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March 16, 2011

JANET A. ENCARNACION
HEAD, Disclosures Department
The Philippine Stock Exchange, Inc.
Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Dear Ms. Encarnacion:

In compliance with the PSE's disclosure requirements, we submit the Energy Development Corporation's SEC Form 17A covering the fiscal year ending December 31, 2010 as filed with the SEC.

Thank you.

Very truly yours,

Erudito S. Recio
Investor Relations Manager &
Company Information Officer

103162011001488

SECURITIES AND EXCHANGE COMMISSION

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Industry Classification	
Company Type	Stock Corporation

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ENERGY DEVELOPMENT CORPORATION
(Formerly Energy Development (EDC) Corporation)
(Company's full Name)

Merritt Road, Fort Bonifacio, Taguig City
(Company's Address)

(632) 667-7332
(Telephone Number)

December 31, 2010
(Fiscal Year Ending)

SEC FORM 17-A (2010)
(Form Type)

Corporation Finance Department
(SEC Department)

Total Number of Stockholders as of December 31, 2010: 716

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, *AS AMENDED*

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

1. For the fiscal year ended **December 31, 2010**

2. Commission identification number: **66381**

3. BIR Tax Identification No. **000-169-125-000**

4. Exact name of issuer as specified in its charter: **ENERGY DEVELOPMENT CORPORATION**

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

6. [ ] (SEC Use Only)
Industry Classification Code

7. **Merritt Road, Fort Bonifacio, Taguig City** — **12010**
Address of issuer's principal office — Postal Code

8. **(632) 667-7332**
Issuer's telephone number, including area code:

9. **Energy Development (EDC) Corporation**
Former name, former address and former fiscal year, if changed since last report:

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

Title of each Class	Number of shares outstanding as of December 31, 2010
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 [√] No [ ]

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 [ ]

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PART I – BUSINESS

Energy Development Corporation [formerly 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) except for Energy Development (EDC) Corporation Chile Limitada (EDC Chile Limitada) which was incorporated in Santiago, Chile. Below are the Parent Company's ownership interests in its subsidiaries:

	Percentage of Ownership	
	2010	2009
First Luzon Geothermal Energy Corporation (FL Geothermal)	**100%**	100%
Green Core Geothermal Inc. (GCGI)	**100%**	100%
Bac-Man Geothermal Inc. (BGI) *	**100%**	–
Unified Leyte Geothermal Energy Inc. (ULGEI) *	**100%**	–
EDC Drillco Corporation (EDC Drillco) **	**100%**	100%
First Gen Hydro Power Corporation (FG Hydro)	**60%**	60%
EDC Wind Energy Holdings Inc. (EWEHI) *	**100%**	–
EDC Burgos Wind Power Corporation (EBWPC) *	**100%**	–
EDC Chile Limitada *	**100%**	–

**Incorporated in 2010 and not yet started commercial operations.*
***Not started commercial operations yet.*

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 the following Geothermal Renewable Energy Service Contracts (GRESCs) on October 23, 2009:

(i) Tongonan Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-001
(ii) Southern Negros Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-002
(iii) Bacon-Manito Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-003
(iv) Mt. Apo Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-004
(v) Northern Negros Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-005

Geothermal steam produced is sold to the National Power Corporation (NPC) or is fed to the Parent Company and GCGI'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 sells steam to GCGI under the Geothermal Resources Sales Contracts (GRSCs). EDC also sells electricity to Iloilo I Electric Cooperative (ILECO) under the Electricity Sales Agreement. Separately, it also has drilling activities in Papua New Guinea.

On July 29, 2010 annual stockholders meeting, the stockholders approved the amendment of the Parent Company's name from Energy Development (EDC) Corporation to Energy Development Corporation. The SEC approved the change of the Parent Company's name on November 5, 2010.

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 132 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 (TPSCs).

FL Geothermal is a special-purpose company incorporated on April 9, 2008 to participate in the bid for another local geothermal 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 being the investment holding company of its wholly owned subsidiaries, namely GCGI, BGI and ULGEI. It also has a 0.01% stake in EDC Chile Limitada.

GCGI is a special-purpose company incorporated on June 22, 2009 that participated in the bid for the 192.5 MW Palinpinon and 112.5 MW Tongonan 1 geothermal power plants. The bid was successfully awarded to GCGI on September 2, 2009.

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.

BGI is a special-purpose company incorporated on April 7, 2010 to participate in the bid for 150 MW Bac-Man Geothermal Power Plant. BGI won the bid by submitting the highest offer price on May 5, 2010.

EWEHI is a holding company incorporated on April 15, 2010.

EBWPC is a company incorporated on April 13, 2010 to carry on the general business of generating, transmitting, and/or distributing energy.

ULGEI is a company incorporated on June 23, 2010 to carry on the general business of generating, transmitting, and/or distributing energy.

EDC Chile Limitada is a limited liability company incorporated on February 11, 2010 in Santiago, Chile with the purpose of exploring, evaluating and extracting any mineral or substance to generate geothermal energy.

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

Operational Highlights

From a consolidated sales volume of 7,548.6 GWh, the Company's gross revenues for 2010 from its steam and electricity business amounted to ₱24,152.9 million. As compared to 2009, gross revenue from the sale of steam and electricity increased by ₱5,125.5 million, or 26.9%, from ₱19,027.4 million even as sales volume decreased slightly by 665.6 GWh, or 8.1%, from 8,214.2 GWh.

Electricity and steam sales constitute majority of EDC's gross revenues at 92.1% and 4.9% of the total, or at ₱22,944.2 million and ₱1,208.7 million, respectively. Revenue from drilling services constitutes the balance at 3.0% or ₱748.7 million.

Steam Generation

For 2010, steam revenues from the sale of 665.6 GWh amounted to ₱1,208.7 million which is ₱2,572.7 million, or 68.0%, lower than the ₱3,781.4 million revenues from a sales volume of 2,520.8 GWh in 2009. 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.

The sales volume was solely contributed by Bacman I and II and was lower by 15.2 GWh or 1.5% from the 988.2 GWh take-or-pay volume due to the waiver of billings starting September 3, 2010 after BGI's acquisition of the Bacman power plants, which are undergoing major rehabilitation.

Electricity Generation

For the current year, electricity revenues from the 6,883.0 GWh sold amounted to ₱22,944.2 million. It increased by ₱7,698.2 million, as compared with the ₱15,246.0 million revenues in 2009. The increase was primarily brought about by GCGI's revenue contribution following acquisition of the Palinpinon I and II and Tongonan I geothermal power plants in October 2009, higher average price due to increased inflation factor and No. Negros' higher sales volume with its eleven-month operations in 2010 versus less than seven-month operations in 2009. Also contributing to the increase was the full year recognition in 2010 of electricity billings as revenues due to the scoping out of IFRIC 12 effective October 23, 2009 (as discussed in Notes 3 and 37 of the 2010 Audited Financial Statements). These increases were partially offset by a shortfall in power generation and lower average price of electricity sold from the Company's Unified Leyte plants.

Of the total sales volume, 55.1% or 3,794.8 GWh was generated by Unified Leyte in 2010 as compared to 4,244.3 GWh in 2009. Gross revenues for 2010 from Unified Leyte amounted to ₱11,478.6 million as compared to the ₱10,872.9 million in 2009.

Mindanao I and II generated a total sales volume of 784.4 GWh, lower by 3.6 GWh than its minimum energy off-take (MEOT) volume of 788 GWh. For 2010, revenues from the Mindanao I and II reached ₱2,236.7 million as compared to the ₱1,841.8 million in 2009.

Northern Negros generated a total sales volume of 121.8 GWh amounting to ₱534.0 million as compared to ₱238.4 million from the 53.3 GWh sold in 2009.

In 2010, electricity revenues recognized for FG Hydro amounted to ₱2,139.5 million from the 348.5 GWh sold, higher by ₱892.3 million or 71.5%, as compared to the ₱1,247.2 million recognized from the 319.9 GWh sold in 2009 due to completion of refurbishment and upgrade of Unit 1 of the hydroelectric power plant on January 29, 2010, which increased the power generation capacity by 10 MW coupled with the increase in average electricity price.

Third Party Drilling

Third Party Drilling contributed ₱748.7 million in 2010 as compared to the ₱847.9 million in 2009 primarily due to lower agreed contract extension price and lower average exchange rate of peso against the US dollar.

Health, Safety and Environment

EDC's power plants located in various sites across the country attained 2,606,464 safe man-hours in 2010. The total safe man-hours consider both EDC and Contractors' employees. This milestone was attained due to increased safety awareness through the conduct of various behavioral performance indicators such as management walkabouts, safety inspections, emergency drills, safety leadership training and contractors safety programs.

