	₱8,768,254,205
<i>*Interest income on service concession was allocated between the electricity and steam segments using the equivalent steam and electricity base price as basis since this pertains to income from the receivables arising from GSCs.</i>					
As of and for the year ended December 31, 2009					
Segment assets	₱59,302,543,626	₱1,027,087,909	₱3,899,590,505	₱-	₱64,229,222,040
Unallocated corporate assets					20,545,715,486
Total assets	₱59,302,543,626	₱1,027,087,909	₱3,899,590,505	₱-	₱84,774,937,526
Segment liabilities	₱19,252,234,997	₱8,337,130,134	₱320,677,055	₱-	₱27,910,042,186
Unallocated corporate liabilities	-	-	-	-	26,533,033,535
Total liabilities	₱19,252,234,997	₱8,337,130,134	₱320,677,055	₱-	₱54,443,075,721
Capital expenditure	₱1,040,058,671	₱793,544,660	₱1,279,879,950	₱-	₱3,113,483,281
Unallocated capital expenditure					107,852,469
	₱1,040,058,671	₱793,544,660	₱1,279,879,950	₱-	₱3,221,335,750
Depreciation and amortization	(₱1,079,455,372)	(₱64,668,917)	(₱54,667,201)	-	(₱1,198,791,490)
Unallocated depreciation and amortization					(36,117)
	(₱1,079,455,372)	(₱64,668,917)	(₱54,667,201)	-	(₱1,198,827,607)
Unallocated impairment loss					₱349,000,000
Other non-cash items	(₱203,241,825)	(₱272,667,303)	(₱36,782,689)	₱-	(₱512,691,817)
Unallocated non-cash items					217,148,644
	(₱203,241,825)	(₱272,667,303)	(₱36,782,689)	₱-	(₱295,543,173)
As of and for the year ended December 31, 2008					
Segment assets	₱61,382,187,953	₱2,069,496,194	₱1,339,116,841	₱-	₱64,790,800,988
Unallocated corporate assets					4,554,786,745
Total assets	₱61,382,187,953	₱2,069,496,194	₱1,339,116,841	₱-	₱69,345,587,733
Segment liabilities	₱25,273,809,991	₱12,870,231,610	₱254,472,633	-	₱38,398,514,234
Unallocated corporate liabilities					2,211,754,800
Total liabilities	₱25,273,809,991	₱12,870,231,610	₱254,472,633	₱-	₱40,610,269,034
Capital expenditure	₱732,265,104	₱-	₱239,126,477	₱-	₱971,391,581
Unallocated capital expenditure					101,129,138
	₱732,265,104	₱-	₱239,126,477	₱-	₱1,072,520,719
Depreciation and amortization	(₱617,359,857)	(₱43,849,190)	(₱14,589,659)	-	(₱675,798,706)
Unallocated depreciation and amortization					(4,302)
	(₱617,359,857)	(₱43,849,190)	(₱14,589,659)	-	(₱675,803,008)
Impairment loss	₱-	₱-	₱-	₱-	₱-
Other non-cash items	₱461,174,293	₱425,332,143	(₱17,063,668)	₱-	(₱903,570,104)
Unallocated non-cash items					(8,324,876,125)
	₱461,174,293	₱425,332,143	(₱17,063,668)	₱-	(₱7,455,433,357)

The Parent Company has intersegment revenue from/to GCGI for the sale of steam/electricity. Intersegment revenues are all eliminated in consolidation.

Unallocated expenses pertain to expenses of the corporate, technical and administrative support groups while unallocated corporate assets and liabilities pertain to the Head Office and are managed on a group basis.



7. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	₱259,974,540	₱27,875,003
Cash equivalents	10,960,922,617	929,213,257
	₱11,220,897,157	₱957,088,260

Cash in banks earns 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. Total interest earned, net of final tax, amounted to ₱324.39 million in 2009, ₱220.97 million in 2008 and ₱305.12 million in 2007 (see Note 37).

8. Trade and Other Receivables

	2009	2008
Trade (see Note 16)	₱5,316,014,965	₱4,774,822,706
Others:		
Non-trade accounts receivable	77,268,776	237,513,288
Loans and notes receivables	67,573,603	60,350,973
Advances to employees	20,826,816	26,724,217
Employee receivables	14,998,506	31,358,060
Claims receivable	161,218	293,146,429
Total other receivables	180,828,919	649,092,967
	5,496,843,884	5,423,915,673
Less allowance for doubtful accounts	9,597,882	11,780,063
	₱5,487,246,002	₱5,412,135,610

Trade receivables are noninterest-bearing and are generally collectible in 30 to 60 days.

Majority of the Company's trade receivables are collectible from NPC. All revenues from sale of steam and majority of the revenues from sale of electricity were derived from NPC.

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

	2009	2008
Balance at beginning of year	₱11,780,063	₱377,218,598
Recoveries (see Notes 27 and 31)	(2,182,181)	(377,218,598)
Provision for doubtful accounts (see Note 27)	-	11,780,063
Balance at end of year	₱9,597,882	₱11,780,063

In 2008, the recoveries shown in the table above came from the implementation of the arbitral decision that was arrived at in March 2008 by a third party arbiter, details of which are disclosed in Notes 16 and 31.



9. AFS Investments

	2009	2008
Current AFS investments -		
Quoted government debt securities	₱734,811,000	₱674,494,128
Noncurrent AFS investments:		
Quoted equity securities	₱15,295,010	₱13,522,688
Unquoted equity securities	93,418	74,550
	₱15,388,428	₱13,597,238

The current AFS investments consist of government debt securities, specifically Republic of the Philippines (ROP) bonds with maturities between 2013 to 2016 in 2009 and 2008. Such bonds were acquired at a discount and bear interest between 7.25% to 9% in 2009 and 2008.

The noncurrent AFS investments amounting to ₱15.39 million and ₱13.60 million as of December 31, 2009 and 2008, respectively, are included under the “Other Noncurrent Assets - others” account in the consolidated statements of financial position (see Note 16).

The movements of gain or loss related to the foregoing investments are presented in the consolidated statements of comprehensive income with details as follows:

	2009	2008
Net accumulated unrealized gain on AFS investments at beginning of year	₱30,826,354	₱368,549,253
Changes in fair value recognized in equity	79,022,336	(291,399,507)
Impairment loss on AFS removed from equity and recognized in profit or loss (see Note 32)	3,328,633	-
Net unrealized gain removed from equity and recognized in profit or loss (see Note 32)	-	(46,323,392)
	82,350,969	(337,722,899)
Net accumulated unrealized gain on AFS investments at end of year	₱113,177,323	₱30,826,354

Changes in fair value recognized in consolidated statement of comprehensive income refer to unrealized gains and losses during the years brought about by the temporary increase or decrease in the fair value of the equity instruments. The net gain amounting to ₱46,323,392 in 2008 that was derecognized in equity and transferred to the consolidated statement of income pertains to the disposal of equity securities during the year.

The Company records unrealized gains and losses on AFS investments directly in equity, presented under the “Net accumulated unrealized gain on AFS investments” account. If the investment is sold or assessed to be impaired, the cumulative losses or gains recognized in equity is transferred to the consolidated statement of income.



10. Parts and Supplies Inventories

	2009	2008
On hand:		
Drilling tubular products and equipment spares	₱632,635,671	₱559,877,157
Power plant spares	381,569,716	369,183,232
Pump, production/steam gathering system, steam turbine, valves and valve spares	145,216,747	195,984,369
Chemical, chemical products, gases and catalyst	129,029,458	84,651,321
Heavy equipment spares	54,416,254	74,592,591
Electrical, cable, wire product and compressor spares	41,117,775	41,414,462
Measuring instruments, indicators and tools, safety equipment and supplies	34,303,528	34,023,490
Automotive, mechanical, bearing, seals, v-belt, gasket, tires and batteries	22,592,966	31,713,381
Construction and hardware supplies, stationeries and office supplies, hoses, communication and other spares and supplies	11,411,417	5,186,293
Materials and supplies for disposal (at net realizable value in 2009; at cost in 2008)	–	15,603,606
	1,452,293,532	1,412,229,902
In transit	101,509,955	151,054,481
	₱1,553,803,487	₱1,563,284,383

Inventories in transit include items not yet received but ownership or title to the goods have already passed to the Company.

Other than materials and supplies for disposal which are carried at net realizable value in 2009, the other parts and supplies inventories are carried at cost, which is lower than their net realizable values as of December 31, 2009 and 2008. The amount of inventory charged to expense amounted to ₱1,327.01 million in 2009, ₱1,128.77 million in 2008 and ₱682.44 million in 2007 (see Notes 26 and 27).

11. Other Current Assets

	2009	2008
Prepaid expenses	₱124,576,206	₱214,766,085
Input VAT	–	48,425,670
Advances to contractors (see Note 24)	16,422,345	268,678,263
Royalty fees chargeable to NPC	–	122,018,657
Cash collateral on PCIR Bonds (see Notes 21 and 37)	–	3,519,226
	₱140,998,551	₱657,407,901



Prepaid expenses comprise mainly of the creditable withholding tax certificates issued by NPC and Lihir Gold Ltd. for the drilling services in Lihir, Papua New Guinea and prepaid rent.

In 2008, royalty fees chargeable to NPC are unpaid royalty fees of Palinpinon I due to the DOE and the Local Government Units (LGUs), which NPC reimburses the Company upon its presentation of official receipts of the actual payments prior to privatization of Palinpinon and Tongonan power plants.

12. Noncurrent Assets Held for Sale

Noncurrent assets held for sale as of December 31, 2008 consist of:

Land	₱1,669,587,000
<u>Buildings, improvements and equipment</u>	<u>128,000,000</u>
	<u>₱1,797,587,000</u>

This account pertains to the 29,291 square meters of land together with buildings, improvements and equipment owned by the Parent Company in Fort Bonifacio. On November 13, 2007, the Parent Company, through its Board Resolution No. 115, Series of 2007, agreed to sell its 29,291 square meter land, buildings together with the improvements and immovable equipment owned by the Company in Fort Bonifacio.

The 19,785 square meters of land and buildings together with the improvements and immovable equipment were sold for ₱1,127.75 million and ₱124 million, respectively, through a deed of absolute sale dated May 29, 2009. The said sale resulted in the recognition of loss on sale amounting to ₱91.42 million for the excess of the cost of the building over its selling price and the related documentary stamp and other taxes paid (see Note 32).

The remaining 9,506 square meters portion of the land were sold for ₱541.84 million through a deed of absolute sale dated December 16, 2009. The said sale resulted in the recognition of loss on sale amounting to ₱38.45 million for the related documentary stamp and other taxes paid (see Note 32).

The Parent Company and PNOC also entered into a contract of lease for the Parent Company's use of the office buildings at Fort Bonifacio with the rental rate of ₱4.18 million per month, inclusive of VAT. This contract commenced on June 1, 2009 and will expire on November 30, 2011 (see Note 46).



13. Property, Plant and Equipment

2009											
	Power Plants	FCRS and Production Wells	Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Laboratory Equipment	Land	Major Spares and Others	Construction in Progress	Total
Cost:											
Balance at January 1, 2009	₱-	₱-	₱3,856,663,035	₱1,198,403,584	₱72,844,529	₱208,031,987	₱58,900,151	₱332,797,023	₱21,088,394	₱1,073,721,431	₱6,822,450,134
Acquisition through business combination (see Note 5)	9,156,164,393	-	314,961,938	144,127,759	-	45,000	229,963,077	-	-	320,120,490	10,165,382,657
Additions	-	-	74,855,254	1,273,742,920	700,000	26,082,652	25,671,715	285,682	33,297,159	1,786,700,368	3,221,335,750
Retirements/Write-off	-	-	(324,237,384)	(1,590,259)	(3,927,300)	(5,284,918)	-	-	(13,861)	-	(335,053,722)
Reclassifications	-	-	(8,664,749)	201,513,627	1,057,740	(1,712,361)	(97,299)	-	32,480,432	(206,810,143)	17,767,247
Impact of conversion of GSCs to GRESCs (see Note 3)	26,035,065,500	14,407,980,612	624,500,115	836,458,432	7,103,609	191,363,191	106,008,577	-	-	475,953,015	42,684,433,051
Balance at December 31, 2009	35,191,229,893	14,407,980,612	4,538,078,209	3,652,656,063	77,778,578	418,525,551	420,446,221	333,082,705	86,852,124	3,449,685,161	62,576,315,117
Accumulated depreciation and impairment:											
Balance at January 1, 2009	-	-	444,527,765	856,086,805	51,248,444	145,019,664	45,417,915	-	-	-	1,542,300,593
Depreciation for the year	307,351,455	99,537,926	207,384,264	203,508,319	7,581,791	27,738,911	14,618,815	-	-	-	867,721,481
Impairment – NNGPF (see Note 32)	121,867,405	227,132,595	-	-	-	-	-	-	-	-	349,000,000
Retirements/Write-off	-	-	(50,662,092)	(1,590,250)	(3,927,292)	(5,206,754)	-	-	-	-	(61,386,388)
Reclassifications	-	-	122,630	(11,231,567)	1,310,169	11,270,946	20,462	-	-	-	1,492,640
Balance at December 31, 2009	429,218,860	326,670,521	601,372,567	1,046,773,307	56,213,112	178,822,767	60,057,192	-	-	-	2,699,128,326
Net book value	₱34,762,011,033	₱14,081,310,091	₱3,936,705,642	₱2,605,882,756	₱21,565,466	₱239,702,784	₱360,389,029	₱333,082,705	₱86,852,124	₱3,449,685,161	₱59,877,186,791
2008											
	Power Plants	FCRS and Production Wells	Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Laboratory Equipment	Land	Major Spares and Others	Construction in Progress	Total
Cost:											
Balance at January 1, 2008	₱-	₱-	₱4,117,504,205	₱1,169,970,107	₱64,198,354	₱176,389,465	₱49,244,740	₱328,306,933	₱27,737,419	₱201,851,481	₱6,135,202,704
Additions	-	-	16,437,730	24,236,030	9,703,464	23,262,317	6,613,656	1,705,540	15,789,575	974,772,407	1,072,520,719
Retirements/Write-off	-	-	(792,412)	(1,183,153)	(87,290)	(8,602,616)	(1,171,802)	(144,550)	(33,571)	-	(12,015,394)
Reclassifications	-	-	(276,486,488)	5,380,600	(969,999)	16,982,821	4,213,557	2,929,100	(22,405,029)	(102,902,457)	(373,257,895)
Balance at December 31, 2008	-	-	3,856,663,035	1,198,403,584	72,844,529	208,031,987	58,900,151	332,797,023	21,088,394	1,073,721,431	6,822,450,134
Less accumulated depreciation:											
Balance at January 1, 2008	-	-	420,490,218	787,004,802	43,692,732	131,376,010	40,403,183	-	-	-	1,422,966,945
Depreciation for the year	-	-	190,681,307	74,639,764	8,145,749	19,805,270	4,441,799	-	-	-	297,713,889
Retirements/Write-off	-	-	(611,841)	(1,136,659)	(87,289)	(8,470,136)	(1,171,779)	-	-	-	(11,477,704)
Reclassifications	-	-	(166,031,919)	(4,421,102)	(502,748)	2,308,520	1,744,712	-	-	-	(166,902,537)
Balance at December 31, 2008	-	-	444,527,765	856,086,805	51,248,444	145,019,664	45,417,915	-	-	-	1,542,300,593
Net book value	₱-	₱-	₱3,412,135,270	₱342,316,779	₱21,596,085	₱63,012,323	₱13,482,236	₱332,797,023	₱21,088,394	₱1,073,721,431	₱5,280,149,541



With the Parent Company's conversion of its GSCs to GRESCs on October 23, 2009, the Parent Company's GRESCs are no longer accounted for as service concession agreement under IFRIC 12. Accordingly, the corresponding steamfields, power plants and related facilities were initially recognized based on the outstanding balances of the related concession receivables and intangible assets as of October 22, 2009 as part of property, plant and equipment (see Note 3).

NNGPF was on temporary shutdown status starting in June 2008 but resumed operations on May 13, 2009.

The Company evaluates the assets on a cash-generating unit basis for any indication of impairment annually. Based on the assessment performed, the Company determined that there is an indication of impairment for the NNGPF and accordingly recognized an impairment loss of ₱349.00 million (see Notes 3 and 32).

In accordance with the Pantabangan Refurbishment and Upgrade Project Contract (PRUP), the Company completed the refurbishment and upgrade of Unit 1 of PAHEP in 2009 (see Note 50). The PRUP provides for the replacement and upgrade of significant parts and equipment of PAHEP. For the year ended December 31, 2009, the cost and related accumulated depreciation of machinery and equipment that was replaced amounting to ₱273.6 million, was derecognized and the net book value included in the "Loss on disposal of machineries and equipment of subsidiary" account in the 2009 consolidated statement of income.

The upgrading and refurbishment of Unit 2 of PAHEP is expected to begin in July 2010.

There are no property, plant and equipment used as collaterals for loans.

Details of depreciation and amortization charges are shown below:

	2009	2008	2007
Property, plant and equipment	₱867,721,481	₱297,713,889	₱111,093,626
Intangible assets (see Note 14)	331,106,126	378,089,119	172,309,998
Investment property	-	-	853,618
	₱1,198,827,607	₱675,803,008	₱284,257,242
Operating expenses	₱1,149,495,181	₱657,075,338	₱ 244,312,299
General and administrative expenses	49,332,426	18,727,670	39,944,943
	₱1,198,827,607	₱675,803,008	₱284,257,242



14. Intangible Assets

2009				
	Intangible Assets Arising from Service Concessions	Water Rights	Goodwill	Total
Cost:				
Balance at January 1, 2009	₱9,835,385,122	₱2,404,778,918	₱293,316,082	₱12,533,480,122
Additions	541,458,209	-	-	541,458,209
Reversal arising from conversion of GSCs to GRESCs (see Notes 3 and 13)	(10,376,843,331)	-	-	(10,376,843,331)
Balance at December 31, 2009	-	2,404,778,918	293,316,082	2,698,095,000
Accumulated amortization:				
Balance at January 1, 2009	446,192,031	204,406,208	-	650,598,239
Amortization (see Note 13)	234,914,969	96,191,157	-	331,106,126
Reversal arising from conversion of GSCs to GRESCs (see Notes 3 and 13)	(681,107,000)	-	-	(681,107,000)
Balance at December 31, 2009	-	300,597,365	-	300,597,365
Net book value	₱-	₱2,104,181,553	₱293,316,082	₱2,397,497,635

2008				
	Intangible Assets Arising from Service Concessions	Water Rights	Goodwill	Total
Cost:				
Balance at January 1, 2008	₱8,903,130,895	₱2,404,778,918	₱293,316,082	₱11,601,225,895
Additions (see Note 15)	932,254,227	-	-	932,254,227
Balance at December 31, 2008	9,835,385,122	2,404,778,918	293,316,082	12,533,480,122
Accumulated amortization:				
Balance at January 1, 2008	164,294,068	108,215,052	-	272,509,120
Amortization (see Note 13)	281,897,963	96,191,156	-	378,089,119
Balance at December 31, 2008	446,192,031	204,406,208	-	650,598,239
Net book value	₱9,389,193,091	₱2,200,372,710	₱293,316,082	₱11,882,881,883

As of December 31, 2008, the net book values of water rights and goodwill totaling to ₱2,493.69 million is presented in the consolidated statement of financial position under the caption "Intangible assets".

Water rights are amortized using the straight-line method over 25 years, which is the term of the Agreement with NIA. The remaining amortization period of water rights is 21.9 years as of December 31, 2009.

Management believes that the intangible assets are not impaired in 2009 and 2008 based on the assessment performed.

With the Parent Company's conversion of its GSCs to GRESCs on October 23, 2009, the Parent Company's GRESCs are no longer accounted for as service concession agreements under

IFRIC 12. Accordingly, the Company derecognized the intangible assets arising from service concession and it became the beginning balance of property, plant and equipment (see Note 13).



15. Exploration and Evaluation Assets

	2009	2008
Balance at beginning of year	P999,757,259	P1,171,922,174
Additions	121,827,005	561,873,053
Write-off (see Note 32)	(83,531,992)	-
Transfers to financial assets/intangible assets (see Note 14)	-	(734,037,968)
Balance at end of year	P1,038,052,272	P999,757,259

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

	2009	2008
Cabalian, Southern Leyte	P571,460,625	P567,811,104
Mindanao	284,727,369	276,639,012
Ilocos Norte	81,379,857	63,967,545
Dauin, Southern Negros	52,387,892	48,648,779
Bacman-Rangas/Kayabon	35,824,216	35,582,535
Other areas	12,272,313	7,108,284
	P1,038,052,272	P999,757,259

16. Other Noncurrent Assets

	2009	2008
Long-term receivables	P2,444,082,251	P2,780,884,962
Input VAT	657,733,453	423,004,135
Prepaid expenses	58,530,604	22,359,991
Special deposits and funds	48,361,874	37,171,098
Others (see Note 9)	101,340,545	63,589,801
	3,310,048,727	3,327,009,987
Less allowance for doubtful accounts	1,954,488,539	1,961,023,573
	P1,355,560,188	P1,365,986,414

Long-term receivables

The composition of long-term receivables is as follows:

	2009	2008
Claims for VAT refund	P2,408,505,632	P1,894,719,994
NPC accounts and other receivables	35,576,619	886,164,968
	P2,444,082,251	P2,780,884,962

Claims for VAT Refund

The Bureau of Internal Revenue (BIR)-related claims pertain to the Company's claims for refund of input VAT on BOT fees amounting to P1,894.72 million which was initially denied at the BIR regional level on July 2, 2002. Subsequently, on September 2, 2002, the Company filed a letter for reconsideration with the Revenue District Office (RDO) 50. RDO 50 endorsed the request for reconsideration to the BIR Head Office legal department and the review of the claims is still ongoing.



At the instance of a request from EDC in December 2008, a review committee was created by the then Commissioner Sixto S. Esquivias IV to revisit the issues related to the claim. As a result, EDC was requested in 2009 to provide to BIR supporting documents to substantiate and validate the claims. Throughout 2009, meetings with the BIR Head Office were held to determine what documents still need to be presented prior to the issuance of the Tax Credit Certificate.

Moreover, the Company has other claims for refund amounting to ₱131.62 million, ₱89.10 million and ₱293.06 million pertaining to input VAT for 2008, 2007 and 2006, respectively, which are still pending with the BIR/CTA as of December 31, 2009.

NPC accounts and other receivables

As discussed in Note 31, on April 24, 2008, an arbitral settlement award was concluded with NPC liable to the Parent Company for ₱2,894.93 million covering the long-standing issue related to the SSAs and PPAs of EDC with NPC. A payment schedule as agreed upon among the parties called for NPC's settlement of the arbitral award over three years at zero interest. Consistent with the provisions of PAS 39, the net amount of receivables was presented at fair value, discounted using 7.99% to 8.11%. As of the award date, the difference between the nominal value and fair value of ₱189.79 million was recognized as a "Day 1" loss and presented under the "Miscellaneous - net" account in the 2008 consolidated statement of income (see Note 32). Subsequent to the initial recognition, the receivable is accreted to its maturity value based on its effective interest rate. The accretion recognized in 2009 and 2008 amounted to ₱75.67 million and ₱108.11 million, respectively and is included under "Interest income" account in the consolidated statements of income.

The movement of the NPC receivables covered by the arbitration is as follows:

	2009	2008
Balance at beginning of year	₱1,813,252,839	₱-
Arbitration settlement award (see Note 31)	-	2,894,930,272
Collection during the year	(1,000,000,000)	(1,000,000,000)
	813,252,839	1,894,930,272
"Day 1" loss recognized (see Note 32)	-	(189,790,628)
Accretion	75,669,519	108,113,195
	75,669,519	(81,677,433)
Balance at end of year	888,922,358	1,813,252,839
Less current portion (see Note 8)	888,922,358	993,391,450
Noncurrent portion	₱-	₱819,861,389

Special deposits and funds

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

Allowance for doubtful accounts

The allowance for doubtful accounts for current and noncurrent trade receivables is established based on a 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 collectibility. Except for accounts covered by special agreements with NPC (see Note 31), allowance for doubtful accounts covered all the full amounts of accounts outstanding over one year or accounts subject to contractual interpretation dispute.



For other receivables, it was also established that accounts outstanding for less than one year are fully recoverable while accounts outstanding over one year shall be provided with 100% provision based on the Company's assessment of individually significant balances. Provision for individually insignificant 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 collectibility.

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

2009				
	Claims for VAT			Total
	NPC	Refund	Others	
Balance at beginning of year	₱3,500,052	₱1,894,719,994	₱62,803,527	₱1,961,023,573
Write-off of uncollectible accounts	-	-	(30,499,721)	(30,499,721)
Provision for doubtful accounts (see Note 27)	-	24,191,926	186,331	24,377,257
Recoveries (see Notes 27 and 31)	(412,570)	-	-	(412,570)
Balance at end of year	₱3,087,482	₱1,918,911,920	₱32,489,137	₱1,954,488,539
Specific impairment	₱3,087,482	₱1,918,911,920	₱-	₱1,921,999,402
Collective impairment	-	-	32,489,137	32,489,137
Total	₱3,087,482	₱1,918,911,920	₱32,489,137	₱1,954,488,539

2008				
	NPC	VAT Refund	Others	Total
	Balance at beginning of year	₱950,145,607	₱1,894,719,994	₱62,466,360
Write-off of uncollectible accounts	(211,178,211)	-	-	(211,178,211)
Provision for doubtful accounts (see Note 27)	3,500,052	-	337,167	3,837,219
Recoveries (see Notes 27 and 31)	(738,967,396)	-	-	(738,967,396)
Balance at end of year	₱3,500,052	₱1,894,719,994	₱62,803,527	₱1,961,023,573
Specific impairment	₱3,500,052	₱1,894,719,994	₱-	₱1,898,220,046
Collective impairment	-	-	62,803,527	62,803,527
Total	₱3,500,052	₱1,894,719,994	₱62,803,527	₱1,961,023,573

As discussed in Notes 8 and 31, the write-off and recoveries in 2008 were the result of the arbitral settlement award related to receivables from NPC. Long-outstanding receivables from NPC that are not recoverable as a result of the arbitration were written off.

17. Loan Payable

Loan payable in 2008 consists of an unsecured short-term borrowing amounting to ₱2,000,000,000 obtained from a local bank for the Parent Company's working capital requirements. The loan matured within 12 months from availment date. Interest rate was calculated based on three months Philippine Dealing System Treasury Reference Rate 2 (PDSTFR2) plus spread of 6.75%. There was no outstanding loan payable as of December 31, 2009 as the loan was fully settled in 2009.



18. Trade and Other Payables

	2009	2008
Accounts payable - trade	₱2,832,923,865	₱2,324,392,485
Accrued interest and guarantee fees (see Note 21)	923,147,531	390,839,708
Withholding and other taxes payable	194,692,777	64,453,131
Deferred credits	15,012,705	9,730,829
SSS and other contributions payable	8,768,580	6,678,114
Accrued premium on range bonus forwards (see Note 37)	-	175,116,193
Other payables	10,507,987	8,649,388
	₱3,985,053,445	₱2,979,859,848

Accounts payable - trade are noninterest-bearing and are normally settled on a 30 to 60 days payment term.

The accrued interest represents interest accrual on outstanding loans reckoning from the last payment date up to the financial reporting date. Guarantee fees are accruals of amounts due to the Philippine Government reckoning from the last payment date up to the financial reporting date. Details of the guarantee fees are discussed in Note 21 to the consolidated financial statements.

The ₱175.12 million accrued premium on range bonus forwards as of December 31, 2008 represents the total premium due to counterparty everytime the spot rate of the Japanese Yen was traded outside the predetermined ranges defined in the two range bonus forward contracts that cover the yen-dollar foreign exchange risk of JP¥8.0 billion out of the JP¥12.0 billion Miyazawa 1 loan that was fully settled on June 1, 2009 (see Note 37).

As of December 31, 2009 and 2008, the Company respectively had ₱5.77 billion and ₱2.67 billion unused credit facilities from various local banks which may be available for future operating activities.

19. Royalty Fee Payable

	2009	2008
Due to DOE and LGU (see Note 40)	₱811,004,709	₱1,688,282,467
Less current portion	244,306,963	1,688,282,467
Noncurrent portion	₱566,697,746	₱-

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

	2009	2008
Balance at beginning of year	₱-	₱225,590,774
Additions (see Note 32)	168,284,986	-
Accretion (see Note 29)	(69,904,267)	(225,590,774)
Balance at end of year	₱98,380,719	₱-



As discussed in Note 40, by virtue of P.D. 1442, the Parent Company entered into seven service contracts with the DOE, which granted the Company the right to explore, develop, and utilize the country's geothermal resources subject to sharing of net proceeds with the Philippine Government. The Company pays royalty fees to the DOE and LGUs under the agreements.

Royalty fees due to the DOE are payable based on a pre-agreed payment schedule and are non-interest bearing. In accordance with PAS 39, "Day 1" gain was recognized for the difference between the nominal/maturity value and present value of the royalty fee payable, which was discounted using 7.63% to 8.09% in 2009 and 12.82% to 13.11% in 2008. "Day 1" gain recognized amounted to ₱168.28 million in 2009, nil in 2008 and ₱39.77 million in 2007, for the difference between the maturity value and present value of additional royalty fee recorded in each year. The amount of "Day 1" gain is included in the "Miscellaneous - net" account in the consolidated statements of income. Subsequent to initial recognition, royalty fee payable is accreted to its maturity value based on its effective interest rate determined on Day 1.

Royalty fees due to the LGUs are payable within sixty (60) days after the end of each quarter to DOE, which in turn remits the said payments to the Department of Budget and Management (DBM). The DBM releases on a quarterly basis the preceding year's royalty fees due to the LGUs within five days after the end of each quarter. This procedure is in accordance with Article 390 of the Implementing Rules and Regulations of the Local Government Code of 1991.

On July 8, 2009, the Company negotiated with the DOE for the payment of deferred royalty due to DOE amounting to ₱1.4 billion for a period of five years with a quarterly amortization of ₱87.5 million or an annual payment of ₱350.0 million. Beginning 2009, royalty fee due shall be paid as it becomes due.

Accretion recognized in 2009, 2008 and 2007 amounted to ₱69.90 million, ₱225.59 million and ₱211.45 million, respectively. These were included under the "Interest expense" account in the consolidated statements of income (see Note 29).

Royalty fee expense decreased due to the fiscal incentives availed pursuant to the RE Law which was implemented retroactive to the effective date of the RE Law on February 1, 2009.

20. Obligations to a Power Plant Contractor

On June 17, 2009, Marubeni Corporation (Marubeni) turned over to the Company the Mindanao I and II power plants. These are the power plants built under the BOT scheme under the Energy Conversion Agreement between the Parent Company and Marubeni.

The obligations to a power plant contractor represents the present value of the unpaid cost of power plants constructed under the build-operate-transfer (BOT) agreements. Its carrying amount at the inception of the contract is based on the present value of the estimated total capital cost recovery (CCR) payments (net of taxes) to related contractors during the cooperation period. It is amortized based on the amount of monthly CCR fees after considering interest expense.

Prior to the turnover of the said power plants, the Parent Company accounted for the Mindanao I and II power plants in accordance with IFRIC 12, since it will eventually turn over the said power plants to the Government at the end of the concession period. The Parent Company accounted for the Energy Conversion Agreement with the power plant contractor as concession receivable under the Financial Asset Model of IFRIC 12. The transfer of the power plants did not have any financial statement impact to the Parent Company.



As part of the turnover of the power plants, the BOT contractors turned over inventories not required to be transferred by Marubeni under the BOT contract recognized by the Parent Company as miscellaneous income at their fair value amounting to ₱54.0 million (see Note 32). The Parent Company also received \$0.8 million representing settlement of the outstanding claims of the Parent Company, which was recognized as miscellaneous income.

In 2008, the inventories from the Mahanagdong and Malitbog power plants in Leyte were also turned over by the power plant contractor to EDC. This was recognized as miscellaneous income at its fair value amounting to ₱260.6 million (see Note 32).

As of December 31, 2009, the Parent Company's outstanding obligations to the power contractor have been fully paid.

As of December 31, 2008, the outstanding obligations to the power plant contractor amounted to ₱112.19 million.

21. Long-term Debts

The Company's foreign-currency denominated long-term loans were translated into Philippine pesos based using the prevailing foreign exchange rates as at financial reporting dates (USD1=JPY91.634; USD1=PHP46.200 as of December 31, 2009; and USD1=JPY90.942; USD1=PHP47.520 as of December 31, 2008).

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

Creditor/Project	Maturities	Interest Rate	2009	2008
International Bank for Reconstruction and Development (IBRD)				
<i>3164 PH Energy Sector Loan</i>				
▪ USD118 million	1995 to 2010	½ of 1% over cost of qualified borrowings	₱339,700,832	₱1,012,590,991
<i>3702 PH Geothermal Exploration Project</i>				
▪ USD64 million	1999 to 2013	½ of 1% over cost of qualified borrowings	1,012,141,577	1,261,094,917
<i>3747 PH Geothermal Exploration Project</i>				
▪ USD114 million	1999 to 2014	½ of 1% over cost of qualified borrowings/3.5%	1,189,036,548 927,908,710	1,449,918,621 1,177,667,697
▪ JPY12.4 billion	1999 to 2014			
Overseas Economic Cooperation Fund (OECF)				
<i>8th Yen Tongonan I Geothermal Power Plant (share in OECF-NPC loan)</i>				
▪ JPY5.8 billion	1990 to 2010	3.0%	71,833,988 90,731,741	223,345,012 131,647,242
▪ JPY1.5 billion (Restructured)		3.2%		
<i>9th Yen Palinpinon I Geothermal Power Plant</i>				
▪ JPY8.5 billion	1991 to 2011	3.0%	314,177,620	542,686,512
<i>15th Yen Palinpinon I Geothermal Power Plant</i>				
▪ JPY4.0 billion	1999 to 2019	5.7%	743,394,119	851,549,400
<i>18th Yen Palinpinon II Geothermal Power Plant</i>				
▪ JPY77.4 million	2003 to 2023	5.5%	25,690,629	28,597,891

(Forward)



Creditor/Project	Maturities	Interest Rate	2009	2008
<i>19th Yen Mt. Labo Geothermal Project</i>				
▪ JPY320 million	2004 to 2024	4.9%	₱118,084,138	₱130,540,515
<i>21st Yen NNGP</i>				
▪ JPY14.5 billion, of which JPY5.9 billion was drawn in 2007	2007 to 2027	2.7%/2.3%	4,487,265,321	4,916,323,601
Miyazawa I				
▪ JPY5.2 billion	June 1, 2009	Tranche A=3.78%	—	2,714,273,054
▪ JPY6.8 billion		Tranche B=1.60% + LIBOR	—	3,549,771,370
Miyazawa II				
▪ JPY22.0 billion	June 26, 2010	2.37%	11,009,849,524	11,327,043,915
International Finance Corporation (IFC)				
▪ ₱4.1 billion	2012-2033	7.4% per annum for the first five years subject to repricing for another five to ten years	4,026,880,578	—
Fixed Rate Corporate Note (FRCN)				
▪ ₱2.6 billion	2010-2014	8.3729%	2,611,270,810	—
▪ ₱4.9 billion	2010-2016	9.4042%	4,792,814,858	—
▪ ₱1.5 billion	2010-2014	8.4321%	1,480,136,400	—
Peso Public Bond				
▪ ₱8.5 billion	June 4, 2015	8.6418%	8,382,949,034	—
▪ ₱3.5 billion	December 4, 2016	9.3329%	3,451,657,688	—
Deferred payment facility with Power Sector Assets and Liabilities Management Corporation (PSALM)				
			2,388,974,276	2,912,404,547
Total			47,464,498,391	32,229,455,285
Less current portion			16,930,776,636	8,672,427,694
Noncurrent portion			₱30,533,721,755	₱23,557,027,591

The long-term debts are presented net of unamortized transaction costs. A rollforward analysis of unamortized transactions costs follows:

	2009	2008
Balance at beginning of year	₱174,928,940	₱283,924,584
Addition	376,360,871	—
Amortization	(109,852,266)	(120,834,470)
Foreign exchange loss (gain)	(5,023,238)	11,838,826
Balance at end of year	₱436,414,307	₱174,928,940

Amortization during the year is included under the “Interest expense” account in the consolidated statements of income (see Note 29).

Parent Company Loans

The Parent Company entered into long-term loan arrangements with domestic and international financial institutions for its various development projects and working capital requirements. PNOC, the then parent company of EDC, is the primary borrower of the loans from IBRD with sub-lending arrangements with EDC. NPC is the primary borrower of certain loans from OECF with sub-lending arrangements with EDC. For the other loans, EDC is the direct borrower with the obligations guaranteed by the Philippine Government. The Company pays a guarantee fee of 1.00% per annum to the Philippine Government based on the outstanding balance of the guaranteed loans. Starting January 1, 2008, the guarantee fee increased to 2% per annum. Beginning January 2011, the guarantee fee shall increase by 0.25% per annum up to a maximum of 3.00% per annum.



The Parent Company entered into a loan agreement with the IFC on November 27, 2008 for \$100.0 million or its peso equivalent of ₱4.1 billion. On January 7, 2009, the Parent Company opted to draw the loan in peso and received the proceeds amounting to ₱4,048.75 million, net of ₱51.25 million front-end fee. The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another five to 10 years. Under the loan agreement, the Company is restricted from creating liens and is subject to certain financial covenants.

On June 1, 2009, the Parent Company has fully settled its Miyazawa I loan amounting to ₱6,270.4 million.

On July 3, 2009, the Parent Company received ₱7,500.0 million proceeds from the issuance of FRCN split into two (2) tranches. The first tranche of ₱2,644.0 million will mature after 5 years plus 1 day and the second tranche of ₱4,856.0 million will mature after 7 years with a coupon rate of 8.3729% and 9.4042% respectively. On September 3, 2009, the Company received ₱1,500.0 million proceeds from the additional issuance of FRCN, a 5-year plus 1 day series paying a coupon of 8.4321%.

On December 4, 2009, the Parent Company received ₱12,000.0 million proceeds from the issuance of fixed rate Peso public bonds – split into two (2) tranches - ₱8,500.0 million, due after 5 years and 6 months and ₱3,500.0 million, due after 7 years, paying a coupon of 8.6418% and 9.3327%, respectively.

The loan covenants covering its outstanding debt include, among others, maintenance of certain level of current, debt-to-equity and debt-service ratios. As of December 31, 2009 and 2008, the Parent Company is in compliance with the loan covenants of all its outstanding debt except for the prohibition in issuing any guarantee by the Company and the financial debt to earnings before income tax, depreciation and amortization (EBITDA) ratio required by IFC for which the Parent Company has obtained a waiver as discussed below.

Waivers and temporary amendment of IFC Loan Agreement (Loan Agreement)

On September 30, 2009, the IFC has approved the Parent Company's requests for waivers and temporary amendments to the provisions of the Loan Agreement which prohibit EDC from issuing any guarantees and for EDC to maintain at all times on an Unconsolidated Basis, a Financial Debt to EBITDA Ratio of not more than 3.6, such temporary waiver to be effective for the period from September 30, 2009 to earlier of (a) December 31, 2010 or (b) the date falling at the end of any quarter ending prior to December 31, 2010 on which EDC has submitted evidence satisfactory to IFC that EDC's Financial Debt to EBITDA on a unconsolidated basis for such quarter is not more than 3.6 ("Temporary Waiver Period").

The temporary waivers and amendments to the Loan Agreement are granted subject to the following conditions:

1. Parent Company's issuance of a guarantee to the lenders of FG Hydro Loan for up to US\$72 million shall cover only:
 - a. The punctual and complete payment when due and payable of scheduled payments under the FG Hydro Loan and specifically exclude coverage of all payments under the FG Hydro Loan due upon prepayment.