The Department of Labor and Employment (DOLE) conferred the prestigious Labor Secretary's Award - Establishment Category, Gawad Kaligtasan at Kalusugan (GKK) Award, the highest award given during the 7th GKK awarding on October 14, 2010 to EDC (Leyte Power Plants). The GKK is a national award given every two (2) years by the DOLE in recognition of the outstanding achievements and best practices of establishments and individuals on safety and health. It is a component of the Zero Accident Program, one of the flagship programs of DOLE, spearheaded by the Phil. Occupational Safety and Health Center (OSHC). EDC bested a total of 58 companies nationwide. Bacman Geothermal Production Field was also given an institutional award during this event.

On December 10, 2010, the Safety and Health Association of the Philippines, Energy Sector (SHAPES) gave recognition for "No Lost Time" to the following projects:

a) Geothermal Production Fields – Steam Field Operations
- Tongonan Geothermal Project
- Southern Negros Geothermal Project
- Bacon-Manito Geothermal Project
- Mt. Apo Geothermal Project

b) Geothermal Power Plants – Power Generation Sector

- Upper Mahiao Power Plant (UMPP)
- Mahanagdong Geothermal Power Plant (MGPP)
- Northern Negros Geothermal Power Plant (NNGPP)

c) Drilling Operations – Drilling Sector
- Rig 3, Rig 4 and Rig 5

The recognition is awarded to industries with no lost time for a period of 2 straight years or an equivalent minimum accumulation of 2 million safe man-hours. Recognition for "No Lost Time" award was also given by the Department of Labor and Employment Bureau of Working Conditions (DOLE BWC) on December 15, 2010 to Upper Mahiao and Mahanagdong Power Plants (Leyte).

Pollution control related permits for water, air, toxic chemicals, hazardous materials and hazardous wastes are secured by EDC. In 2010, the Environmental Management Department (EMD) filed a total of 135 and 140 environmental and forestry permit applications, respectively.

Corporate Social Responsibility

EDC continues to build lasting partnerships with community stakeholders through its Corporate Social Responsibility program called "Community Partnerships". Focusing on four areas — health promotion, educational support, livelihood/entrepreneurial development and environmental protection/enhancement — the program adopts a holistic approach to allocate EDC's resources in areas where it will have the most positive impact to help its 47 host communities become self-reliant.

In 2010, EDC invested a total of ₱302.3 million on community development activities in its five geothermal projects as well as one proposed wind project.

1. **Health Promotion.** For more effective medical care delivered by barangay health centers (BHCs) to their constituents, EDC refurbished the facilities of 12 BHCs, provided equipment to 26 BHCs and turned-over basic medicines and medical supplies to 38 BHCs. This was complemented by the training of 288 health workers on responsible parenthood focusing on population management and various health modules. They were also equipped with working paraphernalia to facilitate their daily tasks in delivering quality health services to community residents.

   Likewise, 9,951 community residents from six host provinces received medical, dental, immunization and surgical treatments from the medical outreach initiated by the Company, while eight (8) barangays enjoy the convenient access to potable drinking water through rehabilitation/installation of water lines. In addition, 750 individuals are now more aware on the ill effects of substance abuse to their health.

2. **Educational Support.** EDC Education programs are not only focused on providing equal access in terms of increased number of enrollees, but also in terms of quality. Thus, eleven (11) high school students from EDC's partner schools now have the chance of college education in the University of the Philippines after passing the UP College Admission Test under EDC's first run of the CAREERS (College Admission and Review) program. Top students were trained/reviewed in preparation for college entrance exams.

   Likewise, to increase the number of students completing primary, secondary, and tertiary education as well as technical-vocational training, EDC subsidized elementary miscellaneous fees and awarded scholarships to 20,116 students. To complement this, other activities undertaken include: distribution of school supplies and bags to 20,851 students from primary schools & day care centers, provision of feeding and de-worming to 1,719 pupils, incentive awards for top –performing students, and alternative learning opportunities for 239 students.

   To create conducive school learning environments for students and teachers, 19 school infrastructure were upgraded while 38 schools were provided with furniture/equipment. In terms of capacity enhancement, 185 teachers were trained, 686 were supplemented with teachers supplies, and 50 with financial support.

   A special education project, called Leyte Schools for Excellence (SFE) is now on its fifth (5^{th}) year of implementation and continues to deliver impressive school performance results in terms of significant increases in the enrolment, attendance, retention, participation, survival and achievement rates from previous-year figures. As a result of these achievements, the Schools for Excellence garnered the following academic/achievement awards:

(1) Regional and Division Awards for getting a Mean Percentile Score (MPS) of 90% and 93% in Math and HEKASI, respectively, for Grade 6 National Achievement Test (NAT) 2009, (2) Division Awards for getting an MPS of 92% in English Grammar, 91% in English Reading, 96% in Science for Grade 3 NAT 2009, (3) 1st placer District level in Science Quiz Bee (Grade 3), 1st placer District level in "Tagisan ng Talino" (Grade 4).

A breakthrough project, the Kananga-EDC Institute of Technology (KEITECH), which opened its doors last June 2009 for technical-vocational education, has graduated its first batch of 117 students in April 2010 and these students are now locally employed and gaining work experience to increase chances of working abroad. On its 2nd school year, a total of 122 students passed the rigid admission and selection process. KEITECH consistently maintained 100% passing in the qualification assessment for National Certifications. Aside from technical skills, the training center boasts of its values formation program, and continues to receive encouraging feedback from tech-voc experts and trainees' parents. The KEITECH philosophy of "pay-it-forward" started to bear fruit as 5 alumni have begun giving their contributions to the school.

3. **Livelihood and Enterprise Development.** To cultivate entrepreneurial skills of host communities, and to showcase appropriate production, marketing and financial management of income generating projects, EDC established 22.8 hectares of demo farms comprising of sweet corn, rice, banana, and high-value vegetable production using new technologies. On top of the demo farms, the 111 EDC-organized farmers/community associations (FA/CA) with 8,484 member-beneficiaries continuously implement the 13 major and 12 minor livelihood projects. These livelihood projects have generated a combined gross income of PhP42.9 Million. EDC was also able to facilitate the access of Farmers Federations to P5.5 million worth of loans from Land Bank of the Philippines, and P1.9 Million grants from FIDA to serve as capital for various livelihood projects and small scale labor contracting. This strategy is intended to inculcate business responsibility, and make EDC-organized FAs/CAs more cost-conscious and financially independent.

   Likewise, 1,953 small/large-scale labor contracts with a combined amount of ₱178.5 million were awarded by the Company directly 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.

   On the aspect of capacity-building, EDC facilitated the conduct of technical and skills trainings on business operations, values re-orientation and financial education to 3,351 association members including CSR program implementers.

4. **Environmental Conservation, Protection, Enhancement and Advocacy.** As a commitment to the Clinton Global Initiative, EDC's "BINHI: *A Greening Legacy"* program aims to rehabilitate forest fragments and ensure preservation of biodiversity with its three (3) modules, namely, *Tree for Life*, *Tree for Food* and *Tree for the Future*. In the last two years, EDC has planted a total of 1,556,577 trees in 1,906.5 hectares of open forest land in six host provinces of geothermal and hydro power projects, and in 6 different locations in Metro Manila, Laguna, Batangas and Isabela. In 2010 alone, a total of 721,648 trees comprising 60 species were planted in 937.5 hectares of open land.

   On top of this, EDC responded to the recent rise in catastrophes perceivably caused by global warming through the organization of 21 Barangay Emergency Response Teams (BERT), now with 242 members in five (5) project sites. The teams were trained on various emergency response techniques to prepare them for their major role in emergency preparedness and response to prevent loss of life and property.

Business of the Issuer

Principal Products or Services and their markets

The Company operates twelve geothermal steam fields 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 (DUs), pursuant to Power Purchase Agreements (PPAs) and Electricity Sales Agreements (ESAs), respectively.

Starting September 3, 2010, the Company ceased billing to NPC after BGI's successful acquisition of the plants from NPC.

The Company is also into hydro power generation through its 60% equity interest in FG Hydro which operates the 120 MW Pantabangan and 12 MW Masiway Hydroelectric Power Plants, located in Pantabangan, Nueva Ecija Province, Central Luzon. These power plants supply 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 supply service contracts.

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

The Company has 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, 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.

Percentage of sales or revenues contributed by foreign sales

The Company generated ₱748.7 million from the contract it entered into with Lihir Gold Limited (LGL) in Papua, New Guinea. This represents 3.0% of the Company's ₱24,901.6 million gross revenues for 2010. The Company's contract with LGL was extended up to June 30, 2011.

Distribution methods of products or services

About 69.5% of the 7,548.6 GWh sales volume from its steam and electricity business was sold to NPC. Electricity production of about 348.5 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 1,955.3 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 sales volume comprised of 6,534.5 GWh coming from electricity production in Leyte, Mindanao, No. Negros, Tongonan I and Palinpinon geothermal power plants; 665.6 GWh pertaining to steam operations in Bacman; and 348.5 GWh sold 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 348.5 GWh of electricity in 2010, of which 73.3% or 255.4 GWh, was consumed by its contracted customers and 26.7% or 93.1 GWh was sold to the Wholesale Electricity Spot Market (WESM).

New Products or Services

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 US$220.0 million. On October 23, 2009, GCGI successfully completed all conditions precedent required for the PSALM's turnover of the Palinpinon and Tongonan geothermal power plants. GCGI was awarded 12 transition power supply contracts under its Asset Purchase Agreement with PSALM.

On May 5, 2010, Bac-Man Geothermal Inc. (BGI), the Company's wholly-owned subsidiary through First Luzon Geothermal Energy Corporation, submitted the winning bid of US$28.25 million for PSALM's auction of the 150 MW Bacon-Manito Geothermal Power Plants located in the towns of Bacon, Sorsogon Province and Manito, Albay Province. On September 3, 2010, BGI remitted to PSALM the full payment for the assets. The Bacon-Manito

Geothermal Power Plants are currently under rehabilitation to restore capacity and reliability.

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, 2010 and electricity production by energy source for 2010.

	Installed Capacity		Power Generation	
Energy Source	**MW**	**%**	**GWH***	**%**
Coal	4,522.6	28.4	23,039.2	35.0
Oil Based	3,193.33	20.1	5,873.3	8.9
Geothermal	1,951.7	12.3	9,931.0	15.1
EDC	*1,198.8*	*7.6*	*6,182.2*	*9.4*
Chevron	*752.9*	*4.7*	*3,748.8*	*5.7*
Hydro	3,333.4	21.0	7,652.3	11.7
Natural Gas	2,831.0	17.8	19,226.4	29.2
Renewable/Others	64.3	0.4	73.0	0 .1
Total	15,896.3	100.0	65,795.2	100.0

****Note: Based on DOE's data as of March 11, 2011*

Under the Company's Geothermal Renewable Energy Service Contracts (GRESCs), 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.

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. While on May 5, 2010, BGI submitted the highest offer price for BGPP in a competitive bidding conducted by PSALM and remitted the full payment of the BGPP acquisition on September 3, 2010. Furthermore, the supply of steam is location-specific, such that each power plant can only source its fuel from a dedicated nearby steam field.

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.

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

Close to 61.8% 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 production steam fields are located are:

- Tongonan Geothermal Project (expiring in 2031)
- Southern Negros Geothermal Project (expiring in 2031)
- Bacon-Manito Geothermal Project (expiring in 2031)
- Mt. Apo Geothermal Project (expiring in 2042)
- Northern Negros Geothermal Project (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 (GRESC) Areas

Contract Area	Expiration of GRESC	Project	Installed Capacity (in MWe)	Product	Expiration of Offtake Agreement	Minimum Take-or-pay Capacity [1] (in GWh/year)	Plant Owner
Tongonan Geothermal Project	2031	Tongonan	112.5	Steam and Electricity	2009 (SSA) [2] 2031 (GRSC)		GCGI[5]
		Upper Mahiao	125.0	Steam and Electricity	2022 (PPA) [4]	4,288.0	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 Project	2044[3]	Northern Negros	49.4	Steam and Electricity	2012 (ESA)	N/A	EDC
Southern Negros Geothermal Project	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]
Bacon-Manito Geothermal Project	2031	BacMan I	110.0	Steam	2018 (SSA)	722.7	BGI[6]
		BacMan II	40.0	Steam	2019/2023 (SSA)	262.8	BGI[6]
Mt.Apo Geothermal Project	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.
[6] On September 3, 2010, the Bacman 1 and Bacman II geothermal power plants were turned over to BGI, which won the PSALM's auction of the said plants last May 5,2010.

The Company also holds geothermal resource service contracts for the following prospect areas:

- Mt. Labo Geothermal Project (with a 5 year pre-development period expiring in 2015)
- Mt. Mainit Geothermal Project (with a 5 year pre-development period expiring in 2015)

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.

In 2010, the Parent Company has entered into five WESCs with the DOE for the following contract areas:

1. Pagudpud Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-040 (expiring in 2035)
2. Camiguin Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-041 (expiring in 2035)
3. Taytay Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-042 (expiring in 2035)
4. Dinagat Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-043 (expiring in 2035)
5. Siargao Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-044 (expiring in 2035)

Cost and effects of compliance with environmental laws

The Company's geothermal steam field 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 2009 and 2010 were approximately ₱130.6 million and ₱135.7 million, respectively.

Employees and Labor Relations

As of December 31, 2010, the Parent Company has 2,390 employees consisting of 20 Executives, 1,333 Managerial, Professional and Technical (MPT) employees, and 1,037 Rank and File (R&F) employees. In particular, the distribution of employees by sector is as follows:

Sector	Number	%
Office of the Chairman/President	64	3
Business Development	9	0
Finance	94	4
HR Management	45	2
Supply Chain Management	102	4
Environmental & External Relations	98	4
Steam field Operations	995	42
Power Generation	393	17
Technical Services	246	10
Engineering & Construction	79	3
Well Construction	265	11
Total Headcount	2,390	100

The Parent Company discontinued the operations of its Well Construction Group effective close of business on February 28, 2011.

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

There are 14 labor unions within the Parent 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)	54
2. National Union of Rig Workers (NURIWO)	Drilling	108
3. Tongonan Workers' Union (TWU)	Leyte Geothermal Production Field	80
4. Leyte A Geothermal Project Employees' Union (LAGPEU)	Leyte Geothermal Production Field	276
5. United Power Employees' Union (UPEU)	Leyte Geothermal Production Field	50
6. PNOC EDC-LGPF and TIPF Association of Technical, Supervisory and Professional Employees (PELT ATSAPE)	Leyte Geothermal Production Field	159
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	124
9. EDC-BGPF Supervisory Employees' Union (EBSEU)	Bacon-Manito Geothermal Production Field	22
10. BAC-MAN Professional and Technical Employees Union (BAPTEU)	Bacon-Manito Geothermal Production Field	53
11. Mt. Apo Workers Union (MAWU)	Mt. Apo Geothermal Production Field	115
12. Mt. Apo Professional and Technical Employees Union (MAPTEU)	Mt. Apo Geothermal Production Field	40
13. PNOC EDC SNGP Rank and File Union	Southern Negros Geothermal Production Field	134
14. PNOC EDC SNGP Supervisory Association	Southern Negros Geothermal Production Field	68

These unions enter into regular collective bargaining agreements (CBAs) with the Parent Company as regards to number of working hours, compensation, employee benefits, and other employee entitlements as provided under Philippine labor laws. In 2010, all 11 CBAs due for renewal were concluded.

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 ten years any strikes, lock-outs or work stoppages as a result of labor disagreements.

As of December 31, 2010, the Company's subsidiaries, GCGI, and FG Hydro employ the following number of employees:

Subsidiary	Managerial, Professional & Technical	Rank & File	Total
GCGI	106	89	195
FG Hydro	32	30	62

BGI has 94 employees under temporary status as of December 31, 2010.

FACTORS AFFECTING THE COMPANY'S RESULTS OF OPERATIONS

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

- ***The Company's Relationship with NPC***

  Contractual framework.

  As per the Company's SSAs and PPAs, NPC is obligated to pay for a minimum quantity of steam and electricity pursuant to its take-or-pay and minimum energy offtake (MEOT) obligations. The average remaining lives of these contracts are 7 and 11 years for the SSAs and PPAs, respectively. The remaining active SSAs of the Company with the NPC are those pertaining to the Bac-Man I and II Geothermal Power Plants.

  Starting September 3, 2010, the Company ceased billing to NPC after BGI's successful acquisition of the plants from NPC.

- ***Exchange Rate Fluctuations***

The Company's accounting records and financial statements are prepared in Pesos, although its payments for debt service, BOT fees and major materials and services are denominated substantially in US Dollars and Japanese Yen. Foreign exchange rate fluctuations affect the cost of borrowings, as well as the Peso value of such in the Company's balance sheet.