- b. The FG Hydro Loan will have a tenor of 10 years with a two-year grace period for principal repayments and the repayments of principal shall occur in equal semi-annual installments and payments of interest shall be made semi-annually.
2. The Financial Debt to EBITDA ratio was changed to not more than 6.5 effective September 30, 2009 and until the expiration of the Temporary Waiver Period; and the definition Spread under the Loan Agreement was changed to three point thirty-five percent (3.35%) per annum.
3. A waiver processing fee of twenty thousand Dollars (\$20,000), payable no later than November 9, 2009. Failure to pay the waiver processing fee for a period of 30 days after the date on which IFC notified the Borrower of such failure, shall constitute an event of default under the Loan Agreement.

Except for the PCIR Bonds, the loans of the Parent Company are unsecured. The PCIR Bonds represent converted outstanding International Bank of Japan loans equivalent to US\$327,910 under a Memorandum of Agreement dated November 16, 1992. The PCIR Bonds bear an interest rate of 6.5% per annum, payable semi-annually with bullet principal payment in 2017. A cash collateral amounting to US\$74,057 (₱3.52 million), presented under “Other current assets” account in 2008 was deposited with the Bangko Sentral ng Pilipinas (BSP) as part of the agreement and will be returned to the Parent Company without interest upon full settlement of the bonds (see Note 11). The PCIR Bonds were fully settled in December 2008 and the related cash collateral was returned by the BSP in 2009.

FG Hydro Loan

On October 5, 2006, FG Hydro entered into an Asset Purchase Agreement (APA) with PSALM for the purchase of PAHEP/MAHEP. Under the APA, 40% of the total consideration was paid up-front to PSALM on November 17, 2006 and the remaining 60% (the Deferred Payment Facility) will be paid in 14 semi-annual installments including 12% interest per annum compounded semi-annually. FG Hydro has the option to prepay the Deferred Payment Facility.

Details of the deferred payment facility with PSALM are as follows:

	2009		2008	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
	<i>(In Thousands)</i>			
Balance at beginning of year	\$61,288	₱2,912,405	\$69,813	₱2,891,020
Payments during the year	(9,579)	(478,795)	(8,525)	(389,585)
Foreign exchange adjustments	–	(44,636)	–	410,970
Balance at end of year	51,709	2,388,974	61,288	2,912,405
Less current portion	10,762	497,227	9,579	455,174
Noncurrent portion	\$40,947	₱1,891,747	\$51,709	₱2,457,231

To guarantee full, prompt, faithful and complete performance of FG Hydro’s obligations in the APA, FG Hydro has complied with the requirement to issue a Deferred Payment Security in the form of an irrevocable standby letter of credit. The Deferred Payment Security, amounting to \$8.3 million, is replaced after each semi-annual payment date and is equivalent to the maturing obligation of FG Hydro within the next six-month period. In addition, FG Hydro has also submitted a Performance Bond amounting to \$1.3 million (equivalent to 2% of the total outstanding Deferred Payment Facility balance) in the form of an irrevocable standby letter of credit. The Performance Bond will be reduced every year to an amount equivalent to 2% of the aggregate amount of the unpaid Deferred Payment Facility.



22. Other Long-Term Liabilities

This account consists of accrued vacation and sick leave entitlement of active employees. The accruals pertain to the unused vacation and sick leaves at the end of the calendar year up to the maximum allowed leave credits for accrual. Vacation and sick leave credits exceeding the maximum allowed for accrual are forfeited.

23. Equity

Capital Stock

As required under the Philippine Constitution, the Parent 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. The Parent Company is compliant with the said nationality requirement.

The common shares are majority held by Filipinos, with Red Vulcan holding six billion shares or an equivalent of 40% interest.

The ownership of the Company's preferred shares is limited to Filipino citizens. The preferred shares have voting rights and subject to 8% cumulative interest. Red Vulcan holds the entire 9.4 billion preferred shares equivalent to 20% voting interest in EDC. The combined interest of Red Vulcan entitles it to 60% voting interest and 40% economic interest in EDC.

The Parent Company had 662 common stockholders and one preferred stockholder as of December 31, 2009 and 635 common stockholders and one preferred stockholder as of December 31, 2008.

The movements of common and preferred shares are as follows:

	Number of Shares		
	2009	2008	2007
Preferred stock - ₱0.01 par value			
Authorized	15,000,000,000	7,500,000,000	7,500,000,000
Issued and outstanding:			
Balance at beginning of year	7,500,000,000	7,500,000,000	–
Additional subscriptions	1,875,000,000	–	–
Issuances	–	–	7,500,000,000
Balance at end of year	9,375,000,000	7,500,000,000	7,500,000,000
Common stock - ₱1 par value			
Authorized	30,000,000,000	15,000,000,000	15,000,000,000
Issued:			
Balance at beginning of year	15,000,000,000	15,000,000,000	15,000,000,000
Stock dividends - 25%	3,750,000,000	–	–
Issuances	–	–	–
Balance at end of year	18,750,000,000	15,000,000,000	15,000,000,000
Outstanding:			
Balance at beginning of year	14,907,000,000	15,000,000,000	10,000,000,000
Stock dividends - 25%	3,750,000,000	–	2,000,000,000

(Forward)



	Number of Shares		
	2009	2008	2007
Issuances	93,000,000	–	3,000,000,000
Common shares held in treasury	–	(93,000,000)	–
Balance at end of year	18,750,000,000	14,907,000,000	15,000,000,000

Common Shares Held in Treasury

On March 25, 2008, the BOD of the Parent Company approved a share buyback program involving up to ₱4.0 billion worth of the Company’s common shares, representing approximately four percent of the Company’s market capitalization as of the date of the approval. The buyback program will be carried out within a two-year period which commenced on March 26, 2008 and ending on March 25, 2010. The Parent Company intended to implement an executive/employee stock option ownership plan through options, grants, purchases, or such other equivalent methods. As of December 31, 2008, the Parent Company which has acquired a total of 93,000,000 common shares for a total cost of ₱404.22 million.

Common Shares in Employee Trust Account

In 2009, a total of 93,000,000 common shares held in treasury that were acquired in 2008 at the cost of ₱404.22 million, have been issued irrevocably by the Parent Company to Banco de Oro Trust and Investment Group (BDO Trust) for the benefit of the executive/employee grantees under the Parent Company’s Employee Stock Grant Plan (ESGP). Banco de Oro Trust and Investment Group (BDO Trust) is an independent and separate legal entity. EDC has neither control nor discretion over the administration and investment activity on the common shares in executive/employee benefit trust held by BDO Trust. These shares are part of the issued and outstanding common shares and are entitled to vote and receive dividends. These shares will not revert to EDC even if the planned stock grant plan or other such plans is terminated. Any fruits or interests of these shares shall be for the sole and exclusive benefit of the officers and employees of EDC who are identified grantees of such stock plans. Any capital appreciation or decline in value, dividends, or other benefits declared on these shares shall accrue to the trust account and EDC shall not have any claim thereon. The issuance of the common shares to BDO Trust was initially recognized at ₱404.22 million under the “Common shares in employee trust account” account in the equity section of the 2009 consolidated statement of financial position (see Note 36).

Retained Earnings

a. Dividend declarations

Stock dividends

On May 19, 2009 and June 30, 2009, the BOD and the stockholders during the annual stockholders’ meeting, respectively, approved the increase in authorized capital stock of the Parent Company. The increase in authorized capital stock from ₱15.075 billion to ₱30.15 billion divided into 30 billion common shares with a par value of ₱1.00 and 15.0 billion preferred shares with a par value of ₱0.01 per share, shall be effected through the declaration of a 25% stock dividend in the outstanding common shares, and the subscription by the current preferred stockholders to ₱18.75 million, representing 25% of the increase in the preferred shares.

On October 12, 2009, the SEC approved the increase in the Parent Company’s authorized capital stock from ₱15.075 billion to ₱30.15 billion divided into 30 billion common shares with a par value of ₱1.00 per share and 15.0 billion preferred shares with a par value of ₱0.01 per share by way of common stock dividends (totaling 3.75 billion common shares with



any fractional shares being subscribed by the EDC Retirement Fund and/or Trust for the EDC Executive/Employee Stock Ownership Plan) and the subscription by the current preferred stockholders to 1.875 billion preferred shares, representing 25% of the increase in the preferred shares at par value.

The stock dividends were distributed on November 23, 2009 to stockholders as of the record date of October 27, 2009.

Cash dividends

On March 30, 2009, the BOD of the Parent Company approved the following cash dividends in favor of all stockholders of record as of April 16, 2009, which were paid on May 11, 2009:

- cash dividend of ₱0.0008 a share on the preferred shares totaling ₱6.00 million
- regular cash dividend of ₱0.125 a share on the common shares totaling ₱1,863.38 million

On February 19, 2008, the BOD of the Parent Company declared the following cash dividends in favor of all stockholders of record as of March 5, 2008, which were paid on March 17, 2008:

- cash dividend of ₱0.0004 a share on the preferred shares totaling ₱3.00 million
- regular cash dividend of ₱0.125 a share on the common shares totaling ₱1,875.00 million
- special cash dividend of ₱0.145 a share on the common shares totaling ₱2,175.00 million

b. Reversal of appropriations

On December 16, 2008, the BOD of the Parent Company approved the reversal of previously appropriated retained earnings totaling ₱1,653.32 million, which was earmarked to undertake exploration activities and acquisition and refurbishment of exploration equipment. The intended activities and acquisitions have been completed in 2008.

c. Adjustment on appraisal increase

In 2008, the Parent Company adjusted the related deferred tax liabilities on appraisal increase on property, plant and equipment recorded upon adoption of PFRS on January 1, 2005. The appraised values of property, plant and equipment were recognized as fair value deemed cost consistent with the provisions of PFRS 1.

Minority Interest

On March 24, 2008 and October 10, 2008, the BOD of FG Hydro authorized the declaration of cash dividends in favor of its then parent company, First Gen. Total cash dividends paid to First Gen amounted to ₱1,250.00 million (₱2.59 a share) in 2008. The said cash dividends are presented as a reduction of minority interest in the 2008 consolidated statement of changes in equity in accordance with the pooling-of-interests method.

24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.



The following are the transactions that the Company had with related parties in 2009 and 2008:

a. First Balfour, Inc. (First Balfour)

Following the usual bidding process in 2008, the Parent Company awarded to First Balfour a procurement contract amounting to ₱360.0 million for various civil, structural, mechanical and piping works for the LGPF. The advance payment of ₱54.0 million, 15% of the contract amount, was recorded under “Other current assets” account.

In 2009, the advance payment was fully recouped from its progress billings.

As of December 31, 2009, net transactions amounting to ₱356.8 million with outstanding balance of ₱29.4 million were recorded under “Due to related parties” account.

First Balfour is a wholly owned subsidiary of First Holdings.

b. First Gen

First Gen provides financial consultancy, business development and other related services to the Parent Company under a consultancy agreement beginning September 1, 2008. Such agreement is for a period of three years up to August 31, 2011. Under the terms of the agreement, billings for consultancy services shall be ₱8.7 million per month plus applicable taxes. This was increased to ₱11.8 million effective September 2009 to cover the cost of additional officers and staff assigned to the Parent Company. Total consultancy services paid amounted to ₱130.7 million and ₱45.9 million as of December 31, 2009 and 2008, respectively, and was included in the “Purchased services and utilities” account.

In 2009 and 2008, FG Hydro availed of unsecured, interest-bearing and US dollar-denominated cash advances from First Gen. Said advances are due and demandable and bear interest of 5.29%. The outstanding balance as of December 31, 2009 and 2008 included in the “Due to related parties” account amounting to ₱504.1 million (\$10.9 million) and ₱63.48 million, respectively.

c. IFC

The Parent Company entered into a loan agreement with the IFC, a shareholder of the Company, on November 27, 2008 for \$100.0 million or its peso equivalent of ₱4.1 billion. IFC has approximately 5% ownership interest in the Parent Company. On January 7, 2009, the Parent Company opted to draw the loan in peso and received the proceeds amounting to ₱4,048.75 million, net of ₱51.25 million front-end fee. As of December 31, 2009, the outstanding loan amounted to ₱4,026.88 million, net of unamortized transaction cost of ₱73.12 million and included under the “Long-term debts” account in the 2009 consolidated statement of financial position (see Note 21).

The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another five to 10 years. Under the loan agreement, the Parent Company is restricted from creating liens and is subject to certain financial covenants.



d. Other Related Parties

In the ordinary course of business, the Company avails of or grants advances from/to its related parties for working capital requirements. Such advances are payable/collectible within 12 months and are non-interest bearing.

Buang Private Power Corporation is a subsidiary of First Private Power Corporation, an associate of First Gen. First Gas Holdings Corporation and First Gas Power Corporation are subsidiaries of First Gen. First Philippine Holdings Corporation, parent company of First Gen, is an associate of Benpres Holding Corporation.

Following are the amounts of transactions and outstanding balances as of and for the years ended December 31, 2009 and 2008:

Related Party	Nature of Transaction	Transactions for the years ended December 31		Net amount due to related parties as of December 31	
		2009	2008	2009	2008
First Gen	Interest-bearing advances	₱440,660,560	₱54,332,615	₱504,135,656	₱63,475,096
	Consultancy fee	130,656,470	45,854,118	–	45,854,118
	Interest-free advances	6,639,905	–	2,709,905	–
	Directors liability insurance	–	1,358,947	–	1,358,947
First Balfour, Inc.	Steam augmentation contract in Leyte	356,753,986	–	29,438,812	–
Buang Private Power Corporation	Interest-free advances (payment)	(150,286)	150,286	–	150,286
First Gas Holdings Corporation	Interest-free advances	491,800	82,300	574,100	82,300
IFC	Interest-bearing loans	4,170,132,778	–	4,170,132,778	–
First Gas Power Corporation	Interest-free advances	40,924	–	150,677	–
Eugenio Lopez Foundation, Inc.	Donation to Lopez Museum	2,400,000	–	–	–
Lopez Group Foundation, Inc.	Donation to support Group's Corporate Social Responsibility efforts	7,239,765	–	–	–
Benpres Holdings Corporation	Budget expense allocation	6,384,283	–	–	–
Red Vulcan	Interest-free advances	11,059	–	11,059	–
		₱5,121,261,244	₱101,778,266	₱4,707,152,987	₱110,920,747

There were no guarantees provided or received for any related party. The Company has not recognized any impairment losses on receivables from related parties as of December 31, 2009 and 2008.

e. Remuneration of Key Management Personnel

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

	2009	2008	2007
Short-term employee benefits	₱75,170,646	₱79,192,591	₱39,626,921
Post-employment benefits (see Note 33)	90,670,000	82,218,181	76,699,639
Share-based payment (see Note 36)	15,190,000	–	–
	₱181,030,646	₱161,410,772	₱116,326,560



25. Purchased Services and Utilities

	2009	2008	2007
Professional and technical services	₱981,264,759	₱684,647,336	₱460,634,868
Purchased services	364,411,435	247,672,243	166,636,601
Rig mobilization charges (see Note 48)	241,587,531	76,685,866	85,527,042
BOT fees (see Notes 20 and 42)	183,224,477	393,981,872	2,105,680,050
Hauling and handling costs	166,221,695	75,159,487	40,958,297
Contractual personnel costs	103,150,460	19,254,749	28,278,317
Purchased utilities	21,373,651	17,619,911	219,335,104
Others	11,889,449	8,912,246	4,381,485
	₱2,073,123,457	₱1,523,933,710	₱3,111,431,764

In 2009, the Parent Company implemented a steam augmentation project in LGPF with total projected costs of ₱3.1 billion. The steam augmentation project involves construction of surface infrastructure, installation of pipelines, drilling of new wells and work-over drilling of existing wells. The project commenced in the second half of 2008 and will be undertaken until 2010 to maintain and improve the existing capability of LGPF.

The increase of ₱549.2 million was mainly on account of higher expenses on professional/ consultancy services particularly for steam augmentation project in LGPF (₱295.0 million), higher rig mobilization charges to geothermal wells (₱164.0 million), other outsourced services for the augmentation activities (₱114.0 million), rehabilitation works undertaken in Bacman steamfield project for the damages caused by Typhoon Dante (₱107.0 million) and hauling services for the shipment of drilling materials to field geothermal projects (₱90.0 million). Such increases were partly offset by lower BOT fees (₱215.0 million) with the completion of the contracts for Mindanao I and II power plants.

26. Operations and Maintenance Expenses

	2009	2008	2007
Repairs and maintenance	₱1,273,202,012	₱1,894,545,092	₱1,036,042,725
Personnel costs (see Notes 28 and 36)	1,786,563,040	1,388,397,780	1,232,874,326
Materials and supplies issued (see Note 10)	1,166,397,599	969,116,159	569,879,759
Royalty fees (see Note 19)	214,373,965	590,120,392	499,577,821
Rental, insurance and taxes (see Note 47)	934,178,837	271,786,514	584,220,983
Business and related expenses	158,957,224	137,230,571	86,377,159
Proceeds from insurance claims	(89,259,730)	(205,157,285)	(63,656,268)
Grantor assessment adjustment	-	-	(866,399,332)
	₱5,444,412,947	₱5,046,039,223	₱3,078,917,173

The repairs and maintenance expenses in 2009 was attributed to the steam augmentation program implemented during the year. In addition, the Parent Company replaced the turbine rotor blade of the turbine it uses in its Mahanagdong power plants in LGPF amounting to ₱297.0 million.



The increase in rental, insurance and taxes emanated mainly from the settlement of real property tax due on Leyte's power plants amounting to ₱275.0 million while the decrease in royalty fees was attributable to the effect of the fiscal incentives of the RE Law (see Note 19).

Proceeds from insurance claims are shown as a separate line item under the operations and maintenance expenses. The Parent Company charges to expense outright any cost incurred relating to restoring or rehabilitating facilities or land improvements damaged by typhoons or by other factors, insurance proceeds from the insurance claims upon receipt are subsequently recognized as proceeds from insurance claims.

Business and related expenses covers the expenses incurred by the Company for local and foreign travel, membership, contribution and donations, company meeting expenses and advertising, among other business expenses.

In 2007, the grantor assessment adjustment was the result of the recomputation of the recoverable costs done in conjunction with the DOE to give effect to the amended provisions set forth in the GSCs, which allows recovery of the translation effects of the Parent Company's foreign loans and financing costs. The amended provisions and the royalty adjustments were agreed with the DOE in July 2007.

27. General and Administrative Expenses

	2009	2008	2007
Personnel costs (see Notes 28 and 36)	₱1,110,060,984	₱958,409,776	₱916,645,993
Purchased services and utilities (see Note 24)	858,569,171	579,832,277	362,915,381
Rental, insurance and taxes (see Notes 24 and 47)	808,686,176	408,948,862	591,079,597
Business and related expenses	313,712,652	229,617,376	126,955,665
Materials and supplies issued (see Note 10)	160,616,956	159,656,358	112,557,921
Repairs and maintenance	118,584,488	58,093,998	31,888,805
Write-down of parts and supplies inventories (see Notes 3 and 10)	106,206,646	-	-
Provision for doubtful accounts (see Notes 8 and 16)	24,377,257	15,617,282	286,828,060
Credit adjustment on allowance for doubtful accounts (see Notes 8, 16 and 31)	(2,594,751)	(1,116,185,994)	(43,130,239)
	₱3,498,219,579	₱1,293,989,935	₱2,385,741,183

The increase in purchased services and utilities mainly came from the professional fees paid for legal services relative to the real property assessments to the Parent Company and for the consultancy fees (financial, business development and other services) paid to First Gen as discussed in Note 24 while the increase in rental, insurance and taxes mainly pertained to the income tax paid on the third and fourth tranches of revenue from arbitration award amounting to ₱363.3 million. Write-down of parts and supplies inventories for disposal are for inventories identified as obsolete and for disposal while the credit adjustment on allowance for doubtful accounts pertained to the recovery of the fully-provided receivables from NPC brought about by the arbitral award to the Parent Company as discussed in Note 31.



28. Personnel Costs

	2009	2008	2007
Salaries and other benefits (see Note 36)	₱2,467,904,466	₱2,360,519,581	₱2,172,027,191
Retirement benefit costs (see Note 33)	384,871,712	240,719,196	189,749,707
Social security costs	43,847,846	44,480,804	42,316,907
	₱2,896,624,024	₱2,645,719,581	₱2,404,093,805

29. Interest Expense

	2009	2008	2007
Interest on long-term debt including amortization of transaction costs (see Note 21)	₱2,541,047,618	₱1,892,514,433	₱1,388,655,983
Interest on loan payable	164,225,636	34,535,508	51,799
Interest accretion of "Day 1" gain (see Note 19)	69,904,267	225,590,774	211,445,799
Interest on liability from litigation	111,948,408	—	—
	2,887,155,929	2,152,640,715	1,600,153,581
Amounts included in the cost of qualifying assets	—	(117,059)	(99,927)
	₱2,887,155,929	₱2,152,523,656	₱1,600,053,654

This account pertains to interest charges on long-term and short-term loans, including accretion of "Day 1" gain. The amounts included in the cost of qualifying assets represent the capitalized interest on loans obtained for NNGP. The capitalized interest is included under "Exploration and evaluation costs" account in the consolidated statements of financial position.

30. Foreign Exchange Gains (Losses)

	2009	2008	2007
Foreign exchange gains (losses) on long-term loans	₱1,338,780,330	(₱9,229,710,609)	₱4,286,179,615
Foreign exchange losses on other accounts	(47,540,491)	(127,420,703)	(290,390,520)
Net foreign exchange gains (losses)	₱1,291,239,839	(₱9,357,131,312)	₱3,995,789,095

This account pertains to foreign exchange adjustments realized on repayment of loans and restatement of outstanding balances of foreign currency-denominated loans, short-term placements and cash in banks. Following are the exchange rates used to restate outstanding balances at year end:

Currency	Equivalent to US\$1.00		
	December 31, 2009	December 31, 2008	December 31, 2007
Japanese Yen	¥ 91.63	¥ 90.94	¥ 113.68
Philippine Peso	₱46.20	₱47.52	₱41.41



31. Revenue from Arbitration Award

On April 24, 2008, the Parent Company and NPC signed a Joint Manifestation and Undertaking (JMU) to abide by the arbitral decision on March 25, 2008. The arbitral decision covered the long-standing issue related to the SSAs and PPAs of EDC and NPC.

In the execution of the arbitral decision, both the Parent Company and NPC agreed that the amount of ₱2,894.93 million shall be paid by NPC to the Company, without further interest, in accordance with the following schedule:

Tranche	Settlement Amount	Payment Term	Actual Date of Settlement
First	₱500.00 million	30 days from submission of JMU to the Office of the Voluntary Arbitrator	July 15, 2008
Second	500.00 million	60 days from submission of JMU to the Office of the Voluntary Arbitrator	July 15, 2008
Third	1,000.00 million	January 2009	February 2, 2009
Fourth	894.93 million	January 2010	Pending collection as of March 16, 2010
	<u>₱2,894.93 million</u>		

Full payment of the foregoing amounts shall constitute full and complete settlement of all the claims each party has against the other as detailed in the November 5, 2007 arbitration agreement.

As a result of the foregoing transaction in 2008, the Company recognized a total income of ₱2,894.93 million, which was recorded as revenue from arbitration award of ₱2,067.34 million and a reversal of allowance for doubtful accounts of ₱827.59 million previously recorded related to the portion collected as part of the settlement. In addition, allowance for doubtful accounts of ₱288.60 million was reversed following the resolution of some of the issues covered by the arbitration. The reduction of the allowance for doubtful accounts resulted in the recognition of the credit adjustments on allowance for doubtful accounts totaling ₱1,116.19 million in 2008 classified under “General and administrative expenses” account in the statement of income (see Note 27).

32. Miscellaneous Income (Charges)

	2009	2008	2007
Impairment loss on property, plant and equipment of NNGPF (see Notes 3 and 13)	(₱349,000,000)	₱-	₱-
Write-off of input VAT claimed	(178,639,119)	-	-
“Day 1” gain on deferred royalties (see Notes 16 and 19)	168,284,986	-	39,769,241
Loss on sale of noncurrent assets held for sale (see Note 12)	(129,867,348)	-	-
Write-down of exploration and evaluation assets	(83,531,992)	-	-
(Forward)			



	2009	2008	2007
Power plant materials inventory turned over by contractor (see Note 20)	₱53,992,600	₱260,614,700	₱-
Waste disposal fees	17,836,715	16,525,517	17,893,896
Impairment loss on AFS investments (see Note 9)	(3,328,633)	-	-
Gain on sale of AFS investments (see Note 9)	-	46,323,392	7,937,724
“Day 1” loss on NPC receivable (see Note 16)	-	(189,790,628)	-
Others – net	64,592,175	25,401,909	(270,012,794)
	(₱439,660,616)	₱159,074,890	(₱204,411,933)

In 2009, the Company wrote off its input VAT pertaining to 2007 and 2008 amounting to ₱77.55 million and ₱101.09 million, respectively, which could no longer be claimed as part of the input VAT refund due to the absence of supporting documents and the receipt of a Letter of Authority (LOA) for 2008 barring the amendments of VAT returns for 2008.

In 2008, the Company recognized a “Day 1” loss of ₱189.79 million in 2008 representing the difference between the present value of the third and fourth tranches of the scheduled collections of the arbitration award and the maturity values (see Notes 16 and 31).

33. Retirement and Other Post-Retirement Benefit Plans

The Parent Company has a funded, non-contributory, defined benefit retirement plan. The plan covers all permanent employees and is administered by trustee bank/s. The Parent 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 consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position:

	2009	2008	2007
Current service cost	₱196,844,916	₱165,734,850	₱137,976,928
Interest cost on benefit obligation	310,284,773	188,497,828	154,587,224
Expected return on plan assets	(125,493,939)	(113,828,988)	(102,814,445)
Net actuarial loss recognized	3,235,962	315,506	-
Net retirement expense (see Note 28)	₱384,871,712	₱240,719,196	₱189,749,707
Actual return on plan assets	₱215,043,596	₱65,258,618	₱45,943,657

	2009	2008
Present value of defined benefit obligations	₱3,265,217,548	₱3,179,147,273
Fair value of plan assets	(2,035,048,917)	(1,792,770,559)
	1,230,168,631	1,386,376,714
Unrecognized actuarial gains (losses)	6,928,516	(359,982,232)
Retirement and other post-retirement benefits plan	₱1,237,097,147	₱1,026,394,482



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

	2009	2008
Defined benefit obligation at beginning of year	₱3,179,147,273	₱2,692,826,116
Current service cost	196,844,916	165,734,850
Interest cost	310,284,773	188,497,828
Benefits paid	(146,934,285)	(32,769,466)
Actuarial losses (gains) on obligation	(274,125,129)	164,857,945
Defined benefit obligation at end of year	₱3,265,217,548	₱3,179,147,273

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

	2009	2008
Fair value of plan assets at beginning of year	₱1,792,770,559	₱1,626,128,399
Expected return on plan assets	125,493,939	113,828,988
Contributions by employer	174,169,047	134,153,008
Benefits paid	(146,934,285)	(32,769,466)
Actuarial gains (losses) on plan assets	89,549,657	(48,570,370)
Fair value of plan assets at end of year	₱2,035,048,917	₱1,792,770,559

The Parent Company expects to contribute ₱327.00 million to its defined benefit retirement plan in 2010.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008
Fixed income	89.85%	93.83%
Equities	7.82	6.17
Real properties	1.37	-
Others	0.96	-
	100.00%	100.00%

The principal actuarial assumptions used in determining retirement and other post-retirement benefits are as follows:

	2009	2008
Discount rate	8.74%	9.76%
Expected rate of return on assets	7.00	7.00
Future salary increase rate	8.00	10.00
Medical trend rate	7.00	7.00

The assumption on the discount rate is based on the long-term government bond rates approximating the expected average remaining working life of the employees. 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 around 3.00% - 4.00% more than the long-term inflation rate of about 5.00% - 7.00%.



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

	2009	2008	2007	2006	2005
Defined benefit obligation	₱3,265,217,548	₱3,179,147,273	₱2,692,826,116	₱2,187,879,669	₱1,791,112,900
Plan assets	(2,035,048,917)	(1,792,770,559)	(1,626,128,399)	(1,468,777,785)	(1,222,617,700)
Deficit	₱1,230,168,631	₱1,386,376,714	₱1,066,697,717	₱719,101,884	₱568,495,200

The experience adjustments on plan liabilities amounted to ₱10.31 million in 2009, ₱62.11 million in 2008 and ₱143.64 million in 2007.

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

	2009		2008	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest cost	43.14%	28.85%	23.35%	18.70%
Effect on the defined benefit obligation	37.45%	26.33%	20.67%	16.90%

34. Income Tax

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2009	2008
Deferred tax assets - net	₱959,273,421	₱3,410,392,338
Deferred tax liabilities - net	(17,340,023)	(11,294,373)

The deferred tax assets consist mainly of the undepreciated balance of 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 increase in the value of Parent Company's properties recognized based on the value of concession receivables and intangible assets resulting from scoping out the GRESCs from IFRIC 12 starting October 23, 2009 and the unrealized foreign exchange gains arising from the restatement of deferred payment facility with PSALM.

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

Deferred Tax Assets

	Foreign Exchange Losses (Gains) BOT Power Plants	Unrealized Foreign Exchange Losses	Allowance For Doubtful Accounts	IFRIC 12 Adjustments	Others	Total
At January 1, 2009	₱4,003,828,394	₱2,551,134,895	₱588,823,244	₱13,722,968,794	₱546,505,975	₱21,413,261,302
Effect of RE Law (see Note 40)	(2,651,696,048)	(1,687,654,297)	(394,591,773)	(10,355,359,669)	(346,865,652)	(15,436,167,439)
Charged to equity	—	—	—	—	180,833	180,833
Charged to income for the year	(122,703,619)	(386,060,156)	4,329,352	(3,367,609,125)	44,928,584	(3,827,114,964)
At December 31, 2009	₱1,229,428,727	₱477,420,442	₱198,560,823	₱—	₱244,749,740	₱2,150,159,732



	Foreign Exchange Losses (Gains) BOT Power Plants	Unrealized Foreign Exchange Losses	Allowance For Doubtful Accounts	IFRIC 12 Adjustments	Others	Total
At January 1, 2008	₱4,346,549,575	₱215,335,039	₱1,149,431,133	₱16,478,104,383	₱603,048,126	₱22,792,468,256
Charged to income for the year	(342,721,181)	2,335,799,856	(560,607,889)	(2,755,135,589)	(56,542,151)	(1,379,206,954)
At December 31, 2008	₱4,003,828,394	₱2,551,134,895	₱588,823,244	₱13,722,968,794	₱546,505,975	₱21,413,261,302

Deferred Tax Liabilities

	Deductible Expenses Under P.D. 1442	IFRIC 12 Adjustments/ Property, Plant and Equipment	Others	Total
At January 1, 2009	(₱3,681,358,648)	(₱13,225,388,187)	(₱1,107,416,502)	(₱18,014,163,337)
Effect of Renewable Energy Act (see Note 40)	3,513,256,437	8,789,688,420	174,009,581	12,476,954,438
Charged to income for the year	168,102,211	3,282,786,917	878,093,437	4,328,982,565
At December 31, 2009	₱-	(₱1,152,912,850)	(₱55,313,484)	(₱1,208,226,334)

	Deductible Expenses Under P.D. 1442	IFRIC 12 Adjustments/ Property, Plant and Equipment	Others	Total
At January 1, 2008 (restated - see Note 5)	(₱3,659,182,751)	(₱16,041,768,501)	(₱77,998,241)	(₱19,778,949,493)
Charged to retained earnings	-	-	(449,433,875)	(449,433,875)
Charged to income for the year	(22,175,897)	2,816,380,314	(579,984,386)	2,214,220,031
At December 31, 2008	(₱3,681,358,648)	(₱13,225,388,187)	(₱1,107,416,502)	(₱18,014,163,337)

The following tables summarize the Company's deferred income tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities	Total
At January 1, 2009	₱21,413,261,302	(₱18,014,163,337)	₱3,399,097,965
Effect of Renewable Energy Act (see Note 40)	(15,436,167,439)	12,476,954,438	(2,959,213,001)
Charged to equity	180,833	-	180,833
Charged to income for the year	(3,827,114,964)	4,328,982,565	501,867,601
At December 31, 2009	₱2,150,159,732	(₱1,208,226,334)	₱941,933,398

	Deferred Tax Assets	Deferred Tax Liabilities	Total
At January 1, 2008	₱22,792,468,256	(₱19,778,949,493)	₱3,013,518,763
Charged to retained earnings	-	(449,433,875)	(449,433,875)
Charged to income for the year	(1,379,206,954)	2,214,220,031	835,013,077
At December 31, 2008	₱21,413,261,302	(₱18,014,163,337)	₱3,399,097,965



A numerical reconciliation between tax expense and the product of accounting income multiplied by the tax rates of 10%/30%/35% is as follows:

	2009	2008	2007
Accounting income	₱7,280,022,483	₱2,652,824,187	₱12,936,529,682
Income tax at statutory tax rate	₱706,314,776	₱928,488,465	₱4,527,785,388
Effect of Renewable Energy Act and effect of change in tax rate	2,959,213,001	491,089,744	(274,795,065)
Income tax on sale of Fort Bonifacio land and building (zonal value minus selling price)	377,853,900	-	-
Tax effect of third and fourth tranches arbitration income	(311,373,702)	-	-
Non-deductible provisions and others	260,464,301	1,602,816	-
Interest income net of final tax	(104,149,985)	(77,787,866)	(107,428,453)
Tax effect of non-deductible interest expense	41,576,237	41,242,350	80,894,969
Income tax holiday (ITH) incentives	(19,562,230)	(164,525,410)	(14,377,249)
Non-deductible foreign contractor's tax - excess	4,416,423	403,557	4,389,682
Non-deductible/(taxable) losses/(gains) on ROP bonds	3,024,741	(27,612,838)	-
Movement of unrecognized net deferred tax assets	-	141,654,925	(24,745,457)
Additional expenses (50%) on Adopt-A-School Act of 1998	-	(913,963)	-
Others	(6,045,008)	(26,092,843)	(23,448,338)
Provision for income tax	₱3,911,732,454	₱1,307,548,937	₱4,168,275,477

Under Republic Act No. 9337, which amended certain provisions of the Tax Code, the new Regular Corporate Income Tax (RCIT) rate shall be 30% effective January 1, 2009.

On December 18, 2008, the BIR issued Revenue Regulations (RR) No. 16-2008 which implemented the provisions of Section 34(L) of the Tax Code, as amended by Section 3 of Republic Act No. 9504, which allows individuals and corporations who are subject to the 30% RCIT rate to adopt the Optional Standard Deduction (OSD) in computing their taxable income. Under RR 16-2008, corporations may claim OSD equivalent to 40% of gross income, excluding passive income subjected to final tax, in lieu of the itemized deductions. A corporate taxpayer who elected to avail of the OSD shall signify such in the income tax return. Otherwise, it shall be considered as having availed of the itemized deductions allowed under Section 34 of the National Internal Revenue Code. Election is done on an annual basis.

In 2008 and 2009, the Companies computed their income tax based on itemized deductions for their other income subject to 30% RCIT rate.



35. Basic/Diluted Earnings Per Share (EPS)

The basic/diluted EPS amount were computed as follows:

	2009	2008	2007
(a) Net income attributable to equity holders of the Parent Company	₱3,322,662,211	₱1,308,021,833	₱8,692,170,755
Less dividends on preferred shares (see Note 23)	7,500,000	6,000,000	6,000,000
(b) Net income attributable to common shareholders	₱3,315,162,211	₱1,302,021,833	₱8,686,170,755
(c) Weighted average numbers of shares for EPS	18,750,000,000	18,715,918,555	18,750,000,000
Basic/Diluted EPS (b/c)	₱0.177	₱0.070	₱0.463

The Company does not have dilutive common stock equivalents.

The 2008 and 2007 EPS were adjusted for the effect of the 3.75 billion shares (25%) stock dividends declared in 2009 (see Note 23).

36. Share-Based Payment

On January 23, 2009, the BOD of the Parent Company approved the ESGP. The ESGP is an integral part of the Company's total rewards program for its officers and employees and is intended to provide an opportunity for participants to have real and personal direct interest in the Company.

On December 1, 2009, the Nomination and Compensation Committee (the Committee) granted 7,000,000 shares representing the Parent Company common shares authorized under the ESGP which were transferred to the BDO Trust. These shares were part of the 93,000,000 common shares issued to the BDO Trust and recorded under common shares in employee trust account. BDO Trust will administer the issuance of the common shares to the employee grantees under the Parent Company's ESGP (see Note 23).

The stock grants are given in lieu of cash incentives and bonuses. The grant of shares under the ESGP does not require an exercise price to be paid by the awardees. The awarded shares will vest over a three-year period: 20% will vest after the first anniversary of the Grant date or January 1, 2010, whichever is earlier; 30% will vest after the second anniversary of the Grant date and the remaining 50% will vest after the third anniversary of the Grant date. Awardees that resign or are terminated will lose any right to unvested shares. There are no cash settlement alternatives.

The ESGP covers employees of the Company or other individuals whom the Committee may decide to include. The Committee shall maintain the sole discretion over the selection of individuals to whom awards may be granted for any given calendar year.



Stock awards granted by the Committee to officers and employees of EDC are shown below:

Grant Date	Number of Shares Granted	Fair Value Per Share at Grant Date
December 1, 2009	7,000,000	₱4.20

The fair value per share was determined based on the market price of the stock at the date of grant. There were no stock awards vested, issued or cancelled in 2009.

Total compensation expense recognized on the vesting of the fair value of stock awards amounted to ₱15.19 million in 2009. A corresponding decrease in the “Common shares in employee trust account” amounting to ₱12.58 million and increase in “Additional paid-in capital” account amounting to ₱2.61 million was recorded as of December 31, 2009.

37. Financial Risk Management Objectives and Policies

The Company’s financial instruments consist mainly of cash and cash equivalents, AFS investments, and long-term debts. 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, concession receivables, trade payables and other liabilities, which arise directly from operations.

Overview of the Company’s Risk Management

The Company has an Enterprise Wide Risk Management (EWRM) process in place covering all areas of its organization. EWRM is a process, approved by the Company’s BOD, and is applied in strategy setting and across the enterprise, designed to identify potential events that may affect the Company and manage risks to be within its risk appetite and to provide reasonable assurance with respect to the achievement of Company objectives. In addition, EWRM is a holistic approach to the protection of assets, revenues, liabilities, personnel and reputation against predictable and unpredictable losses to achieve maximum efficiency at minimum costs.

The implementation of the Company’s EWRM Program provides the following benefits and advantages:

- 1) Provides balance in the management of risks
- 2) Identifies and manages the key exposures of the company proactively.
- 3) Establishes the accountability of the proper risk owner(s) in the management of the risks.
- 4) Ensures that efforts are well-coordinated so that the company does not manage risks in silo.
- 5) Monitors the effectiveness of the mitigation strategies.
- 6) Ensures compliance with the policies and processes that are established to manage risks.
- 7) Provides a systematic approach to the management of risks in terms of fortuitous events or accidental losses happening, as well as the attainment of incremental economic benefits that can be derived from the effective management of the company’s risks.
- 8) Aims to protect corporate assets and profits by identifying and preventing risks before they occur.
- 9) It is designed to avoid losses which can impair the operations or financial position of the company in case of the occurrence of fortuitous events.
- 10) Reduces the reliance on increasingly expensive insurance protection. Insurance may provide the financial relief in case of loss. However, certain risks are not insurable, while some though insurable, may be too costly and uneconomical to insure.