In 2010 and 2009, the Company recorded a foreign exchange loss of ₱13.8 million and foreign exchange gain of ₱1,291.2 million, respectively.

Also, the unit prices for majority of the SSAs and PPAs are indexed to the US Dollars vis-a-vis the Philippine Peso.

PROPERTY

- ***Land***

The Company is the registered owner of land located in various parts of the Philippines. As of December 31, 2010, these lands were valued by Asian Appraisal Company, Inc., an independent appraiser, at approximately ₱180.9 million. The Company's landholdings include one lot in Fort Bonifacio, Taguig City, Metro Manila, other parcels used or to be used for its various projects, such as sites for power plants for the Leyte Geothermal Production Field and the Northern Negros Geothermal Project.

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

Location/Project	Parcels of Land	Area (hectares)	Under Expropriation	Leased	Acquired	
					w/ title to EDC	Title for Consolidation
Fort Bonifacio	1	0.35	None	None	1	None
Baguio	1	0.25	None	None	1	None
Bacon-Manito Geothermal Project	104	29.59	None	None	13	91
Northern Negros Geothermal Project	256	153.21	21	106	12	122
Southern Negros Geothermal Project	97	118.90	3	7	0	88
Leyte Geothermal Project	603	477.81	8	9	21	603
No. Luzon Wind Project	2,124	465.50	72	2,124	None	None
Total	3,186	1,245.61	104	2,246	48	904

On June 1 and December 16, 2009, the Company completed the sale of parcels of land consisting of 19,786 sq. m. and 9,506 sq. m., respectively, to PNOC. The sale was in accordance with the Company's Board Resolution No. 115 Series of 2007 dated November 13, 2007.

None of the properties owned by the Company is subject to any mortgage, lien, encumbrance or limitation on ownership and usage. Of the 2,246 parcels of land leased by the Company, about 90% is comprised of perpetual road right of way easements, 8% pertains to the wind farm with lease terms of 25 years, and the remaining 2% with expiration dates ranging from 5-10 years.

- ***First Gen Hydro Power Corporation***

The Pantabangan Hydroelectric Power Plant (PHEP – 120 MW) is located at the toe of the Pantabangan dam and consists of two generators, each capable of generating full load power of originally 50 MW at 90% power factor. As part of the on-going Plant Rehabilitation and Uprating Program (PRUP), Units 1 and 2 have been refurbished and upgraded in December 2009 and December 2010, respectively to 60 MW each. Each generator is coupled to a vertical shaft Francis turbine that converts the kinetic energy of the water from the dam to 70,000 mechanical horsepower.

The electric power output of PHEP is delivered to the Luzon Grid through a 13.8kV/230kV Ring Bus Switchyard, composed of two 64 MVA transformers, switching and protective equipments.

The Masiway Hydroelectric Power Plant (MHEP – 12 MW) is located 7 kms. downstream of PHEP. It uses a 16,800 HP Kaplan turbine to convert the energy of the low head but high flow release of water from the Masiway re-regulating dam to a directly coupled generator that is capable of generating 12 MW of electric power at 90% power factor. The power output of MHEP is delivered to the Grid through a switchyard mainly composed of a 13.33 MVA transformer, switching and protective equipments all owned by FG Hydro.

For both PHEP and MHEP, all power components, including penstocks, generators, power houses, turbines and transformers are owned, maintained and operated by FG Hydro. The amount of water release in the Pantabangan reservoir is based on the Irrigation Diversion Requirement dictated by the National Irrigation Administration (NIA). NIA operates and maintains the non-power components which include watershed, spillway, intake structure, and Pantabangan and Masiway reservoirs.

As of December 31, 2010, the consolidated net book value of property, plant and equipment amounted to ₱56,679.2 million.

- ***Green Core Geothermal, Inc.***

Located in Valencia, Negros Oriental, the Palinpinon geothermal power plant consists of two power stations, Palinpinon I and II, which are approximately five kilometers apart. Commissioned in 1983, Palinpinon I comprises three 37.5–MW steam turbines for a total rated capacity of 112.5 MW. Palinpinon II, on the other hand, consists of three modular power plants: Nasuji, Okoy 5 and Sogongon. The 20-MW Nasuji was commissioned in 1993, while the 20-MW Okoy 5 went on stream in 1994. Started in 1995, Sogongon consists of the 20-MW Sogongon 1 and 20-MW Sogongon 2. Situated in Sitio Sambaloran, Barangay Lim-Ao, Kananga, Leyte province in Eastern Visayas, the Tongonan geothermal power plant consists of three 37.5-MW units, which went into commercial operations in 1983.

Both plants use steam supplied by EDC.

- ***Bac-Man Geothermal, Inc.***

Located in Bacon, Sorsogon City and Manito, Albay in the Bicol region, the Bac-Man plant package consists of two steam plant complexes. The Bac-Man I geothermal facility comprises two 55 MW turbines, which were both commissioned in 1993. Bac-Man II, on the other hand, consists of two 20 MW units namely, Cawayan located in Barangay Basud and Botong in Osiao, Sorsogon City. The Cawayan unit was commissioned in 1994 and the Botong unit in 1998. EDC supplies steam to these plants.

- ***Other Subsidiaries***

EWEHI, EBWPC, ULGEI and EDC Chile Limitada are the other subsidiaries of the Company that are incorporated within the year 2010 but have not started with their operations yet.

LEGAL PROCEEDINGS

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

- **Expropriation Proceedings**

Several expropriation proceedings filed by the Government of the Republic of the Philippines (GOP) to acquire land needed by the Company for certain power plant projects are still pending before various Philippine courts, in particular, in respect of the land requirements for the Leyte Geothermal Project, the Southern Negros Geothermal Project, the Northern Negros Geothermal Project and the Burgos Wind Power Project. As of December 31, 2010, there were 48 such cases pending and the aggregate amount claimed by the landowners as just compensation is approximately ₱255.05 million. The common issue in these cases is the amount of compensation to be paid to the owners of expropriated lands.

- **Tax Cases**

a) Real Property Taxes

In January 2009, EDC received a Notice of Assessment from the Provincial Assessor of Leyte, covering the 125 MW Upper Mahiao power plant, 231 MW Malitbog power plant, 18 MW Topping Cycle – Tongonan and 25 MW Bottoming Cycle – Malitbog and other supposed EDC properties located in Lim-ao, Tongonan and Aguiting, all in the Province of Leyte. The Company elevated the matter and questioned the validity and legality of these assessments before the Local Board of Assessment Appeals (LBAA) in Tacloban City, Leyte. On May 22, 2009, after receiving an unfavorable response from the LBAA, the Company filed a civil case entitled Energy Development Corporation vs. Province of Leyte, et. al which was docketed as Case No. 026 to question the aforementioned assessment. The aggregate amount of the real property tax liabilities corresponding to the assessment stood at ₱1 billion. On June 25, 2009, pursuant to Sangguniang Panlalawigan Resolution No. 09-249 of the Province of Leyte, the Company settled its liabilities for ₱235 million for the years 2004-2008 and ₱52 million for the year 2009. The Treasurer's Office of Tacloban City issued the tax clearance on August 23, 2010, which settled the issue on the aforementioned real property tax liabilities. Consequently, the Company will withdraw the civil case docketed as Case No. 026.

On May 22, 2009, EDC received another Notice of Assessment from the Provincial Assessor of Leyte assessing the value of the Company's geothermal and production wells at a value of ₱5.920 billion which facilities are located in Tongonan, Malitbog and Lim-ao. On August 7, 2009, the Company filed the corresponding appeal before the LBAA of the Province of Leyte in a case entitled Energy Development Corporation vs. Province of Leyte which was docketed as LBAA Case No. 029, for the annulment of the assessments made on the ground that the properties assessed are exempted from real property tax. The case is in the pre-trial stage before the LBAA.

b) Franchise Taxes

The province of Leyte has assessed the Company an aggregate of ₱310.6 million in franchise taxes in respect of the operation from 2000-2004, 2006 and 2007 of its geothermal power plants in the province. On July 17, 2006, the Company filed the corresponding appeals before the Regional Trial Court of Tacloban City, Leyte, for the annulment of the assessments made. The said cases have been docketed as Consolidated Civil Cases No. 2006-07-77, 2006-05-49, 2006-05-48 and 2007-08-03, and Civil Case No. 2008-05-03 all entitled PNOC EDC vs. Province of Leyte, et. al.