Risk Management Oversight Structure

The Risk Management Oversight Structure of the Company has been created based on the current organization set-up. The salient points regarding the said oversight structure as follows:

- The Risk Management Committee (RMC) is a sub-committee of the BOD to whom it reports directly. The RMC plays a vital oversight role in the implementation of the Company's EWRM Program and is also an important liaison to the BOD. The RMC shall assist the BOD of the Company in its oversight responsibility of managing risks involving physical, financial, operational, labor, legal, security, environmental and other risks of the corporation.
- The Risk Management Executive Committee (RMEC) is comprised of the President, who is the Chairman of the RMEC, the Vice-President (VP) for Operations, VP for Corporate Services, VP for Environmental & External Relations, VP for Technical Services and VP for Power Generation. The RMEC shall ensure the effective and efficient implementation of the Company's EWRM Program and provides appropriate actions, solutions and recommendations in line with the requirements of the RMC.
- The Risk Management Group (RMG) is composed of the Property Management Department, the over-all coordinator of the RMG, and the Risk Management Units (RMU), i.e. the different divisions/departments and project sites of the Company. Each RMU is represented in the Company's EWRM Program through their respective Risk Management Coordinators. One of the senior managers of the supply chain sector is the head of RMG. The RMG shall
- develop, implement and manage the Risk Management Program of the Company in accordance with the risk management policies and standards set by the Company. The RMG, as the technical working group, shall also assist the RMEC and the RMC attain and perform their missions and functions.

Risk Management Process

The Company's Risk Management Process is the general guideline that the Company follows in the implementation of its EWRM Program. This involves the following:

- 1) Identification of the risk exposures;
- 2) Formulation of the customized definitions of all risks;
- 3) Validation of the customized risk;
- 4) Facilitation of the initial prioritization of the risks and the risk voting to identify top risks;
- 5) Determination of the risk owners of the top risks;
- 6) Validation of the existence of the top risks;
- 7) Endorsement of top risks to the REMC for approval;
- 8) Determination of the risk drivers of the top risks including the development of risk management strategies and assessment of EDC's risk management capability;
- 9) Secure approval of the RMEC for the proposed strategies;
- 10) Develop action plans for the approved risk management strategies;
- 11) Implementation of the risk management strategies; and
- 12) Continuous monitoring of the risk management performance

Risk Measurement

Another major step in the Company's Risk Management Process is the Risk Measurement where quantitative or qualitative impact of the risk is determined.



Risk Measurement is the process used to quantitatively or qualitatively determine the consequences (including financial impact) of possible outcomes or events over a given time horizon under alternative scenarios. The risk measurement process provides information for more informed decision-making.

Risk Management Strategy

The Company uses the risk management option model in its Risk Management Strategy formulation. This model involves whether to accept or reject the risk identified based on the risk management process. When the risk is accepted, the Company chooses the following alternatives: retain, reduce, exploit, modify time and wait and see. When the risk is rejected, the Company may opt to avoid or transfer the risk.

Financial Risk Management Policy

The main financial risks arising from the Company's financial instruments are credit risk, interest rate risk, liquidity risk, and foreign currency risk. The Company's policies for managing the aforementioned risks are summarized hereinafter below.

Credit Risk

The Company's geothermal and power generation business trades with only one major customer, 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. As a practice, the Company monitors closely its collection from NPC and charges interest on delayed payments following the provision of its respective SSAs and PPAs. 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 excluding cash on hand, trade and other receivables, AFS financial assets, derivatives assets, concession receivables, cash collateral on PCIR bonds and deferred royalty fee, 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 before taking into account any collateral and other credit enhancements.

	2009	2008
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	₱11,216,297,117	₱953,088,221
Trade receivables - net	5,306,417,083	4,763,042,643
Non-trade accounts receivables	77,268,776	237,513,288
Loans and notes receivables	67,573,603	60,350,973
Employee receivables	14,998,506	31,358,060
Advances to employees	20,826,816	26,724,217
Long-term receivables - net	-	819,861,389
Concession receivable	-	34,695,434,198
Cash collateral on PCIR Bonds	-	3,519,226
Royalty fee chargeable to NPC	-	122,018,657
AFS investments:		
Debt investments	734,811,000	674,494,128
Equity investments	15,388,428	13,597,238
Financial assets at FVPL:		
Derivative assets	9,611,022	648,988,818
	₱17,463,192,351	₱43,049,991,056



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 financial assets as of December 31, 2009 and 2008:

	2009						Total
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
<i>(In Thousand Pesos)</i>							
Loans and receivables:							
Cash and cash equivalents	₱11,220,897	₱-	₱-	₱-	₱-	₱-	₱11,220,897
Trade receivables	5,280,994	-	25,423	-	-	9,598	5,316,015
Non-trade receivables	59,803	5,050	12,223	193	-	-	77,269
Loans and notes receivables	49,196	11	7,009	10,393	965	-	67,574
Employee receivables	14,999	-	-	-	-	-	14,999
Advances to employees	14,722	197	1,130	4,768	10	-	20,827
Long-term receivables	-	-	-	-	-	35,577	35,577
AFS investments:							
Debt investments	734,811	-	-	-	-	-	734,811
Equity investments	15,388	-	-	-	-	-	15,388
Financial assets at FVPL:							
Derivative assets	9,611	-	-	-	-	-	9,611
Total	₱17,400,421	₱5,258	₱45,785	₱15,354	₱975	₱45,175	₱17,512,968

	2008						Total
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
<i>(In Thousand Pesos)</i>							
Loans and receivables:							
Cash and cash equivalents	₱957,088	₱-	₱-	₱-	₱-	₱-	₱957,088
Trade receivables	4,746,756	-	16,286	-	-	11,780	4,774,822
Non-trade receivables	227,208	4,974	5,274	-	57	-	237,513
Loans and notes receivables	₱51,814	₱221	₱7,474	₱551	₱291	₱-	₱60,351
Employee receivables	31,267	-	82	10	-	-	31,359
Advances to employees	14,925	5,550	5,860	389	-	-	26,724
Long-term receivables	819,861	-	-	-	-	66,304	886,165
Concession receivable	34,695,434	-	-	-	-	-	34,695,434
Cash collateral							
on PCIR Bonds	3,519	-	-	-	-	-	3,519
Royalty fee chargeable to NPC	122,019	-	-	-	-	-	122,019
AFS investments:							
Debt investments	674,494	-	-	-	-	-	674,494
Equity investments	13,597	-	-	-	-	-	13,597
Financial assets at FVPL:							
Derivative assets	648,989	-	-	-	-	-	648,989
Total	₱43,006,971	₱10,745	₱34,976	₱950	₱348	₱78,084	₱43,132,074

Credit Quality of Neither Past due nor Impaired Financial Assets

Financial assets are classified as high grade if the counterparties are not expected to default in settling their obligations. Thus, the credit risk exposure is minimal. These counterparties normally include customers, banks and related parties who pay on or before due date. Financial assets are classified as a standard grade if the counterparties settle their obligation with the



Company with tolerable delays. Low grade accounts are accounts, which have probability of impairment based on historical trend. These accounts show propensity of default in payment despite regular follow-up actions and extended payment terms.

As of December 31, 2009, financial assets categorized as neither past due nor impaired are viewed by management as high grade, considering the collectability of the receivables and the credit history of the counterparties.

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-currency denominated loans, BOT lease obligation 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 GRESCs (formerly GSC), SSAs and PPAs. The service contracts allow full cost recovery while the sales contracts include billing adjustments covering the movements in Philippine peso and the U.S. dollar rates, US Price and Consumer Indices, and other inflation factors.

To mitigate further the effects of foreign currency risk, the Company will prepay, refinance or hedge its foreign currency denominated loans, whenever deemed feasible. During 2008, the Company entered into derivative contracts with various counterparties to hedge its JPY12 billion Miyazawa 1 loan. The derivatives contracts had already matured on May 26, 2009 and were settled on May 28, 2009.

The Company's foreign currency-denominated financial assets and liabilities (translated into Philippine peso) as of December 31, 2009 and December 31, 2008 are as follows:

	2009			2008		
	Original Currency		Peso Equivalent ¹	Original Currency		Peso Equivalent ²
	Yen	US Dollar		Yen	US Dollar	
Financial Assets						
Loans and receivables:						
Cash equivalents	–	35,882,643	1,657,778,096	–	16,769,052	796,865,372
Cash on hand and in banks	–	2,176,322	100,546,084	386,027	262,524	12,857,892
Trade and other receivables	–	4,946,733	228,539,071	–	2,442,801	116,081,918
Cash collateral on PCIR Bonds	–	–	–	–	74,058	3,519,226
AFS investments:						
Government debt securities	–	15,905,000	734,811,000	–	14,193,900	674,494,128
Financial assets at FVPL:						
Derivative assets	–	208,031	9,611,022	–	13,657,172	648,988,818
Total financial assets	–	59,118,729	2,731,285,273	386,027	47,399,507	2,252,807,354
Current Financial Liabilities						
Liabilities at amortized cost:						
Trade and other payables	2,153,900	3,195,225	148,705,325	390,442,807	15,881,766	919,566,162
Current portion of interest-bearing financial liabilities	26,309,860,127	65,759,866	16,303,002,458	13,856,808,675	30,131,115	8,672,427,695
Current portion of obligations to a power plant contractor	–	–	–	–	2,360,847	112,187,446
Due to related Party	–	10,912,094	504,138,756	–	–	–
Interest on long term loans	500,091,989	3,510,193	414,307,135	–	–	–
Financial liabilities at FVPL:						
Derivative liabilities	–	–	–	–	1,110,992	54,250,018
Total current financial liabilities	26,812,106,016	83,377,378	17,370,153,674	14,247,251,482	49,484,720	9,758,431,321

(Forward)



	2009			2008		
	Original Currency		Peso	Original Currency		Peso
	Yen	US Dollar	Equivalent ¹	Yen	US Dollar	Equivalent ²
Noncurrent Financial Liabilities						
Liabilities at amortized cost:						
Interest-bearing financial liabilities - net of current portion	8,973,004,364	40,946,914	6,415,753,795	35,123,058,752	109,515,541	23,557,027,591
Total noncurrent financial liabilities	8,973,004,364	40,946,914	6,415,753,795	35,123,058,752	109,515,541	23,557,027,591
Total financial liabilities	35,785,110,380	124,324,292	23,785,907,469	49,370,310,234	159,000,261	33,315,458,912

¹USD1=JPY91.634 as of December 29, 2009 and USD1= P46.200 as of December 29, 2009

²USD1= JPY90.942 as of December 24, 2008 and USD1= P47.520 as of December 24, 2008

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar and Japanese yen exchange rates, with all other variables held constant, of the Company's profit before tax as at December 31, 2009 and 2008 (arising from revaluation of monetary assets and liabilities and derivative instruments).

	2009		Effect on Profit Before Tax
	Foreign Currency Appreciates (Depreciates) By		
USD	10% or PHP4.62	(10% or PHP4.62)	(P293,611,227) 268,296,414
JPY	10% or PHP0.05602	(10% or PHP0.04583)	(2,004,680,577) 1,640,193,199
EURO ^(a)	10% against USD	(10% against USD)	33,122,515 (7,807,701)
	2008		Effect on Profit Before Tax
USD	5% or PHP2.376	(5% or PHP2.376)	(P244,322,941) 166,841,457
JPY	5% or PHP0.02488	(5% or PHP0.02750)	(1,061,867,588) 1,204,896,251
EURO ^(a)	5% against USD	(5% against USD)	29,034,248 (18,110,738)

^(a) This pertains to fair valuation of FG Hydro's derivative asset which is a currency option.

Equity Price Risk

Equity price risk is the risk that the fair value of traded equity instruments decrease as the result of the changes in the levels of equity indices and the value of the individual stocks.

As of December 31, 2009 and 2008, the Company's exposure to equity price risk is minimal.

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, derivative assets, derivative liabilities 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 tables demonstrate 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, 2009 and December 31, 2008. The effect also includes impact of changes in interest rates on derivatives.

2009			
	Increase/Decrease in Basis Points	Effect on Profit Before Tax	Effect on Equity
USD	+100	(23,935,811)	(19,438,385)
	-100	24,897,799	33,746,396
JPY	+100	-	-
	-100	-	-
EURO	+100	(574,657)	-
	-100	1,552,248	-
2008			
	Increase/Decrease in Basis Points	Effect on Profit Before Tax	Effect on Equity
PHP	+100	₱5,027,101	-
	-100	(3,654,973)	-
USD	+100	(45,960,630)	(26,692,263)
	-100	27,285,375	29,948,351
JPY	+100	(42,161,399)	-
	-100	23,895,658	-
EURO	+100	(3,695,207)	-
	-100	7,798,603	-

Interest Rate Risk Table

The following table provides for the effective interest rates and interest payments by period of maturity of the Company's long-term debt

	Interest Rates Within 1 Year	More than 1 year but less than 4 years	4-5 Years	More than 5 Years	Total	
2009 Fixed Rate						
Long-term debt:						
OEFC	3%-5.7%	₱60,537,010	₱16,188,372	₱10,868,953	₱24,610,024	₱112,204,359
JEXIM(a) 3747	3.5%	30,638,316	-	-	-	30,638,316
JBIC(b) 21st yen	2.3% & 2.7%	118,769,086	217,172,635	189,336,278	559,726,781	1,085,004,780
Miyazawa II	2.37%	131,440,868	-	-	-	131,440,868
PSALM Loan	12.00%	272,194,577	352,421,315	64,095,628	-	688,711,520
IFC	7.40%	307,613,889	609,644,375	525,471,944	1,096,559,236	2,539,289,444
FRCN Series 1	8.37%	223,804,477	361,530,309	166,418,714	-	751,753,500
FRCN Series 2	9.4%	454,720,695	841,997,994	600,585,714	237,855,729	2,135,160,132
FRCN Series 3	8.43%	108,088,982	209,168,781	96,284,042	-	413,541,805
Public Bonds						
Series 1	8.64%	734,553,000	1,469,106,000	1,469,106,000	367,276,500	4,040,041,500
Series 2	9.33%	326,644,500	653,289,000	653,289,000	653,289,000	2,286,511,500



	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	4-5 Years	More than 5 Years	Total
2009 Floating Rate						
Long-term debt:						
IBRD	7.54%	169,684,783	-	-	-	169,684,783
2008 Fixed Rate						
Long-term debt:						
OEFC	3%-5.7%	₱80,125,182	₱72,791,485	₱12,616,304	₱30,880,143	₱196,413,114
JEXIM(a) 3747	3.5%	39,312,925	31,753,377	-	-	71,066,302
JBIC(b) 21st yen	2.3% & 2.7%	130,228,204	239,046,620	210,803,299	674,642,893	1,254,721,016
Miyazawa I	2.62% & 3.78%	98,019,103	-	-	-	98,019,103
Miyazawa II	2.37%	272,449,143	136,224,572	-	-	408,673,715
PSALM Loan	12.00%	791,404,919	1,582,809,837	1,582,809,838	-	3,957,024,594
2008 Floating Rate						
Long-term debt:						
IBRD	7.07%	243,635,506	158,627,319	-	-	402,262,825

(a) The Export - Import Bank of Japan

(b) Japan Bank for International Cooperation

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 is 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.

Liquidity risk arises primarily when the Company has difficulty collecting its receivables from its major customer, NPC. Other instances that contribute to its exposure to liquidity risk are when the company finances long-term projects with internal cash generation and when there is credit crunch especially at times when the company has temporary funding gaps.

The tables below show the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cashflows as of December 31, 2009 and December 31, 2008.

	December 31, 2009						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
(In Thousands)							
AFS investments -							
Debt investments	₱734,811	₱-	₱-	₱-	₱-	₱-	₱734,811
Loans and receivables -							
Cash equivalents	-	2,792,341	2,536,712	5,631,870	-	-	10,960,923
	₱734,811	₱10,960,923	₱2,536,712	₱5,631,870	₱-	₱-	₱11,695,734



December 31, 2008							
On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days		Total
<i>(In Thousands)</i>							
AFS Investments -							
Debt investments	₱674,494	₱-	₱-	₱-	₱-	₱-	₱674,494
Loans and receivables -							
Cash equivalents	-	929,213	-	-	-	-	929,213
	₱674,494	₱929,213	₱-	₱-	₱-	₱-	₱1,603,707

The table below summarizes the maturity analysis of the Company's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted payments:

2009							
On Demand	Less than 3 Months	3 to 6 Months	>6 to 12 Months	>1 to 5 Years	More than 5 Years		Total
<i>(In Thousands)</i>							
Liabilities at amortized cost:							
Accounts payable - trade	₱-	₱2,202,141	₱-	₱-	₱-	₱-	₱2,202,141
Accrued interest and guarantee fees	252,201	462,241	208,706	-	-	-	923,148
Other current liabilities	-	10,508	-	-	-	-	10,508
Due to related parties	537,020	-	-	-	-	-	537,020
Royalty fee payable	-	87,500	87,500	175,000	693,011	-	1,043,011
Long-term debt	-	1,224,743	13,059,012	5,697,286	30,299,838	12,004,016	62,284,895
Total	₱789,221	₱3,987,133	₱13,355,218	₱5,872,286	₱30,992,849	₱12,004,016	₱67,000,723

2008							
On Demand	Less than 3 Months	3 to 6 Months	>6 to 12 Months	>1 to 5 Years	More than 5 Years		Total
<i>(In Thousands)</i>							
Liabilities at amortized cost:							
Accounts payable - trade	₱168,208	₱1,478,004	₱-	₱-	₱-	₱-	₱1,646,212
Accrued interest and guarantee fees	-	347,876	-	-	-	-	347,876
Accrued premium on range bonus forwards	-	-	175,116	-	-	-	175,116
Other current liabilities	-	8,649	-	-	-	-	8,649
Loan payable	-	34,500	33,750	2,066,750	-	-	2,135,000
Due to related parties	63,708	47,213	-	-	-	-	110,921
Royalty fee payable	-	1,688,282	-	-	-	-	1,688,282
Obligations to a power plant contractor	-	61,011	54,140	-	-	-	115,151
Long-term debt	-	532,144	7,315,727	2,245,116	21,761,378	4,025,796	35,880,161
Financial liability at FVPL:							
Derivative liabilities	-	-	54,250	-	-	-	54,250
Total	₱231,916	₱4,197,679	₱7,632,983	₱4,311,866	₱21,761,378	₱4,025,796	₱42,161,618

The following tables show the fair value information of financial instruments classified under FVPL and AFS analyzed by source of inputs on fair valuation as follows:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and



- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	December 31, 2009	Level 1	Level 2	Level 3	At Cost
Financial assets at FVPL-					
derivative assets	₱9,611,022	₱-	₱9,611,022	₱-	₱-
AFS investments:					
Debt investments	734,811,000	734,811,000	-	-	-
Equity investments	15,388,428	15,295,010	-	-	93,418

	December 31, 2008	Level 1	Level 2	Level 3	At Cost
Financial asset and liability at FVPL :					
Derivative asset	₱648,988,818	₱-	₱648,988,818	₱-	₱-
Derivative liability	54,250,018	-	54,250,018	-	-
AFS investments:					
Debt investments	674,494,128	674,494,128	-	-	-
Equity investments	13,597,238	13,522,688	-	-	74,550

During the period 2009 and 2008, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Financial Assets and Financial Liabilities

Set out below is a comparison of carrying amounts and fair values of the Company's financial instruments as of December 31, 2009 and 2008.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱11,220,897,157	₱ 11,220,897,157	₱957,088,260	₱957,088,260
Trade receivables - net	5,306,417,083	5,306,417,083	4,763,042,643	4,763,042,643
Non-trade receivables	77,268,776	77,268,776	237,513,288	237,513,288
Loans and notes receivables	67,573,603	67,573,603	60,350,973	60,350,973
Employee receivables	14,998,506	14,998,506	31,358,060	31,358,060
Advances to employees	20,826,816	20,826,816	26,724,217	26,724,217
Long-term receivables	-	-	819,861,389	838,203,873
Concession receivable	-	-	34,695,434,198	30,995,036,175
Cash collateral on PCIR Bonds	-	-	3,519,226	3,519,226
Royalty fee chargeable to NPC	-	-	122,018,657	122,018,657
AFS investments:				
Debt investments	734,811,000	734,811,000	674,494,128	674,494,128
Equity investments	15,388,428	15,388,428	13,597,238	13,597,238
Financial assets at FVPL:				
Derivative assets	9,611,022	9,611,022	648,988,818	648,988,818
	₱17,467,792,391	₱17,467,792,391	₱43,053,991,095	₱39,371,935,556
Financial Liabilities				
Financial liabilities at amortized cost:				
Accounts payable - trade	₱2,202,140,914	₱2,202,140,914	₱1,645,574,303	₱1,645,574,303
Accrued interest and guarantee fees	923,147,531	923,147,531	390,839,708	390,839,708
Accrued premium on range bonus forwards	-	-	175,116,194	175,116,194

(Forward)



	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Miscellaneous current liabilities	₱10,507,987	₱10,507,987	₱8,649,387	₱8,649,387
Loan payable	–	–	2,000,000,000	2,000,000,000
Due to related parties	537,020,209	537,020,209	110,920,747	110,920,747
Royalty fee payable	811,004,709	836,317,273	1,688,282,467	1,688,282,467
Obligations to a power plant contractor	–	–	112,187,446	111,720,404
Long-term debt	47,464,498,391	52,538,678,773	32,229,455,285	34,255,439,515
Financial liabilities at FVPL:				
Derivative liabilities	–	–	54,250,018	54,250,018
	₱51,948,319,741	₱57,047,812,687	₱38,415,275,555	₱40,440,792,743

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

Cash and Cash Equivalents

Carrying amounts approximate fair values due to its short-term nature.

Trade and Other Receivables, Cash Collateral on PCIR Bonds, Royalty Fee Chargeable to NPC, Due to Related Parties, Trade and Other Payables and Loan Payable. These are instruments with relatively short maturity ranging 1 to 3 months. Carrying amounts approximate fair values.

Long-term Receivables

The fair value of long-term receivables was computed by discounting the expected cash flow using the applicable rates of 6.08% to 6.59% in 2008 (nil in 2009).

Concession Receivable

The fair value of concession receivables is computed by discounting the expected free cash flows using the applicable rates as of reporting date of 5.26% to 15.03% in 2008 (nil in 2009).

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 Assets and Liabilities

The fair values of range bonus forwards and currency forwards were determined by reference to market values provided by counterparty banks. The currency options were valued using Garman-Kohlhagen option pricing model that takes into account such factors as the risk-free US Dollar and Euro interest rates and historical volatility.

Long-term Debt and Royalty Fee Payable. The fair values for the Parent Company's long-term debt are estimated using the discounted cash flow methodology with the applicable rates ranging from 0.19% to 5.93% in 2009 and 0.49% to 1.61% in 2008, while for FG Hydro, the fair value of deferred payment facility with PSALM was computed by discounting the facility's expected future cash flows using the prevailing credit adjusted Philippine Government Zero Coupon Yield interest rates ranging from 4.19% to 6.17% in 2009 and from 5.82% to 6.71% in 2008.

Fair values of royalty fee payable are determined using discount rates ranging from 4.54% to 5.64 % in 2009 while fair value approximates the carrying value as of December 31, 2008.



Obligations to a Power Plant Contractor

The fair value of obligation to power plant contractor represents the present value of the expected future cash flows of the liability using the applicable rates at the reporting dates ranging from nil in 2009 and 0.86% to 1.65% in 2008.

The Company classifies its financial instruments in the following categories.

2009						
Loans and Receivables	AFS	Financial Assets at FVPL	Liabilities at Amortized Cost	Financial Liabilities at FVPL	Total	
<i>(In Thousands)</i>						
Financial Assets						
Cash and cash equivalents	₱11,220,897	₱-	₱-	₱-	₱-	₱11,220,897
Trade receivables	5,306,417	-	-	-	-	5,306,417
Non-trade receivables	77,269	-	-	-	-	77,269
Loans and notes receivables	67,574	-	-	-	-	67,574
Employee receivables	14,999	-	-	-	-	14,999
Advances to employees	20,827	-	-	-	-	20,827
AFS - debt investments	-	734,811	-	-	-	734,811
AFS - equity investments	-	15,388	-	-	-	15,388
Derivative Assets	-	-	9,611	-	-	9,611
Financial Liabilities						
Accounts payable - trade	-	-	-	2,202,141	-	2,202,141
Accrued interest and guarantee fees	-	-	-	923,148	-	923,148
Miscellaneous current liabilities	-	-	-	10,508	-	10,508
Due to related parties	-	-	-	537,020	-	537,020
Royalty fee payable	-	-	-	811,005	-	811,005
Obligations to a power plant contractor	-	-	-	-	-	-
Long-term debt	-	-	-	47,464,498	-	47,464,498
Total	₱16,707,983	₱750,199	₱9,611	₱51,948,320	₱-	₱69,416,113

2008						
Loans and Receivables	AFS	Financial Assets at FVPL	Liabilities at Amortized Cost	Financial Liabilities at FVPL	Total	
<i>(In Thousands)</i>						
Financial Assets						
Cash and cash equivalents	₱957,088	₱-	₱-	₱-	₱-	₱957,088
Trade receivables	4,763,043	-	-	-	-	4,763,043
Non-trade receivables	237,513	-	-	-	-	237,513
Loans and notes receivables	60,351	-	-	-	-	60,351
Employee receivables	31,358	-	-	-	-	31,358
Advances to employees	26,724	-	-	-	-	26,724
Long-term receivables	819,861	-	-	-	-	819,861
Concession receivable	34,695,434	-	-	-	-	34,695,434
Cash collateral on PCIR Bonds	3,519	-	-	-	-	3,519
Royalty fee chargeable to NPC	122,019	-	-	-	-	122,019
AFS - debt investments	-	674,494	-	-	-	674,494
AFS - equity investments	-	13,597	-	-	-	13,597
Range bonus forwards	-	-	614,082	-	-	614,082
Currency options	-	-	34,907	-	-	34,907
Financial Liabilities						
Accounts payable - trade	-	-	-	1,645,574	-	1,645,574
Accrued interest and guarantee fees	-	-	-	390,840	-	390,840
Accrued premium on range bonus forwards	-	-	-	175,116	-	175,116
Other current liabilities	-	-	-	8,649	-	8,649
Loan payable	-	-	-	2,000,000	-	2,000,000
Due to related parties	-	-	-	110,921	-	110,921
Royalty fee payable	-	-	-	1,688,282	-	1,688,282
Obligations to a power plant contractor	-	-	-	112,187	-	112,187
Long-term debt	-	-	-	32,229,455	-	32,229,455
Derivative liabilities	-	-	-	-	54,250	54,250
Total	₱41,716,910	₱688,091	₱648,989	₱38,361,024	₱54,250	₱81,469,264



The table below demonstrates the income, expense, gains or losses of the Company's financial instruments for the years ended December 31, 2009 and 2008.

	2009		2008		2007	
	Effect in Profit or Loss Increase (Decrease)	Effect in Equity Increase (Decrease)	Effect in Profit or Loss Increase (Decrease)	Effect in Equity Increase (Decrease)	Effect in Profit or Loss Increase (Decrease)	Effect in Equity Increase (Decrease)
Loans and receivables:						
Interest income on cash in bank	₱1,742,901	₱-	₱1,917,865	₱-	₱1,006,736	₱-
Interest income on cash equivalents	322,651,978	-	219,049,172	-	304,112,318	-
Interest income on trade receivables	75,669,519	-	108,113,195	-	-	-
Interest income on due from related parties	-	-	261,069	-	-	-
Interest income on concession receivables	1,650,208,827	-	2,107,841,224	-	-	-
Interest income on employees receivable	1,104,060	-	381,892	-	673,975	-
"Day 1" loss on NPC receivable	-	-	(189,790,628)	-	-	-
Interest income on other receivables	723,941	-	1,995,342	-	2,236,906,585	-
AFS investments:						
Equity investments:						
Net gain (loss) recognized in equity	-	1,791,090	-	(2,813,418)	-	4,263,827
Impairment loss on AFS	(3,328,633)	-	-	-	-	-
Provision for impairment loss removed from equity	-	3,328,633	-	-	-	-
Debt investments:						
Gain on sale of AFS investments	-	-	46,323,392	-	7,937,724	-
Net gain removed from equity	-	-	-	(46,323,392)	-	(7,937,724)
Net gain (loss) recognized in equity	-	77,231,146	-	(288,586,089)	-	240,760,339
Interest income on ROP Bonds	1,057,831	-	842,697	-	-	-
Derivative Financial Instruments at FVPL:						
Fair value changes and premium on forward contracts	(175,648,625)	-	384,715,411	-	56,011,571	-
Unrealized gain (loss) on fair value on changes on currency options	(23,161,134)	-	35,304,332	-	-	-
Financial liabilities at amortized cost:						
Interest expense on long-term loans	(2,431,195,352)	-	(1,771,562,904)	-	(1,170,417,420)	-
Interest expense on royalty payable	(69,904,267)	-	(225,590,774)	-	(211,445,798)	-
Interest expense on short-term loans	(164,255,636)	-	(34,535,508)	-	(51,799)	-
Amortizations of transactions costs on loans	(109,852,266)	-	(120,834,470)	-	(218,138,637)	-
"Day 1" gain on royalty fee	168,284,986	-	-	-	39,769,241	-
	(₱755,901,870)	₱82,350,869	564,431,307	(₱337,722,899)	₱1,046,364,496	₱237,086,442

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 ratio, which is long-term liabilities divided by long-term liabilities plus equity. The Company's policy is to keep the debt ratio not more than 70:30. The Company's long-term liabilities include both the current and long-term portions of obligations to power plant contractors and long-term debt. Equity includes capital stock attributable to common and preferred shares, unrealized gains reserve and retained earnings.

Table below shows the Company's debt ratio as at December 31, 2009 and 2008.

	2009	2008
Long-term liabilities	₱47,464,498,391	₱32,341,642,731
Equity	30,331,861,805	28,735,318,699
Debt ratio	61.0%	53.0%

Derivative Financial Instruments

The Company's derivative financial instruments are accounted for as financial instruments at FVPL. The table below shows the fair value of derivative financial instruments reported as assets or liabilities as of December 31, 2009 and 2008.

	December 31, 2009	December 31, 2008	
	Derivative Assets	Derivative Assets	Derivative Liabilities
Embedded derivatives -			
Currency options	₱9,611,022	₱34,907,195	₱-
Free standing derivatives			
Range bonus forwards	-	614,081,623	-
Currency forwards	-	-	54,250,018
Total derivatives	₱9,611,022	₱648,988,818	₱54,250,018
Presented as:			
Current	₱-	₱614,081,623	₱54,250,018
Noncurrent	9,611,022	34,907,195	-
Total derivatives	₱9,611,022	₱648,988,818	₱54,250,018

Freestanding Derivatives. The Company enters into derivative transactions to hedge the foreign currency exposure arising from its foreign currency denominated loan contracts, particularly the maturing Miyazawa 1 loan. The Company had positions in the following types of freestanding derivatives to protect itself against foreign currency risk arising from the changes on the exchange rate of the peso in relation to the foreign currency. As of December 31, 2009, the Company has no outstanding derivatives due to the termination of its derivative contracts with counterparty banks on May 28, 2009.

Foreign Currency Forward Contract. Foreign currency forward contracts are contractual agreements to buy or sell a foreign currency at an agreed rate on a future date. These are contracts that are customized and transacted with a bank or financial institution.



The Company had a total of 14 foreign currency forward contracts with various counterparty banks, five of these were only instituted during the same year 2009 and all of these had already matured last May 28, 2009. The Company's deliverable buy Dollar and sell Peso and buy yen and sell dollar forward exchange contracts had an aggregate notional amount of \$118 million and ¥4,000 million, respectively. The weighted average forward rates of these forward exchange contracts were ₱48.59 and ¥ 98.6 to US\$1. The net mark to market loss recognized in 2009 relative to the forward contracts was ₱10.6 million.

Range Bonus Forward Contract. A Range Bonus forward contract is an agreement that provides protection against unfavorable exchange rate movement by setting an agreed rate at which an entity can exchange one currency for another. At the same time, it provides that for each day during the fixing period that the spot rate is outside the predetermined range, the Company will accrue a premium based on a specified formula, which is payable at maturity.

The following table shows the relevant data with the corresponding realized gain pertaining to the two range bonus forward contracts entered into by the Company for the Miyazawa 1 loan due on June 1, 2009:

Notional Amount	JPY 5 Billion	JPY 3 Billion
Trade date	April 30, 2008	May 2, 2008
Expiry date	May 26, 2009	May 26, 2009
Delivery date	May 28, 2009	May 28, 2009
Agreed rate	110	110
Premium formula (where n = number of days when the spot rate is outside the predetermined range during the fixing period and N = fixing period)	USD47,846,890 x 13.40% x n/N	USD28,571,428.57 x 13.06% x n/N
Predetermined range	JPY96-JPY106	JPY97-JPY107
Fixing period (in days)	260	258
Net Realized mark to market loss and premium (from January 1, 2009 to May 28, 2009)	₱102,325,462	₱62,757,894

The premium paid by the Company on May 28, 2009 for the JPY5 billion and JPY3 billion range bonus forward amounted to ₱168.5 million and ₱93.4 million, respectively. As of December 31, 2008, the accrued premium for the JPY5.0 billion and JPY3.0 billion range bonus forward which were represented under the "Trade and other payables" account in the consolidated statements of financial position were ₱116.01 million and ₱59.11 million, respectively, based on the total number of days, of 99 and 86 days, that the sport rate is outside the predetermined ranges.

Embedded Derivatives. The Company has financial and non-financial contracts with derivatives embedded in them. These embedded derivatives have the effect that some of the cash flows of the financial and non-financial contracts vary in a similar way to a freestanding derivative.

Currency Options. The Company has embedded currency options in its PRUP with VA TECH HYDRO GmbH, now known as Andritz Hydro GmbH. Under the PRUP Contract, the Company has the option to pay the Contractor in European Euro (Euro) or in U.S. Dollar at a strike rate of €1.4691 to \$1.00 for the original contract and €1.5549 to \$1.00 for the contract options availed during the year. As of December 31, 2009 and 2008 the embedded currency options have a



notional amount of €7.8 million and €22.0 million, respectively. The fair value of the outstanding embedded currency options as of December 31, 2009 and 2008 amounted to \$0.21 million (₱9.6 million) and \$0.73 million (₱34.9 million). The outstanding embedded currency options will mature on various dates until December 2010 or upon full payment and completion of the related host contract.

Fair Value Changes of Derivatives

The tables below summarize the net movement in fair values of the Company's derivatives as of December 31, 2009 and 2008.

Freestanding Derivatives

	December 31, 2009		December 31, 2008	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Range Bonus Forward				
Balance at beginning of year	₱614,081,623	₱-	₱-	₱-
Net changes in fair value	(78,318,622)	-	614,081,623	-
Settlement	(535,763,001)	-	-	-
Balance at end of year	₱-	₱-	614,081,623	₱-
Currency Forwards				
Balance at beginning of year	₱-	(₱54,250,018)	₱-	₱-
Net changes in fair value	68,344,713	(78,909,982)	-	(54,250,018)
Settlement	(68,344,713)	133,160,000	-	-
Balance at end of year	₱-	₱-	₱-	(₱54,250,018)
Total	₱-	₱-	₱614,081,623	(₱54,250,018)

Embedded Derivatives

	December 31, 2009	December 31, 2008
Derivative Assets		
Balance at beginning of year	₱34,907,195	₱-
Net changes in fair value of derivatives	(23,161,134)	35,304,331
Fair value of settled derivatives	(1,800,163)	(5,547,240)
Foreign exchange difference	(334,876)	5,150,104
Balance at end of year	₱9,611,022	₱34,907,195

The net changes in fair value of the Company's derivative instruments during the year were taken into "Derivative gain (loss)" account in the consolidated statements of income, net of accrual of premium on range bonus forwards amounting to ₱86.76 million and ₱175.12 million in 2009 and 2008, respectively.

38. Wind Energy Service Contract

On September 14, 2009, the Parent Company entered into Wind Energy Service Contract (WESC) 2009-09-004 with the DOE granting the Parent Company the right to explore and develop the Burgos Wind Project for a period of 25 years from the effective date. The pre-development stage under the WESC shall be two years extendible for another year if the Parent Company has not been in default in its exploration or work commitments and has provided a work program for the extension period upon confirmation by the DOE. Within the pre-development stage, the Parent Company shall undertake exploration, assessment and other studies of wind resources in the



contract area. Upon declaration of commerciality, as confirmed by the DOE, the WESC shall remain in force for the balance of the 25-year period for the development/commercial stage. The DOE shall approve the extension of the WESC for another 25 years under the same terms and conditions provided the Company is not in default of any material obligations under the contract and has submitted a written notice to the DOE for the extension of the contract not later than one (1) year prior to the expiration of the original 25-year period. Further, the WESC provide that all materials, equipment, plant and other installations erected or placed on the contract area by the Parent Company shall remain the property of the Parent Company throughout the term of the contract and after its termination.

39. 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 P.D. 1442. Under P.D. 1442, the Government may enter into service contracts for the exploration, development and exploitation of geothermal resources.

Pursuant to P.D. 1442, the Parent Company had entered into the following service contracts with the Government of the Republic of the Philippines (Government, represented by the DOE) 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 years from the effective date, renewable for another two years if the Parent 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 25 years thereafter, provided that, if the Parent Company has not been in default in its obligations under the contracts, the Government may grant an additional extension of 15 to 20 years.

The Parent 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 Parent Company unless not removed therefrom within one (1) 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 Parent Company shall have the right to enter into agreements for the disposition of the geothermal resources produced from the contract areas with any party, subject to the approval of the Government.



Pursuant to such right, the Parent 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 five years from the date of commercial operations or earlier upon the mutual agreement of both parties.

Also, pursuant to such right, the Parent Company has also entered into agreements with NPC for the development, construction and operation of a geothermal power plant by the Parent 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 Parent 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 Parent Company's agreements with NPC for the sale of the geothermal resources and the sale of the electrical energy contain certain provisions related to (i) pricing control in the form of a cap in the Parent Company's internal rate of return for specific contracts; and (ii) payment by NPC of minimum guaranteed monthly remuneration and nominated capacity.

For the Northern Negros service contract area, however, the Parent Company does not have agreements with NPC for the sale of the geothermal resources and electrical energy produced from the service contract area. The Parent 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 area.

Revenue and profits recognized in 2009, 2008 and 2007 on exchanging construction services for a financial or an intangible asset amounted to ₱541.49 million, ₱932.25 million and ₱108.81 million, respectively; and ₱74.20 million, ₱128.59 million and ₱7.68 million, respectively.

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

On October 23, 2009, the GSCs for the following contract areas were replaced by GRESCs pursuant to R.A. 9513 as discussed in Note 40: Leyte, Southern Negros, Bacman, Mindanao, and Northern Negros. Aside from the tax incentives arising from the conversion to GRESCs as discussed in Notes 40 and 49 to the consolidated financial statements, the significant terms of the service concessions under the GRESCs are similar to the GSCs except for the Company has control over any significant residual interest over the steam field, power plants and related facilities throughout the concession period and even after the concession period. As a result of these changes in the service concession arrangements, the Company has made a judgment that its service concession contracts are no longer within the scope of IFRIC 12 starting October 23, 2009 (see Note 3).

The DOE conducted bidding on the geothermal energy resources located in Labo, Camarines Norte and the contract area was won by the Parent Company. The certificate of registration as RE Developer for this contract area was granted by the DOE on February 19, 2010.

The remaining service contract of the Parent Company covered by P.D. 1442 as of December 31, 2009 is the Mt. Cabalian in Southern Leyte with a term of 25 years from the effective date of the contract, January 31, 1997 and for an additional period of 25 years if the Parent Company has not been in default in its obligations under the GSC.



40. Geothermal Service Contracts/Renewable Energy Service Contracts

As discussed in Note 39, by virtue of P.D. 1442, the Parent 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 Parent 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%).

On July 8, 2009, the Parent Company negotiated with the DOE for the payment of deferred royalty due to DOE as of December 31, 2008 amounting to ₱1.4 billion for a period of four years with a quarterly amortization of ₱87.5 million or an annual payment of ₱350.0 million. Royalty fees beginning 2009 shall be paid as they become due.