In December 2008, the Company received a Consolidated Notice of Assessment and Demand for Payment from the Province of Leyte, demanding from the Company the payment of franchise tax in the amount of ₱443.7 million. This assessment cancelled previous assessments since the new assessment covers the period starting 1998 until 2006. On April 24, 2009, the Company protested the said assessment and, since the Province denied the said protest, the matter is currently under appeal before the Regional Trial Court of Tacloban City, Leyte, docketed as Civil Case No. 2009-04-46, captioned EDC vs. Province of Leyte, et al.

On July 17 and September 15, 2009, the Court issued two orders granting EDC's prayer for the issuance of a Preliminary Injunction restraining the Province from levying and collecting Franchise Tax from the company. These orders are currently the subject of a Petition docketed CA G.R. CEB SP No. 04575 for Certiorari with Prayer for Issuance of Preliminary Injunction and/or Temporary Restraining Order filed by the Province seeking to annul the said orders.

The Company believes that it is not liable for franchise taxes because, under the EPIRA, power generation is not a public utility activity and does not require a franchise, and the tax was based on the power plant revenues of the BOT operators, not the Company. This position is supported by an opinion from the Office of the Government Corporate Counsel. Moreover, the Company is not engaged in a business that requires a franchise for its operation.

c) Input Value Added Tax

On June 5, 2008, April 24, 2009, and December 29, 2009 the Company filed Petitions for Review with the Court of Tax Appeals with respect to its un-acted claim from the Bureau of Internal Revenue for Tax Credit on Input Value Added Tax relating to the Company's zero-rated sales for 2006, 2007, and 2008 respectively. The aggregate claim amounts to ₱513.8 million. These cases are entitled Energy Development Corporation (Formerly PNOC Energy Development Corporation) vs. Commissioner of Internal Revenue and have been docketed as CTA Case No. 7792, 7926, and 8019 respectively.

On November 12, 2010, the Company filed with the BIR's Large Taxpayers Division Office—Makati its claim for Input VAT Refund of ₱235.5 million covering the year 2009. The BIR is given 120 days from submission of complete documents to act on the claim and its failure to act on the same shall entitle EDC to file a Judicial Claim for Review with the Court of Tax Appeals within 30 days from the lapse of the 120-day period. The Company's claims are based on the provisions of the National Internal Revenue Code, as amended.

- **Civil Cases**

On July 28, 2008, a case for prohibitory injunction with prayer for temporary restraining order (TRO) was filed against the Company by Delia Locsin, et al. The case entitled Delia Ediltrudes Locsin, et al. vs. EDC, et al. docketed as Civil Case No. 08-13236 before the Regional Trial Court of Bacolod City sought to declare null and void DENR's permit allowing EDC to clear trees within the buffer zone of Mt. Kanlaon National Park, to perpetually enjoin the carrying out any activity within the said area, and to perpetually enjoin the Company from conducting directional drilling into the Mt. Kanlaon National Park protected area.

To date, no TRO has been issued against the EDC as the hearing on the same is temporarily set aside due to the Company's pending motion for inhibition of the presiding judge and as well as the manifestation for outright denial of the TRO based on R.A. 8975, which prohibits the issuance of TRO's and writs of preliminary injunctions against the implementation of government infrastructure projects. Moreover, the Company has already completed the works sought to be enjoined. The Company maintains that its operations in the area are lawful and sanctioned by the DENR. The Court of Appeals, in a *Decision* dated December 16, 2009 has ruled that the Regional Trial Court cannot proceed with the hearing for prohibitory injunction with prayer for TRO on the ground that the geothermal project undertaken by EDC is considered as a government infrastructure project to which the prohibition in RA 8975 applies.

As of December 31, 2010, there are 18 other civil cases to which EDC is a party. Although the aggregate monetary claims in these cases amount to approximately ₱27,232,730.75, the Company does not believe that an adverse result in any one case pose a material risk to the Company's operations.

- **Labor Cases**

As of December 31, 2010, there were 16 pending labor cases against the Company, most of which deal with plaintiffs' claims of illegal dismissal and backwages. Although the aggregate monetary claims in these cases amount to approximately ₱150.04 million, similar to the civil cases, the Company does not believe that an adverse result in any one of the labor cases pose a material risk to the Company's operations.

PART II – SECURITIES OF THE REGISTRANT

MARKET INFORMATION

The Company's common equity was listed in the Philippine Stock Exchange last December 13, 2006 at an Initial Public Offering price of ₱3.20 per share. The high and low share prices for 2009 and 2010 are indicated in the following table:

	Highest Close		Lowest Close	
Period	**Price (₱)**	**Date**	**Price (₱)**	**Date**
2009				
1st Quarter	3.90	Mar. 31, 2009	2.10	Feb. 4, 2009
2nd Quarter	4.45	April 8, 2009	3.30	April 15, 2009
3rd Quarter	4.90	Sept. 8-11, 2009	3.80	July 14, 2009
4th Quarter	4.90	Oct. 15 & 21, 2009	3.90	Oct. 22, 2009*
2010				
1st Quarter	5.20	Jan. 19, 2010	4.45	Jan. 4, 2010
2nd Quarter	5.60	May 4, 2010	4.55	June 24, 25, 28 & 29, 2010
3rd Quarter	6.48	Sept. 28, 2010	4.34	Aug. 6, 2010
4th Quarter	6.32	Oct. 7, 2010	5.37	Nov. 12, 2010

** ex-date for the 25% stock dividend*

The total number of stockholders as of December 31, 2010 was 716. Price as of last trading day of the year, December 30, 2010, was ₱5.87 per share.

As of February 28, 2011, the total number of stockholders was 713 and the stock price was ₱5.60.

List of Top 20 Stockholders as of February 28, 2011

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	-	7,840,616,142	7,840,616,142	27.88
3	PCD Nominee Corporation	Filipino	-	2,727,161,921	2,727,161,921	9.70
4	First Gen Corporation	Filipino	-	458,643,750	458,643,750	1.63
5	Spathodea Campanulata, Inc.	Filipino	-	100,000,000	100,000,000	0.36
6	Philhealth Care, Inc.	Filipino	-	63,725,350	63,725,350	0.23
7	Systems Technology Institute, Inc.	Filipino	-	12,745,200	12,745,200	0.05
8	Federico R. Lopez	Filipino	-	7,092,501	7,092,501	0.02
9	Peter D. Garrucho, Jr.	Filipino	-	5,545,000	5,545,000	0.02
10	Ernesto B. Rufino, Jr.	Filipino	-	3,775,000	3,775,000	0.01
11	Benjamin K. Liboro	Filipino	-	3,525,500	3,525,500	0.01
12	Hi-Light Corporation	Filipino	-	1,577,5000	1,577,500	0.01
13	Mapazon Corporation	Filipino	-	1,470,000	1,470,000	0.01
14	Ronaldo C. Sabella	Filipino	-	1,147,500	1,147,500	0.00
15	CROSLO Holdings Corporation	Filipino	-	1,000,000	1,000,000	0.00
16	Arthur A. Deguia	Filipino	-	950,000	950,000	0.00
17	ALG Holdings Corporation	Filipino	-	875,000	875,000	0.00
18	Tan Ben Kuan	Filipino	-	875,000	875,000	0.00
19	Engracio A. Sanchez	Filipino	-	690,000	690,000	0.00
20	Rosalind Camara	Filipino	-	663,750	663,750	0.00

COMPANY'S SHARE CAPITAL

On October 12, 2009, the SEC approved the EDC'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, EDC 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, 2010 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 EDC'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 AND STOCK DIVIDENDS

On April 30, 2010, the following cash dividends were paid to all stockholders of record as of April 13, 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 May 7, 2010, FG Hydro paid cash dividends to the Company's non-controlling interest amounting to ₱240.0 million.

PART III – FINANCIAL INFORMATION

Management Discussion and Analysis of Results of Operations and Financial Condition

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).

Starting September 3, 2010, the Company ceased billing to NPC after BGI's successful acquisition of the plants from NPC.

Currently, EDC provides drilling services to the Lihir Gold Limited in Papua, New Guinea based on the contract signed in March 2007, which was extended up to June 30, 2011.

On May 5, 2010, Bac-Man Geothermal Inc. (BGI), a wholly-owned subsidiary of the Company, participated and won the auction for the 150 MW Bac-Man Geothermal Power Plants by remitting ₱1,279.7 million to PSALM.