R.A. 9513 mandates the conversion of existing service contracts under P.D. 1442 into RE Service Contracts to avail of the incentives under the RE Law. The Parent Company submitted its letter of intent to register with the DOE as an RE Developer on May 20, 2000 and the conversion contracts negotiation with the DOE started in August 2009.

On September 10, 2009, the Parent Company was granted the Provisional Certificate of Registration as an RE Developer for the following existing projects: (1) GSC No. 01 – Tongonan, Leyte, (2) GSC No. 02 – Palinpinon, Negros Oriental, (3) GSC No. 03 – Bacon-Manito, Sorsogon/Albay, (4) GSC No. 04 – Mt. Apo, North Cotabato, and (5) GSC No. 06 – Northern Negros.

With the receipt of the certificates of provisional registration as geothermal RE Developer, the fiscal incentives of the RE Law was implemented by the Parent Company retroactive from the effective date of the Law. Thus, the incentives provided by P.D. 1442 is effective until January 2009. The GSCs were fully converted to GRESCs upon signing of the parties on October 23, 2009; thereby the Parent Company is now the holder of five (5) GRESCs and the corresponding DOE Certificate of Registration for the following geothermal production fields: (1) GRESC 2009-10-001 for Tongonan, Leyte; (2) GRESC 2009-10-002 for Palinpinon, Negros Oriental; (3) GRESC 2009-10-003 for Bacon-Manito, Sorsogon/Albay; (4) GRESC 2009-10-004 for Kidapawan, North Cotabato; and (5) GRESC 2009-10-005 for Northern Negros.

Under the GRESCs, the Parent Company pays the Government an amount equivalent to 1.5% of the gross income from the sale of geothermal steam produced and such other income incidental to and arising from generation, transmission, and sale of electric power generated from geothermal energy within the contract areas. Under the GRESCs, gross income derived from business is an amount equal to gross sales less sales returns, discounts and allowances, and cost of goods sold. Cost of goods sold includes all business expenses directly incurred to produce the steam used to generate power under a GRESC.

The Government is entitled to receive 60.0% of the 1.5% government share in the gross income of EDC, and the remaining 40.0% is allocated to the local government within the applicable contract area.



Total outstanding royalty fees due to DOE and to LGUs are shown in Note 19 of the consolidated financial statements.

41. **Steam Sales Agreement and 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 and GCGI pursuant to the following terms of the SSA/GRSC:

Tongonan-I

Under the SSA 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 25 years starting December 25, 1983. NPC opted to extend this agreement until the sale and turnover of the power plant to GCGI on October 23, 2009, at which time Tongonan-I GRSC became effective. Under the GRSC which will terminate in 2031, GCGI agrees to pay EDC remuneration for actual net electricity generation of the plant with steam prices in U.S. dollars per kilowatt hour tied to coal indices.

Palinpinon-I

The SSA 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 SSA is for a period of 25 years, which commenced on December 25, 1988. Similar to Tongonan I, NPC opted to extend this agreement until the sale and turnover of the power plant to GCGI on October 23, 2009, at which time the Palinpinon I and II GRSC became effective. Under the GRSC which will terminate in 2031, GCGI agrees to pay EDC remuneration for actual net electricity generation of the plant with steam prices in U.S. dollars per kilowatt hour tied to coal indices.

Palinpinon-II

In June 1996, the Company and NPC signed a SSA 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 SSA is for a period of 25 years for each module, which commenced on December 13, 1993 for Nasuji; November 28, 1994 for Okoy; January 28, 1995 for Sogongon I and March 23, 1995 for Sogongon II. Such agreement remained effective until the turnover of the power plants to GCGI on October 23, 2009, at which time the Palinpinon I and II GRSC became effective. Under the GRSC which will terminate in 2031, GCGI agrees to pay EDC remuneration for actual net electricity generation of the plant with steam prices in U.S. dollars per kilowatt hour tied to coal indices.

Bacon-Manito-I

The SSA 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 SSA is for a period of 25 years, which commenced in May 1993.



Bacon-Manito-II

Bacman II's SSA 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 SSA is for a period of 25 years, which commenced in March 1994 for Cawayan and December 1997 for Botong.

42. Power Purchase Agreements

The electricity produced by the Company is sold to NPC pursuant to the following PPAs:

Leyte-Cebu, Leyte-Luzon

The PPA provides, among others, that NPC shall pay the Parent 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 the Parent Company 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 was contested by NPC, which was one of the issues of the arbitration with NPC (see Notes 16 and 31). The contracts are for a period of 25 years commencing in July 1996 for Leyte-Cebu and July 1997 for Leyte-Luzon.

47 MW Mindanao I

The PPA provides, among others, that NPC shall pay the Parent 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 25 years, which commenced in March 1997.

48.25 MW Mindanao II

The PPA provides, among others, that NPC shall pay the Parent 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 25 years, which commenced in June 1999.

43. Electricity Sales Agreement

In October 2006, the Parent Company entered into an ESA with ILECO. Under the agreement, which has a five-year term, the Parent Company agreed to sell specified amount of electric energy, or contract energy, to ILECO each year from its Northern Negros Geothermal Power Plant. As the purchaser of electric energy, ILECO agreed to pay for the energy supplied by the Parent Company. ILECO is required to pay the Parent Company, calculated on a monthly basis, either the contract energy per month or the actual energy metered and delivered to ILECO, whichever is higher, multiplied by the electricity price.



44. Power Supply Contracts

With GCGI's takeover of Palinpinon and Tongonan power plants effective October 23, 2009, Schedule X of the Asset Purchase Agreement (APA) provides for the extension to GCGI of Power Supply Contracts of NPC with the following assigned customers:

Customers	Contract Expiration
<u>Palinpinon</u>	
V.M.C. Rural Electric Service Cooperative, Inc. (VRESCO)	December 25, 2010
Central Negros Electric Cooperative, Inc. (CENECO)	December 25, 2010
Dynasty Management Development Corp. (DMDC)	March 15, 2016
Aklan Electric Cooperative, Inc. (AKELCO)	December 25, 2009 ^a
Guimaras Electric Cooperative, Inc. (GUIMELCO)	December 25, 2012
Iloilo I Electric Cooperative, Inc. (ILECO I)	December 25, 2009 ^b
Philippine Foremost Milling Corp. (PFMC)	March 25, 2016
Iloilo Provincial Government (IPG)	December 25, 2011
<u>Tongonan</u>	
Don Orestes Romualdez Electric Cooperative, Inc. (DORELCO)	September 25, 2010
Leyte II Electric Cooperative, Inc. (LEYECO II)	December 25, 2009 ^c
Philippine Phosphate Fertilizer Corp. (PHILPHOS)	December 25, 2011
Philippine Associated Smelting and Refining Corp. (PASAR)	September 25, 2009 ^d

^aGCGI won in the public bidding conducted by AKELCO and is now in the process of negotiating for the power supply agreement for the period March 26, 2010 to December 25, 2020. Until the agreement is finalized and submitted to the Energy Regulatory Commission (ERC), AKELCO on December 7, 2009 has requested from the ERC the approval of the extension of the Contract for the Supply of Electric Energy (CSEE) assigned by NPC to GCGI from December 26, 2009 to March 25, 2010.

^bGCGI has continued to supply electricity to ILECO I in accordance with the contracted energy provisions of the CSEE subject to adjustment retroactive to December 26, 2009 upon approval by the ERC of the new Power Supply Agreement.

^cGCGI has continued to supply electricity to LEYECO II in accordance with the contracted energy provisions of the CSEE subject to adjustment retroactive to December 26, 2009 upon approval by the ERC of the new Power Supply Agreement.

^dA new contract was signed between GCGI and PASAR on November 24, 2009 for the supply of electric energy until December 25, 2012.

GCGI is currently working towards tapping new customers in Panay, Negros and Leyte grids for the supply of electrical energy generated by Palinpinon and Tongonan power plants and towards renewal of contracts with existing customers for optimal power plant operation.

45. Supplementary Disclosures of Geothermal Reserves

The Parent Company has relied on volumetric reserve estimation and numerical simulation in determining the geothermal energy reserves of its steamfields. However, it was shown that while numerical simulation is more sophisticated than the volumetric reserve estimation, the latter can be readily conducted in a probabilistic way that would account for uncertainties in the parameters used in the calculations, while the former cannot.

The Parent Company engaged GeothermEX, Inc. (GeothermEX) in 2008 to provide a third-party review of the reserve estimations of its five (5) operating steamfields. GeothermEX, in their report released in October 2008, used the same volumetric reserve estimation method employed by



the Company patterned after the US Geological Survey but differ only in heat recovery factor. GeothermEX concluded that the Company's estimation is conservative but prudent due to the low heat recovery factor values. GeothermEX reserve estimates are about 60% higher than those of the Company.

GeothermEX 2008 findings as well as those of the Parent Company's still remain valid for the current year as the reserve estimates apply for a 25-year period. There are no significant changes in the geothermal resources of the Company's steamfields that would warrant recalculations of the geothermal energy reserves.

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)
Greater Tongonan (Leyte)	686	772
Mindanao	154	456
Bacon-Manito (Luzon)	270	415
Palinpinon (Negros Oriental)	217	411
Northern Negros	47	103
Total	1,374	2,157

Source: GeothermEX Report, October 2008

46. Commitments and Contingencies

Stored Energy

On various dates, the Company entered into Addendum Agreements to the PPAs 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, 2009, the commitments for stored energy in gigawatt-hours are as follows:

Plant	Stored Energy (in gigawatt-hours)
Unified Leyte	4,326.6
BacMan 2 - Cawayan	583.2

Lease Commitments

Company as a Lessee. Future minimum lease payments under the operating leases are as follows:

	Amount
Within one year	P90,804,680
After one year but not more than five years	47,230,090
After five years	1,029,484
Total	P139,064,254



The Parent Company's lease commitments pertain to the drilling rig and various office space and warehouse rentals.

Under the terms and conditions governing the Rig Lease Agreement with PNO Exploration Corporation, the Parent Company shall use the Kremco 750T drilling rig for the Lihir Island Drilling Project with an operating rental rate of USD 2,352/day, inclusive of 12% VAT. The agreement took effect last March 1, 2008 and was amended to the extension for the period January 1, 2010 to December 31, 2010 under the same rates and terms.

The Contract of Lease for the use of the office buildings at Fort Bonifacio was entered into between the Parent Company and PNO with the rental rate of ₱4.18 million per month, inclusive of VAT. The Contract of Lease covers the use of office space of Building 2, Building 3, Building 4A, Building 4B, Computer Center, Laboratory, Wellness Center/PEGEA Office, and Motorpool/Storage, with a total area of 11,824.24 sq.m. This contract commenced on June 1, 2009 and will expire on November 30, 2011, subject to pre-termination as provided in Section 17 or renewal at option of the Lessor as provided in Section 3 of the Contract of Lease.

Other lease contracts pertain to various office space and warehouse being rented by steam/electricity projects in Leyte, Northern Negros and Mindanao with the aggregate future lease payments of ₱3.3 million.

Purchase Commitments

Total purchase commitments for capital items as of December 31, 2009 and 2008 year amounted to ₱82.7 million and ₱904.3 million, respectively.

Legal Claims

The Company is contingently liable for lawsuits or claims filed by third parties, including labor related cases, which are pending decision by the courts, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, the eventual total liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements (see Note 3).

47. Events After the End of Reporting Period

On February 19, 2010, the DOE granted to the Company the Certificates of Registration as RE Developer for the following:

<u>Resources</u>	<u>Contract Number</u>	<u>Location</u>
a. Geothermal	GRES 2010-02-020	Labo, Camarines Norte
b. Wind	WESC 2010-02-040	Pagudpud, Ilocos Norte
	WESC 2010-02-041	Mahinog, Camiguin
	WESC 2010-02-042	Taytay, Palawan
	WESC 2010-02-043	San Jose, Dinagat Island, Surigao del Norte
	WESC 2010-02-044	Siargao Island, Surigao del Norte



48. Electricity Power Industry Reform Act (EPIRA)

Republic Act No. 9136, otherwise known as the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include among others: the functional unbundling of the generation, transmission, distribution and supply sectors; the privatization of the generating plants and other disposable assets of NPC, including its contracts with Independent Power Producers (IPP); the unbundling of electricity rates; the creation of a WESM; and the implementation of open and nondiscriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of distribution companies within five years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies and a cap of 50% of its demand that a distribution utility (DU) is allowed to source from an associated company engaged in generation, except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of a grid and/or 25% of the national installed generating capacity.

The implementation of reforms in the power industry mandated by the EPIRA continued to attain significant momentum.

The requirement to privatize at least 70% of the total capacity of generating assets of NPC Luzon and Visayas has been achieved with the successful sale of the 600 MW Calaca Coal fired power plant in July 2009. The only remaining precondition for Retail Competition and Open Access to be satisfied is the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to IPP Administrators.

With the successful bidding of the 192.5 MW Palinpinon and 112.5 MW Tongonan Geothermal Power Plants, NPC has privatized approximately 88% of its total installed generating capacity in Luzon and Visayas. With regards to the privatization of NPC IPP contracts, PSALM has commenced bidding out agreements for IPP administration in 2009. After its completion of the second round of bidding on 1,000 MW Sual and 700 MW Pagbilao coal-fired power plants, PSALM has privatized around 35% of the NPC IPP contracts.

Once Retail Competition and Open Access are implemented, as mandated by the EPIRA, end-users with electricity demand falling above the thresholds set by the ERC will be allowed to source electricity from the electricity suppliers of their choice. The EPIRA also contemplates that certain end-users will source power directly through WESM or by entering into contracts with generation companies. This will encourage competition at the retail level.

On December 5, 2008, ERC approved the Power Supply Option Program (PSOP), or the Interim Open Access (IOA). The program allows qualified generation companies, and registered electricity suppliers to contract the supply of electricity directly with eligible end-users. The PSOP or IOA will cease to be operational upon commencement of Retail Competition and Open Access. As of December 31, 2009, the first condition to the implementation of the PSOP or IOA, the transfer of the operation of Calaca power plant to DMCI Holdings Inc., the new holder of the plant, has not yet been met.



In terms of market share limitations, no generation company is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas or Mindanao grids, and/or 25.0% of the total nationwide installed generating capacity. As of December 31, 2009, NPC, along with PSALM, is the only power generation company that has breached the mandated ceiling. Also, no generation company associated with a DU may supply more than 50.0% of the DU's total demand, under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of EPIRA.

Pursuant to the EPIRA, NPC transferred its transmission and sub-transmission assets to TransCo, which was created to operate the transmission systems throughout the Philippines. TransCo is also mandated to provide Open Access to all industry participants. The EPIRA granted TransCo a monopoly over the high-voltage transmission network and subjected it to performance-based regulations.

The EPIRA also required the privatization of TransCo through an outright sale or concession contract to be carried out by PSALM. In December 2007, Monte Oro Grid Resources Corp. (Monte Oro) won the concession contract for TransCo with a bid of \$3.95 billion. On January 14, 2009, PSALM formally turned over the 25-year concession of TransCo to National Grid Corporation of the Philippines (NGCP), the company formed by Monte Oro. The successful grant to the NGCP of the concession to manage, operate and maintain the transmission and subtransmission assets of TransCo is expected to lead to better efficiency and improved grid interconnectivity.

The EPIRA mandates the establishment of a wholesale market that provides the mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity. This market, the WESM, became operational in the Luzon Grid on June 26, 2006. The Philippine Electricity Market Corporation (PEMC) acts as the market operator that governs the WESM and is currently undergoing the trial operations program in the Visayas Grid. In accordance with the EPIRA, the present structure of PEMC will undergo changes upon implementation of an independent market operator set up.

The WESM for the Visayas continues to operate under trial operations due to supply constraints of the grid. In the meantime, the DOE has directed PEMC to establish and operate the Visayas Supply Augmentation Auction Program (VSAAP), as an interim measure to address deficit in power supply particularly in the Cebu, Negros and Panay sub-grids. It has been announced that the VSAAP shall be an introduction to the commercial operations of the Visayas WESM, commencement of which shall be contingent upon the approval of the DOE. The WESM is envisioned to initially develop two main markets, the (1) Energy Market, and the (2) Reserve Market. With the energy market in Luzon being continuously developed, PEMC has set commercial operations of its reserve market to start at the beginning of 2010.

Pursuant to the provisions of Section 36 of the EPIRA, all Electric Power Industry Participants shall prepare and submit for approval of the ERC their respective Business Separation and Unbundling Plan (BSUP) which requires all industry participants to maintain separate accounts for, or otherwise "structurally and functionally unbundled" their business activities.

Since the Company is engaged solely in the business of power generation, to the exclusion of the other business segments of transmission, distribution, supply and other related business activities, compliance with the BSUP requirement on maintaining separate accounts is not reasonably practicable.

Based on the Company's assessment, it is in the process of complying with the provisions of the EPIRA and its IRR.



49. Renewable Energy Law of 2008

As early as May 20, 2009, the Parent Company submitted its letter of intent to register with the DOE as an RE Developer. The DOE Circular No. 2009-07-0011 which took effect on August 10, 2009, provided the guidelines for the registration process of RE Developers. In compliance with the DOE Circular, the Parent Company submitted the requirements for the issuance of provisional registration and on August 28, 2009, paid the necessary processing fee. On September 10, 2009, the Parent Company was granted the Provisional Certificate of Registration as an RE Developer for the following existing projects: (1) GSC No. 01 – Tongonan, Leyte, (2) GSC No. 02 – Palinpinon, Negros Oriental, (3) GSC No. 03 – Bacon-Manito, Sorsogon/Albay, (4) GSC No. 04 – Mt. Apo, North Cotabato, and (5) GSC No. 06 – Northern Negros.

With the receipt of the provisional certificates of registration as geothermal energy RE Developer, the Parent Company wrote down ₱2,959.2 million worth of deferred tax assets in view of the change in the applicable corporate tax rate from 30% to 10%, which is one of the fiscal incentives of the RE Law.

Moreover, the decrease in provision for income tax - current and income tax payable was also due to the 10% corporate tax rate implemented by the Parent Company retroactive from the effective date of the RE Law.

The GSCs were fully converted to GRESCs upon signing of the parties on October 23, 2009; thereby the Parent Company is now the holder of five (5) GRESCs and the corresponding DOE Certificate of Registration for the following geothermal production fields: (1) GRESC 2009-10-001 for Tongonan, Leyte; (2) GRESC 2009-10-002 for Palinpinon, Negros Oriental; (3) GRESC 2009-10-003 for Bacon-Manito, Sorsogon/Albay; (4) GRESC 2009-10-004 for Kidapawan, North Cotabato; and (5) GRESC 2009-10-005 for Northern Negros.

50. FG Hydro's Contracts and Agreements

Transition Power Supply Contracts

Eight TPSCs were attached to the APA and these were awarded to FG Hydro as the winning bidder of the PAHEP/MAHEP. FG Hydro is bound to service these customers for the remainder of the stipulated terms, the range of which falls between June 2007 and 2010. The contracts may be renewed upon renegotiation with the customers and due process as stipulated by the ERC. As of December 31, 2009, there are five remaining power supply contracts being serviced by the Company.

Related Contracts	Expiry Date	Other Developments
Nueva Ecija II Electric Cooperative, Inc., Area 2 (NEECO II-Area 2)	June 25, 2008	The Company and NEECO II - Area 2 have executed a new power supply agreement that is now pending consideration by the ERC. Until the issuance of a provisional authority for said agreement or final resolution of the application for the approval thereof, the ERC approved the extension of the TPSC on a month-to-month or on a per billing period basis.

(Forward)



<u>Related Contracts</u>	<u>Expiry Date</u>	<u>Other Developments</u>
Pantabangan Municipal Electric System (PAMES)	December 25, 2008	There is no new agreement executed between the Company and PAMES yet. In the meantime, the Company has continued to supply electricity to PAMES on a month-to-month basis.
Nueva Ecija I Electric Cooperative, Inc. (NEECO I)	December 25, 2007	A new agreement was signed by the Company and NEECO 1 in December 2007 for the supply of power in the succeeding five years. The ERC has provisionally approved this agreement pending final resolution of the application for the approval thereof.
Edong Cold Storage and Ice Plant	December 25, 2010	
NIA-UPRIIS	December 25, 2010	

Operation and Maintenance Agreement (O&M Agreement)

FG Hydro entered into an O&M Agreement with the NIA, with the conformity of the NPC. Under the O&M Agreement, NIA will manage, operate, maintain and rehabilitate the Non-Power Components of the PAHEP/MAHEP in consideration for a service fee based on actual cubic meter of water used by FG Hydro for power generation.

In addition, FG Hydro will provide for a Trust Fund amounting to ₱100.0 million within the first two years of the O&M Agreement. The amortization for the Trust Fund is payable in 24 monthly payments starting November 2006 and is billed by NIA in addition to the monthly service fee. The Trust Fund has been fully funded as of October 2008.

The O&M Agreement is effective for a period of 25 years commencing on November 18, 2006 and renewable for another 25 years under the terms and conditions as may be mutually agreed upon by both parties.

Total service fees incurred, including the Trust Fund amortization in 2008, amounted to ₱82.5 million and ₱113.3 million in 2009 and 2008, respectively, and are included under "Operations and maintenance expenses" account in the consolidated statements of income, specifically Repairs and maintenance.

Memorandum of Agreement (MOA)

PSALM entered into a MOA with the Protected Area Management Board (PAMB). Under the MOA, PAMB granted FG Hydro the right to use the Masiway land, where the MAHEP power plant is situated in consideration for an annual user's fee. The MOA will be effective for 25 years and renewable for a similar period subject to terms and conditions as may be mutually agreed upon by both parties.

FG Hydro incurred annual user's fee amounting to ₱0.1 million in 2009 and 2008. The user's fee is included under "General and administrative expenses" account in the consolidated statements of income, specifically Rental, insurance and taxes.

PRUP Contract

On January 24, 2008, FG Hydro signed the Letter of Acceptance (LOA) for the PRUP with VA TECH HYDRO GmbH, now known as Andritz Hydro GmbH (Contractor), an Austrian company.



The contract provides that the Contractor will undertake the engineering, procurement, installation, testing and commissioning of the PRUP. The technical scope of the PRUP agreed upon by FG Hydro and the Contractor includes the following:

- i. Refurbishment and upgrade of Pantabangan main and auxiliary plant which includes:
 - Turbine and wicket gate replacement; headcover modification
 - Draft tube repair and modification
 - Generator rewind and refurbishment
 - Replacement of key auxiliary systems
- ii. Power increase from 50 MW to 59.4 MW per unit

The total updated contract price of the PRUP amounts to €30.3 million (\$44.7 million), including the Contract Options (CO) that will be exercised by FG Hydro. The contract provides that payments to the Contractor are made in accordance with the Milestone Schedule as provided in the Contract.

FG Hydro has the option to make any payments to the Contractor in U.S. Dollar, at an exchange rate fixed by reference to the European Central Bank fixing rate for converting Euro to U.S. Dollar as at the date of the LA, plus a premium of \$0.0028 per Euro. Similarly, with respect to the CO's, FG Hydro also has the option to make any payments to the Contractor in U.S. Dollar, at an exchange rate fixed by reference to the European Central Bank fixing rate for converting Euro to U.S. Dollar as at the date of the relevant option notice, plus a premium of \$0.0028 per Euro.

Commissioning of the first unit commenced in December 2009 and was successfully completed in early 2010. Consequently, the final taking over of the refurbished and upgraded plant and equipment was achieved on January 29, 2010. The power generation capacity of the upgraded and refurbished unit was increased by 10 MW.

For the second unit, takeover of the refurbished and upgraded plant machinery and equipment is scheduled to take place in December 2010.

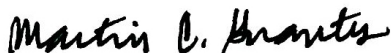


INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Energy Development (EDC) Corporation
Merritt Road, Fort Bonifacio
Taguig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Energy Development (EDC) Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 16, 2010. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated 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 consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-1

Tax Identification No. 152-884-272

PTR No. 2087540, January 4, 2010, Makati City

March 16, 2010



**ENERGY DEVELOPMENT (EDC) CORPORATION
AND SUBSIDIARIES**

**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, 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
- 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
- J. Reconciliation of Retained Earnings for Dividend Declaration

* Not Applicable

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES**SCHEDULE A - MARKETABLE SECURITIES**

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

As of December 31, 2009

Name of Issuing Entity		Principal Amount in Original Currency	Amount per Balance Sheet	Interest Received & Accrued Income
LBP-BU	PHP	4,188,450,000.00	4,188,450,000.00	13,109,813.33
RCBC	PHP	2,160,150,000.00	2,160,150,000.00	9,264,915.52
SECTRE	PHP	1,150,000,000.00	1,150,000,000.00	3,765,850.00
BDOPB	PHP	700,000,000.00	700,000,000.00	2,362,500.00
BDO	PHP	571,140,000.00	571,140,000.00	2,973,935.00
LBPPAS	PHP	300,000,000.00	300,000,000.00	1,003,333.33
LBP-TR	PHP	131,605,000.00	131,605,000.00	188,650.10
BDO-TR	PHP	55,166,336.88	55,166,336.88	14,650.89
UCPB	PHP	30,236,625.74	30,236,625.74	52,604.87
JPMORG	PHP	16,396,558.56	16,396,558.56	2,641.67
UNION	USD	35,141,834.77	1,623,552,766.37	849,964.89
PNB-HO	USD	700,000.00	32,340,000.00	21,560.00
SECTRE	USD	21,000.00	970,200.00	181.91
PNBMAK	USD	19,808.00	915,129.60	400.37
			10,960,922,617.15	33,611,001.88

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

As of December 31, 2009

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	35,826,207	26,912,211	19,640,828	-			43,097,590
Directors	1,898,603	-	626,302	-			1,272,301
TOTAL	37,724,810	26,912,211	20,267,130	-	-	-	44,369,891

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.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
SCHEDULE C - NON-CURRENT MARKETABLE EQUITY SECURITIES,
OTHER LONG-TERM INVESTMENTS IN STOCK AND OTHER INVESTMENTS
As of December 31, 2009

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				

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES**SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND RELATED PARTIES**

As of December 31, 2009

Name of Related Parties	Balance at beginning of period	Balance at end of period
First Gen Hydro ¹	95,475,958.81	764,126,864.31
First Luzon ²	-	265,499.52
Greencore ³	-	5,432,865,643.47
Drillco ⁴	-	3,025.00
Grand Total	95,475,958.81	6,197,261,032.30

¹ Cash support for working capital requirements

² Advance to FL for its investment to Green Core

³ Advances of Greencore pertaining to the purchase of
Palinpinon and Tongonan Power Plants

⁴ Incorporation Charges

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES**SCHEDULE E - INTANGIBLE ASSETS - OTHER ASSETS**

As of December 31, 2009

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Transfer to PPE due to conversion of GSC to GRESC	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Intangible Assets arising from Service Concessions	9,389,193,091	541,458,209	234,914,969	9,695,736,331		-	-
Water rights	2,200,372,710	-	96,191,157				-
Goodwill	293,316,082						2,104,181,553
							-
							293,316,082
TOTAL	11,882,881,883	541,458,209	331,106,126	9,695,736,331	-	-	2,397,497,635

Note:

Additions to intangible assets arising from service concessions during 2009 amounting to P541.5 million pertain to the construction of the Tanawon Geothermal Project and the steam field development of Northern Negros Geothermal Project's (NNGP) buffer zone.

The amounts charged to cost and expenses represent regular amortization and were credited through an accumulated amortization account.

In view of the scoping out of IFRIC 12, the balance of the intangible assets arising from service concessions as of October 31, 2009 were reclassified to property, plant and equipment in 2009.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
SCHEDULE F - LONG-TERM DEBT
As of December 31, 2009

Title of Issue and Type of Obligation	Amount Authorized by Indenture		Balance at December 31, 2009		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)	(In PhP)		(In original currency)	(Approx in PhP)	Periodic Payments	
Foreign Loans:													
IBRD 3164	\$ 99,932,225	3,061,845,380	\$ 7,352,832	339,700,831	\$ 7,352,832	339,700,831	\$ -	-	1/2 of 1% over cost of qualified borrowings	(ave) \$ 3,331,074	158,292,645	30 semi-annual payments	April 15, 2010
IBRD 3702	\$ 53,031,933	1,149,447,563	\$ 21,907,826	1,012,141,577	\$ 21,907,826	1,012,141,577	\$ -	-	1/2 of 1% over cost of qualified borrowings	(ave) \$ 1,767,731	84,002,581	30 semi-annual payments	November 15, 2013
IBRD 3747 - \$	\$ 55,158,206	1,600,281,535	\$ 25,736,722	1,189,036,548	\$ 25,736,722	1,189,036,548	\$ -	-	1/2 of 1% over cost of qualified borrowings	(ave) \$ 1,838,607	87,370,598	30 semi-annual payments	March 15, 2014
IBRD 3747 - ¥	¥ 6,157,654,410	1,640,911,351	¥ 1,840,429,224	927,908,710	¥ 1,840,429,224	927,908,710	¥ -	-	3.5% / 3.85%	(ave) ¥ 205,255,147	107,251,956	30 semi-annual payments	March 15, 2014
OECF 8th Yen	¥ 6,561,412,998	1,292,240,000	¥ 322,435,511	162,565,729	¥ 214,459,899	108,126,521	¥ 107,975,612	54,439,209	3% / 3.2%	¥ 142,476,699	74,448,338	41 semi-annual payments	June 20, 2010
OECF 9th Yen	¥ 8,516,352,319	2,104,600,000	¥ 623,145,000	314,177,620	¥ 415,430,000	209,451,747	¥ 207,715,000	104,725,873	3%	¥ 207,715,000	108,537,302	41 semi-annual payments	June 20, 2011
OECF 15th Yen	¥ 3,181,768,195	721,408,047	¥ 1,474,459,983	743,394,119	¥ 1,474,459,983	743,394,119	¥ -	-	5.7%	¥ 77,603,157	40,549,971	41 semi-annual payments	May 20, 2019
OECF 18th Yen	¥ 77,377,486	18,883,164	¥ 50,955,212	25,690,629	¥ 3,774,460	1,903,010	¥ 47,180,752	23,787,620	3%+2.5%	¥ 1,887,230	986,134	41 semi-annual payments	January 20, 2023
OECF 19th Yen	¥ 320,145,638	74,640,000	¥ 234,210,000	118,084,138	¥ 15,614,000	7,872,276	¥ 218,596,000	110,211,862	4.9%	¥ 7,807,000	4,079,391	41 semi-annual payments	December 20, 2024
OECF 21st Yen	¥ 10,425,977,324	4,299,364,022	¥ 8,900,115,000	4,487,265,321	¥ 508,578,000	256,415,161	¥ 8,391,537,000	4,230,850,160	2.7% / 2.3%	¥ 254,292,130	132,875,246	41 semi-annual payments	March 20, 2027
Miyazawa II	¥ 22,000,000,000	9,007,934,562	¥ 21,837,114,566	11,009,849,524	11,009,849,524	11,009,849,524	¥ 10,827,265,042	(0)	2.37%	¥ 22,000,000,000	11,495,658,240	bullet payment	June 26, 2010
Domestic Loan:													
Deferred payment facility with PSAI.M FRCN	\$ 77,400,000	3,868,916,400	\$ 51,709,400	2,388,974,276	497,226,872	497,226,872	(445,517,472)	1,891,747,404	12%	(ave) \$ 5,528,571	262,717,714	14 semi-annual payments	November 17, 2013
FRCN	₱ 4,856,000,000	4,856,000,000	₱ 4,792,814,858	4,792,814,858	229,550,631	229,550,631	₱ 4,563,264,227	4,563,264,227	9.40%	(ave) ₱ 499,368,581	499,368,581	14 semi-annual payments	July 2, 2016
FRCN	₱ 2,644,000,000	2,644,000,000	₱ 2,611,270,809	2,611,270,809	254,221,227	254,221,227	₱ 2,357,049,582	2,357,049,582	8.37%	(ave) ₱ 339,575,350	339,575,350	10 semi-annual payments	July 3, 2014
FRCN	₱ 1,500,000,000	1,500,000,000	₱ 1,480,136,401	1,480,136,401	143,977,886	143,977,886	₱ 1,336,158,515	1,336,158,515	8.43%	(ave) ₱ 190,850,011	190,850,011	10 semi-annual payments	July 31, 2014
PESO PUBLIC I	₱ 8,500,000,000	8,500,000,000	₱ 8,382,949,034	8,382,949,034	-	-	₱ 8,382,949,034	8,382,949,034	8.64%	₱ 12,540,041,500	12,540,041,500	bullet payment	June 4, 2015
PESO PUBLIC I	₱ 3,500,000,000	3,500,000,000	₱ 3,451,657,688	3,451,657,688	-	-	₱ 3,451,657,688	3,451,657,688	9.33%	₱ 5,786,511,500	5,786,511,500	bullet payment	December 4, 2016
IFC	₱ 4,100,000,000	3,500,000,000	₱ 4,026,880,578	4,026,880,578	-	-	₱ 4,026,880,578	4,026,880,578	7.40%	(ave) ₱ 229,203,667	229,203,667	30 semi-annual payments	October 15, 2023
TOTAL		31,344,331,554		47,464,498,392		16,930,776,639		30,533,721,753					

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES

SCHEDULE G - INDEBTEDNESS TO RELATED PARTIES

(Long-Term Loans from Related Companies)

As of December 31, 2009

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

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES

SCHEDULE H - GUARANTEES OF SECURITIES OF OTHER ISSUERS

As of December 31, 2009

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		

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES**SCHEDULE I - CAPITAL STOCK**

As of December 31, 2009

Title of Issue	Number of shares authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by Directors and key executive officers	Others
Common Stock	18,750,000,000	18,750,000,000	0	7,500,000,000 (40%)	18,202,887 (0.097%)	
Preferred Stock	9,375,000,000	9,375,000,000	-	7,500,000,000 (100%)	-	

ENERGY DEVELOPMENT (EDC) CORPORATION - PARENT
SCHEDULE J - RECONCILIATION OF RETAINED EARNINGS FOR DIVIDEND DECLARATION
As of December 31, 2009

Unappropriated Retained Earnings, January 1, 2009 P 9,881,361,988

Add: Net income actually earned/realized during the period

Net income during the period closed to Retained Earnings 3,194,726,744

Less: Non-actual/unrealized income (net of tax)

Unrealized foreign exchange gain 655,971,471

Day 1 gain on royalty payable 88,542,647

Provision for deferred tax asset 507,869,086

Net income actually earned during the period 1,942,343,540

Add(Less):

Cash Dividend declaration during the period (1,869,375,000)

Stock Dividend declaration during the period (3,750,000,000)

(5,619,375,000)

TOTAL RETAINED EARNINGS, DECEMBER 31, 2009
AVAILABLE FOR DIVIDEND

P 6,204,330,528

SEC Number 66381
File Number _____

ENERGY DEVELOPMENT (EDC) CORPORATION
(Formerly PNO Energy Development Corporation)
(Company's full Name)

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

(632) 667-7332
(Telephone Number)

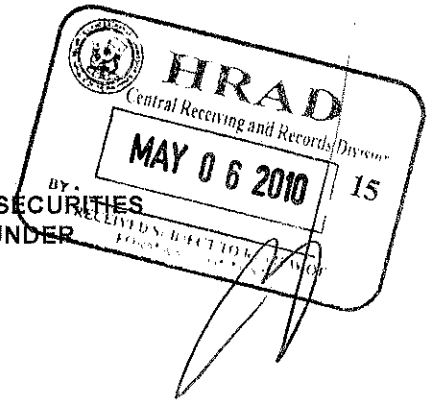
March 31, 2010
(Quarter Ending)

SEC FORM 17-Q
(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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



1. For the quarterly period ended **March 31, 2010**
2. Commission identification number: **66381**
3. BIR Tax Identification No. **000-169-125-000**
1. Exact name of issuer as specified in its charter: **ENERGY DEVELOPMENT (EDC) CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
PNPC Complex, Merritt Road, Ft. Bonifacio, Taguig City **1201**
8. Issuer's telephone number, including area code: **(632) 6677-332**
9. Former name, former address and former fiscal year, if changed since last report: **Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<u>Title of each Class</u>	<u>Number of shares outstanding as of March 31, 2010</u>
Common Stock, P1.00 par value	18,750,000,000
Preferred Stock, P0.01 par value	9,375,000,000

11. Are any or all of the securities listed on a Stock Exchange? **Yes, the common stock.**
If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange **Common Stock**

12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes [] No []
 - (b) has been subject to such filing requirements for the past ninety (90) days.
Yes [] No []

PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Our unaudited financial statements for the quarter ended March 31, 2010 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and are filed as Annex I of this report.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (“MD & A”)

The following is a discussion and analysis of the Company’s financial performance for the quarter ended March 31, 2010. The prime objective of this MD&A is to help the readers understand the dynamics of our Company’s business and the key factors underlying our financial results. Hence, our MD&A is comprised of a discussion of our core business, and an analysis of the results of operations. This section also focuses on key statistics from the unaudited financial statements and pertains to risks and uncertainties relating to the geothermal industry in the Philippines where we operate up to the stated reporting period. However, our MD&A should not be considered all inclusive, as it excludes unknown risks, uncertainties and changes that may occur in the general economic, political and environment condition after the stated reporting date.

Our MD&A should be read in conjunction with our unaudited financial statements and the accompanying notes. All financial information is reported in Philippine Pesos (PhP) unless otherwise stated.

Any references in this MD&A to “we”, “us”, “our”, “Company” means the Energy Development (EDC) Corporation.

Additional information about the Company can be found on our corporate website www.energy.com.ph.

The following is a summary of the key sections of this MD&A:

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OVERVIEW OF OUR BUSINESS

Principal Products or Services

As of March 31, 2010, the Company operates twelve geothermal steamfields in the five geothermal renewable energy 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 Agreement (SSA) and
- ii. the generation of electricity for sale to NPC and privately-owned distribution utilities, pursuant to Power Purchase Agreements (PPAs) and Electricity Sales Agreement (ESA), respectively.

For the Company's third business segment, EDC provides drilling equipment and rig personnel to the Lihir Gold Limited (LGL) in Papua New Guinea.

With its acquisition of a 60% equity stake in First Gen Hydro Power Corporation (FG Hydro) on November 17, 2008, EDC has since been involved in the operation of hydro power plants. FG Hydro's 110 MW Pantabangan and 12 MW Masiway Hydroelectric Power Plants (PMHEPP), located in Pantabangan, Nueva Ecija Province, Central Luzon, sell electricity to the Luzon grid to service the consumption of its customers under bilateral contracts and the Wholesale Electricity Spot Market (WESM).

This development has catapulted the Company into being the country's premier pure renewable energy play with interests in geothermal energy and hydro power exclusively. For geothermal energy, its expertise spans the entire geothermal value chain, i.e., from geothermal energy exploration and development, reservoir engineering and management, drilling, engineering design and construction, environmental management and energy research and development. With FG Hydro, the Company has not only acquired expertise in hydropower operation and maintenance, but also the capability to sell power on a merchant basis.

The Company has included into its strategic plans the Company's participation in PSALM's auction of the NPC-owned geothermal power generation facilities. On September 2, 2009, Green Core Geothermal Inc. (Green Core), the Company's wholly-owned subsidiary through First Luzon Geothermal Energy Corporation, participated and won in PSALM's auction for the 192.5 MW Palinpinon and 112.5 MW Tongonan I geothermal power plants. On October 23, 2009, Green Core successfully took over the Palinpinon and Tongonan I geothermal power plants. The Company now operates a total of 10 geothermal power plants with an aggregate capacity of 1,048.8 MW.

Percentage of sales or revenues contributed by foreign sales

The Company generated ₱177.5 million revenues from service contract it entered into with LGL in Papua, New Guinea. This represents 2.5% of the Company's gross revenues for the first quarter of year 2010. The contract term with LGL was extended until December 31, 2010 with an option to extend for another year.