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

A. FINANCIAL RESULTS FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

Financial results for the years ended December 31, 2010, 2009 and 2008

	CONSOLIDATED (AUDITED)		
(Amounts in Million Pesos)	**2010**	**2009** (Restated)	**2008**
Income Statement Data			
Revenues	**24,901.6**	22,066.9	20,526.9
Income before income tax	**5,172.3**	7,267.5	2,652.9
Foreign exchange gains (losses) - net	**(13.8)**	1,291.3	(9,357.1)
Net income	**4,395.1**	3,357.0	1,345.3
Net Income attributable to Equity Holders of the Parent Company	**4,115.8**	3,311.4	1,308.0

	As at December 31		
(Amounts in Million Pesos)	**2010**	**2009** (Restated)	**2008**
Balance Sheet Data			
ASSETS			
Total current assets	**14,778.7**	19,530.8	13,724.2
Property, plant and equipment	**56,679.2**	56,980.7	5,280.1
Service concession assets			
Concession receivables - net of current portion	**-**	-	32,647.3

	As at December 31		
(Amounts in Million Pesos)	**2010**	**2009** (Restated)	**2008**
Balance Sheet Data			
Intangible assets	**-**	-	9,389.2
Goodwill and water rights	**4,543.0**	4,639.2	2,493.7
Deferred tax assets - net	**893.7**	1,209.6	3,410.4
Exploration and evaluation assets	**1,170.4**	1,038.1	999.8
Derivative assets	**-**	9.6	34.9
Other non-current assets	**3,238.6**	1,355.6	1,366.0
Total Assets	**81,303.6**	84,763.6	69,345.6
LIABILITIES AND EQUITY			
Total current liabilities	**7,486.8**	21,763.5	15,702.8
Long-term debts - net of current portion	**39,678.7**	30,533.7	23,557.0
Royalty fee payable - net of current portion	**300.6**	566.7	-
Deferred tax liabilities - net	**-**	17.3	11.3
Retirement and other post employment benefits	**1,307.1**	1,237.1	1,026.4
Other long-term liabilities	**291.4**	324.7	312.8
Total Liabilities	**49,064.6**	54,443.0	40,610.3
Equity attributable to equity holders of the Parent Company	**30,669.9**	28,790.8	27,251.2
Non-controlling interest	**1,569.1**	1,529.8	1,484.1
Total Equity	**32,239.0**	30,320.6	28,735.3
Total Liabilities and Equity	**81,303.6**	84,763.6	69,345.6

FINANCIAL HIGHLIGHTS

December 2010 vs. December 2009 Results

1) Net income increased by 30.9% or ₱1,038.1 million to ₱4,395.1 million in 2010 from ₱3,357.0 million in 2009.

The favorable variance was primarily attributed to the following:

- Increase in revenues by ₱2,834.7 million mainly due to Green Core's higher revenues with its full year operation in 2010 as compared to the two months in 2009;
- One-time write-down in 2009 of the ₱2,959.2 million of deferred tax assets due to the implementation of RE Law while none in 2010;
- A ₱1,746.8 million net increase of miscellaneous income mainly due to the ₱1,638.9 million recovery of impairment loss on Input VAT claims; and
- A ₱635.8 million turnaround on derivatives instruments from the ₱198.8 million loss in 2009 to the ₱437.0 million gain in 2010 arising from the full settlement of Miyazawa II.

These were offset by:

- Higher provision of allowance for impairment of NNGP's assets by ₱3,041.0 million (2010 = ₱3,390.0 million vs. 2009 ₱349.0 million);
- Higher depreciation expenses by ₱2,233.6 resulting mainly from reclassification of service concession receivables to property, plant and equipment as the Company no longer applied IFRIC 12 commencing October 23, 2009; and
- A ₱1,305.1 million turnaround from the ₱1,291.3 forex gain in 2009 to the ₱13.8 million forex loss in 2010.

The net income in 2010 represented 17.7% of total revenue as compared to 15.2% in 2009.

2) The recurring net income generated in 2010 slightly decreased by 0.5% or ₱38.3 million to ₱7,237.8 million from ₱7,276.1 million in 2009.

The unfavorable variance was primarily due to the following:

- ₱1,344.2 million increase in operating expenses due to higher depreciation with the reclassification of financial asset to property, plant and equipment following the scope-out from IFRIC 12;
- ₱932.3 million increase in net financial expense due to the full year recognition of interest expense in 2010 of the Fixed Rate Corporate Notes (FRCN) and Peso public bonds issued in the second half of 2009 coupled with the availment of the US$175.0 million syndicated term-loan facility in June 2010; and
- ₱384.5 million turnaround in 2010 from the realized foreign exchange gain position in 2009.

These were offset by ₱2,622.7 million increase in total revenue mainly from electricity sales with the full year operations of GCGI and increased sales volume of FG Hydro, net of income taxes.

Major Transactions for CY 2010

- Full settlement of Miyazawa II and PNOC relent loans (₱15,304.2 million);
- Availment of US$175.0 million syndicated term loan facility (₱8,058.7 million);
- Additional impairment provision on NNGP's assets (₱3,390.0 million);
- Recovery of impairment loss on Input VAT claims (₱1,638.9 million);
- Reimbursement to NPC for shortfall generation for the contract period 2009 to 2010 (₱1,063.6 million);
- Implementation of Early Retirement Program (ERP) in September 2010 and accrual of cost associated with NNGP's Manpower Reduction Program (MRP) in December 2010 and closure of Well Construction Group (₱545.8 million); and
- Availment of short-term loan from ANZ Bank (₱175.0 million).

RESULTS OF OPERATIONS

CONSOLIDATED INCOME STATEMENT

December 2010 vs. December 2009 Results

			HORIZONTAL ANALYSIS Favorable (Unfavorable) Variance		VERTICAL ANALYSIS	
(Amounts in PHP millions)	**Dec. 2010**	**Dec. 2009 (Restated)**	**Amount**	%	2010	2009
Sale of electricity	**22,944.2**	**15,246.0**	**7,698.2**	50.5%	92.1%	69.1%
Sale of steam	**1,208.7**	**3,781.4**	**(2,572.7)**	-68.0%	4.9%	17.1%
Interest income on service concession	-	**1,650.2**	**(1,650.2)**	-100.0%	0.0%	7.5%
Drilling services	**748.7**	**847.9**	**(99.2)**	-11.7%	3.0%	3.8%
Construction revenue	-	**541.4**	**(541.4)**	-100.0%	0.0%	2.5%
TOTAL REVENUES	**24,901.6**	**22,066.9**	**2,834.7**	12.8%	100.0%	100.0%
Operations and maintenance	**(8,963.7)**	**(6,067.0)**	**(2,896.7)**	47.7%	-36.0%	-27.5%
Purchased services and utilities	**(1,510.2)**	**(2,073.1)**	**562.9**	-27.2%	-6.1%	-9.4%
General and administrative	**(4,528.9)**	**(3,498.2)**	**(1,030.7)**	29.5%	-18.2%	-15.9%
Construction costs	-	**(467.3)**	**467.3**	-100.0%	0.0%	-2.1%
Depreciation and amortization	**(3,445.0)**	**(1,211.4)**	**(2,233.6)**	184.4%	-13.8%	-5.5%
Total Operating Expenses	**(18,447.8)**	**(13,317.0)**	**(5,130.8)**	38.5%	-74.1%	-60.4%
Interest income	**347.7**	**403.0**	**(55.3)**	-13.7%	1.4%	1.8%
Interest expense	**(3,708.5)**	**(2,887.2)**	**(821.3)**	28.4%	-14.9%	-13.1%
Total Financial Income (Expenses)	**(3,360.8)**	**(2,484.2)**	**(876.6)**	35.3%	-13.5%	-11.3%
Foreign exchange gains (losses) - net	**(13.8)**	**1,291.3**	**(1,305.1)**	-101.1%	-0.1%	5.9%
Derivatives gain (loss) - net	**437.0**	**(198.8)**	**635.8**	-319.8%	1.8%	-0.9%
Miscellaneous - net	**1,656.1**	**(90.7)**	**1,746.8**	-1925.9%	6.7%	-0.4%
Total Other Income (Expenses)	**2,079.3**	**1,001.8**	**1,077.5**	107.6%	8.4%	4.6%
INCOME BEFORE INCOME TAX	**5,172.3**	**7,267.5**	**(2,095.2)**	-28.8%	20.8%	32.9%
Provision for (benefit from) Income Tax						
Current	**(477.8)**	**(1,454.4)**	**976.6**	-67.1%	-1.9%	-6.6%
Deferred						
Effect of Renewable Energy Law	-	**(2,959.2)**	**2,959.2**	-100.0%	0.0%	-13.4%
Others	**(299.4)**	**503.1**	**(802.5)**	-159.5%	-1.2%	2.3%
	(777.2)	**(3,910.5)**	**3,133.3**	-80.1%	-3.1%	-17.7%
NET INCOME	**4,395.1**	**3,357.0**	**1,038.1**	30.9%	17.7%	15.2%
Attributable to:						
Equity holders of the Parent Company	**4,115.8**	**3,311.4**	**804.4**	24.3%	16.5%	15.0%
Non-controlling Interests	**279.3**	**45.6**	**233.7**	512.5%	1.1%	0.2%
EBITDA	**13,747.9**	**10,711.9**	**3,036.0**	28.3%	55.2%	48.5%
Recurring Net Income	**7,237.8**	**7,276.1**	**(38.3)**	-0.5%	29.1%	33.0%
Attributable to:						
Equity holders of the Parent Company	**6,837.9**	**7,155.5**	**(317.6)**	-4.4%	27.5%	32.4%
Non-controlling Interests	**399.9**	**120.6**	**279.3**	231.6%	1.6%	0.5%

Revenues

Total revenues for the year ended December 31, 2010 increased by 12.8% or ₱2,834.7 million to ₱24,901.6 million from ₱22,066.9 million in 2009.

Sale of Electricity

Revenues from sale of electricity increased by 50.5% or ₱7,698.2 million to ₱22,944.2 million in 2010 from ₱15,246.0 million in 2009. The increase in revenue was primarily due to the following:

- ₱5,509.7 million increase in Green Core's revenue with its full year operations in 2010 as compared to the two months in 2009;
- ₱2,880.0 million increase in revenues of the Parent Company with the full recognition of billings as revenues starting October 23, 2009 as the Company no longer applied IFRIC 12; and
- ₱892.4 million increase in FG Hydro's revenue due to:

- significant increase in average WESM prices arising from supply shortage in the first quarter of 2010; and
- Higher sales volume primarily due to increased demand for irrigation requirements in the first quarter of 2010 coupled with the increased power generation capacity on account of the completion of the power plants' rehabilitation.

These increases were partially offset by a shortfall in power generation and lower average price of electricity sold from the Company's Unified Leyte plants.

Sale of Steam

Revenues from sale of steam decreased by 68.0% or ₱2,572.7 million to ₱1,208.7 million in 2010 from ₱3,781.4 million in 2009. The decrease was attributed mainly to the shift in reported revenue following the acquisition of the NPC power plant assets by GCGI on October 23, 2009 - from sale of steam out of the Palinpinon and Tongonan 1 production fields to sale of electricity.

Interest Income on Service Concession

No interest income on its service concessions was recognized in 2010 compared to ₱1,650.2 million of such revenue in 2009 as the Company no longer applied IFRIC 12 commencing October 2009.

Revenue from Drilling Services

Revenue from drilling services decreased by 11.7% or ₱99.2 million to ₱748.7 million in 2010 from ₱847.9 million in 2009. The negative variance was mainly attributed to lower agreed contract extension price coupled with lower average Php:US$ exchange rate for 2010 of ₱44.93:US$1.00 versus ₱47.64:US$1.00 for 2009.

Construction Revenue

No construction revenue was recognized in 2010 compared to ₱541.4 million of such revenue in 2009 as the Company no longer applied IFRIC 12 commencing October 2009.

Operating Expenses

Operating expenses increased by 38.5% or ₱5,130.8 million to ₱18,447.8 million in 2010 from ₱13,317.0 million in 2009 mainly due to higher operations and maintenance, depreciation and amortization and general and administrative expenses.

Operations and Maintenance

Operations and maintenance increased by 47.7% or ₱2,896.7 million to ₱8,963.7 million in 2010 from ₱6,067.0 million in 2009 mainly accounted for by the following:

- Higher provision of allowance for impairment of NNGP's assets by ₱3,041.0 million (₱3,390.0 million in 2010 vs. ₱349.0 million in 2009);
- Higher Green Core expenses by ₱540.7 million arising from its full year operations in 2010 as compared to the two months in 2009 following the acquisition of the Palinpinon and Tongonan I power plants in October 2009; and
- Higher maintenance of field facilities mainly attributed to the continuing steam augmentation activities in Bac-man and Leyte by ₱345.3 million.

The foregoing variances were reduced by the following:

- Capitalization of major expenses in 2010 as the Company no longer applied IFRIC 12 on October 23, 2009 versus expense recognition of ₱605.9 million capital expenditures in 2009;
- One-time purchase of Turbine Rotor Blades for the Mahanagdong power plant in Leyte amounting to ₱297.0 million in 2009;
- Lower rental, insurance and taxes by ₱144.9 million with the bulk attributed to the prior years' adjustments on prior years' real property and local business taxes paid in 2009.

Purchased Services and Utilities

Purchased services and utilities decreased by 27.2% or ₱562.9 million to ₱1,510.2 million in 2010 from ₱2,073.1 million in 2009 largely on account of the following:

- Lower expenses on professional/consultancy services of the Parent Company mainly for drilling activities by ₱390.2 million and rig mobilization charges by ₱208.9 million with the capitalization of the cost of new wells as the Company no longer applied IFRIC 12 commencing October 23, 2009; and
- Absence of BOT fees in 2010 as compared to ₱183.2 million in 2009 following the turnover to the Company of the Mindanao I and Mindanao II geothermal power plants from the BOT Contractor in June 2009.

The foregoing variances were reduced by the following:

- Higher Green Core expenses by ₱179.6 million following acquisition of the Palinpinon I and II and Tongonan I geothermal power plants in October 2009 and
- Higher expenses related to the Parent Company's out-sourced maintenance of steam field facilities by ₱169.5 million.

General and Administrative

General and administrative expenses increased by 29.5% or ₱1,030.7 million to ₱4,528.9 million in 2010 from ₱3,498.2 million in 2009. The unfavorable variance was mainly accounted for by the following:

- Increase in the Parent Company's personnel costs by ₱597.9 million following the implementation of the employee retirement program in September 2010, NNGP's manpower reduction program in December 2010 and the accrual of the separation costs for the Well Construction Group versus none in 2009;
- Settlement of prior years' income tax deficiency and increase in various professional services in 2010 of ₱379.7 million;
- Higher Green Core's expenses by ₱122.3 million arising from its full year operations in 2010 as compared to the two months in 2009 following the acquisition of the Palinpinon and Tongonan I power plants in October 2009;
- Higher provision for doubtful accounts on overdue Input VAT claim from BIR by ₱53.4 million; and
- BGI expenses in 2010 of ₱36.5 million.

The foregoing variances were reduced by the following:

- Decrease in allowance for impairment of Parts and Supplies Inventories by ₱121.2 million; and
- Capitalization in 2010 of major expenses as the Company no longer applied IRIC 12 versus expense recognition of P66.9 million capital expenditures in 2009.

Construction Costs

The Company did not recognize any construction costs in 2010 as the Company no longer applied IFRIC 12. The Company recognized ₱467.3 million of construction costs in 2009.

Depreciation and Amortization

Depreciation and amortization expenses increased by 184.4% or ₱2,233.6 million to ₱3,445.0 million in 2010 from ₱1,211.4 million in 2009. The increase was primarily due to depreciation expenses recognized in 2010 resulting from reclassification of service concession receivables to property, plant and equipment as the Company no longer applied IFRIC 12 commencing October 23, 2009.

Financial Income (Expenses)

Financial expenses net increased by 35.3% or ₱876.6 to ₱3,360.8 million in 2010 from ₱2,484.2 million in 2009 mainly due to higher debt servicing costs of the IFC loan, Peso public bonds and the Fixed Rate Corporate Notes (FRCN) availed in 2009 and Club loan availed in June 2010.

Interest Income

Interest income decreased by 13.7% or ₱55.3 million to ₱347.7 million in 2010 from ₱403.0 million in 2009.

The decrease was primarily due to the Company earning a lower average rate of interest on its cash deposits in 2010 than in 2009.

Interest Expense

Interest expense increased by 28.4% or ₱821.3 million to ₱3,708.5 million in 2010 from ₱2,887.2 million in 2009. The increase was primarily due to the Company having issued ₱12,000 million Peso public bonds in December 2009, drawing down ₱8,058.8 million under its US$175 million syndicated term loan in June 2010 and FG Hydro drawing down ₱5,000.0 million under its 10-year omnibus loan and security agreement in May 2010.

Other Income (Charges)

Other income–net increased by 107.6% or ₱1,077.5 to ₱2,079.3 million in 2010 from ₱1,001.8 million in 2009. The favorable variance was primarily contributed by the recovery of impairment provision on input value added tax claims for refund partly offset by the foreign exchange loss position in 2010 in contrast with the foreign exchange gain position in 2009.