Distribution method of products and services

The Company's total generation of 2,028.7 Gwh comprised of 1,568.4 GWh coming from electricity production in Leyte, So. Negros, No. Negros and Mindanao areas; 248.9 GWh pertaining to steam operations in Sorsogon; and 211.4 GWh generated from hydro power plant operations in Pantabangan, Nueva Ecija.

The electricity generated, by either NPC or the Company's geothermal power plants, is transmitted to the customers i.e., distribution utilities, electric cooperatives or bulk power customers by the National Grid Corporation of the Philippines (NGCP) through its high voltage backbone system.

About 68.9% of the 2,028.7 Gwh generated by the Company from its steam and electricity business was sold to NPC, The electricity generated by the power plants of FG Hydro, equivalent to 211.4 Gwh, was sold to the WESM and to its distribution utility clients in the province of Nueva Ecija while the 419.4 Gwh electricity production of Green Core's Palinpinon and Tongonan I Geothermal Power Plants (PTGPP) and EDC's No. Negros was sold to the industrial customers and electric cooperatives in the Visayas region.

From the 211.4 GWh of electricity generated by FG Hydro, 151.7 Gwh or 72% was sold to the Wholesale Electricity Spot Market (WESM) while the 59.7 Gwh or 28% was sold to distribution utilities.

Competition

As an Independent Power Producer (IPP), the nature of the Company's off-take contracts shields the Company from competition technically. However, the Philippine Power Industry has other IPPs that use various fuels like hydro, coal, gas and oil. Only natural gas and hydro are indigenous to the Philippines.

For geothermal steam supply, the only other company operating in the Philippines is Chevron Philippines Geothermal Holdings, Inc. (further to Chevron Texaco Corporation's acquisition of Union Oil Company of California (UNOCAL) on August 10, 2005) which supplies the requirement of the Tiwi-Makban generating facilities.

The acquisition of a 60% equity stake in First Gen Hydro Power Corporation (FG Hydro) last November 17, 2008 exposes EDC to hydro plant generation. FG Hydro's PMHEPP delivers electricity into the Luzon grid to service the consumption of its customers and the Wholesale Electricity Spot Market (WESM).

In the field of geothermal consultancy, Non-Philippine companies that are actively engaged in the Asia-Pacific region are West Japan Engineering Consultancy, GeothermEx, Sinclair Knight Merz Engineering Consultancy and PB Power. For drilling services in the Philippines, the Company's lone competitor is DESCO, Inc.

Dependence on one major customer

About 68.9% of the Company's revenues from its steam and electricity business are derived from existing long-term Steam Sales Agreement (SSA) and Power Purchase Agreements (PPAs) with NPC, respectively.

Concessions and royalty payments

The five geothermal renewable energy service contract (GRESK) areas where the Company's geothermal steam fields are located are:

1. Leyte Geothermal Production Field (expiring in 2031)
2. Southern Negros Geothermal Production Field (expiring in 2031)
3. Bacman Geothermal Production Field in Luzon (expiring in 2031)
4. Mindanao Geothermal Production Field (expiring in 2042)
5. No. Negros Geothermal Production Field (expiring in 2044)

KEY PERFORMANCE INDICATORS

The top five (5) key performance indicators are set forth below:

Ratio	March 31, 2010	March 31, 2009
Current Ratio	0.92 : 1	1.26 : 1
Debt-to-Equity Ratio	1.45 : 1	1.18 : 1
Net Debt-to-Equity Ratio	1.02 : 1	0.94 : 1
Return on Assets (%)	4.4	3.2
Return on Equity (%)	12.2	7.6

Current Ratio – Total current assets divided by total current liabilities.

This ratio measures the company's liquidity and ability to pay its short-term obligations. The movement in the two periods arose from non-commensurate increases in Cash under Current Assets as against Current Portion of Long-Term Debt and Trade Payables in Current Liabilities as of March 2010.

Debt-to-Equity Ratio – Total interest-bearing debts divided by stockholders' equity.

This ratio shows the capital contributed by the creditors and the owners.

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

This ratio is Debt-to-Equity but net of cash.

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

This ratio indicates efficiency by which the company uses its total assets to generate earnings.

Return on Equity – Net income divided by total stockholders' equity (average)

This ratio reveals how much profit a company earns in comparison to the total shareholder equity.

OPERATING REVENUES AND EXPENSES

FINANCIAL HIGHLIGHTS

- The recurring net income generated in the first quarter of 2010 increased by 103.4% or ₱1,623.7 to ₱3,193.8 million from the ₱1,570.1 million posted during the same period in 2009. This was mainly due to the following:
 - increase in revenues mainly from FG Hydro and Green Core's electricity sales (₱1,615.6 million); and
 - full quarter impact of the Renewable Energy (RE) Law (₱347.0 million) .

These were partly offset by the following:

- net increase in finance charges from the Fixed Rate Corporate Notes (FRCN) and the Peso Public Bonds availed in July/September 2009 and December 2009, respectively (₱250.8 million);
 - increase in recurring operating expenses for the maintenance of steamfield and power plant facilities (₱71.4 million); and
 - lower recurring other income (₱ 16.7 million).
-
- Net income increased by 67.7% or ₱1,535.2 million to ₱3,802.9 million as compared to the ₱2,267.7 million during the same period in 2009. This was primarily due to the increased revenues mainly from Green Core and FG Hydro's electricity sales (₱1,615.6 million), impact of RE Law (₱597.4 million) on both recurring and non-recurring income, and lower derivative loss (₱293.5 million) offset by lower foreign exchange gain (₱603.2 million), net increase in financial expenses (₱289.0 million) and increase in operating expenses (₱64.9 million).
-
- Cash and cash equivalents increased by 22.4% or ₱2,518.2 million to ₱13,739.1 million as of March 31, 2010 from the ₱11,220.9 million December 31, 2009 balance. The increase was mainly accounted by the ₱3,891.2 million internal cash generation for the first quarter of 2010 partly reduced by the ₱708.2 million cash outflows from financing activities, ₱641.6 million cash used in investing activities and ₱23.2 million effect of foreign exchange adjustments.

RESULTS OF OPERATIONS

The following table details the results of operations for EDC for the first quarter of 2010 and 2009.

(Amounts in PHP millions)	Mar. 2010	Mar. 2009	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS	
			Favorable (Unfavorable)		Mar. 2010	Mar. 2009
			Amount	%		
Revenue from sale of electricity	6,543.0	3,584.1	2,958.9	82.6%	91.4%	64.6%
Revenue from sale of steam	440.0	1,106.3	(666.3)	-60.2%	6.1%	20.0%
Interest income on service concessions	-	508.0	(508.0)	-100.0%	0.0%	9.2%
Revenue from drilling services	177.5	177.6	(0.1)	-0.1%	2.5%	3.2%
Construction revenue	-	168.9	(168.9)	-100.0%	0.0%	3.0%
Total Revenues	7,160.5	5,544.9	1,615.6	29.1%	100.0%	100.0%
Operations and maintenance	(1,125.1)	(1,428.3)	303.2	-21.2%	-15.7%	-25.8%
General and administrative	(756.1)	(654.8)	(101.3)	15.5%	-10.6%	-11.8%
Purchased services and utilities	(340.0)	(602.4)	262.4	-43.6%	-4.7%	-10.9%
Construction costs	-	(145.6)	145.6	-100.0%	0.0%	-2.6%
Depreciation and amortization	(834.6)	(159.8)	(674.8)	422.3%	-11.7%	-2.9%
Total Operating Expenses	(3,055.8)	(2,990.9)	(64.9)	2.2%	-42.7%	-53.9%
Interest income - net of final tax	135.3	110.7	24.6	22.2%	1.9%	2.0%
Interest expense	(864.0)	(550.4)	(313.6)	57.0%	-12.1%	-9.9%
Total Financial Income (Expenses)	(728.7)	(439.7)	(289.0)	65.7%	-10.2%	-7.9%
Foreign exchange gain - net	674.8	1,278.0	(603.2)	-47.2%	9.4%	23.0%
Derivatives loss - net	(5.4)	(298.9)	293.5	-98.2%	-0.1%	-5.4%
Miscellaneous income - net	3.1	17.3	(14.2)	-82.1%	0.0%	0.3%
Total Other Income (Expenses)	672.5	996.4	(323.9)	-32.5%	9.4%	18.0%
INCOME BEFORE INCOME TAX	4,048.5	3,110.7	937.8	30.1%	56.5%	56.1%
Provision for Income Tax - Current	(206.9)	(512.2)	305.3	-59.6%	-2.9%	-9.2%
Provision for Income Tax - Deferred	(38.7)	(330.8)	292.1	-88.3%	-0.5%	-6.0%
Total Provision for Income Tax	(245.6)	(843.0)	597.4	-70.9%	-3.4%	-15.2%
NET INCOME	3,802.9	2,267.7	1,535.2	67.7%	53.1%	40.9%
Attributable to:						
Equity Holders of the Parent	3,296.6	2,172.8	1,123.8	51.7%	46.0%	39.2%
Minority Interests	506.3	94.9	411.4	433.5%	7.1%	1.7%
EBITDA	4,939.3	2,713.8	2,225.5	82.0%	69.0%	48.9%
RECURRING NET INCOME	3,193.8	1,570.1	1,623.7	103.4%	44.6%	28.3%

YTD March 31, 2010 vs. YTD March 31, 2009

Revenues

Revenues for the period ended March 31, 2010 increased by 29.1% or ₱1,615.6 million to ₱7,160.5 million from ₱5,544.9 million posted during the same period in 2009. Excluding the ₱366.9 million net impact of the scoping-out from IFRIC 12, revenues increased by ₱1,248.7 million mainly due to higher electricity sales.

Revenue from Sale of Electricity

Revenue from sale of electricity increased by 82.6% or ₱2,958.9 million to ₱6,543.0 million in the first quarter of 2010 from ₱3,584.1 million registered during the same period in 2009 on account of the following:

- Revenues generated by Green Core following acquisition of the Palinpinon 1 & 2 and Tongonan 1 geothermal power plants in September 2009 (₱1,433.8 million);
- FG Hydro's increased revenues due to the combined effect of higher average selling price and electricity volume (₱939.2 million);
- Impact of the full recognition of revenue billings starting November 2009 due to the Company's scoping-out from IFRIC 12 (₱864.0 million); and
- Electricity generation by No. Negros power plant with its re-commissioning in May 2009 (₱148.4 million).

These were partly offset by the adjustment in Unified Leyte's revenues due to the shortfall generation (₱317.3 million) compounded by the decline in average selling price for both Unified Leyte and Mindanao on account of lower inflation indices (₱109.2 million).

Revenue from Sale of Steam

Revenue from sale of steam decreased by 60.2% or ₱666.3 million to ₱440.0 million in the first quarter of 2010 from ₱1,106.3 million during the same period in 2009. The ₱851.9 million decline was attributed to the shift in revenue recognition from steam to electricity sales of the Palinpinon and Tongonan 1 power plants following the takeover of the assets by Green Core on October 24, 2009.

The decline was countered by the favorable impact of the full recognition of revenue billings starting November 2009 due to scope-out from IFRIC 12 (₱179.8 million) plus Bacman's higher average selling price by P0.02/kwh (P5.8 million) due to inflation indices.

Revenue from Drilling Services

Revenue from drilling services decreased by 0.1% or ₱0.1 million to ₱177.5 million in the first quarter of 2010 from ₱177.6 million during the same period in 2009. The minimal unfavorable variance was traced to lower average peso-dollar exchange rate of PHP45.878 in 2010 vs PHP 48.206 in 2009. It should be noted however, that total billings to LGL increased by USD184.2 thousand to USD3,869.0 thousand in March 2010 from USD 3,684.8 thousand in March 2009.

Interest Income on Service Concession/Construction Revenue

No interest income on concession receivable and construction revenue were reported in the first quarter of 2010 as the Company was scoped out from IFRIC 12 starting October 23, 2009 with the conversion of the geothermal service contracts to geothermal renewable energy service contracts.

Operating Expenses

Operating expenses increased by 2.2% or ₱64.9 million to ₱3,055.8 million in the first quarter of 2010 from ₱2,990.9 million for the same period in 2009.

The increase was attributed to the net impact of higher general and administrative expenses (₱101.3 million) and depreciation expenses (₱674.8 million) arising from IFRIC 12 scope-out on the one hand, and lower operations and maintenance (₱303.2 million), purchased services and utilities (₱262.4 million) and absence of construction costs (₱145.6 million) on the other.

Operations and Maintenance

Operations and maintenance expenses decreased by 21.2% or ₱303.2 million to ₱1,125.1 million in the first quarter of 2010 from ₱1,428.3 million during the same period in 2009 mainly due to the capitalization of capital expenditures in 2010 that were previously charged outright to expense in 2009 with the scoping out from IFRIC 12 starting October 23, 2009.

The decline was partially offset by higher accrual of pension costs (₱56.3 million), O&M expenses incurred by Green Core (₱47.7 million) and the increased maintenance expenses of FG Hydro (₱9.8 million).

General and Administrative

General and administrative expenses increased by 15.5% or ₱101.3 million to ₱756.1 million in the first quarter of 2010 from ₱654.8 million during the same period in 2009 because of Expenses incurred by Green Core (₱78.9 million), higher expenses for rental, insurance, taxes, licenses, professional fees and G&A personnel pension cost accrual (₱125.1 million)

The foregoing unfavorable variances were partly offset by the absence of provision for doubtful accounts on overdue NPC receivables in 2010 as against the ₱97.9 million in 2009.

Purchased Services and Utilities

Purchased services and utilities decreased by 43.6% or ₱262.4 million to ₱340.0 million in the first quarter of 2010 from ₱602.4 million during the same period in 2009. This was largely on account of lower technical and consultancy services for new geothermal wells drilled due to capitalization with the scope-out from IFRIC 12 (₱181.2 million) and absence of BOT fees in 2010 with the turn-over to EDC in June 2009 of the last of the BOT power plants (₱109.3 million). These were offset by the expenses of the newly created Green Core (₱28.1 million).

Depreciation and Amortization

The increase by 422.3% or ₱674.8 million to ₱834.6 million in the first quarter of 2010 from ₱159.8 million during the same period in 2009 was mainly attributed to the net additional depreciation of fixed assets that were re-classed from financial and intangible assets post scope out from IFRIC 12.

Construction Costs

No construction costs was recognized in the first quarter of 2010 under a different financial reporting standards that is not IFRIC 12 starting October 23, 2009 .

Financial Income (Expenses)

Financial expenses-net increased by 65.7% or ₱289.0 million to ₱728.7 million in the first quarter of 2010 from ₱439.7 million for the same period in 2009 due to the increase in finance charges from higher borrowings in the second half of 2009, partly offset by higher interest income.

Interest Income – net

Interest income (net of final tax) increased by 22.2% or ₱24.6 million to ₱135.3 million in the first quarter of 2010 from ₱110.7 million during the same period in 2009. The favorable variance was contributed by higher interest earnings on a larger investible fund balance (₱40.5 million), reduced by lower interest income accretion on outstanding NPC receivable on arbitral award (₱17.4 million).

Interest Expense

Interest expense increased by 57% or ₱313.6 million to ₱864.0 million in the first quarter of 2010 from ₱550.4 million during the same period in 2009. The unfavorable variance was mainly on account of higher borrowings.

These were mitigated by lower interest expense incurred by FG Hydro (₱10.2 million) and on EDC's existing long-term amortizing loans (₱166.9 million).

Other Income (Charges)

Other income-net declined by 32.5% or ₱323.9 million to ₱672.5 million from the ₱996.4 million during the same period in 2009. The variance was primarily attributed to the difference in the movements of the JPY:USD and PHP:USD in the comparative periods.

Foreign Exchange Gain - net

Foreign exchange gain - net of ₱674.8 million was lower than the ₱1,278.0 million for the same period in 2009.

The comparative foreign exchange rates against the USD were as follows:

	JPY:US\$	PHP:US\$
December 31, 2008	90.942	47.520
March 31, 2009	97.172	48.330
December 31, 2009	91.634	46.200
March 31, 2010	92.790	45.170

Derivatives Loss - net

The decrease in Derivative loss - net in 2010 by 98.2% or ₱293.5 million was mainly due to EDC Parent derivative gain on the foreign currency forward contracts that will mature on June 24, 2010 (₱3.3 million) as against the derivative loss on the range-bonus forward contracts covering Miyazawa I (₱279.9 million) coupled with FG Hydro's lower derivative loss on embedded currency options in its PRUP Contract with VA TECH HYDRO, Gmbh Contractor (₱10.3 million).

Miscellaneous Income – net

Miscellaneous income - net decreased by 82.1% or ₱14.2 million to ₱3.1 million in the first quarter of 2010 from ₱17.3 million during the same period in 2009 when inventory adjustment and gain on disposal of surplus and non-moving/obsolete inventories benefited the Company by ₱8.1 million and ₱5.7 million, respectively.

Provision for (Benefit from) Income Tax

Current tax expense decreased by 59.6% or ₱305.3 million to ₱206.9 million in the first quarter of 2010 from ₱512.2 million during the same period in 2009. This was largely due to the change in corporate income tax rate from 30% to 10% with the company's registration as an RE developer.

Deferred tax expense was lower by 88.3% or ₱292.1 million to ₱38.7 million in the first quarter of 2010 from ₱330.8 million during the same period in 2009 mainly because of the lower unrealized foreign exchange gain in 2010 and the reduced corporate income tax rate.

Net Income

Net income increased by 67.7% or ₱1,535.2 million to ₱3,802.9 million from ₱2,267.7 million during the same period in 2009. This was primarily due to the increased revenues mainly from Green Core and FG Hydro's electricity sales (₱1,615.6 million), full impact of the RE Law (₱597.4 million) on both recurring and non-recurring income, and lower derivative loss (₱293.5 million) offset by lower foreign exchange gain (₱603.2 million), net increase in financial expenses (₱289.0 million) and increase in operating expenses (₱64.9 million).

Net income is equivalent to 53.1% of total revenues in the first quarter of 2010 as compared to the 40.9% during the same period in 2009.

CAPITAL AND LIQUIDITY RESOURCES

As of the quarter ended (in millions of pesos)	Q1 2010	Q1 2009	YoY change
Balance Sheet Data			
Total Assets	87,915.8	74,580.4	17.9%
Total Debt	56,029.5	43,512.8	28.8%
Total Stockholders' Equity	31,886.3	31,067.6	2.6%

The Company's assets as of March 31, 2010 amounted to ₱87,915.8 million, 17.9% higher as compared to the ₱74,580.4 million level as of March 31, 2009.

FINANCIAL POSITION

Horizontal and Vertical Analysis of Material Changes as of March 31, 2010 and December 31, 2009.

(Amounts in PHP millions)	Mar. 2010	Dec. 2009 Audited	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS	
			Favorable (Unfavorable)		Mar. 2010	Dec. 2009 Audited
			Amount	%		
ASSETS						
Current Assets						
Cash and cash equivalents	13,739.1	11,220.9	2,518.2	22.4%	15.6%	13.2%
Trade and other receivables	6,005.2	5,487.2	518.0	9.4%	6.8%	6.5%
Available-for-sale (AFS) investments	729.7	734.8	(5.1)	-0.7%	0.8%	0.9%
Parts and supplies inventories	1,585.3	1,553.8	31.5	2.0%	1.8%	1.8%
Due from related parties	1.9	-	1.9	100.0%	0.0%	0.0%
Derivative assets	11.9	-	11.9	100.0%	0.0%	0.0%
Other current assets	321.3	141.0	180.3	127.9%	0.4%	0.2%
Total Current Assets	22,394.4	19,137.7	3,256.7	17.0%	25.4%	22.6%
Noncurrent Assets						
Property, plant and equipment - net	59,883.9	59,877.2	6.7	0.0%	68.1%	70.6%
Intangible assets	2,373.5	2,397.4	(23.9)	-1.0%	2.7%	2.8%
Deferred tax assets - net	925.3	959.3	(34.0)	-3.5%	1.1%	1.1%
Exploration and evaluation assets	1,046.3	1,038.1	8.2	0.8%	1.2%	1.2%
Derivative assets	0.9	9.6	(8.7)	-90.6%	0.0%	0.0%
Other noncurrent assets - net	1,373.7	1,355.6	18.1	1.3%	1.6%	1.6%
Total Noncurrent Assets	65,603.6	65,637.2	(33.6)	-0.1%	74.6%	77.4%
TOTAL ASSETS	87,998.0	84,774.9	3,223.1	3.8%	100.0%	100.0%
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities						
Trade and other payables	6,770.3	3,985.0	2,785.3	69.9%	7.7%	4.7%
Loan Payable	225.8	-	225.8	100.0%	0.3%	0.0%
Income tax payable	273.4	66.4	207.0	311.7%	0.3%	0.1%
Due to related parties	342.5	537.0	(194.5)	-36.2%	0.4%	0.6%
Derivative liabilities	8.6	-	8.6	100.0%	0.0%	0.0%
Current portion of:						
Long-term debts	16,448.3	16,930.8	(482.5)	-2.8%	18.7%	20.0%
Royalty fee payable	264.5	244.3	20.2	8.3%	0.3%	0.3%
Total Current Liabilities	24,333.4	21,763.5	2,569.9	11.8%	27.7%	25.7%
Noncurrent Liabilities						
Long-term debts - net of current portion	29,642.9	30,533.7	(890.8)	-2.9%	33.7%	36.0%
Royalty fee payable - net of current portion	491.2	566.7	(75.5)	-13.3%	0.6%	0.7%
Deferred tax liabilities - net	22.1	17.3	4.8	27.7%	0.0%	0.0%
Net retirement and other post-retirement benefits	1,331.0	1,237.1	93.9	7.6%	1.5%	1.5%
Other long-term liabilities	291.1	324.7	(33.6)	-10.3%	0.3%	0.4%
Total Noncurrent Liabilities	31,778.3	32,679.5	(901.2)	-2.8%	36.1%	38.5%
Total Liabilities	56,111.7	54,443.0	1,668.7	3.1%	63.8%	64.2%
EQUITY						
Attributable to Equity Holders of the Parent Company:						
Preferred stock	93.7	93.7	-	0.0%	0.1%	0.1%
Common stock	18,750.0	18,750.0	-	0.0%	21.3%	22.1%
Common stock in employee trust account	(391.6)	(391.6)	-	0.0%	-0.4%	-0.5%
Additional paid-in capital	6,262.0	6,262.0	-	0.0%	7.1%	7.4%
Equity reserve	(3,706.4)	(3,706.4)	-	0.0%	-4.2%	-4.4%
Net accumulated unrealized gain on AFS investments	122.5	113.2	9.3	8.2%	0.1%	0.1%
Retained earnings	8,720.1	7,681.2	1,038.9	13.5%	9.9%	9.1%
	29,850.3	28,802.1	1,048.2	3.6%	33.9%	34.0%
Minority Interest	2,036.0	1,529.8	506.2	33.1%	2.3%	1.8%
Total Equity	31,886.3	30,331.9	1,554.4	5.1%	36.2%	35.8%
TOTAL LIABILITIES AND EQUITY	87,998.0	84,774.9	3,223.1	3.8%	100.0%	100.0%

Cash and cash equivalents

This account consists of cash on-hand, in-banks and money market placements with maturities of less than three months.

The 22.4% or ₱2,518.2 million increase to ₱13,739.1 million as of March 31, 2010 from the ₱11,220.9 million December 31, 2009 balance was mainly due to the following:

- ₱3,891.2 million internal cash generation for the first quarter of 2010
- ₱233.2 million proceeds from short-term loans
- ₱127.0 million interest income received on investments

These were partly offset by the settlement of long-term loans (₱697.5 million), acquisition of property, plant and equipment (₱828.7 million), FG Hydro's related parties (₱175.8 million) and the effect of foreign exchange adjustments (₱23.2 million).

Trade and other receivables - net

This account, consisting mainly of receivables from NPC, distribution utilities, contractors and employees, increased by 9.4% or ₱518.0 million as of March 31, 2010 to ₱6,005.2 million from the ₱5,487.2 million balance as of December 31, 2009. The increment was mainly from the increased sales to customers by FG Hydro and Green Core.

Due from related parties

This account pertains to the non-interest bearing advances made by EDC to First Gen on expenses related to the financial consultancy, business development and other related services rendered to the Company.

Derivative assets (current)

This account pertains to the fair value of the foreign currency forward contracts of EDC Parent maturing on June 24, 2010 intended for the Miyazawa 2 bonds.

Other current assets

Other current assets consist mainly of BIR's tax credit certificates, prepaid expenses and advances to contractors.

The 127.9% or ₱180.3 million increase in the first quarter of 2010 to ₱321.3 million from ₱141.0 million balance as of December 31, 2009 was attributed mainly to the prepaid insurance on industrial all risk coverage as the asset valuation includes Mindanao and Green Core power plants.

Derivative assets (non-current)

This account pertains to the fair value of the outstanding embedded currency options on FG Hydro's contract with Andritz Hydro GmbH for the Pantabangan Plant Refurbishment and Upgrade Project (PRUP). It decreased by 90.6% or ₱8.7 million to ₱0.9 million as of

March 31, 2010 from the ₱9.6 million balance as of December 31, 2009 due to scheduled payments made for the current period by FG Hydro.

Trade and other payables

This account increased by 69.9% or ₱2,785.3 million to ₱6,770.3 million in the first quarter of 2010 from ₱3,985.0 million mainly due to the accrual of ₱2,256.4 million cash dividends, ₱305.7 million interest on loans and ₱223.2 liabilities to suppliers and contractors and withholding taxes.

Loan Payable

This account pertains to short-term loan availed by FG Hydro with local bank.

Income tax payable

This account increased by 311.7% or ₱207.0 million to ₱273.4 million in the first quarter of 2010 from ₱66.4 million 2009 year-end level due to the accrual of income tax liability for the current quarter.

Due to related parties

This account decreased by 36.2% or ₱194.5 million to ₱342.5 million as of March 31, 2010 from the ₱537.0 million balance as of December 31, 2009 largely due to FG Hydro's settlement of its liabilities to First Gen.

Derivative liabilities

This account pertains to the fair value of the foreign currency forward contracts of EDC Parent maturing on June 24, 2010 for Miyazawa II.

Royalty fee payable (inclusive of current portion)

This account decreased by 6.8% or ₱55.3 million to ₱755.7 million as of March 31, 2010 from ₱811.0 million as of December 31, 2009 due to royalty payments effected for the first quarter of 2010.

Long-term debt (inclusive of current portion)

Long-term debt, consisting of JPY, US\$ and PHP loans, decreased by 2.9% or ₱1,373.3 million to ₱46,091.2 million as of March 31, 2010 from ₱47,464.5 million as of December 31, 2009 primarily due to the ₱659.2 million amortization payments and ₱755.7 million foreign exchange gain on loan restatement to March 2010 exchange rate cushioned by the ₱41.6 million amortization of transaction costs.

Deferred tax liability

This account pertains to the deferred tax liability on unrealized foreign exchange gain arising from the restatement of FG Hydro's Deferred Payment Facility with PSALM. It increased by 27.7% or ₱4.8 million to ₱22.1 million as of end-March 2010 from the ₱17.3 million balance

as of end-December 2009 due to the unrealized foreign exchange gain for the current period primarily due to appreciation of PhP vs. US\$ in March 2010.

Net retirement and other post-retirement benefits

This account pertains to the funded, non-contributory, defined benefit retirement plan maintained for all EDC-Parent permanent employees. It increased by 7.6% or ₱93.9 million due to the accrual of retirement benefits for the first quarter of 2010.

Other long-term liabilities

This account decreased by 10.3% or ₱33.6 million to ₱291.1 million as of March 31, 2010 from ₱324.7 million as of December 31, 2009 mainly due to the payment of the 10 days monetized vacation leave of employees.

Net accumulated unrealized gain on AFS investments

This account increased by 8.2% or ₱9.3 million to ₱122.5 million as of March 31, 2010 from ₱113.2 million at end-December 2009 mainly due to the rise in fair value of the investments.

Retained earnings

Retained earnings increased by 13.5% or ₱1,038.9 million to ₱8,720.1 million as of March 31, 2010 from the ₱7,681.2 million December 31, 2009 balance. This was accounted for by the ₱3,802.9 million net income posted in the first quarter of 2010 offset by the ₱2,256.4 million cash dividends declared on March 25, 2010, ₱506.2 million the share of the minority interest in the net income and the ₱1.4 million documentary stamp tax on the issuance of GCGI's preferred stock.

Minority interest

This account increased by 33.1% or ₱506.2 million to ₱2,036.0 million as of March 31, 2010 from ₱1,529.8 million as of December 31, 2009 balance on account of First Gen's share in the net income of FG Hydro for the first quarter of 2010.

Horizontal and Vertical Analysis of Material Changes as of March 31, 2010 and 2009.

(Amounts in PHP millions)	Mar. 2010	Mar. 2009	Favorable (Unfavorable)		Mar. 2010	Mar. 2009
			Amount	%		
ASSETS						
Current Assets						
Cash and cash equivalents	13,739.1	7,579.5	6,159.6	81.3%	15.6%	10.2%
Trade and other receivables	6,005.2	5,272.5	732.7	13.9%	6.8%	7.1%
Current portion of concession receivable		2,025.9	(2,025.9)	-100.0%	0.0%	2.7%
Available-for-sale (AFS) investments	729.7	746.5	(16.8)	-2.3%	0.8%	1.0%
Parts and supplies inventories	1,585.3	1,420.8	164.5	11.6%	1.8%	1.9%
Due from related parties	1.9	-	1.9	100.0%	0.0%	0.0%
Derivative assets	11.9	399.4	(387.5)	-97.0%	0.0%	0.5%
Other current assets	321.3	585.1	(263.8)	-45.1%	0.4%	0.8%
	22,394.4	18,029.7	4,364.7	24.2%	25.4%	24.2%
Noncurrent assets held for sale		1,797.6	2,569.8	143.0%	0.0%	2.4%
Total Current Assets	22,394.4	19,827.3	6,934.5	35.0%	25.4%	26.6%
Noncurrent Assets						
Concession receivable - net		32,133.7	(32,133.7)	-100.0%	0.0%	43.1%
Property, plant and equipment - net	59,883.9	5,568.4	54,315.5	975.4%	68.1%	7.5%
Intangible assets	2,373.5	11,957.2	(9,583.7)	-80.2%	2.7%	16.0%
Deferred tax assets - net	925.3	3,075.9	(2,150.6)	-69.9%	1.1%	4.1%
Exploration and evaluation assets	1,046.3	1,055.0	(8.7)	-0.8%	1.2%	1.4%
Derivative assets	0.9	16.4	(15.5)	-94.5%	0.0%	0.0%
Other noncurrent assets - net	1,373.7	946.5	427.2	45.1%	1.6%	1.3%
Total Noncurrent Assets	65,603.6	54,753.1	10,850.5	19.8%	74.6%	73.4%
TOTAL ASSETS	87,998.0	74,580.4	13,417.6	18.0%	100.0%	100.0%
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities						
Trade and other payables	6,770.3	3,104.1	3,666.2	118.1%	7.7%	4.2%
Loan payable	225.8	2,000.0	(1,774.2)	-88.7%	0.3%	2.7%
Income tax payable	273.4	597.0	(323.6)	-54.2%	0.3%	0.8%
Due to related parties	342.5	97.0	245.5	253.1%	0.4%	0.1%
Derivative liabilities	8.6	47.0	(38.4)	100.0%	0.0%	0.1%
Current portion of:						
Long-term debts	16,448.3	8,347.8	8,100.5	97.0%	18.7%	11.2%
Obligation to power plant contractors		54.3	(54.3)	-100.0%	0.0%	0.1%
Royalty fee payable	264.5	1,548.4	(1,283.9)	-82.9%	0.3%	2.1%
Total Current Liabilities	24,333.4	15,795.6	8,537.8	54.1%	27.7%	21.2%
Noncurrent Liabilities						
Long-term debts - net of current portion	29,642.9	26,377.0	3,265.9	12.4%	33.7%	35.4%
Royalty fee payable - net of current portion	491.2	-	491.2	100.0%	0.6%	0.0%
Deferred tax liabilities - net	22.1	7.6	14.5	190.8%	0.0%	0.0%
Net retirement and other post-retirement benefits	1,331.0	1,060.6	270.4	25.5%	1.5%	1.4%
Other long-term liabilities	291.1	272.0	19.1	7.0%	0.3%	0.4%
Total Noncurrent Liabilities	31,778.3	27,717.2	4,061.1	14.7%	36.1%	37.2%
Total Liabilities	56,111.7	43,512.8	12,598.9	29.0%	63.8%	58.3%
EQUITY						
Attributable to Equity Holders of the Parent Company:						
Preferred stock	93.7	75.0	18.7	24.9%	0.1%	0.1%
Common stock	18,750.0	15,000.0	3,750.0	25.0%	21.3%	20.1%
Common stock in employee trust account	(391.6)	-	(391.6)	100.0%	-0.4%	0.0%
Additional paid-in capital	6,262.0	6,278.1	(16.1)	-0.3%	7.1%	8.4%
Equity reserve	(3,706.4)	(3,706.4)	-	0.0%	-4.2%	-5.0%
Cost of treasury stock held	-	(404.2)	404.2	-100.0%	0.0%	-0.5%
Net accumulated unrealized gain on AFS investments	122.5	95.4	27.1	28.4%	0.1%	0.1%
Retained earnings	8,720.1	12,150.7	(3,430.6)	-28.2%	9.9%	16.3%
	29,850.3	29,488.6	361.7	1.2%	33.9%	39.5%
Minority Interest	2,036.0	1,579.0	457.0	28.9%	2.3%	2.1%
Total Equity	31,886.3	31,067.6	818.7	2.6%	36.2%	41.7%
TOTAL LIABILITIES AND EQUITY	87,998.0	74,580.4	13,417.6	18.0%	100.0%	100.0%

Cash and cash equivalents

This account consists of cash on-hand, in-banks and money market placements with maturities of less than three months.

Cash and cash equivalents increased by 81.3% or ₱6,159.6 million to ₱13,739.1 million from the ₱7,579.5 million balance as of March 31, 2009 was primarily due to:

- ₱12,000.0 million proceeds from the issuance of public bonds;
- ₱10,317.1 million internal cash generation;
- ₱9,000.0 million proceeds from fixed rate corporate notes;
- ₱2,497.0 million proceeds from short-term loans; and
- ₱1,402.3 million proceeds from sale of Fort Bonifacio (FB) properties to PNOC.

The above increases were mainly reduced by the:

- ₱10,165.3 million acquisition of Palinpinon and Tongonan I power plants;
- ₱6,270.4 million settlement of Miyazawa I and ₱2,704.7 million amortization of other long-term debts;
- ₱4,261.1 million settlement of short-term loans;
- ₱3,941.8 million for the acquisition of property, plant and equipment; and
- ₱1,869.0 million cash dividends paid by the parent company.

Trade and other receivables - net

This account, consisting mainly of receivables from NPC, contractors and employees, increased by 13.9% or ₱732.7 million as of March 31, 2010 to ₱6,005.2 million from the ₱5,272.5 million balance as of March 31, 2009. The increment was mainly from the increased sales to customers by FG Hydro and Green Core.

Parts and supplies inventories

The 11.6% or ₱164.5 million increase in this account to ₱1,585.3 million as of March 31, 2010 from ₱1,420.8 million level as of March 31, 2009 was accounted for by the ₱111.5 million acquisitions net of withdrawals for casings and drilling equipment/pump spares and ₱53.0 million receipt of inventories from Mindanao I and II BOT Contractors.

Due from related parties

This account pertains to the non-interest bearing advances made by EDC to First Gen on expenses related to the financial consultancy, business development and other related services rendered to the Company.

Derivative assets

This account decreased by 97.0% or ₱387.5 million to ₱11.9 million in the first three months of 2010 from the ₱399.4 million balance as of March 31, 2009. The ₱11.9 million derivative assets balance in 2010 pertained to the fair value of the foreign currency forward contracts of EDC Parent maturing on June 24, 2010 for Miyazawa II while the ₱399.4 million 2009 balance pertained to the range-bonus forward for Miyazawa I which matured in May 2009.

Other current assets

Other current assets consist mainly of BIR's tax credit certificates, prepaid expenses and advances to contractors. The 45.1% or ₱263.8 million decrease in the first quarter of 2010 to ₱321.3 million from the ₱585.1 million balance as of March 31, 2009 was attributed mainly to the ₱317.1 million application of tax credit certificates to the 2009 income tax payment reduced by the ₱53.3 million prepaid rental of Head Office and prepaid insurance on industrial all risk coverage.

Noncurrent assets held for sale

The ₱1,797.6 million noncurrent assets held for sale represent the remaining parcel of land, buildings and improvements owned by the Company in Fort Bonifacio head office. The sale entered into with PNOC prior to the Company's privatization was completed in December 2009.

Concession receivable (inclusive of current portion)

The outstanding balance of this account as of October 23, 2009 was reclassified to Property, plant and equipment account due to the Parent Company's conversion of its GSCs to GRESCs. The GRESC has established that the Parent Company has control over any significant residual interest over the steamfields, power plant and related facilities during and even after the concession period.

Property, plant and equipment - net

The substantial increase by 975.4% or ₱54,315.5 million to ₱59,883.9 million as of March 2010 from the ₱5,568.4 million in March 2009 was due to the Parent Company's conversion of its GSCs to GRESCs. The GRESC has established that the Parent Company has control over the steamfields, power plant and related facilities during and even after the concession period. Thus, outstanding balances of Concession receivable and EDC Parent's Intangible assets accounts as of October 23, 2009 were reclassified to Property, plant and equipment account.

Goodwill and intangible assets-net

Intangible asset decreased by 80.2% or ₱9,583.7 million as of March 31, 2010 from the ₱11,957.2 million balance as of March 31, 2009. The decrease was due to the Parent Company's conversion of GSC to GRESC. The GRESC has established that the Parent Company has control over the steamfields, power plant and related facilities during and even after the concession period. Thus, outstanding balances of EDC Parent's Intangible assets accounts as of October 23, 2009 was reclassified to property, plant and equipment account. The ₱24.1 million amortization of FG Hydro's water rights also contributed to the decrease in this account.

Deferred tax assets - net

Net deferred tax assets decreased by 69.9% or ₱2,150.6 million to ₱925.3 million in the first quarter of 2010 from ₱3,075.9 million as of March 31, 2009 mainly due to the write-down of

deferred tax asset from the reduced corporate income tax rate of 10% under the RE Law starting February 2009.

Derivative assets (non-current)

This account pertains to the fair value of the outstanding embedded currency options on FG Hydro's contract with Andritz Hydro GmbH for the Pantabangan Plant Refurbishment and Upgrade Project (PRUP).

This account decreased by 94.5% or ₱15.5 million to ₱0.9 million as of March 31, 2010 from the ₱16.4 million balance as of March 31, 2009 due to scheduled payments made by FG Hydro.

Other non-current assets, net

This account increased by 45.1% or ₱427.2 million to ₱1,373.7 million as of March 31, 2010 from ₱946.5 million as of March 31, 2009. The increase pertained to the claims for refund of input VAT receivable from BIR.

Trade and other payables

This account increased by 118.1% or ₱3,666.2 million to ₱6,770.3 million in the first quarter of 2010 from ₱3,104.1 million in March 2009 was mainly due to the accrual of ₱2,256.4 million cash dividends ₱666.4 million interest on loans and ₱743.4 million liabilities to suppliers and contractors and withholding taxes.

Loan Payable

The March 2010 balance pertained to short-term loan availed by FG Hydro with local bank while the March 2009 balance pertained to EDC Parent's loan with local bank and fully settled in 2009.

Income tax payable

This account decreased by 54.2% or ₱323.6 million to ₱273.4 million in the first quarter of 2010 from ₱597.0 million March 2009 level due to the reduction of corporate income tax rate to 10% starting February 2009.

Due to related parties

This account decreased by 253.1% or ₱245.5 million to ₱342.5 million as of March 31, 2010 from the ₱97.0 million balance as of March 31, 2009 on account of settlement of liabilities to First Gen.

Derivative liabilities

For March 2010, the account pertains to the fair value of the foreign currency forward contracts of EDC Parent maturing on June 24, 2010 for Miyazawa II while the balance in March 2009 pertains to the fair value of the foreign currency forward contracts for Miyazawa I.

Obligation to power plant contractors

The ₱54.3 million balance as of March 31, 2009 was fully settled with the turn-over of the Mindanao power plants in June 2009.

Royalty fee payable (inclusive of current portion)

This account decreased by 51.2% or ₱792.7 million to ₱755.7 million as of March 31, 2010 from ₱1,548.4 million as of March 31, 2009 due to royalty payments effected.

Long-term debt (inclusive of current portion)

Long-term debt, consisting of JP¥, US\$ and PH₱ loans, increased by 32.7% or ₱11,366.4 million to ₱46,091.2 million as of March 31, 2010 from ₱34,724.8 million as of March 31, 2009. The increase was primarily due to the following:

- ₱9.0 billion FRCN and ₱12.0 billion Peso Public Bonds availed in July/September 2009 and December 2009, respectively; and
- ₱59.3 million amortization of transaction costs.

These were reduced by the ₱6,270.4 million settlement of Miyazawa I, ₱3,167.6 million amortization payments and ₱254.9 million foreign exchange gain on loan restatement to March 2010 exchange rate.

Deferred tax liability

This account pertains to the deferred tax liability on unrealized foreign exchange gain arising from the restatement of FG Hydro's Deferred Payment Facility with PSALM. It increased by 190.8% or ₱14.5 million to ₱22.1 million as of end-March 2010 from the ₱7.6 million balance as of end-March 2009 due to the unrealized foreign exchange gain due to appreciation of PhP vs. US\$ in March 2010.

Net retirement and other post-retirement benefits

This account pertains to the funded, non-contributory, defined benefit retirement plan maintained for all EDC-Parent permanent employees. It increased by 25.5% or ₱270.4 million due to the accrual of retirement benefits from April 2009 to March 2010.

Other long-term liabilities

This account increased by 7.0% or ₱19.1 million to ₱291.1 million as of March 31, 2010 from ₱272.0 million as of March 31, 2009 mainly due to higher accrual of vacation and sick leave benefits.

Preferred Stock/Common Stock

The increase pertained to the 25% subscription to the 7.5 billion increase in authorized preferred stock and 25% stock dividend for the 15 billion increase in authorized common shares as approved by the Securities and Exchange Commission on October 12, 2009.

Cost of treasury stock held/Common stock in employee trust account

The Common shares held in treasury stock were issued irrevocably to Banco de Oro Trust and Investment Group (BDO Trust) for the benefit of the grantees under the Parent Company's executive and employee stock ownership plan. The issuance of common shares to BDO Trust was recognized under the "Common shares in employee trust account" account in the equity section of the consolidated statement of financial position.

Net accumulated unrealized gain on AFS investments

This account increased by 28.4% or ₱27.1 million to ₱122.5 million as of March 31, 2010 from ₱95.4 million at end-March 2009 mainly due to the rise in fair value of the investments.

Retained earnings

Retained earnings decreased by 28.2% or ₱3,430.6 million to ₱8,720.1 million as of March 31, 2010 from the ₱12,150.7 million March 31, 2009 balance. This was accounted for by the net income posted from April 2009 to first quarter of 2010 offset by the cash/stock dividends declared.

Minority interest

This account increased by 28.9% or ₱457.0 million to ₱2,036.0 million as of March 31, 2010 from ₱1,579.0 million as of March 31, 2009 balance on account of First Gen's share in the net income of FG Hydro from April 2009 to March 2010.

CASH FLOW

March 31, 2010 vs. March 31, 2009

Net cash flows from operating activities increased by 17.6% or ₱583.4 million to ₱3,891.2 million in the first quarter of 2010 from ₱3,307.8 million during the same period in 2009 mainly due to ₱2,624.6 million increase in operating income. These were partially offset by the ₱1,043.8 million reduction in concession receivable due to its reclassification to Property, plant and equipment starting October 23, 2009, plus the increase settlement by ₱482.9 million in trade and other payables, lower collection by ₱327.8 million in trade and other receivables and higher payment for interest and financing charges by ₱238.1 million.

Net cash flows used in investing activities increased by 104% or ₱361.4 million to ₱708.2 million in March 2010 from ₱346.8 million in 2009. This was primarily accounted by the increase in Property, plant and equipment by ₱720.5 million partly offset by lower outlays for intangible assets (₱168.9 million) and exploration and other assets (₱151.9 million) and higher interest received on investments (₱38.3 million).

Net cash flow used in financing activities amounted to ₱641.6 million in March 2010, a turnaround from net cash flow from financing activities of ₱3,657.4 million in 2009 primarily due to the ₱4,100.0 million IFC loan availed in January 2009.

DISCUSSION ON THE SUBSIDIARY

FG Hydro

March 2010 vs. March 2009 Results

(Amounts in PHP millions)	As of and for the periods ended March 31	
	2010	2009
Revenues	1,482.2	543.1
Expenses	211.8	309.5
Operating income	1,270.4	233.6
Provision for (benefit from) income tax	4.7	(3.7)
Net income	1,265.7	237.3
Total Current Assets	1,340.1	734.4
Total Non-Current Assets	7,300.1	6,594.5
Total Current Liabilities	1,678.5	874.6
Total Noncurrent Liabilities	1,871.6	2,506.7
Total Equity	5,090.1	3,947.6

FG Hydro's net income for the 1Q 2010 was up by 433.3% or ₱1,028.4 million to ₱1,265.7 million from the ₱237.3 million earned during the same period in 2009.

The favorable variance was on account of the following:

- increased electricity sales due to the combined effect of higher dispatch due to increased irrigation requirements and increased power generation capacity by 10 MW on account of the completion of the rehabilitation of PAHEP's Unit 1, and higher spot prices in the WESM driven by increase in demand levels during the period. (₱939.2 million);
- foreign exchange gain in 1Q 2010 (₱80.1 million) versus the foreign exchange loss in 1Q 2009 (₱50.4 million); and
- lower derivatives loss (₱10.3 million).

The favorable variance was reduced by higher operating expenses by 36.9% or ₱53.4 million to ₱198.3 million from ₱144.9 million due to increase in depreciation and higher accrued taxes.

Total current assets increased by 82.5% or ₱605.7 million to ₱1,340.1 million in 2010 from ₱734.4 million in 2009 primarily due to the ₱596.1 million increase in trade and other receivables while the hike in total non-current assets by 10.7% or ₱705.6 million came mainly from increase in capital expenditures resulting from the on-going Pantabangan refurbishment and upgrade project, though partly offset by depreciation and amortization charges during the period .

Total liabilities increased by 5% or ₱168.8 million to ₱3,550.1 million in 2010 from ₱3,381.3 million in 2009 attributed mainly to the following:

- increase in borrowings from related parties (₱556.9 million);

- short-term loan availed (₱225.8 million); and
- increase in deferred tax liability (₱14.5 million).

These were reduced by the amortization of the deferred payment facility to PSALM (₱462.9 million) and the unrealized foreign exchange gain on restatement of the loan (₱163.4 million).

Total equity as of March 31, 2010 of ₱5,090.1 million is 28.9% higher compared to the March 31, 2009 level of ₱3,947.6 million.

GREEN CORE

March 2010 Results

(Amounts in PHP millions)	March 2010
Revenues	1,487.8
Expenses	1,572.2
Operating loss	(84.4)
Benefit from income tax	25.3
Net loss	(59.1)
Total Current Assets	725.4
Total Non-Current Assets	9,983.6
Total Current Liabilities	6,543.0
Total Equity	4,166.0

**GCGI was incorporated in the Philippines on June 8, 2009.*

For the first quarter of 2010, GCGI's revenues amounted to ₱1,487.8 million.. These consist primarily of electricity sales to various customers (₱1,433.8 million) and the replacement power supplied to EDC (₱54.0 million).

Expenses were largely for the geothermal steam (as fuel) provided by EDC to GCGI's power plants (₱1,156.9 million), interest (₱131.4 million), depreciation (₱126.9 million), general & administrative (₱78.9 million), operations & maintenance (₱47.7 million) and purchased services and utilities (₱28.0 million).

Total current assets consist primarily of trade and other receivables (₱685.6 million) while bulk of the non-current assets are property, plant & equipment (₱9,953.9 million).

Total liabilities pertain to the cash support EDC provides GCGI, including the advances used to prepay the 60% PSALM deferred payment facility (₱5,432.9 million) and trade & other payables (₱1,086.7 million).

Total equity consists of additional paid in capital on preferred & common stocks (₱2,847.4 million), deposit for future stocks subscription (₱1,042.0 million) and common & preferred stocks (₱276.2 million).

Commitments that will have an impact on the issuer's liquidity

As of March 31, 2010, the company has unserved purchase orders and awarded contracts for the purchase of various capital goods in the total amount of ¥20.7 million.

Other than these, we are not aware of any other material commitments that should impact the Company's liquidity.

Legal proceedings

There are no other material changes in the contingent liabilities since the last annual balance sheet date.

FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

The Company has ¥21,659.3 million in long-term US dollar and Yen denominated loans as of March 31, 2010, of which 78.7% is yen-denominated.

To partially mitigate foreign exchange risk, the Company hedged its JPY22.0 billion Miyazawa II bond. The loan is due for bullet payment on June 28, 2010. It is equivalent to 62.5% of the ¥17,053.3 million total yen-denominated loans and 49.2% of the total long-term foreign loans.

OTHER MATTERS

CASH DIVIDEND

On March 25, 2010, the BOD of the Parent Company approved the following cash dividends in favor of all stockholders of record as of April 13, 2010 and payable on or before April 30, 2010:

- cash dividend of ¥0.0008 per share on the preferred shares
- regular cash dividend of ¥0.12 per share on the common shares.

MAJOR STOCKHOLDERS

As of March 31, 2010, the total number of stockholders was 677 and the stock price was ₱5.00.

List of Top 20 Stockholders as of March 31, 2010

Rank	Name	Nationality	Number of Shares			%
			Preferred	Common	Total	
1	Red Vulcan Holdings Corporation	Filipino	9,375,000,000	7,500,000,000	16,875,000,000	60.00%
2	PCD Nominee Corporation	Foreign	-	7,917,820,753	7,917,820,753	28.2%
3	PCD Nominee Corporation	Filipino		3,053,909,610	3,053,909,610	10.9%
4	Banco de Oro Unibank Inc. – Trust a	Filipino		116,250,000	116,250,000	0.4%
5	Spathodea Campanulata, Inc.	Filipino		90,000,000	90,000,000	0.3%
6	Regina Capital Dev. Corp.	Filipino		35,002,500	35,002,500	0.1%
7	The Insular Life Assurance Co., Ltd.	Filipino		8,423,750	8,423,750	0.0%
8	Peter D. Garrucho, Jr.	Filipino		5,350,000	5,350,000	0.0%
9	Ronaldo C. Sabella	Filipino		1,018,750	1,018,750	0.0%
10	ALG Holdings Corporation	Filipino		875,000	875,000	0.0%
11	CROSLO Holdings Corporation	Filipino		875,000	875,000	0.0%
12	Tan Ben Kuan	Filipino		875,000	875,000	0.0%
13	Mapazon Corporation	Filipino		840,000	840,000	0.0%
14	Hi-Light Corporation	Filipino		827,500	827,500	0.0%
15	Rosalind Camara	Filipino		663,750	663,750	0.0%
16	Engracio A. Sanchez	Filipino		594,000	594,000	0.0%
17	Rodolfo R. Waga, Jr.	Filipino		589,500	589,500	0.0%
18	Peter &/or Annabelle C. Mar	Filipino		500,000	500,000	0.0%
19	Guillermo N. or Clarita C. Tantuco	Filipino		440,000	440,000	0.0%
20	Nelia G. Gabarda	Filipino		375,000	375,000	0.0%

BOARD OF DIRECTORS

As of March 31, 2010, the members of Board of Directors of EDC are as follows:

Oscar M. Lopez	Chairman
Paul A. Aquino	Vice Chairman and Chief Executive Officer
Peter D. Garrucho, Jr.	Director
Federico R. Lopez	Director
Richard B. Tantoco	Director, President and Chief Operating Officer
Francis Giles B. Puno	Director
Ernesto B. Pantangco	Director and Executive Vice President
Jonathan C. Russell	Director
Vicente S. Perez, Jr.	Independent Director
Cesar V. Purisima	Independent Director
Francis G. Estrada	Independent Director

KEY OFFICERS

As of March 31, 2010, the key officers of EDC are as follows:

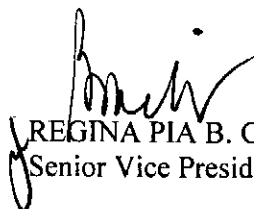
Name	Position
Paul A. Aquino	Chief Executive Officer
Richard B. Tantoco	President and Chief Operating Officer
Ernesto B. Pantangco	Executive Vice President
Agnes C. de Jesus	Senior Vice President for Environmental and External Affairs and Compliance Officer
Anthony M. Mabasa	Senior Vice President
Regina Pia B. Go	Senior Vice President and Chief Financial Officer
Marcelino M. Tongco	Vice President for Operations
Manuel S. Ogena	Vice President for Technical Services
Danilo C. Catigtig	Vice President for Power Generation
Glenn I. Funk	Vice President for Supply Chain Management
Ernesto G. Espinosa	Vice President for Human Resource Management
Vincent Martin C. Villegas	Vice President for Business Development
Maribel A. Manlapaz	Comptroller
Ma. Theresa P. Manalac	Deputy Treasurer
Roberto V. San Jose	Corporate Secretary
Michael R. Rodriguez	Senior Manager, Internal Audit
Francisco A. Palafox	Deputy Compliance Officer
Erudito S. Recio	Senior Manager, Investor Relations
Ana Maria A. Katigbak-Lim	Assistant Corporate Secretary

SIGNATURES

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

Registrant

ENERGY DEVELOPMENT (EDC) CORPORATION



REGINA PIA B. GO
Senior Vice President and Chief Financial Officer

J-4-10

Date Signed



AGNES C. DE JESUS
Senior Vice President and Compliance Officer

5/4/10

Date Signed

Annex I

Energy Development (EDC) Corporation and Subsidiaries

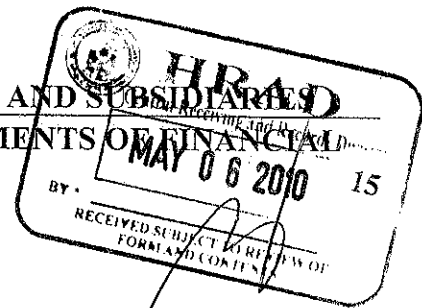
A Subsidiary of Red Vulcan Holdings Corporation

Unaudited Interim Condensed
Consolidated Financial Statements
March 31, 2010 and 2009
(With Comparative Figures as of December 31, 2009)

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2010 AND 2009

(With Comparative Figures as of December 31, 2009)



	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 5 and 36)	13,739,137,557	11,220,897,157	7,579,451,867
Trade and other receivables (Notes 6 and 36)	6,005,231,152	5,487,246,002	5,272,458,114
Current portion of concession receivables (Note 36)	-	-	2,025,906,924
Available-for-sale (AFS) investments (Note 36)	729,691,852	734,811,000	746,515,813
Parts and supplies inventories (Notes 7 and 36)	1,585,255,840	1,553,803,487	1,420,758,198
Due from related parties (Notes 27 and 36)	1,879,065	-	-
Derivative assets (Note 36)	11,936,960	-	399,446,190
Other current assets	321,262,099	140,998,551	585,140,363
	22,394,394,525	19,137,756,197	18,029,677,469
Noncurrent assets held for sale (Note 8)	-	-	1,797,587,000
Total Current Assets	22,394,394,525	19,137,756,197	19,827,264,469
Noncurrent Assets			
Property, plant and equipment – net (Note 9)	59,883,934,813	59,877,186,791	5,568,416,085
Service concession assets:			
Concession receivable - net of current portion (Note 36)	-	-	32,133,725,267
Intangible assets (Note 10)	-	-	9,487,607,900
Intangible assets (Note 10)	2,373,449,846	2,397,497,635	2,469,641,003
Deferred tax assets – net (Note 26)	925,343,913	959,273,421	3,075,897,469
Exploration and evaluation assets	1,046,304,246	1,038,052,272	1,055,031,346
Derivative assets (Note 36)	854,234	9,611,022	16,356,811
Other noncurrent assets – net (Note 11)	1,373,755,163	1,355,560,188	946,510,462
Total Noncurrent Assets	65,603,642,215	65,637,181,329	54,753,186,343
TOTAL ASSETS	87,998,036,740	84,774,937,526	74,580,450,812
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables (Notes 12 and 36)	6,770,335,118	3,985,053,445	3,104,072,069
Loan payable (Note 36)	225,850,000	-	2,000,000,000
Income tax payable	273,335,925	66,400,060	597,031,121
Due to related parties (Notes 27 and 36)	342,513,806	537,020,209	96,980,507
Derivative liabilities (Note 36)	8,624,881	-	47,050,740
Current portion of:			
Long-term debts (Notes 14 and 36)	16,448,262,368	16,930,776,636	8,347,850,984
Royalty fee payable (Notes 13 and 36)	264,523,897	244,306,963	1,548,362,528
Obligations to power plant contractors (Notes 15 and 36)	-	-	54,261,525
Total Current Liabilities	24,333,445,995	21,763,557,313	15,795,609,474

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Noncurrent Liabilities			
Long-term debts - net of current portion (Notes 14 and 36)	29,642,881,180	30,533,721,755	26,376,998,270
Royalty fee payable - net of current portion (Notes 13 and 36)	491,221,240	566,697,746	-
Deferred tax liabilities – net (Note 26)	22,057,462	17,340,023	7,584,542
Net retirement and other post- retirement benefits	1,331,039,795	1,237,097,147	1,060,593,619
Other long-term liabilities	291,042,125	324,661,737	272,030,306
Total Noncurrent Liabilities	31,778,241,802	32,679,518,408	27,717,206,737
Total Liabilities	56,111,687,797	54,443,075,721	43,512,816,211
Equity (Note 16)			
Attributable to Equity Holders of the Parent Company:			
Preferred stock	93,750,000	93,750,000	75,000,000
Common stock	18,750,000,000	18,750,000,000	15,000,000,000
Common stock in employee trust account	(391,643,364)	(391,643,364)	-
Additional paid-in capital	6,262,027,052	6,262,027,052	6,278,075,648
Equity reserve	(3,706,430,769)	(3,706,430,769)	(3,706,430,769)
Net accumulated unrealized gain on AFS investments	122,483,506	113,177,323	95,446,560
Retained earnings	8,720,136,975	7,681,220,446	12,150,700,111
Cost of treasury stock held	-	-	(404,219,068)
	29,850,323,400	28,802,100,688	29,488,572,482
Minority Interest	2,036,025,543	1,529,761,117	1,579,062,119
Total Equity	31,886,348,943	30,331,861,805	31,067,634,601
TOTAL LIABILITIES AND EQUITY	87,998,036,740	84,774,937,526	74,580,450,812

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIOD ENDED MARCH 31, 2010 AND 2009

	2010	2009
REVENUES (Note 4)		
Sale of electricity	6,542,950,511	3,584,072,215
Sale of steam	440,026,992	1,106,272,301
Interest income on service concessions	-	508,002,717
Drilling services	177,501,110	177,628,093
Construction revenue	-	168,889,299
	7,160,478,613	5,544,864,625
OPERATING EXPENSES		
Operations and maintenance (Note 18)	(1,125,106,146)	(1,428,293,033)
General and administrative (Note 19)	(756,103,080)	(654,837,335)
Purchased services and utilities (Note 17)	(340,026,894)	(602,381,103)
Construction costs	-	(145,594,223)
Depreciation and amortization (Notes 4 and 9)	(834,598,062)	(159,730,192)
	(3,055,834,182)	(2,990,835,886)
FINANCIAL INCOME (EXPENSES)		
Interest income - net of final tax (Notes 4 and 22)	135,316,792	110,734,975
Interest expense (Notes 4 and 21)	(863,985,744)	(550,441,364)
	(728,668,952)	(439,706,389)
OTHER INCOME (CHARGES) (Note 4)		
Foreign exchange gain (loss) - net	674,792,573	1,278,039,549
Derivatives gain (loss) - net	(5,438,076)	(298,928,076)
Miscellaneous – net (Note 23)	3,147,128	17,270,524
	672,501,625	996,381,997
INCOME BEFORE INCOME TAX	4,048,477,104	3,110,704,347
PROVISION FOR INCOME TAX		
Current	(206,935,867)	(512,223,611)
Deferred	(38,646,949)	(330,785,040)
	(245,582,816)	(843,008,651)
NET INCOME	3,802,894,288	2,267,695,696
Net income attributable to:		
Equity Holders of the Parent Company	3,296,629,862	2,172,766,876
Minority interest	506,264,426	94,928,820
	3,802,894,288	2,267,695,696
Basic/Diluted Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 25)	0.175	0.145

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
FOR THE PERIOD ENDED MARCH 31, 2010 AND 2009

	2010	2009
Net Income	3,802,894,288	2,267,695,696
Other comprehensive income		
Unrealized gain (loss) on AFS investments	9,306,183	64,620,206
Total comprehensive income	3,812,200,471	2,332,315,902
Total comprehensive income attributable to:		
Equity Holders of the Parent Company	3,305,936,045	2,237,387,082
Minority interests	506,264,426	94,928,820
	3,812,200,471	2,332,315,902

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED MARCH 31, 2010 AND 2009

	Equity Attributable to Equity Holders of the Parent											Total Equity
	Preferred Stock	Common Stock	Common Shares in Employee Trust Account	Additional Paid-in Capital	Equity Reserve	Accumulated Unrealized Net Gain on AFS Investments	Retained Earnings		Cost of Treasury Stock Held	Total	Minority Interest	
							Appropriated	Unappropriated				
Balance, January 1, 2009	75,000,000	15,000,000,000	-	6,278,075,648	(3,706,430,769)	30,826,354	-	9,977,933,235	(404,219,068)	27,251,185,400	1,484,133,299	28,735,318,699
Total comprehensive income	-	-	-	-	-	64,620,206	-	2,172,766,876	-	2,237,387,082	94,928,820	2,332,315,902
Balance, March 31, 2009	75,000,000	15,000,000,000	-	6,278,075,648	(3,706,430,769)	95,446,560	-	12,150,700,111	(404,219,068)	29,488,572,482	1,579,062,119	31,067,634,601
Balance, January 1, 2010	93,750,000	18,750,000,000	(391,643,364)	6,262,027,052	(3,706,430,769)	113,177,323	-	7,681,220,446	-	28,802,100,688	1,529,761,117	30,331,861,805
Total comprehensive income	-	-	-	-	-	9,306,183	-	3,296,629,862	-	3,305,936,045	506,264,426	3,812,200,471
Documentary stamp tax on:												
Preferred shares subscription	-	-	-	-	-	-	-	(131,250)	-	(131,250)	-	(131,250)
Common share subscriptions	-	-	-	-	-	-	-	(1,248,750)	-	(1,248,750)	-	(1,248,750)
Cash dividends (Note 32)	-	-	-	-	-	-	-	(2,256,333,333)	-	(2,256,333,333)	-	(2,256,333,333)
Balance, March 31, 2010	93,750,000	18,750,000,000	(391,643,364)	6,262,027,052	(3,706,430,769)	122,483,506	-	8,720,136,975	-	29,850,323,400	2,036,025,543	31,886,348,943

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED MARCH 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	4,048,477,104	3,110,704,347
Adjustments for:		
Interest expense (Notes 4 and 21)	863,985,744	552,049,156
Depreciation and amortization (Notes 4 and 9)	834,598,062	159,730,192
Unrealized foreign exchange losses (gains)	(710,626,698)	(1,261,617,089)
Interest income on service concession	-	(508,002,717)
Interest income (Notes 4 and 22)	(135,316,792)	(112,342,767)
Derivatives loss (gain) - net	5,438,076	298,928,076
Reduction in allowance for doubtful accounts (Note 19)	(1,141,061)	(407,121)
Provision for doubtful accounts (Note 19)	43,766	98,196,184
Provision for retirement and other benefits	93,955,258	34,199,137
Impairment loss on noncurrent AFS	-	3,328,633
Operating income before working capital changes	4,999,413,459	2,374,766,031
Decrease (increase) in:		
Trade and other receivables (Notes 6 and 36)	362,079,717	689,897,855
Parts and supplies inventories (Note 7)	(31,452,353)	86,289,395
Service concession receivable (Note 36)	-	1,043,804,724
Due from related parties (Note 27)	(1,879,065)	-
Other current assets	(180,263,549)	(191,333,732)
Increase (decrease) in:		
Trade and other payables (Notes 12 and 36)	(531,005,722)	(48,114,053)
Due to related parties (Note 27)	(18,668,547)	(37,469,065)
Other long-term liabilities	-	(40,786,551)
Royalty fee payable (Note 13)	(70,041,753)	(203,994,159)
Cash generated from operations	4,528,182,187	3,673,060,445
Interest and financing charges paid	(603,331,541)	(365,225,151)
Retirement and other post-retirement benefits paid	(33,632,222)	-
Net cash flows from operating activities	3,891,218,424	3,307,835,294
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	127,037,206	88,742,112
Acquisition of property, plant and equipment (Note 9)	(828,687,405)	(108,180,378)
Addition to intangible assets (Note 10)	-	(168,889,299)
Decrease (increase) in:		
Exploration and evaluation assets	3,137,133	(32,886,378)
Other noncurrent assets (Note 11)	(9,732,266)	(84,347,091)
Amounts due from related parties (Note 27)	-	(41,270,492)
Net cash flows from (used in) investing activities	(708,245,332)	(346,831,526)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term loans	463,840,000	-
Long-term debts (Note 14)	-	4,100,000,000
Payments of:		
Short-term loans	(230,650,000)	-
Long-term debts (Note 14)	(697,522,659)	(450,562,512)
Documentary stamp	(1,380,000)	-
Obligations to power plant contractor (Note 15)	-	(58,835,332)
Increase (decrease) in amounts due to related parties (Note 27)	(175,837,856)	66,805,142
Net cash flows (used in) financing activities	(641,550,515)	3,657,407,298
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,541,422,577	6,618,411,066
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		
ON CASH AND CASH EQUIVALENTS	(23,182,178)	3,952,541
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,220,897,158	957,088,260
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13,739,137,557	7,579,451,867

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
A Subsidiary of Red Vulcan Holdings Corporation

**SELECTED NOTES TO THE UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

1. Corporate Information

Energy Development (EDC) Corporation (the “Parent Company” or “EDC”) is a subsidiary of Red Vulcan Holdings Corporation, (Red Vulcan). The Parent Company and its subsidiaries (collectively hereinafter referred to as the “Company”), are separately incorporated and registered with the Philippine Securities and Exchange Commission (SEC). Below are the Parent Company’s ownership interests in its subsidiaries:

	Percentage of Ownership	
	2009	2008
First Luzon Geothermal Energy Corporation (FL Geothermal)	100%	100%
Green Core Geothermal Inc. (GCGI)*	100%	–
EDC Drillco Corporation (EDC Drillco)	100%	–
First Gen Hydro Power Corporation (FG Hydro)	60%	60%

*GCGI is a wholly owned subsidiary through FL Geothermal.

Beginning December 13, 2006, the common shares of EDC were listed and traded on the Philippine Stock Exchange (PSE). Up to November 2007, EDC was controlled by the Philippine National Oil Company (PNOC), a government-owned and controlled corporation, and the PNOC EDC Retirement Fund.

On November 29, 2007, PNOC and PNOC EDC Retirement Fund sold their combined interests in EDC to Red Vulcan (a Philippine corporation). Red Vulcan was then a wholly owned subsidiary of First Gen Corporation (First Gen, a publicly listed Philippine corporation) through Prime Terracota Holdings Corporation (Prime Terracota). First Gen’s indirect interest in EDC consists of 6.0 billion common shares and 7.5 billion preferred shares. Control was established through First Gen’s 60% indirect voting interest in EDC. Meanwhile, First Philippine Holdings Corporation (First Holdings) owns directly 66.2% of the common shares of First Gen. Accordingly, First Holdings became then the ultimate parent of the Company.

On May 12, 2009, First Gen’s indirect voting interest in Red Vulcan was reduced to 45% with the balance taken up by Lopez Inc. Retirement Fund (40%) and Quialex Realty Corporation (15%) through the issuance of preferred shares by Prime Terracota. As a result of this transaction, Prime Terracota replaced First Holdings as the ultimate parent of EDC effective May 12, 2009.

The Parent Company operates 12 geothermal projects in five geothermal service contract areas, namely Leyte Geothermal Production Field (LGPF), Southern Negros Geothermal Production Field (SNGPF), BacMan Geothermal Production Field (BGPF), Mindanao Geothermal Production Field (MGPF) and Northern Negros Geothermal Production Field (NNGPF) under the Geothermal Service Contracts (GSCs) entered into with the Department of Energy (DOE) pursuant to the provisions of Presidential Decree (P.D.) 1442. These GSCs were replaced by Geothermal Renewable Energy Service Contracts (GRESCs) on October 23, 2009. Geothermal steam produced is sold to the National Power Corporation (NPC) or are fed to the Parent Company and subsidiary’s power plants to produce electricity. EDC sells steam and power to NPC under the Steam Sales Agreements (SSAs) and Power Purchase Agreements (PPAs), respectively. EDC also sells electricity to Iloilo 1 Electric Cooperative (ILECO) under the Electricity Sales Agreement. Separately, it also has drilling activities in Papua New Guinea.

On October 20 and November 17, 2008, in line with its objective of focusing on renewable energy, the Parent Company acquired a total of 60% interest in FG Hydro from First Gen. FG Hydro operates the 112 Megawatt (MW) Pantabangan and Masiway Hydro-Electric Power Plants (PAHEP/MAHEP) located in Nueva Ecija, Philippines. FG Hydro buys from and sells electricity to the Wholesale Electricity Spot Market (WESM) and to various distribution utilities under the Transition Power Supply Contracts (TPSC).

FL Geothermal is a special-purpose company incorporated on April 9, 2008 to participate in the bid for another local power plant. The bid was won by and awarded to another local entity. Thereafter, there has been no business activity yet as far as FL Geothermal is concerned other than the investment holding company of its wholly owned subsidiary, GCGI.

GCGI is a special-purpose company incorporated on June 22, 2009 that participated in the bid for another local power plant. GCGI has an authorized capital stock of ₱1.0 million divided into 100,000 shares with a par value of ₱10.00 per share. Total subscribed and paid-up capital is ₱0.25 million, 25% of the authorized capital stock. The bid was successfully awarded to GCGI on September 2, 2009. On February 25, 2010, the SEC approved the increase in GCGI's authorized capital stock from ₱1.0 million to ₱1.0 billion divided into 50 million common shares with par value of ₱10.00 per share and 500 million preferred shares with par value of ₱1.00 per share.

EDC Drillco is a company incorporated on September 28, 2009 to act as an independent service contractor, consultant, specialized technical adviser for well construction and drilling and other allied activities. EDC Drillco has an authorized capital stock of ₱1.0 million divided into 1,000,000 shares with a par value of ₱1.00 per share. Total subscribed and paid-up capital is ₱0.25 million, 25% of the authorized capital stock.

The registered office address of the Parent Company is Merritt Road, Fort Bonifacio, Taguig City.

The unaudited interim condensed consolidated financial statements were reviewed and recommended for approval by the Audit and Governance Committee to the Board of Directors (BOD) on April 20, 2010. The same unaudited interim condensed consolidated financial statements were also approved and authorized for issuance by the BOD on April 23, 2010.

2. Basis of Preparation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, "Interim Financial Reporting." Accordingly, the unaudited interim condensed consolidated financial statements do not include all of the information and footnotes required in the annual consolidated financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2009.

The unaudited interim condensed consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The unaudited interim condensed consolidated financial statements, which have been prepared under the historical cost basis except for fair valuation of financial instruments (financial assets, financial liabilities and equity instruments), are presented in Philippine peso, which is the currency of the primary economic environment in which the Company operates.

3. Significant Accounting Policies

The accounting policies adopted in the preparation of the unaudited interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements as of and for the year ended December 31, 2009, except for the adoption of the following new and amended PFRS, Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) and improvements to PFRS, which became effective beginning January 1, 2010, except otherwise stated.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
 - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

- that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
- that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

4. Segment Revenue and Segment Results for Operating Segments

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 Company's identified operating segments below are consistent with the segments reported to the BOD, which is the Chief Operating Decision Maker (CODM) of the Company.

- a. Electricity segment - These are EDC's power plants covered mainly by long-term PPAs with NPC, FG Hydro's spot sales to and buying from the WESM and with various distribution utilities covered by TPSCs and GCGI's sales to various NPC-assigned customers covered by Power Supply Contracts.
- b. Steam segment - These relate to sale of steam to NPC plants covered by SSAs.
- c. All other segments - These relate to segment performing drilling services for Lihir Gold Ltd. and construction services accounted for under IFRIC 12 up to October 22, 2009.

The Company has one geographical segment since it derives principally all its revenues from domestic operations. Revenue from drilling services outside the Philippines is not material.

Management monitors the operating results of the business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Finance costs, finance income, income taxes and other charges and income are managed on a group basis. All of the Company's operations are in the Philippines and revenues generated are from domestic operations except for revenue from drilling services, included in "All Other Segments" category, which is from foreign services rendered to Lihir Gold Ltd.

NPC is the main customer for the electricity segment which comprised 73% of the total electricity revenue and the only external customer for the steam segment.

Financial information on the operating segments are summarized as follows:

	Electricity	Steam	All Other Segments	Eliminations	Total
Period Ended March 31, 2010					
(Unaudited)					
Segment revenue from external customers	P6,542,950,511	P440,026,992	P177,501,110	P-	P7,160,478,613
Intersegment revenue	53,995,845	1,156,941,625	-	(1,210,937,470)	-
Total segment revenue*	6,596,946,356	1,596,968,617	177,501,110	(1,210,937,470)	P7,160,478,613
Segment expenses	(3,443,984,159)	(653,289,033)	(166,823,704)	1,210,937,470	(3,053,159,426)
Unallocated segment expenses					(2,674,756)
Segment results	3,152,962,197	943,679,584	10,677,406	-	4,104,644,431
Unallocated interest income	-	-	-	-	135,316,792
Unallocated interest expense	-	-	-	-	(863,985,744)
Unallocated other income - net	-	-	-	-	672,501,625
Unallocated income taxes	-	-	-	-	(245,582,816)
Net income	P3,152,962,197	P943,679,584	P10,677,406	P-	P3,802,894,288

Period Ended March 31, 2009					
(Unaudited)					
Segment revenue from external customers	P4,033,827,336	P1,164,519,897	P346,517,392	P-	P5,544,864,625
Intersegment revenue	-	-	-	-	-
Total segment revenue*	4,033,827,336	1,164,519,897	346,517,392	-	5,544,864,625
Segment expenses	(1,944,297,789)	(670,085,827)	(372,537,598)	-	(2,986,921,214)
Unallocated segment expenses					(3,914,672)
Segment results	2,089,529,547	494,434,070	(26,020,206)	-	2,554,028,739
Unallocated interest income	-	-	-	-	110,734,975
Unallocated interest expense	-	-	-	-	(550,441,364)
Unallocated other income - net	-	-	-	-	996,381,997
Unallocated income taxes	-	-	-	-	(843,008,651)
Net income	P2,089,529,547	P494,434,070	(P26,020,206)	P-	P2,267,695,696

*Interest income on service concession was allocated between the electricity and steam segments using the equivalent steam and electricity base price as basis since this pertains to income from the receivables arising from GSCs.

	Electricity	Steam	All Other Segments	Eliminations	Total
As of March 31, 2010					
Segment assets	P53,076,375,542	P9,974,128,803	P556,697,272	P-	P63,607,201,617
Unallocated corporate assets					24,390,835,123
Total assets	P53,076,375,542	P9,974,128,803	P556,697,272	P-	P87,998,036,740
Segment liabilities	P34,692,159,360	P12,996,266,918	P1,175,380,994	P-	P48,863,807,272
Unallocated corporate liabilities	-	-	-	-	7,247,880,525
Total liabilities	P34,692,159,360	P12,996,266,918	P1,175,380,994	P-	P56,111,687,797
Capital expenditure	P454,975,692	P302,131,548	P41,443,947	P-	P798,551,187
Unallocated capital expenditure					30,136,217
	P454,975,692	P302,131,548	P41,443,947	P-	P828,687,404
Depreciation and amortization	(P718,906,152)	(P112,689,417)	(P2,996,658)	P-	(P834,592,227)
Unallocated depreciation and amortization					(5,835)
	(P718,906,152)	(P112,689,417)	(P2,996,658)	P-	(P834,598,062)
Unallocated impairment loss	(P50,897,659)	(P34,978,546)	(P6,969,148)	P-	(P92,845,353)
Other non-cash items					738,385,488
Unallocated non-cash items	(P50,897,659)	(P34,978,546)	(P6,969,148)	P-	P645,540,135

As of and for the year ended December 31, 2009					
Segment assets	P59,302,543,626	P1,027,087,909	P3,899,590,505	P-	P64,229,222,040
Unallocated corporate assets					20,545,715,486
Total assets	P59,302,543,626	P1,027,087,909	P3,899,590,505	P-	P84,774,937,526
Segment liabilities	P19,252,234,997	P8,337,130,134	P320,677,055	P-	P27,910,042,186
Unallocated corporate liabilities	-	-	-	-	26,533,033,535
Total liabilities	P19,252,234,997	P8,337,130,134	P320,677,055	P-	P54,443,075,721
Capital expenditure	P1,040,058,671	P793,544,660	P1,279,879,950	P-	P3,113,483,281

	Electricity	Steam	All Other Segments	Eliminations	Total
Unallocated capital expenditure					107,852,469
	₱1,040,058,671	₱793,544,660	₱1,279,879,950	₱-	₱3,221,335,750
Depreciation and amortization	(₱1,079,455,372)	(₱64,668,917)	(₱54,667,201)	-	(₱1,198,791,490)
Unallocated depreciation and amortization					(36,117)
	(₱1,079,455,372)	(₱64,668,917)	(₱54,667,201)	-	(₱1,198,827,607)
Unallocated impairment loss					₱349,000,000
Other non-cash items	(₱203,241,825)	(₱272,667,303)	(₱36,782,689)	₱-	(₱512,691,817)
Unallocated non-cash items					217,148,644
	(₱203,241,825)	(₱272,667,303)	(₱36,782,689)	₱-	(₱295,543,173)
As of March 31, 2009					
Segment assets	₱61,250,484,822	₱1,630,533,104	₱1,495,534,822	₱-	₱64,376,552,748
Unallocated corporate assets					10,203,898,064
Total assets	₱61,250,484,822	₱1,630,533,104	₱1,495,534,822	₱-	₱74,580,450,812
Segment liabilities	₱25,660,997,512	₱12,758,169,030	₱299,724,124	-	₱38,718,890,666
Unallocated corporate liabilities					4,793,925,545
Total liabilities	₱25,660,997,512	₱12,758,169,030	₱299,724,124	₱-	₱43,512,816,211
Capital expenditure	₱15,802,371	₱-	₱83,031,352	₱-	₱98,833,723
Unallocated capital expenditure					9,346,654
	₱15,802,371	₱-	₱83,031,352	₱-	₱108,180,377
Depreciation and amortization	(₱147,853,033)	(₱2,477,364)	(₱9,397,960)	₱-	(₱159,728,357)
Unallocated depreciation and amortization					(1,835)
	(₱147,853,033)	(₱2,477,364)	(₱9,397,960)	₱-	(₱159,730,192)
Impairment loss	₱-	₱-	₱-	₱-	₱-
Other non-cash items	(₱18,418,790)	(₱111,172,171)	(₱2,397,239)	₱-	(131,988,200)
Unallocated non-cash items					959,360,380
	(₱18,418,790)	(₱111,172,171)	(₱2,397,239)	₱-	₱827,372,180

The Parent Company has intersegment revenue from/to GCGI for the sale of steam/electricity. Intersegment revenues are all eliminated in consolidation.

Unallocated expenses pertain to expenses of the corporate, technical and administrative support groups while unallocated corporate assets and liabilities pertain to the Head Office and are managed on a group basis.

5. Cash and Cash Equivalents

This account consists of the following:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Cash on hand and in banks	₱ 1,468,036,339	₱259,974,540	₱347,088,624
Cash equivalents	12,271,101,218	10,960,922,617	7,232,363,243
	₱ 13,739,137,557	₱11,220,897,157	₱7,579,451,867

Cash in banks earns 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.

6. Trade and Other Receivables

This account consists of the following:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Trade	₱5,817,225,960	₱5,316,014,965	₱5,122,525,886
Others:			
Non-trade accounts receivable	89,905,989	77,268,776	159,919,653
Loans and notes receivables	67,599,100	67,573,603	62,968,734
Advances to employees	27,476,498	20,826,816	22,597,061
Employee receivables	12,459,619	14,998,506	13,129,956
Claims receivable	161,868	161,218	108,566
Total other receivables	197,603,074	180,828,919	258,723,970
	6,014,829,034	5,496,843,884	5,381,249,856
Less allowance for doubtful accounts	9,597,882	9,597,882	108,791,742
	₱6,005,231,152	₱5,487,246,002	₱5,272,458,114

Trade receivables are noninterest-bearing and are generally collectible in 30 to 60 days.

Majority of the Company's trade receivables are collectible from NPC. All revenues from sale of steam and majority of the revenues from sale of electricity were derived from NPC.

7. Parts and Supplies Inventories

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
On hand:			
Drilling tubular products and equipment spares	₱684,556,279	₱632,635,671	₱532,362,652
Power plant spares	277,154,892	381,569,716	317,462,596
Pump, production/steam gathering system, steam turbine, valves and valve spares	247,750,842	145,216,747	209,928,215
Chemical, chemical products, gases and catalyst	153,651,729	129,029,458	94,778,199
Heavy equipment spares	54,557,007	54,416,254	56,904,799
Electrical, cable, wire product and compressor spares	42,464,984	41,117,775	36,477,680
Measuring instruments, indicators and tools, safety equipment and supplies	26,870,881	34,303,528	33,113,334
Automotive, mechanical, bearing, seals, v-belt, gasket, tires and batteries	25,607,658	22,592,966	34,629,169
Construction and hardware supplies, stationeries and office supplies, hoses, communication and other spares and supplies	11,238,210	11,411,417	7,049,588

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Materials and supplies for disposal (at net realizable value in March 2010 and December 2009; at cost in March 2009)	—	—	35,794,851
	1,523,852,482	1,452,293,532	1,358,501,083
In transit	61,403,358	101,509,955	62,257,115
	₱1,585,255,840	₱1,553,803,487	₱1,420,758,198

Inventories in transit include items not yet received but ownership or title to the goods has already passed to the Company.

8. Noncurrent Assets Held for Sale

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Land	₱—	₱—	₱ 1,669,587,000
Buildings, improvements and equipment	—	—	128,000,000
	₱—	₱—	₱1,797,587,000

This account pertains to the 29,291 square meters of land together with buildings, improvements and equipment owned by the Parent Company in Fort Bonifacio. On November 13, 2007, the Parent Company, through its Board Resolution No. 115, Series of 2007, agreed to sell its 29,291 square meter land, buildings together with the improvements and immovable equipment owned by the Company in Fort Bonifacio.

The 19,785 square meters of land and buildings together with the improvements and immovable equipment were sold for ₱1,127.75 million and ₱124 million, respectively, through a deed of absolute sale dated May 29, 2009. The said sale resulted in the recognition of loss on sale amounting to ₱91.42 million for the excess of the cost of the building over its selling price and the related documentary stamp and other taxes paid.

The remaining 9,506 square meters portion of the land were sold for ₱541.84 million through a deed of absolute sale dated December 16, 2009. The said sale resulted in the recognition of loss on sale amounting to ₱38.45 million for the related documentary stamp and other taxes paid.

The Parent Company and PNOC also entered into a contract of lease for the Parent Company's use of the office buildings at Fort Bonifacio with the rental rate of ₱4.18 million per month, inclusive of VAT. This contract commenced on June 1, 2009 and will expire on November 30, 2011.

9. Property, Plant and Equipment

March 31, 2010 (Unaudited)											
	Power Plants	FCRS and Production Wells	Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Laboratory Equipment	Land	Major Spares and Others	Construction in Progress	Total
Cost:											
Balance at January 1, 2010	₱35,191,229,893	₱14,407,980,612	₱4,538,078,209	₱3,652,656,063	₱77,778,578	₱418,525,551	₱420,446,221	₱333,082,705	₱86,852,124	₱3,449,685,161	₱62,576,315,117
Additions	–	–	6,942,302	72,294,999	1,165,599	9,852,844	9,616,361	887,490	1,314,679	726,613,130	828,687,404
Retirements/Write-off	–	–	–	(90,742)	(574,567)	(210,989)	–	–	68,073	–	(808,225)
Reclassifications	–	–	1,760,405,363	(2,332,933)	–	(266,196)	182,857	–	(1,110,105)	(1,760,234,777)	(3,355,791)
Balance at March 31, 2010	35,191,229,893	14,407,980,612	6,305,425,874	3,722,527,387	78,369,610	427,901,210	430,245,439	333,970,195	87,124,771	2,416,063,514	63,400,838,505
Accumulated depreciation and impairment:											
Balance at January 1, 2010	429,218,860	326,670,521	601,372,567	1,046,773,307	56,213,112	178,822,767	60,057,192	–	–	–	2,699,128,326
Depreciation for the period	477,457,739	149,306,889	76,865,173	71,959,895	1,275,546	15,805,616	17,879,415	–	–	–	810,550,273
Retirements/Write-off	–	–	–	(22,686)	(574,566)	(210,973)	–	–	–	–	(808,225)
Reclassifications	–	–	25,015	7,990,002	–	16,852	1,449	–	–	–	8,033,318
Balance at March 31, 2010	906,676,599	475,977,410	678,262,755	1,126,700,518	56,914,092	194,434,262	77,938,056	–	–	–	3,516,903,692
Net book value	₱34,284,553,294	₱13,932,003,202	₱5,627,163,119	₱2,595,826,869	₱ 21,455,518	₱233,466,948	₱352,307,383	₱333,970,195	₱87,124,771	₱2,416,063,514	₱59,883,934,813
December 31, 2009 (Audited)											
	Power Plants	FCRS and Production Wells	Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Laboratory Equipment	Land	Major Spares and Others	Construction in Progress	Total
Cost:											
Balance at January 1, 2009	₱–	₱–	₱3,856,663,035	₱1,198,403,584	₱72,844,529	₱208,031,987	₱58,900,151	₱332,797,023	₱21,088,394	₱1,073,721,431	₱6,822,450,134
Acquisition through business combination	9,156,164,393	–	314,961,938	144,127,759	–	45,000	229,963,077	–	–	320,120,490	10,165,382,657
Additions	–	–	74,855,254	1,273,742,920	700,000	26,082,652	25,671,715	285,682	33,297,159	1,786,700,368	3,221,335,750
Retirements/Write-off	–	–	(324,237,384)	(1,590,259)	(3,927,300)	(5,284,918)	–	–	(13,861)	–	(335,053,722)
Reclassifications	–	–	(8,664,749)	201,513,627	1,057,740	(1,712,361)	(97,299)	–	32,480,432	(206,810,143)	17,767,247
Impact of conversion of GSCs to GRESCs	26,035,065,500	14,407,980,612	624,500,115	836,458,432	7,103,609	191,363,191	106,008,577	–	–	475,953,015	42,684,433,051
Balance at December 31, 2009	35,191,229,893	14,407,980,612	4,538,078,209	3,652,656,063	77,778,578	418,525,551	420,446,221	333,082,705	86,852,124	3,449,685,161	62,576,315,117
Accumulated depreciation and impairment:											
Balance at January 1, 2009	–	–	444,527,765	856,086,805	51,248,444	145,019,664	45,417,915	–	–	–	1,542,300,593
Depreciation for the year	307,351,455	99,537,926	207,384,264	203,508,319	7,581,791	27,738,911	14,618,815	–	–	–	867,721,481
Impairment – NNGPF	121,867,405	227,132,595	–	–	–	–	–	–	–	–	349,000,000
Retirements/Write-off	–	–	(50,662,092)	(1,590,250)	(3,927,292)	(5,206,754)	–	–	–	–	(61,386,388)
Reclassifications	–	–	122,630	(11,231,567)	1,310,169	11,270,946	20,462	–	–	–	1,492,640
Balance at December 31, 2009	429,218,860	326,670,521	601,372,567	1,046,773,307	56,213,112	178,822,767	60,057,192	–	–	–	2,699,128,326
Net book value	₱34,762,011,033	₱14,081,310,091	₱3,936,705,642	₱2,605,882,756	₱21,565,466	₱239,702,784	₱360,389,029	₱333,082,705	₱86,852,124	₱3,449,685,161	₱59,877,186,791

March 31, 2009 (Unaudited)

	Power Plants	FCRS and Production Wells	Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Laboratory Equipment	Land	Major Spares and Others	Construction in Progress	Total
Cost:											
Balance at January 1, 2009	₱-	₱-	₱3,856,663,035	₱1,198,403,584	₱72,844,529	₱208,031,987	₱58,900,151	₱332,797,023	₱21,088,394	₱1,073,721,431	₱6,822,450,134
Additions	-	-	1,704,543	78,831,793	-	1,913,270	617,014	88,343	2,910,000	22,115,415	108,180,378
Retirements/Write-off	-	-	-	-	(1,774,200)	(1,096,252)	-	-	5,408	-	(2,865,044)
Reclassifications	-	-	-	196,694,446	-	1,670,488	867,866	-	57,412,948	(472,020)	256,173,728
Balance at March 31, 2009	-	-	3,858,367,578	1,473,929,823	71,070,329	210,519,493	60,385,031	332,885,366	81,416,750	1,095,364,826	7,183,939,196
Accumulated depreciation and impairment:											
Balance at January 1, 2009	-	-	444,527,764	856,086,805	51,248,444	145,019,663	45,417,916	-	-	-	1,542,300,592
Depreciation for the period	-	-	53,175,411	3,820,914	2,098,977	5,015,128	1,097,483	-	-	-	65,207,913
Retirements/Write-off	-	-	-	-	(1,774,197)	(1,090,845)	-	-	-	-	(2,865,044)
Reclassifications	-	-	-	10,859,531	-	20,117	-	-	-	-	10,879,650
Balance at March 31, 2009	-	-	497,703,175	870,767,250	51,573,224	148,964,063	46,515,399	-	-	-	1,615,523,111
Net book value	₱-	₱-	₱3,360,664,403	₱603,162,573	₱19,497,105	₱61,555,430	₱13,869,632	₱332,885,366	₱81,416,750	₱1,095,364,826	₱5,568,416,085

Details of depreciation and amortization charges are shown below:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Property, plant and equipment	₱810,550,273	₱867,721,481	₱65,207,913
Intangible assets	24,047,789	331,106,126	94,522,279
Depreciation and amortization	₱834,598,062	₱1,198,827,607	₱159,730,192
Operating expenses	₱787,122,803	₱1,149,495,181	₱56,241,025
General and administrative	23,427,470	49,332,426	8,966,888
Depreciation	₱810,550,273	₱1,198,827,607	₱65,207,913

10. Intangible Assets

March 31, 2010 (Unaudited)				
	Intangible Assets Arising from Service Concessions	Water Rights	Goodwill	Total
Cost:				
Balance at January 1, 2010	P-	P2,404,778,918	P293,316,082	P2,698,095,000
Additions	-	-	-	-
Balance at March 31, 2010	-	2,404,778,918	293,316,082	P2,698,095,000
Accumulated amortization:				
Balance at January 1, 2010	-	300,597,365	-	300,597,365
Amortization	-	24,047,789	-	24,047,789
Balance at March 31, 2010	-	324,645,154	-	324,645,154
Net book value	P-	P 2,080,133,764	P293,316,082	2,373,449,846
December 31, 2009 (Audited)				
	Intangible Assets Arising from Service Concessions	Water Rights	Goodwill	Total
Cost:				
Balance at January 1, 2009	P9,835,385,122	P2,404,778,918	P293,316,082	P12,533,480,122
Additions	541,458,209	-	-	541,458,209
Reversal arising from conversion of GSCs to GRESCs	(10,376,843,331)	-	-	(10,376,843,331)
Balance at December 31, 2009	-	2,404,778,918	293,316,082	2,698,095,000
Accumulated amortization:				
Balance at January 1, 2009	446,192,031	204,406,208	-	650,598,239
Amortization	234,914,969	96,191,157	-	331,106,126
Reversal arising from conversion of GSCs to GRESCs	(681,107,000)	-	-	(681,107,000)
Balance at December 31, 2009	-	300,597,365	-	300,597,365
Net book value	P-	P2,104,181,553	P293,316,082	P2,397,497,635
March 31, 2009 (Unaudited)				
	Intangible Assets Arising from Service Concessions	Water Rights	Goodwill	Total
Cost:				
Balance at January 1, 2009	P9,835,385,122	P2,404,778,918	P293,316,082	P12,533,480,122
Additions	168,889,299	-	-	168,889,299
Balance at March 31, 2009	10,004,274,421	2,404,778,918	293,316,082	12,702,369,421
Accumulated amortization:				
Balance at January 1, 2009	446,192,031	204,406,208	-	650,598,239
Amortization	70,474,490	24,047,789	-	94,522,279
Balance at March 31, 2009	516,666,521	228,453,997	-	745,120,518
Net book value	P9,487,607,900	P2,176,324,921	P293,316,082	P11,957,248,903

11. Other Noncurrent Assets

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Long-term receivables	P2,442,936,376	P2,444,082,251	P2,279,012,908
Input VAT	744,957,534	657,733,453	535,638,888
Prepaid expenses	46,371,239	58,530,604	21,634,058
Special deposits and funds	49,892,176	48,361,874	37,217,641
Others	42,989,082	101,340,545	34,807,925
	3,327,146,407	3,310,048,727	2,908,311,420
Less allowance for doubtful accounts	1,953,391,244	1,954,488,539	1,961,800,958
	P1,373,755,163	P1,355,560,188	P946,510,462

Long-term receivables

The composition of long-term receivables is as follows:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Claims for VAT refund	P2,408,505,632	P2,408,505,632	P1,894,719,994
NPC accounts and other receivables	34,430,744	35,576,619	384,292,914
	P2,442,936,376	P2,444,082,251	P2,279,012,908

12. Trade and Other Payables

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Accounts payable - trade	P5,147,838,492	P2,832,923,865	P2,077,280,045
Accrued interest and guarantee fees	1,223,354,504	923,147,531	655,728,625
Withholding and other taxes payable	139,181,132	194,692,777	56,511,741
Deferred credits	89,861,740	15,012,705	20,971,398
SSS and other contributions payable	2,797,960	8,768,580	11,514,749
Accrued premium on range bonus forwards	-	-	247,567,485
Other payables	167,301,290	10,507,987	34,498,026
	P6,770,335,118	P3,985,053,445	P3,104,072,069

Accounts payable - trade are noninterest-bearing and are normally settled on a 30 to 60 days payment term.

The accrued interest represents interest accrual on outstanding loans reckoning from the last payment date up to the financial reporting date. Guarantee fees are accruals of amounts due to the Philippine Government reckoning from the last payment date up to the financial reporting date.

13. Royalty Fee Payable

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Due to DOE and LGU	₱755,745,137	₱811,004,709	₱1,548,362,528
Less current portion	264,523,897	244,306,963	1,548,362,528
Noncurrent portion	₱491,221,240	₱566,697,746	₱-

On July 8, 2009, the Parent Company negotiated with the DOE for the payment of deferred royalty due to DOE amounting to ₱1.4 billion for a period of five years with a quarterly amortization of ₱87.5 million or an annual payment of ₱350.0 million. Beginning in 2009, royalty fee due shall be paid as it becomes due.

On September 11, 2009, the Parent Company received the Provisional Certificates of Registration as Renewable Energy (RE) Developer.

Royalty fee expense decreased due to the fiscal incentives availed pursuant to the RE Law which was implemented retroactive to the effective date of the RE Law.

14. Long-term Debt

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Total Dollar-denominated debt	₱4,606,026,389	₱4,929,853,232	₱6,502,488,755
Total Japanese Yen-denominated debt	17,053,329,108	17,788,935,791	24,133,732,215
Total Peso-denominated debt	24,431,788,051	24,745,709,368	4,088,628,284
	46,091,143,548	47,464,498,391	34,724,849,254
Current portion	(16,448,262,368)	(16,930,776,636)	(8,347,850,984)
Long-term portion	₱29,642,881,180	₱30,533,721,755	₱26,376,998,270

The Company's foreign-currency denominated long-term debts were translated into Philippine pesos based on the prevailing foreign exchange rates at the date of the unaudited interim consolidated statement of financial position (USD1=JPY92.790: USD1=PHP45.170 on March 31, 2010, USD1=JPY91.634: USD1=PHP46.200 on December 31, 2009 and USD1=JPY97.172: USD1=PHP48.330 on March 31, 2009).

15. Energy Conversion Agreement

On June 18, 2009, Marubeni turned over the Mindanao I and II power plants. These are the power plants built under the BOT scheme under the Energy Conversion Agreement between the Parent Company and Marubeni.

16. Equity

The Parent 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 and other mineral resources.

The Parent Company had 677 common stockholders and one preferred stockholder as of March 31, 2010, 662 common stockholders and one preferred stockholder as of December 31, 2009 and 654 common stockholders and one preferred stockholder as of March 31, 2009.

The movements of common and preferred shares are as follows:

	Number of Shares		
	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Preferred stock - ₱0.01 par value			
Authorized	15,000,000,000	15,000,000,000	7,500,000,000
Issued and outstanding:			
Balance at beginning of year	7,500,000,000	7,500,000,000	7,500,000,000
Additional subscriptions	1,875,000,000	1,875,000,000	-
Issuances	-	-	-
Balance at end of year	9,375,000,000	9,375,000,000	7,500,000,000
Common stock - ₱1 par value			
Authorized	30,000,000,000	30,000,000,000	15,000,000,000
Issued:			
Balance at beginning of year	15,000,000,000	15,000,000,000	15,000,000,000
Stock dividends - 25%	3,750,000,000	3,750,000,000	-
Issuances	-	-	-
Balance at end of year	18,750,000,000	18,750,000,000	15,000,000,000
Outstanding:			
Balance at beginning of year	14,907,000,000	14,907,000,000	15,000,000,000
Stock dividends - 25%	3,750,000,000	3,750,000,000	-
Issuances	93,000,000	93,000,000	-
Common shares held in treasury	-	-	(93,000,000)
Balance at end of year	18,750,000,000	18,750,000,000	14,907,000,000

17. Purchased Services and Utilities

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Professional and technical services	₱ 189,278,464	₱400,872,339
BOT fees	-	109,291,752
Hauling and handling costs	31,771,122	43,803,700
Purchased services	52,541,500	25,878,635
Contractual personnel costs	42,635,457	12,333,030
Rig mobilization charges	20,428,711	3,190,766
Purchased utilities	693,240	5,122,204
Others	2,678,400	1,888,677
	₱340,026,894	₱602,381,103

18. Operations and Maintenance Expenses

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Repairs and maintenance	₱314,806,121	₱508,023,433
Personnel costs	387,239,542	328,370,318
Materials and supplies issued	151,070,801	203,823,561
Rental, insurance and taxes	203,434,905	225,276,948
Royalty fees	52,164,819	135,087,038
Business and related expenses	16,389,958	27,711,735
	₱1,125,106,146	₱1,428,293,033

19. General and Administrative Expenses

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Personnel costs	₱238,645,391	₱202,710,711
Rental, insurance and taxes	168,797,192	98,254,542
Purchased services and utilities	200,986,932	143,773,754
Business and related expenses	53,374,503	47,513,267
Materials and supplies issued	44,087,334	26,629,677
Repairs and maintenance	51,309,023	6,321,627
Provision for doubtful accounts	43,766	98,196,184
Reduction in allowance for doubtful accounts	(1,141,061)	(407,121)
Others	-	31,844,694
	₱756,103,080	₱654,837,335

20. Foreign Exchange Gains (Losses)

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Foreign exchange gains (losses) on long-term loans	₱747,029,246	₱1,257,993,819
Foreign exchange losses on other accounts	(72,236,673)	20,045,730
	₱674,792,573	₱1,278,039,549

This account pertains to foreign exchange gains adjustments realized on repayment of loans and restatement of outstanding balances of foreign currency-denominated loans, short-term placements and cash in banks. Following are the exchange rates used to restate outstanding balances at reported dates:

Currency	Equivalent to US\$1.00		
	March 31, 2010	December 31, 2009	March 31, 2009
Japanese Yen	92.790	91.634	97.172
Philippine Peso	45.170	46.200	48.330

21. Interest Expense

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Interest on long-term debt including amortization of transaction costs	₱843,946,481	₱251,640,237
Interest on loan payable	3,334,410	124,463,798
Interest accretion of "Day 1" gain	14,782,182	54,003,762
Interest on liability from litigation	1,922,671	120,362,037
	863,985,744	550,469,834
Amounts included in the cost of qualifying assets	-	(28,470)
	₱863,985,744	₱550,441,364

22. Interest Income

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Interest on placements	₱128,394,712	₱85,008,510
Accretion of "day 1 loss" on NPC receivable	6,007,914	23,353,754
Interest on savings/current accounts	342,672	1,878,487
Interest on overdue accounts/others	571,494	494,224
	₱135,316,792	₱110,734,975

23. Miscellaneous Income (Charges)

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
Gain on sale of surplus assets and obsolete materials inventory	₱769,204	₱5,757,086
Contractors/suppliers penalty charges	546,634	1,545,234
Impairment loss on AFS investments	-	(3,328,633)
Others	1,831,290	13,296,837
	₱3,147,128	₱17,270,524

24. Revenue from Arbitration Award

On April 24, 2008, the Parent Company and NPC signed a Joint Manifestation and Undertaking (JMU) to abide by the arbitral decision on March 25, 2008. The arbitral decision covered the long-standing issue related to the SSAs and PPAs of EDC and NPC.

In the execution of the arbitral decision, both the Parent Company and NPC agreed that the amount of ₱2,894.93 million shall be paid by NPC to the Parent Company, without further interest, in accordance with the following schedule:

Tranche	Settlement Amount	Payment Term	Actual Date of Settlement
First	₱500.00 million	30 days from submission of JMU to the Office of the Voluntary Arbitrator	July 15, 2008
Second	500.00 million	60 days from submission of JMU to	July 15, 2008

		the Office of the Voluntary Arbitrator	
Third	1,000.00 million	January 2009	February 2, 2009
Fourth	894.93 million	January 2010	Pending collection as of March 31, 2010
	<u>₱2,894.93 million</u>		

Full payment of the foregoing amounts shall constitute full and complete settlement of all the claims each party has against the other as detailed in the November 5, 2007 arbitration agreement.

The Parent Company collected ₱2,000.0 million (₱1,000.0 million on July 15, 2008 and ₱1,000.0 million February 2, 2009) of the ₱2,894.93 million arbitral settlement award. The remaining amount of ₱894.93 million as of September 30, 2009 shall be collectible in January 2010. The arbitral decision made on March 25, 2008 covered the long-standing issue related to the SSAs and PPAs of the Parent Company and NPC.

25. Earnings Per Share (EPS)

The EPS amounts were computed as follows:

	March 31, 2010 (Unaudited)	March 31, 2009 (Unaudited)
(a) Net income attributable to equity shareholders of the parent	₱3,296,629,862	₱2,172,766,876
Less dividends on preferred shares	7,500,000	6,000,000
(b) Net income attributable to common shareholders of the parent	₱3,289,129,862	₱2,166,766,876
(c) Weighted average numbers of shares for EPS	18,750,000,000	14,907,000,000
Basic/diluted EPS (b/c)	₱0.175	₱0.145

The Company does not have dilutive common stock equivalents.

26. Income Tax

The deferred tax assets and liabilities are presented in the unaudited interim condensed consolidated statement of financial position as follows:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Deferred tax assets-net	₱925,343,913	₱959,273,421	₱3,075,897,469
Deferred tax liabilities-net	(22,057,462)	(17,340,023)	(7,584,542)
	₱903,286,451	₱941,933,398	₱3,068,312,927

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The following are the transactions that the Company had with related parties for the periods ended March 31, 2010 and 2009.

a. First Balfour, Inc. (First Balfour)

Following the usual bidding process in 2008, the Parent Company awarded to First Balfour a procurement contract amounting to ₱360.0 million for various civil, structural, mechanical and piping works for the LGPF. The advance payment of ₱54.0 million, 15% of the contract amount, was recorded under "Other current assets" account.

In 2009, the advance payment was fully recouped from its progress billings.

As of March 31, 2010, the outstanding balance of ₱29.4 million was recorded under "Due to related parties" account which pertained to accrual of progress billings and the 10% retention.

First Balfour is a wholly owned subsidiary of First Holdings.

b. First Gen

First Gen provides financial consultancy, business development and other related services to the Parent Company under a consultancy agreement beginning September 1, 2008. Such agreement is for a period of three years up to August 31, 2011. Under the terms of the agreement, billings for consultancy services shall be ₱8.7 million per month plus applicable taxes. This was increased to ₱11.8 million effective September 2009 to cover the cost of additional officers and staff assigned to the Parent Company.

In 2009 and 2008, FG Hydro availed of unsecured, interest-bearing and US dollar-denominated cash advances from First Gen. Said advances are due and demandable and bear interest of 5.29%. The outstanding balance as of March 31, 2010 and 2009 included in the "Due to related parties" account amounting to ₱312.22 million and ₱89.67 million, respectively.

c. IFC

The Parent Company entered into a loan agreement with the IFC, a shareholder of the Company, on November 27, 2008 for \$100.0 million or its peso equivalent of ₱4.1 billion. IFC has approximately 5% ownership interest in the Parent Company. On January 7, 2009, the Parent Company opted to draw the loan in peso and received the proceeds amounting to ₱4,048.75 million, net of ₱51.25 million front-end fee. As of March 31, 2010, the outstanding loan amounted to ₱4,026.88 million, net of unamortized transaction cost of ₱73.12 million and included under the "Long-term debts" account.

The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another five to

10 years. Under the loan agreement, the Parent Company is restricted from creating liens and is subject to certain financial covenants.

d. Other Related Parties

In the ordinary course of business, the Company avails of or grants advances from/to its related parties for working capital requirements. Such advances are payable/collectible within 12 months and are non-interest bearing.

Buang Private Power Corporation is a subsidiary of First Private Power Corporation, an associate of First Gen. First Gas Holdings Corporation and First Gas Power Corporation are subsidiaries of First Gen. First Philippine Holdings Corporation, parent company of First Gen, is an associate of Benpres Holding Corporation.

Following are the amounts of transactions for the periods ended March 31, 2010 and 2009 and outstanding balances as of March 31, 2010 and 2009 and December 31, 2009:

Related Party	Nature of Transaction	Transactions for the period ended March 31		Net amount Due from (to) Related Parties		
		2010	2009	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
First Gen	Interest-free advances	₱1,879,065	–	₱1,879,065	–	–
First Gen	Interest-bearing advances (payment)	(₱191,919,949)	₱26,193,783	(₱312,215,707)	(₱504,135,656)	(₱87,000,891)
	Consultancy fee	26,931,765	30,705,882	–	–	(9,744,000)
	Interest-free advances	2,709,905	–	–	(2,709,905)	–
First Balfour, Inc.	Steam augmentation contract in Leyte	15,310,083	32,496,828	(29,438,812)	(29,438,812)	–
Buang Private Power Corporation	Interest-free advances (payment)	–	(150,286)	–	–	–
First Gas Holdings Corporation	Interest-free advances	123,450	123,450	(697,551)	(574,100)	(205,750)
IFC	Interest-bearing loans	–	4,170,132,778	(4,170,132,778)	(4,170,132,778)	(4,170,132,778)
First Gas Power Corporation	Interest-free advances	–	29,866	(150,677)	(150,677)	(29,866)
Eugenio Lopez Foundation, Inc.	Donation to Lopez Museum	–	–	–	–	–
Lopez Group Foundation, Inc.	Donation to support Group's Corporate Social Responsibility efforts	–	–	–	–	–
Benpres Holdings Corporation	Budget expense allocation	–	–	–	–	–
Red Vulcan	Interest-free advances	–	–	(11,059)	(11,059)	–
		(₱146,844,746)	₱4,259,532,301	(₱4,512,646,584)	(₱4,707,152,987)	(₱4,267,113,285)

There were no guarantees provided or received for any related party. The Company has not recognized any impairment loss on receivables from related parties as of March 31, 2010 and 2009 and December 31, 2009.

28. Explanatory Comments about the Seasonality or Cyclicity of Interim Operations

Seasonality or cyclicity of interim operations is not applicable to the Company's type of business because of the nature of its contracts with NPC and with the ILECO, which includes guaranteed volume under the applicable take-or-pay, minimum energy off-take or contracted energy provisions.

29. The Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income, or Cash Flows that are Unusual Because of their Nature, Size or Incidence

There are no other assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence during the current period.

30. The Nature and Amount of Changes in Estimates of Amounts Reported in Prior Interim Periods of the Current Fiscal Year or Changes in Estimates of Amounts Reported in Prior Financial Years, If Those Changes Have a Material Effect in the Current Interim Period

There are no significant changes in estimates of amounts during the current period as well as in the comparative period in 2009.

31. Issuances, Repurchases, and Repayments of Debt and Equity Securities

There are no issuances, repurchases and repayments of debt and equity securities during the current period.

32. Dividend Declarations

Cash Dividends

On March 25, 2010, the BOD of the Parent Company approved the following cash dividends in favor of all stockholders of record as of April 13, 2010 and payable on or before April 30, 2010:

- cash dividend of ₱0.0008 per share on the preferred shares
- regular cash dividend of ₱0.12 per share on the common shares

On March 30, 2009, the BOD of the Parent Company approved the following cash dividends in favor of all stockholders of record as of April 16, 2009 and were paid on May 11, 2009:

- cash dividend of ₱0.0008 per share on the preferred shares
- regular cash dividend of ₱0.125 per share on the common shares

Stock dividends

On May 19, 2009 and June 30, 2009, the BOD and the stockholders during the annual stockholders' meeting, respectively, approved the increase in authorized capital stock of the Parent Company. The increase in authorized capital stock from ₱15.075 billion to ₱30.15 billion divided into 30 billion common shares with a par value of ₱1.00 and 15.0 billion preferred shares with a par value of ₱0.01 per share, shall be effected through the declaration of a 25% stock dividend in the outstanding common shares, and the subscription by the current preferred stockholders to ₱18.75 million, representing 25% of the increase in the preferred shares.

On October 12, 2009, the SEC approved the increase in the Parent Company's authorized capital stock from ₱15.075 billion to ₱30.15 billion divided into 30 billion common shares with a par

value of ₱1.00 per share and 15.0 billion preferred shares with a par value of ₱0.01 per share by way of common stock dividends (totaling 3.75 billion common shares with any fractional shares being subscribed by the EDC Retirement Fund and/or Trust for the EDC Executive/Employee Stock Ownership Plan) and the subscription by the current preferred stockholders to 1.875 billion preferred shares, representing 25% of the increase in the preferred shares at par value.

The stock dividends were distributed on November 23, 2009 to stockholders as of the record date of October 27, 2009.

33. The Effect of Changes in the Composition of the Issuer During the Interim Period, including Business Combinations, Acquisition or Disposal of Subsidiaries and Long-term Investments, Restructurings, and Discontinuing Operations

There are no material changes in the composition of the registrant during the period.

34. Changes in Contingent Liabilities or Contingent Assets Since the Last Annual Consolidated Statement of Financial Position Date

There are no material changes in the contingent liabilities or contingent assets since the last annual consolidated statement of financial position date.

35. Existence of Material Contingencies and Any Other Events or Transactions that are Material to an Understanding of the Current Interim Period

There are no material contingencies and any other events or transactions during the period.

36. 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, concession receivables, trade payables and other liabilities, which arise directly from operations.

Risk Management Strategy

The Company uses the risk management option model in its Risk Management Strategy formulation. This model involves whether to accept or reject the risk identified based on the risk management process. When the risk is accepted, the Company chooses the following alternatives: retain, reduce, exploit, modify time and wait and see. When the risk is rejected, the Company may opt to avoid or transfer the risk.

Financial Risk Management Policy

The main risks arising from the Company's financial instruments are credit and credit concentration risk, interest rate risk, liquidity risk, and foreign currency risk. The Company's policies for managing the aforementioned risks are summarized hereinafter below.

March 31, 2010 (Unaudited)
Past Due but Not Impaired

	Neither Past Due nor Impaired	Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years	Past Due and Impaired	Total
equivalents							
Trade receivables	4,700,380	988,430	112,267	6,551	–	9,598	5,817,226
Non-trade receivables	75,439	573	13,651	243	–	–	89,906
Loans and notes receivables	20,348	11	3,111	41,597	2,533	–	67,600
Employee receivables	12,413	–	–	–	–	–	12,413
Advances to employees	9,021	197	259	18,035	10	–	27,522
Long-term receivables	–	–	–	–	–	34,431	34,431
Royalty Fee Chargeable to NPC	1,530	–	–	–	–	–	1,530
Due from related parties	1,879	–	–	–	–	–	1,879
AFS investments:							
Debt investments	729,692	–	–	–	–	–	729,692
Equity investments	16,746	–	–	–	–	–	16,746
Financial assets at FVPL:							
Derivative assets	12,791	–	–	–	–	–	12,791
Total	₱19,319,377	₱989,211	₱129,288	₱66,426	₱2,543	₱44,029	₱20,550,874

December 31, 2009 (Audited)

	Neither Past Due nor Impaired	Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years	Past Due and Impaired	Total
Loans and receivables:							
Cash and cash equivalents	₱11,220,897	₱–	₱–	₱–	₱–	₱–	₱11,220,897
Trade receivables	5,280,994	–	25,423	–	–	9,598	5,316,015
Non-trade receivables	59,803	5,050	12,223	193	–	–	77,269
Loans and notes receivables	49,196	11	7,009	10,393	965	–	67,574
Employee receivables	14,999	–	–	–	–	–	14,999
Advances to employees	14,722	197	1,130	4,768	10	–	20,827
Long-term receivables	–	–	–	–	–	35,577	35,577
AFS investments:							
Debt investments	734,811	–	–	–	–	–	734,811
Equity investments	15,388	–	–	–	–	–	15,388
Financial assets at FVPL:							
Derivative assets	9,611	–	–	–	–	–	9,611
Total	₱17,400,421	₱5,258	₱45,785	₱15,354	₱975	₱45,175	₱17,512,968

March 31, 2009 (Unaudited)

	Neither Past Due nor Impaired	Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years	Past Due and Impaired	Total
Loans and receivables:							
Cash and cash equivalents	₱7,575,450	₱–	₱–	₱–	₱–	₱–	₱7,575,450
Trade receivables	4,978,774	–	44,558	–	–	99,194	5,122,526
Non-trade receivables	151,870	1,129	7,355	661	56	–	161,071
Loans and notes receivables	54,431	221	7,474	551	291	–	62,968
Employee receivables	11,887	–	82	10	–	–	11,979
Advances to employees	10,798	5,550	5,860	389	–	–	22,597
Long-term receivables	–	–	–	–	–	384,293	384,293
Concession receivable	34,159,632	–	–	–	–	–	34,159,632
Cash collateral	3,519	–	–	–	–	–	3,519

March 31, 2009 (Unaudited)							
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	Total
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
<i>(In Thousand Pesos)</i>							
on PCIR Bonds							
Royalty fee chargeable to NPC	64,054	-	-	-	-	-	64,054
AFS investments:							
Debt investments	746,516	-	-	-	-	-	746,516
Equity investments	14,113	-	-	-	-	-	14,113
Financial assets at FVPL:							
Derivative assets	415,803	-	-	-	-	-	415,803
Total	P48,186,847	P6,900	P65,329	P1,611	P347	P483,487	P48,744,521

Credit Quality of Neither Past due nor Impaired Financial Assets

Financial assets are classified as high grade if the counterparties are not expected to default in settling their obligations. Thus, the credit risk exposure is minimal. These counterparties normally include customers, banks and related parties who pay on or before due date. Financial assets are classified as standard grade if the counterparties settle their obligation with the Company with tolerable delays. Low grade accounts are accounts, which have probability of impairment based on historical trend. These accounts show propensity of default in payment despite regular follow-up actions and extended payment terms.

As of March 31, 2010 and 2009 and December 31, 2009, financial assets categorized as neither past due nor impaired are viewed by management as high grade, considering the collectability of the receivables and the credit history of the counterparties. Financial assets that are classified as past due but not impaired are considered as standard grade since based on management's assessment as of March 31, 2010 there is an assured collection on these accounts, thus no provision for doubtful accounts has been recognized thereof.

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 obligation 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 GSCs, SSAs and PPAs. The service contracts allow full cost recovery while the sales contracts include billing adjustments covering the movements in Philippine peso and the U.S. dollar rates, US Price and Consumer Indices, and other inflation factors.

To mitigate further the effects of foreign currency risk, the Company will prepay, refinance or hedge its foreign currency denominated loans, whenever deemed feasible. During 2008, the Company entered into derivative contracts with various counterparties to hedge its JPY12 billion Miyazawa I loan. The derivatives contracts had already matured on May 26, 2009 and were settled on May 28, 2009.

The Company's foreign currency-denominated financial assets and liabilities (translated into Philippine peso) as of March 31, 2010 and 2009 and December 31, 2009, are as follows:

	March 31, 2010 (Unaudited)			March 31, 2009 (Unaudited)		
	Original Currency		Peso	Original Currency		Peso
	Japanese Yen	US Dollar	Equivalent ¹	Japanese Yen	US Dollar	Equivalent ²
Financial Assets						
Loans and receivables:						

	March 31, 2010 (Unaudited)			March 31, 2009 (Unaudited)		
	Original Currency		Peso Equivalent ¹	Original Currency		Peso Equivalent ²
	Japanese Yen	US Dollar		Japanese Yen	US Dollar	
Cash equivalents	-	70,643,377	3,190,961,343	-	12,448,293	601,625,980
Cash on hand and in banks	-	4,595,145	207,562,697	296,577	426,104	20,741,092
Trade and other receivables	-	3,922,125	177,162,404	-	3,968,147	191,780,528
Cash collateral on PCIR						
Bonds	-	-	-	-	74,058	3,579,226
AFS investments -						
Government debt securities	-	283,179	12,791,194	-	13,710,000	746,515,813
Financial assets at FVPL:						
Derivative assets	-	16,154,347	729,691,852	-	8,603,414	415,803,002
Total financial assets	-	95,598,173	4,318,169,490	296,577	39,230,016	1,980,045,641
Current Financial Liabilities						
Liabilities at amortized cost:						
Trade and other payables	15,340,980	2,105,899	102,591,397	626,747,872	7,904,408	823,261,889
Short-term payable	-	-	-	-	-	-
Accrued interest and guarantee fees	528,442,287	2,482,324	369,371,299			
Current portion of interest-bearing financial liabilities	26,143,651,975	61,872,594	15,521,466,399	13,850,430,460	30,282,415	8,347,850,984
Due to related parties		6,912,094	312,219,299			
Current portion of obligations to a power plant contractor	-	-	-	1,122,729	54,261,525	1,122,729
Financial liabilities at FVPL -						
Derivative liabilities	-	190,943	8,624,881	973,531	47,050,740	973,531
Total current financial liabilities	26,687,435,242	73,563,854	16,314,273,275	14,477,178,332	40,283,083	9,272,425,138
Noncurrent Financial Liabilities						
Liabilities at amortized cost:						
Interest-bearing financial liabilities - net of current portion	8,680,836,539	40,946,914	6,075,387,241	34,672,845,769	104,261,114	22,288,369,986
Total noncurrent financial liabilities	8,680,836,539	40,946,914	6,075,387,241	34,672,845,769	104,261,114	22,288,369,986
Total financial liabilities	35,368,271,781	114,510,768	22,389,660,516	49,150,024,101	144,544,197	31,560,795,124

¹USD1=JPY92.79 and USD1= P45.17²¹USD1=JPY98.37and USD1= P48.330

	December 31, 2009 (Audited)		
	Original Currency		Peso
	Yen	US Dollar	Equivalent ¹
Financial Assets			
Loans and receivables:			
Cash equivalents	-	35,882,643	1,657,778,096
Cash on hand and in banks	-	2,176,322	100,546,084
Trade and other receivables	-	4,946,733	228,539,071
Cash collateral on PCIR Bonds	-	-	-
AFS investments:			
Government debt securities	-	15,905,000	734,811,000
Financial assets at FVPL:			
Derivative assets	-	208,031	9,611,022
Total financial assets	-	59,118,729	2,731,285,273
Current Financial Liabilities			
Liabilities at amortized cost:			
Trade and other payables	2,153,900	3,195,225	148,705,325
Current portion of interest-bearing financial liabilities	26,309,860,127	65,759,866	16,303,002,458
Current portion of obligations to a power plant contractor	-	-	-
Due to related Party		10,912,094	504,138,756
Interest on long term loans	500,091,989	3,510,193	414,307,135
Financial liabilities at FVPL:			
Derivative liabilities	-	-	-
Total current financial liabilities	26,812,106,016	83,377,378	17,370,153,674
Noncurrent Financial Liabilities			
Liabilities at amortized cost:			
Interest-bearing financial liabilities - net of current portion	8,973,004,364	40,946,914	6,415,753,795

	December 31, 2009 (Audited)		
	Original Currency		Peso
	Yen	US Dollar	Equivalent ¹
Total noncurrent financial liabilities	8,973,004,364	40,946,914	6,415,753,795
Total financial liabilities	35,785,110,380	124,324,292	23,785,907,469

¹USD1=JPY90.942 and USD1= P47.520

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar and Japanese yen exchange rates, with all other variables held constant, of the Company's income before income tax as at March 31, 2010 and 2009 (arising from revaluation of monetary assets and liabilities and derivative instruments).

March 31, 2010 (Unaudited)		
	Foreign Currency Appreciates (Depreciates) By	Effect on Income Before Income Tax
USD	10% or PHP4.62 (10% or PHP4.62)	(P87,321,842) 79,777,570
JPY	10% or PHP0.05409 (10% or PHP0.04425)	(2,480,723,074) 2,029,682,515
EURO ^(a)	10% against USD (10% against USD)	8,366,292 (822,020)
March 31, 2009 (Unaudited)		
	Foreign Currency Appreciates (Depreciates) By	Effect on Income Before Income Tax
USD	10% or PHP4.833 (10% or PHP4.833)	(P532,055,600) 509,184,040
JPY	10% or PHP0.05459 (10% or PHP0.04467)	(2,683,083,626) 2,195,518,329
EURO ^(a)	10% against USD (10% against USD)	35,038,951 (12,167,391)

^(a) This pertains to fair valuation of FG Hydro's derivative asset which is a currency option.

Equity Price Risk

Equity price risk is the risk that the fair value of traded equity instruments decrease as the result of the changes in the levels of equity indices and the value of the individual stocks.

As of March 31, 2010 and 2009 and December 31, 2009, the Company's exposure to equity price risk is minimal.

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, derivative assets, derivative liabilities 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 tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax and equity as of March 31, 2010 and 2009. The effect also includes impact of change in interest rates on derivatives.

March 31, 2010 (Unaudited)			
	Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Equity
PHP	+100 -100	₱- -	₱- -
USD	+100 -100	(17,528,873) 17,557,338	(17,900,197) 32,487,460
JPY	+100 -100	(12,049,391) 12,077,875	- -
EURO	+100 -100	(135,668,56) 156,309	- -

March 31, 2009 (Unaudited)			
	Increase/Decrease in Basis Points	Effect on Profit Before Tax	Effect on Equity
PHP	+100 -100	(₱15,000,000) 15,000,000	- -
USD	+100 -100	(31,320,337) 31,320,337	(30,581,887) 30,506,465
JPY	+100 -100	(16,704,975) 16,704,975	- -
EURO	+100 -100	(1,870,022) 3,946,866	- -

Interest Rate Risk Table

The following table provides for the effective interest rates and interest payments by period of maturity of the Company's long-term debt.

	Interest Rates	More than 1				Total
		Within 1 Year	Year but less than 4 Years	4-5 Years	More than 5 Years	
March 31, 2010						
<i>In Pesos</i>						
(Unaudited)						
Fixed Rate						
Long-term debt:						
OEFC	3%-5.7%	₱57,832,852	₱14,679,007	₱10,390,903	₱23,322,465	₱106,225,228
JEXIM ^(a) 3747	3.5%	14,032,287	-	-	-	14,302,287
JBIC ^(b) 21 st yen	2.3% & 2.7%	111,377,118	203,090,878	176,214,284	499,216,116	989,898,397
Miyazawa II	2.37%	126,908,953	-	-	-	126,908,953
IFC	7.40%	328,398,611	614,029,097	525,471,944	1,096,559,236	2,564,458,889
Power Sector Assets and Liabilities Management Corporation (PSALM) Loan FCRN Series 1	12.00%	266,126,170	344,564,303	62,666,656	-	673,357,129
	8.37%	212,327,324	321,360,275	103,294,374	-	636,981,973

	Interest Rates	Within 1 Year	More than 1 Year but less than 4 Years	4-5 Years	More than 5 Years	Total
FCRN Series 2	9.4%	443,208,779	801,663,380	517,336,209	142,713,437	1,904,921,805
FCRN Series 3	8.43%	112,845,157	185,927,805	59,762,509	–	368,535,471
Public Bonds Series 1	8.64%	734,553,000	1,469,106,000	1,479,106,000	367,276,500	4,040,041,500
Public Bonds Series 2	9.33%	326,644,500	653,289,000	653,289,000	653,280,000	2,286,511,500
March 31, 2010						
Floating Rate						
Long-term debt:						
IBRD	7.54%	83,169,044	–	–	–	83,169,044
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	4-5 Years	More than 5 Years	Total
<i>In Pesos</i>						
December 31, 2009 (Audited)						
Fixed Rate						
Long-term debt:						
OECF	3%–5.7%	₱60,537,010	₱16,188,372	₱10,868,953	₱24,610,024	₱112,204,359
JEXIM(a) 3747	3.5%	30,638,316	–	–	–	30,638,316
JBIC(b) 21st yen	2.3% & 2.7%	118,769,086	217,172,635	189,336,278	559,726,781	1,085,004,780
Miyazawa II	2.37%	131,440,868	–	–	–	131,440,868
PSALM Loan	12.00%	272,194,577	352,421,315	64,095,628	–	688,711,520
IFC	7.40%	307,613,889	609,644,375	525,471,944	1,096,559,236	2,539,289,444
FRCN Series 1	8.37%	223,804,477	361,530,309	166,418,714	–	751,753,500
FRCN Series 2	9.4%	454,720,695	841,997,994	600,585,714	237,855,729	2,135,160,132
FRCN Series 3	8.43%	108,088,982	209,168,781	96,284,042	–	413,541,805
Public Bonds						
Series 1	8.64%	734,553,000	1,469,106,000	1,469,106,000	367,276,500	4,040,041,500
Series 2	9.33%	326,644,500	653,289,000	653,289,000	653,289,000	2,286,511,500
December 31, 2009						
Floating Rate						
Long-term debt:						
IBRD	7.54%	169,684,783	–	–	–	169,684,783
	Interest Rates	Within 1 Year	2-3 Years	4-5 Years	More than 5 Years	Total
<i>(In Thousand Pesos)</i>						
March 31, 2009 (Unaudited)						
Fixed Rate						
Long-term debt:						
OECF	3%–5.7%	₱539,981	₱722,013	₱242,605	₱621,731	₱2,126,330
JEXIM ^(a) 3747	3.5%	236,527	816,865	–	–	1,053,392
JBIC ^(b) 21 st yen	2.3% & 2.7%	368,999	718,152	691,025	3,837,816	5,615,992
Miyazawa I	2.63% & 3.78%	5,988,038	–	–	–	5,988,038
Miyazawa II	2.37%	256,178	10,937,190	–	–	11,193,368
PSALM Loan	12.00%	804,895	1,609,790	1,609,789	–	4,024,474
March 31, 2009						
Floating Rate						
Long-term debt:						
IBRD	7.39%	1,365,271	2,399,109	–	–	3,764,380
IFC	7.40%	236,821	615,228	1,260,917	4,763,145	6,876,111
Short-term debt:						
LBP	6.75%	101,250	–	–	–	101,250

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 is 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.

Liquidity risk arises primarily when the Company has difficulty collecting its receivables from its major customer, NPC. Other instances that contribute to its exposure to liquidity risk are when the Company finances long-term projects with internal cash generation and when there is credit crunch especially at times when the company has temporary funding gaps.

The tables below show the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cashflows as of March 31, 2010 and 2009 and December 31, 2009.

March 31, 2010 (Unaudited)							
	On demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
<i>(In Thousands)</i>							
AFS Investments:							
Debt investments	P729,692	P-	P-	P-	P-	P-	P729,692
Loans and receivables:							
Cash equivalents	-	12,108,601	162,500	-	-	-	12,271,101
Total	P729,692	P12,108,601	P162,500	P-	P-	P-	P13,000,793

December 31, 2009 (Audited)							
	On demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
<i>(In Thousands)</i>							
AFS Investments:							
Debt investments	P674,494	P-	P-	P-	P-	P-	P674,494
Loans and receivables:							
Cash equivalents	-	929,213	-	-	-	-	929,213
Total	P674,494	P929,213	P-	P-	P-	P-	P1,603,707

March 31, 2009 (Unaudited)							
	On demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
<i>(In Thousands)</i>							
AFS Investments:							
Debt investments	P746,516	P-	P-	P-	P-	P-	P746,516
Loans and receivables:							
Cash equivalents	-	7,075,762	-	-	-	-	7,075,762
Total	P746,516	P7,075,762	P-	P-	P-	P-	P7,822,278

The tables below summarize the maturity analysis of the Company's financial liabilities as of March 31, 2010 and 2009 and December 31, 2009 based on contractual undiscounted payments:

March 31, 2010 (Unaudited)							
	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	More than 5 Years	Total
<i>(In Thousands)</i>							
Liabilities at amortized cost:							
Accounts payable - trade	P-	P4,994,023	P-	P-	P-	P-	P4,994,023
Accrued interest and guarantee fees	99,009	894,085	199,397	-	-	-	1,192,491
Other current liabilities	-	8,979	-	-	-	-	8,979
Loan payable	-	-	-	-	-	-	-
Due to related parties	342,514	-	-	-	-	-	342,514
Royalty fee payable	-	87,500	87,500	175,000	611,928	-	961,928
Long-term debt	-	14,347,667	726,777	2,790,384	29,971,252	11,185,944	59,022,024
Financial liability at FVPL:							
Derivative liabilities	-	8,625	-	-	-	-	8,625
Total	P441,523	P20,340,879	P1,013,674	P2,965,384	P30,576,763	P11,185,944	P66,524,167

December 31, 2009 (Audited)							
	On Demand	Less than 3 Months	3 to 6 Months	>6 to 12 Months	>1 to 5 Years	More than 5 Years	Total
<i>(In Thousands)</i>							
Liabilities at amortized cost:							
Accounts payable - trade	P-	P2,202,141	P-	P-	P-	P-	P2,202,141
Accrued interest and guarantee fees	252,201	462,241	208,706	-	-	-	923,148
Other current liabilities	-	10,508	-	-	-	-	10,508
Due to related parties	537,020	-	-	-	-	-	537,020
Royalty fee payable	-	87,500	87,500	175,000	693,011	-	1,043,011
Long-term debt	-	1,224,743	13,059,012	5,697,286	30,299,838	12,004,016	62,284,895
Total	P789,221	P3,987,133	P13,355,218	P5,872,286	P30,992,849	P12,004,016	P67,000,723

March 31, 2009 (Unaudited)							
	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	More than 5 Years	Total
<i>(In Thousands)</i>							
Liabilities at amortized cost:							
Accounts payable - trade	P-	P1,870,250	P-	P-	P-	P-	P1,870,250
Accrued interest and guarantee fees	-	522,118	-	-	-	-	522,118
Accrued premium on range bonus forwards	-	247,567	-	-	-	-	247,567
Other current liabilities	-	7,402	-	-	-	-	7,402
Loan payable	-	-	-	2,000,000	-	-	2,000,000
Due to related parties	-	96,981	-	-	-	-	96,981
Royalty fee payable	-	1,548,363	-	-	-	-	1,548,363
Obligations to a power plant contractor	-	41,368	17,698	-	-	-	59,066
Long-term debt	-	7,373,058	498,146	1,925,505	22,663,627	8,181,748	40,642,084
Financial liability at FVPL:							
Derivative liabilities	-	47,051	-	-	-	-	47,051
Total	P-	P11,754,158	P515,844	P3,925,505	P22,663,627	P8,181,748	P47,040,882

The following tables show the fair value information of financial instruments classified under FVPL and AFS analyzed by source of inputs on fair valuation as follows:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	March 31, 2010 (Unaudited)	Level 1	Level 2	Level 3	At Cost
Financial assets at FVPL-					
derivative assets	₱12,791,194	₱-	₱12,791,194	₱-	₱-
AFS investments:					
Debt investments	729,691,852	729,691,852	-	-	-
Equity investments	16,745,929	16,671,379	-	-	74,550
<hr/>					
	December 31, 2009 (Audited)	Level 1	Level 2	Level 3	At Cost
Financial assets at FVPL-					
derivative assets	₱9,611,022	₱-	₱9,611,022	₱-	₱-
AFS investments:					
Debt investments	734,811,000	734,811,000	-	-	-
Equity investments	15,388,428	15,295,010	-	-	93,418
<hr/>					
	March 31, 2009 (Unaudited)	Level 1	Level 2	Level 3	At Cost
Financial assets at FVPL-					
derivative assets	₱415,803,001	₱-	₱415,803,001	₱-	₱-
AFS investments:					
Debt investments	746,515,813	746,515,813	-	-	-
Equity investments	14,113,216	14,113,216	-	-	-

During the three month period ended March 31, 2010, there were no transfers between level 1 and level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Financial Assets and Financial Liabilities

Set out below is a comparison of carrying amounts and fair values of the Company's financial instruments as of September 30, 2009 and 2008 and December 31, 2008.

	March 31, 2010 (Unaudited)		March 31, 2009 (Unaudited)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱13,739,137,556	₱13,739,137,556	₱7,579,451,865	₱7,579,451,865
Trade receivables	5,807,628,080	5,807,628,080	5,013,734,144	5,013,734,144
Non-trade receivables	89,905,988	89,905,988	161,071,058	161,071,058
Loans and notes receivables	67,599,099	67,599,099	62,968,734	62,968,734
Employee receivables	12,413,784	12,413,784	11,978,551	11,978,551
Advances to employees	27,522,333	27,522,333	22,597,061	22,597,061
Long-term receivables	-	-	317,211,950	302,928,507
Concession receivable	-	-	34,159,632,190	33,784,564,612
Cash collateral on PCIR Bonds	-	-	3,519,226	3,519,226
Royalty fee chargeable to NPC	1,529,568	1,529,568	64,054,245	64,054,245
Due from related parties	4,937,942,304	4,937,942,304		
AFS investments:				
Debt investments	₱729,691,852	₱729,691,852	746,515,813	746,515,813
Equity investments	16,745,929	16,745,929	14,113,216	14,113,216
Financial assets at FVPL -				
Derivative assets	11,936,960	11,936,960	415,803,001	415,803,001

	March 31, 2010 (Unaudited)		March 31, 2009 (Unaudited)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	P25,442,053,453	P25,442,053,453	P48,572,651,054	P48,183,300,033
Financial Liabilities				
Financial liabilities at amortized cost:				
Accounts payable - trade	P4,994,022,590	P4,994,022,590	₱1,870,249,989	₱1,870,249,989
Accrued interest and guarantee fees	1,192,490,491	1,192,490,491	522,118,433	522,118,433
Accrued premium on derivatives	–	–	247,567,485	247,567,485
Other current liabilities	8,979,079	8,979,079	7,401,566	7,401,566
Loan payable	–	–	2,000,000,000	2,000,000,000
Due to related parties	342,513,806	342,513,806	96,980,507	96,980,507
Royalty fee payable	755,745,137	771,087,303	1,548,362,528	1,548,362,528
Obligations to a power plant contractor	–	–	54,261,525	54,261,525
Long-term debt	46,316,993,548	51,227,369,004	34,724,849,253	32,853,944,430
Financial liabilities at FVPL -				
Derivative liabilities	8,624,881	8,624,881	47,050,740	47,050,740
	P53,619,369,532	P58,545,087,154	P41,118,842,026	P39,247,937,203
			December 31, 2009 (Audited)	
			Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents			₱11,220,897,157	₱ 11,220,897,157
Trade receivables - net			5,306,417,083	5,306,417,083
Non-trade receivables			77,268,776	77,268,776
Loans and notes receivables			₱67,573,603	₱67,573,603
Employee receivables			14,998,506	14,998,506
Advances to employees			20,826,816	20,826,816
AFS investments:				
Debt investments			734,811,000	734,811,000
Equity investments			15,388,428	15,388,428
Financial assets at FVPL:				
Derivative assets			9,611,022	9,611,022
			₱17,467,792,391	₱17,467,792,391
Financial Liabilities				
Financial liabilities at amortized cost:				
Accounts payable - trade			₱2,202,140,914	₱2,202,140,914
Accrued interest and guarantee fees			923,147,531	923,147,531
Accrued premium on range bonus forwards			–	–
Other current liabilities			10,507,987	10,507,987
Loan payable			–	–
Due to related parties			537,020,209	537,020,209
Royalty fee payable			811,004,709	836,317,273
Obligations to a power plant contractor			–	–
Long-term debt			47,464,498,391	52,538,678,773
Financial liabilities at FVPL -				
Derivative liabilities			–	–
			₱51,948,319,741	₱57,047,812,687

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

Cash and Cash Equivalents. Carrying amounts approximate fair values due to its short-term nature.

Trade and Other Receivables, Cash Collateral on PCIR Bonds, Royalty Fee Chargeable to NPC, Due to Related Parties, Trade and Other Payables and Loan Payable. These are instruments with relatively short maturity ranging 1 to 3 months. Carrying amounts approximate fair values.

Long-term Receivables. The fair value of long-term receivables was computed by discounting the expected cash flow using the applicable rate of 4.28% in March 31, 2009 (nil in March 31, 2010 and December 31, 2009).

Concession Receivable. The fair value of concession receivables is computed by discounting the expected free cash flows using the applicable rates as of consolidated statement of financial position dates ranging from 4.27% to 10.35% in March 31, 2009 (nil in March 31, 2010 and December 31, 2009).

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 Assets and Liabilities. The currency forwards were determined by reference to market values provided by counterparty banks. The currency options were valued using Garman-Kohlhagen option pricing model that takes into account such factors as the risk-free US Dollar and Euro interest rates and historical volatility.

Long-term Debt and Royalty Fee Payable. The fair values for the Parent Company's long-term debt are estimated using the discounted cash flow methodology with the applicable rates ranging from 0.16% to 6.89%, 0.19% to 5.93% and 0.39% to 1.78% in March 31, 2010, December 31, 2009 and March 31, 2009, respectively. While for FG Hydro, the fair value of deferred payment facility with PSALM was computed by discounting the facility's expected future cash flows using the prevailing credit adjusted Philippine Government Zero Coupon Yield interest rates ranging from 4.33% to 5.39%, from 4.19% to 6.17% and from 4.26% to 4.67% in March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

Fair values of royalty fee payable are determined using discount rates ranging from 4.22% to 4.97%, from 4.54% to 5.64% and from 4.40% to 5.49% as of the March 31, 2010, December 31, 2009 and March 31, 2010, respectively.

Obligations to a Power Plant Contractor. Fair value of obligation to power plant contractor approximates the carrying value in March 31, 2009 (nil in March 31, 2010 and December 31, 2009).

The Company classifies its financial instruments in the following categories.

March 31, 2010 (Unaudited)

	Loans and Receivables	AFS Investments	Financial Assets at FVPL	Liabilities at Amortized Cost	Financial Liabilities at FVPL	Total
<i>(In Thousands)</i>						
Financial Assets						
Cash and cash equivalents	₱13,739,138	₱-	₱-	₱-	₱-	₱13,739,138
Trade receivables	6,005,069	-	-	-	-	6,005,069
Non-trade receivables	89,906	-	-	-	-	89,906
Loans and notes receivables	67,599	-	-	-	-	67,599
Employee receivables	12,414	-	-	-	-	12,414
Advances to employees	27,476	-	-	-	-	27,476
Long-term receivables	-	-	-	-	-	-
Concession receivable	-	-	-	-	-	-
Royalty Fee Chargeable to NPC	1,530	-	-	-	-	1,530
Due from related parties	1,879	-	-	-	-	1,879
AFS - debt investments	-	729,692	-	-	-	729,692
AFS - equity investments	-	16,746	-	-	-	16,746
Derivative assets	-	-	12,791	-	-	12,791
Financial Liabilities						
Accounts payable – trade	-	-	-	4,994,023	-	4,994,023
Accrued interest and guarantee fees	-	-	-	1,192,490	-	1,192,490
Other current liabilities	-	-	-	8,979	-	8,979
Loan payable	-	-	-	-	-	-
Due to related parties	-	-	-	342,514	-	342,514
Royalty fee payable	-	-	-	755,745	-	751,874
Long-term debt	-	-	-	46,316,994	-	46,316,994
Derivative liabilities	-	-	-	-	8,625	8,625
Total	₱19,945,011	₱746,438	₱12,791	₱53,610,745	₱8,625	₱74,319,739

December 31, 2009 (Audited)

	Loans and Receivables	AFS	Financial Assets at FVPL	Liabilities at Amortized Cost	Financial Liabilities at FVPL	Total
<i>(In Thousands)</i>						
Financial Assets						
Cash and cash equivalents	₱11,220,897	₱-	₱-	₱-	₱-	₱11,220,897
Trade receivables	5,306,417	-	-	-	-	5,306,417
Non-trade receivables	77,269	-	-	-	-	77,269
Loans and notes receivables	67,574	-	-	-	-	67,574
Employee receivables	14,999	-	-	-	-	14,999
Advances to employees	20,827	-	-	-	-	20,827
AFS - debt investments	-	734,811	-	-	-	734,811
AFS - equity investments	-	15,388	-	-	-	15,388
Derivative Assets	-	-	9,611	-	-	9,611
Financial Liabilities						
Accounts payable - trade	-	-	-	2,202,141	-	2,202,141
Accrued interest and guarantee fees	-	-	-	923,148	-	923,148
Miscellaneous current liabilities	-	-	-	10,508	-	10,508
Due to related parties	-	-	-	537,020	-	537,020
Royalty fee payable	-	-	-	811,005	-	811,005
Obligations to a power plant contractor	-	-	-	-	-	-
Long-term debt	-	-	-	47,464,498	-	47,464,498
Total	₱16,707,983	₱750,199	₱9,611	₱51,948,320	₱-	₱69,416,113

March 31, 2009 (Unaudited)						
	Loans and Receivables	AFS	Financial Assets at FVPL	Liabilities at Amortized Cost	Financial Liabilities at FVPL	Total
<i>(In Thousands)</i>						
Financial Assets						
Cash and cash equivalents	₱7,579,452	₱-	₱-	₱-	₱-	₱7,579,452
Trade receivables	5,013,734	-	-	-	-	5,013,734
Non-trade receivables	161,071	-	-	-	-	161,071
Loans and notes receivables	62,969	-	-	-	-	62,969
Employee receivables	11,979	-	-	-	-	11,979
Advances to employees	22,597	-	-	-	-	22,597
Long-term receivables	317,212	-	-	-	-	317,212
Concession receivable	34,159,632	-	-	-	-	34,159,632
Cash collateral on PCIR Bonds	3,519	-	-	-	-	3,519
Royalty fee chargeable to NPC	64,054	-	-	-	-	64,054
AFS - debt investments	-	746,516	-	-	-	746,516
AFS - equity investments	-	14,113	-	-	-	14,113
Derivative Assets	-	-	415,803	-	-	415,803
Financial Liabilities						
Accounts payable - trade	-	-	-	₱1,870,250	-	1,870,250
Accrued interest and guarantee fees	-	-	-	522,117	-	522,117
Accrued premium on range bonus forwards	-	-	-	247,567	-	247,567
Other current liabilities	-	-	-	7,402	-	7,402
Loan payable	-	-	-	2,000,000	-	2,000,000
Due to related parties	-	-	-	96,981	-	96,981
Royalty fee payable	-	-	-	1,548,363	-	1,548,363
Obligations to a power plant contractor	-	-	-	54,262	-	54,262
Long-term debt	-	-	-	34,724,849	-	34,724,849
Derivative liabilities	-	-	-	-	47,051	47,051
Total	₱47,396,219	₱760,629	₱415,803	₱41,071,791	₱47,051	₱89,691,493

The table below demonstrates the income, expense, gains or losses of the Company's financial instruments for the nine-month period ended March 31, 2010 and 2009.

	2010		2009	
	Increase (Decrease) Effect on Profit or Loss	Increase (Decrease) Effect on Equity	Increase (Decrease) Effect on Profit or Loss	Increase (Decrease) Effect on Equity
Loans and receivables:				
Interest income on cash in bank	₱478,570	₱-	₱355,088	₱-
Interest income on cash equivalents	128,512,438	-	86,531,908	-
Interest income on trade receivables	6,007,914	-	23,353,754	-
Interest income on concession receivables	-	-	508,002,717	-
Interest on employees receivable	38,147	-	-	-
Interest Income due from related party	17,516	-	-	-
Equity investments - Net gain (loss) recognized in equity	-	1,357,501	-	3,844,611
Debt investments: Net gain (loss) recognized in equity	-	8,248,682	-	60,775,595
Interest Income on ROP Bonds	262,707	-	-	-
Financial assets at FVPL:				
Fair value changes and premium on forward contracts	3,312,079	-	(279,887,446)	-
Unrealized gain (loss) on fair value changes on currency options	(8,750,155)	-	(19,040,630)	-

	2010		2009	
	Increase (Decrease) Effect on Profit or Loss	Increase (Decrease) Effect on Equity	Increase (Decrease) Effect on Profit or Loss	Increase (Decrease) Effect on Equity
Financial liabilities at amortized cost:				
Interest expense on long-term loans	(847,280,891)	–	(554,805,406)	–
Interest expense on short-term loans	–	–	(2,756,250)	–
Interest expense on royalty payable	–	–	–	–
“Day 1” gain on royalty payable	(14,782,182)	–	–	–
	(P717,401,675)	(P9,606,183)	(P173,626,059)	(P64,260,206)

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 ratio, which is long-term liabilities divided by long-term liabilities plus equity. The Company’s policy is to keep the debt ratio not more than 70:30. The Company’s long-term liabilities include both the current and long-term portions of obligations to a power plant contractor and long-term debt. Equity includes capital stock attributable to common and preferred shares, unrealized gains reserve and retained earnings.

The Table below shows the Company’s debt ratio as at March 31, 2010 and 2009 and December 31, 2009.

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Long-term liabilities	P46,316,993,548	P47,464,498,391	P36,119,319,246
Equity	32,633,297,289	30,331,861,805	31,067,634,601
Debt ratio	58.7%	61.0%	53.8%

Derivative Financial Instruments

The Company’s derivative financial instruments are accounted for as financial instruments at FVPL. The table below shows the fair value of derivative financial instruments reported as assets or liabilities as of March 31, 2010 and 2009 and December 31, 2009.

	March 31, 2010 (Unaudited)		December 31, 2009 (Audited)	March 31, 2009 (Unaudited)	
	Derivative Assets	Derivative Liabilities	Derivative Asset	Derivative Assets	Derivative Liabilities
Embedded derivatives -					
Currency options	P854,234	P–	P9,611,022	P16,356,811	P–
Free standing derivatives					
Range bonus forwards	–	–	–	399,446,190	–
Currency forwards	11,936,960	8,624,881	–	–	47,050,740
Total derivatives	P12,791,194	P8,624,881	P9,611,022	P415,803,001	P47,050,740
Presented as:					
Current	P11,936,960	P8,624,881	P–	P399,446,190	P47,050,740
Noncurrent	854,234	P–	P9,611,022	16,356,811	–

	March 31, 2010 (Unaudited)		December 31, 2009 (Audited)	March 31, 2009 (Unaudited)	
	Derivative Assets	Derivative Liabilities	Derivative Asset	Derivative Assets	Derivative Liabilities
Total derivatives	₱12,791,194	₱8,624,881	₱54,250,018	₱45,834,583	₱-

Freestanding Derivatives. The Company enters into derivative transactions to hedge the foreign currency exposure arising from its foreign currency denominated loan contracts, particularly the maturing Miyazawa 1 loan. The Company had positions in the following types of freestanding derivatives to protect itself against foreign currency risk arising from the changes on the exchange rate of the peso in relation to the foreign currency. As of March 31, 2010, the Company has no outstanding derivatives due to the termination of its related contracts with counterparty banks last May 28, 2009.

Foreign Currency Forward Contract. Foreign currency forward contracts are contractual agreements to buy or sell a foreign currency at an agreed rate on a future date. These are contracts that are customized and transacted with a bank or financial institution.

As of March 31, 2010, the Company has a total of 5 foreign currency forward contracts with various counterparty banks, which have been instituted only during the year and all will mature on June 24, 2010. The Company's deliverable buy yen and sell dollar forward exchange contracts have an aggregate notional amount of ¥10,500 million. The weighted average forward rate of these forward exchange contracts is ¥92.83. The net mark to market loss recognized in 2010 relative to the forward contracts is ₱3.31 million.

Range Bonus Forward Contract. A Range Bonus forward contract is an agreement that provides protection against unfavorable exchange rate movement by setting an agreed rate at which an entity can exchange one currency for another. At the same time, it provides that for each day during the fixing period that the spot rate is outside the predetermined range, the Company will accrue a premium based on a specified formula, which is payable at maturity. As of March 31, 2010, the company has no outstanding range bonus forward contract.

Embedded Derivatives. The Company has financial and non-financial contracts with derivatives embedded in them. These embedded derivatives have the effect that some of the cash flows of the financial and non-financial contracts vary in a similar way to a freestanding derivative.

Currency Options. The Company has embedded currency options in its Pantabangan Refurbishment and Upgrade Project Contract with VA TECH HYDRO, GmbH Contractor. Under the PRUP Contract, the Company has the option to pay the Contractor in European Euro (Euro) or in U.S. Dollar at a strike rate of €1.4691 to \$1.00 for the original contract and €1.5549 to \$1.00 for the contract options availed during the year. As of March 31, 2010, the embedded currency options have a notional amount of €6.0 million. The embedded currency options will mature on various dates until December 2010 or upon full payment and completion of the related host contract.

Fair Value Changes of Derivatives

The tables below summarize the net movement in fair values of the Company's derivatives as of September 30, 2009 and 2008 and December 31, 2008.

Freestanding Derivatives

	March 31, 2010 (Unaudited)		December 31, 2009 (Audited)		March 31, 2009 (Unaudited)	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Range Bonus Forward						
Balance at beginning of year	P-	P-	P614,081,623	P-	P614,081,623	P-
Net changes in fair value			(78,318,622)	-	(232,103,672)	-
Settlement	-	-	(535,763,001)	-	-	-
Balance at end of period	P-	P-	P-	P-	P381,977,951	P-
Currency Forwards						
Balance at beginning of year	P-	P-	P-	P(54,250,018)	P-	P(54,250,018)
Net changes in fair value	11,936,960	(8,624,881)	68,344,713	78,909,982	17,468,239	7,199,278
Settlement	-	-	(68,344,713)	133,160,000	-	-
Balance at end of period	P11,936,960	P(8,624,881)	P-	P-	P17,468,239	P47,050,740
Total	P11,936,960	P(8,624,881)	P-	P-	P399,446,190	P47,050,740

Embedded Derivatives

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Derivative Assets			
Balance at beginning of year	P9,611,022	P34,907,195	P34,907,195
Net changes in fair value of derivatives	(8,750,155)	(23,161,134)	(19,040,630)
Fair value of settled derivatives	-	(1,800,163)	-
Foreign exchange difference	(6,633)	(334,876)	490,246
Balance at end of year	P854,234	P9,611,022	P16,356,811

The net changes in fair value of the Company's derivative during the periods ending March 31, 2010 and 2009 amounting to P5.4 million loss and P298.9 million loss respectively, were taken into "Derivatives gain (loss)" account in the consolidated statements of income, inclusive of premium on range bonus forwards recognized during the periods ending March 31, 2009 of P72.5 million (nil in 2010).

Annex II

Energy Development (EDC) Corporation and Subsidiaries
As of March 31, 2010
(With comparative figures for March 31, 2009)
In Million Pesos

Aging of Accounts Receivable

Trade Receivables	Amount
Current	5,774.0
More than 90 days past due	.1
More than 120 days past due	43.1
Subtotal	5,817.2
Other Receivables	197.6
Total Receivables	6,014.8
Allowance for Doubtful Accounts	(9.6)
Trade and Other Receivables – Net	6,005.2

Breakdown of Liabilities

	2010	2009
A. Current Liabilities		
Loan Payable	225.9	2,000.0
Accounts Payable	5,147.8	2,219.7
Accrued Interest and Other Payables	1,622.5	884.4
Income Tax Payable	273.3	597.0
Derivative Liability	8.6	47.0
Due to Related Parties	342.5	97.0
Total	7,620.6	5,845.1
B. Noncurrent Liabilities		
Royalty Fee Payable		
Current	264.5	1,548.4
Noncurrent	491.2	-
Obligations to a Power Plant Contractor		
Current	-	54.3
Noncurrent	-	-
Long-term Debt		
Current	16,448.3	8,347.9
Noncurrent	29,642.9	26,377.0
Retirement Benefit Obligation and Other Noncurrent Liabilities	1,644.1	1,340.1
Total Liabilities	56,111.6	43,512.8

Certified true and Correct


REGINA PIA B. GO
 Chief Financial Officer/Treasurer


AGNES C. DE JESUS
 Senior Vice President & Compliance officer



ENERGY DEVELOPMENT CORPORATION
ANNUAL STOCKHOLDERS' MEETING
July 29, 2010

PROXY FORM

This proxy is being solicited on behalf of the Board of Directors of ENERGY DEVELOPMENT CORPORATION, (the "Company") for voting at the annual stockholders' meeting to be held on July 29, 2010 10:00 A.M. at EDC's head office located at Building 5, Energy Center, Merritt Road, Fort Bonifacio, Taguig City.

I, the undersigned stockholder of the Company, do hereby appoint, name and constitute **RICHARD B. TANTOCO, President and Chief Operating Officer of the Company, or:**

_____ ,
as my attorney-in-fact and proxy, to represent me at the annual stockholders' meeting of the Company to be held on July 29, 2010 at 10:00 a.m. and any adjournment(s) thereof, as fully and to all intents and purposes as I might or could if present and voting in person, hereby ratifying and confirming any and all actions taken on matters which may properly come before such meeting or adjournment(s) thereof. In particular, I hereby direct my said proxy to vote on the agenda items set forth below as I have expressly indicated by marking the same with an "X".

AGENDA ITEMS OTHER THAN THE ELECTION OF BOARD OF DIRECTORS	ACTION		
	FOR	AGAINST	ABSTAIN
1. Approval of the Minutes of Previous Stockholders' Meeting			
2. Approval of the Management Report & Audited Financial Statements for the year ended Dec. 31, 2009			
3. Confirmation and ratification of all acts and resolutions of Management and the Board of Directors from the beginning of the last fiscal year to date as reflected in the books and records of the Company			
4. Approval of change in corporate name from "Energy Development (EDC) Corporation" to "Energy Development Corporation"			
5. Approval of appointment of SGV & Co. as the Company's external auditor			
6. Other Matters	According to Proxy's Discretion		

ELECTION OF BOARD OF DIRECTORS

I further instruct my proxy to vote for the following nominees to the Board of Directors to serve as such for the current year.

(Please mark with an "X" the space across your chosen nominees. In case you prefer to abstain or elect less than 11 Directors, please indicate "ABSTAIN" or "NONE" in the space below.):

NOMINEES FOR REGULAR DIRECTOR

Oscar M. Lopez : _____
Peter D. Garrucho, Jr. : _____
Elpidio L. Ibañez : _____
Federico R. Lopez : _____

Ernesto B. Pantangco : _____
Francis Giles B. Puno : _____
Jonathan C. Russell : _____
Richard B. Tantoco : _____

NOMINEES FOR INDEPENDENT DIRECTOR

Francisco Ed. Lim : _____
Edgar O. Chua : _____
John A. Prasetio : _____

IN CASE A PROXY FORM IS SIGNED AND RETURNED IN BLANK

If no instructions are indicated on a returned and duly signed proxy, the shares represented by the proxy will be voted: FOR the approval of the minutes of previous meeting of the stockholders; FOR the approval of the Management Report and audited financial statements for year ended December 31, 2009; FOR the confirmation and ratification of all acts and resolutions of Management and the Board of Directors from the beginning of the last fiscal year to date as reflected in the books and records of the Company; FOR the approval of the change in corporate name; FOR the approval of the appointment of SGV & Co. as the Company's external auditor; and to authorize the Proxy to vote according to discretion of the Company's President or Chairman of the Meeting on the "Election of Board of Directors" and on any matter that may be discussed under "Other Matters".

A Proxy Form that is returned without a signature shall not be valid.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No member of the Board of Directors or executive officer since the beginning of the last fiscal year, or nominee for election as director, or their associates, has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

VALIDATION OF PROXIES

Proxy forms shall be validated as these are received by the Corporate Secretary until July 23, 2010 at the office of the Company's stock transfer agent. The proxy forms shall be submitted to the Company on or before 6:00 p.m. of July 19, 2010.

REVOCAION OF PROXIES

A stockholder giving a proxy has the power to revoke it any time before the right granted is exercised. A proxy is also considered revoked if the stockholder attends the meeting in person and expresses his intention to vote in person.

Signed this _____ 2010 at _____
(DATE) (PLACE)

[*N.B.: Partnership, Corporations and Associations must attach certified resolutions or extracts thereof designating Proxv/Reopresenting and authorized signatories]

IMPORTANT:

PLEASE MARK, SIGN & RETURN YOUR PROXY BY HAND OR MAIL (IN TIME FOR IT TO REACH THE COMPANY) ON OR BEFORE 6:00 P.M. OF JULY 19, 2010.

PRINTED NAME AND SIGNATURE OF STOCKHOLDER OR AUTHORIZED SIGNATORY
Telephone No.: _____

PLEASE DATE AND SIGN YOUR PROXY

FOLD HERE

FOLD HERE

STAMP

BUSINESS REPLY ENVELOPE

ENERGY DEVELOPMENT CORPORATION
BUILDING 5, ENERGY CENTER, MERRITT ROAD,
FORT BONIFACIO, TAGUIG CITY
P.O. BOX 2102 MCPO

**Attention: The Corporate Secretary
c/o Mr. Erudito S. Recio
Senior Manager, Investor Relations**

Valid only if mailed in the Philippines

FOLD THROUGH LINE. SEAL AND MAIL