Foreign Exchange Gains (Losses) - net

Net foreign exchange losses of ₱13.8 million was recognized in 2010 as against net foreign exchange gains of ₱1,291.3 million in 2009. The foreign exchange loss in 2010 was mainly attributed to the realization of a foreign exchange loss upon the repayment of its Miyazawa II loan in 2010 which was partially offset by recognition of foreign exchange gains on other non-Peso denominated loans. On the other hand, the foreign exchange gain in 2009 was mainly influenced by the depreciation of JPY cushioned by the slight appreciation of Peso all against the US Dollar.

The comparative foreign exchange rates against the US Dollar were as follows:

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

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

December 31, 2010 - JPY81.659; PHP43.840

Derivatives Gain (Loss) - Net

The Company recognized derivative gains–net of ₱437.0 million in 2010 primarily as a result of a derivative gain on foreign currency hedging instruments for its Miyazawa II loan. The Company recognized a derivative loss–net of ₱198.8 million in 2009 from currency hedging arrangements entered into in connection with its Miyazawa I loan.

Miscellaneous - Net

The Company recognized miscellaneous income–net of ₱1,656.1 million in 2010 compared to miscellaneous charges–net of ₱90.7 million in 2009. Miscellaneous income – net in 2010 primarily consisted of a ₱1,638.9 million recovery of impairment provision on input value added tax claims for refund.

Provision for Income Tax

The Company's current tax expense decreased by 67.1% or ₱976.6 million to ₱477.8 million in 2010 from ₱1,454.4 million in 2009. The decrease was largely due to ₱826.7 million income tax expense on deemed income from the sale of Fort Bonifacio properties in 2009 with no corresponding expense in 2010, coupled with lower income tax rate because of the implementation of Renewable Energy Act (RA 9513) effective February 2009.

The Company's deferred tax expense decreased by 87.8% or ₱2,156.7 million to ₱299.4 million in 2010 from ₱2,456.1 million in 2009. The decrease was primarily due to a one-time write-down in 2009 of ₱2,959.2 million net deferred tax assets due to the implementation of RE Act and ₱304.1 million deferred tax asset on the increase in provision for impairment of NNGP assets. The decrease in deferred tax expense was partially offset by the payment in 2009 of deferred tax liability on FB land and buildings and 3rd and 4th tranches arbitration income amounting to P761.4 million, and ₱430.2 million reduction in provision for deferred tax assets upon realization of accumulated foreign exchange losses upon repayment of loans in 2010.

Net Income

As a result of the foregoing, the Company's net income increased by 30.9% or ₱1,038.1 million to ₱4,395.1 million in 2010 from ₱3,357.0 million in 2009.

Net income is equivalent to 17.7% of total revenues in 2010 as compared to the 15.2% in 2009

December 2009 vs. December 2008 Results

CONSOLIDATED INCOME STATEMENT

			HORIZONTAL ANALYSIS Favorable (Unfavorable) Variance		VERTICAL ANALYSIS	
(Amounts in PHP millions)	**Dec. 2009 (Restated)**	**Dec. 2008**	**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 concessions	**1,650.2**	**2,107.8**	**(457.6)**	-21.7%	7.5%	10.3%
Revenue from 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	**(6,067.0)**	**(5,046.0)**	**(1,021.0)**	20.2%	-27.5%	-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	**(1,211.4)**	**(675.8)**	**(535.6)**	79.3%	-5.5%	-3.3%
Total Operating Expenses	**(13,317.0)**	**(9,343.4)**	**(3,973.6)**	42.5%	-60.4%	-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	**1,291.3**	**(9,357.1)**	**10,648.4**	-113.8%	5.9%	-45.6%
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	**(90.7)**	**159.1**	**(249.8)**	-157.0%	-0.4%	0.8%
Total Other Income (Expenses)	**1,001.8**	**(6,710.7)**	**7,712.5**	-114.9%	4.6%	-32.7%
INCOME BEFORE INCOME TAX	**7,267.5**	**2,652.9**	**4,614.6**	173.9%	32.9%	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	**503.1**	**835.0**	**(331.9)**	-39.7%	2.3%	4.1%
	(3,910.5)	**(1,307.6)**	**(2,602.9)**	199.1%	-17.7%	-6.3%
NET INCOME	**3,357.0**	**1,345.3**	**2,011.7**	149.5%	15.2%	6.6%
Attributable to:						
Equity holders of the Parent Company	**3,311.4**	**1,308.0**	**2,003.4**	153.2%	15.0%	6.4%
Non-controlling Interests	**45.6**	**37.3**	**8.3**	22.3%	0.2%	0.2%
EBITDA	**10,711.9**	**10,758.7**	**(46.8)**	-0.4%	48.5%	52.4%
Recurring Net Income	**7,276.1**	**5,835.1**	**1,441.0**	24.7%	33.0%	28.4%
Attributable to:						
Equity holders of the Parent Company	**7,155.5**	**5,473.2**	**1,682.3**	30.7%	32.4%	26.7%
Non-controlling Interests	**120.6**	**361.9**	**(241.3)**	-66.7%	0.5%	1.8%

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.

Sale of electricity

Revenues 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. The increase was primarily due to the following:

- a ₱0.1872/kWh increase in the price of electricity due to an increase in the inflation factor under the Company's PPAs with NPC resulting in additional revenue under such PPAs. The increase in the inflation factor was driven by the strengthening of the US Dollar relative to the Peso 2009, with an average exchange rate in 2009 of ₱47.64 to U.S.$1.00 compared to an average exchange rate of ₱44.47 to U.S.$1.00 in 2008;
- ₱1,067.1 million of revenue generated by Green Core which commenced operations in October 2009; and

- ₱576.0 million of additional revenue due to the Company no longer applying IFRIC 12 commencing October 23, 2009.

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 due to the following:

- a decrease of ₱779.5 million due to the Company's acquisition of the Tongonan I and Palinpinon geothermal power plants in October 2009, which resulted in the Company no longer recognizing revenue from the sale of steam to those plants; and
- a 230.1 GWh reduction in the volume of steam sold in 2009 compared to 2008, which was primarily due to the recognition of 188.3 GWh generation loss for Tongonan I, a 26.7 GWh reduction in surplus revenue under the SSA governing steam sales from the Palinpinon steam field and a reduction of 15.2 GWh in the volume of steam sold from the Bac-man steam field due to force majeure affecting the Bac-man steam field facilities in May 2009.

The foregoing decrease was partially offset by the following:

- a ₱0.1141/kWh increase in the average price of steam due to an increase in the inflation factor under the Company's SSAs with NPC, resulting in additional revenue under such SSAs in 2009; and
- an additional of ₱374.7 million of revenue in 2009 that was recognized due to the Company no longer applying IFRIC 12 commencing October 23, 2009.

Interest income on service concessions

Interest income on concession receivables 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 due to the Company no longer applying IFRIC 12 commencing 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 increase was primarily due to increased unit rates for various drilling services under the Company's contract with Lihir Gold Limited. The appreciation of the US Dollar relative to the Peso in 2009 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 Company no longer applying IFRIC 12 commencing October 23, 2009.

Operating expenses

Operating expenses increased by 42.5% or ₱3,973.6 million, to ₱13,317.0 million in 2009 from ₱9,343.4 million in 2008.

Operations and maintenance

The Company's operations and maintenance expenses increased by 20.2% or ₱1,021.0 million, to ₱6,067.0 million in 2009 from ₱5,046.0 million in 2008. The increase was due to the following:

- additional ₱274.0 million of expenses related to the implementation of a steam augmentation program at Leyte in 2009;
- a ₱297.0 million purchase of turbine rotor blades for the Mahanagdong power plant in Leyte in 2009;
- a ₱91.0 million increase in real property tax attributable to the Mindanao and Leyte power plants in 2009; and
- a ₱349.0 million impairment of the Northern Negros Geothermal project in 2009.

The foregoing increases were partially offset by the following:

- a ₱375.7 million decrease in royalty fees payable in 2009 based on incentives under the RE Law. As of January 30, 2009, the applicable royalty fee was reduced from 60% of net proceeds on the sale of steam to 1.5% of gross income on steam and electricity sales;
- a ₱91.2 million insurance reimbursement for damage caused by a typhoon in Mindanao and Bac-Man; and
- a ₱43.6 million reduction in a provision for local business tax in 2009 due to potential taxes for which the Company had accrued a provision since 2004 being determined to not be payable.

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. The increase was primarily due to

- a ₱295.0 million increase in expenses for professional/consultancy services in connection with steam augmentation project in Leyte,
- an increase of ₱164.0 million in rig mobilization charges,
- an increase of ₱114.0 million in other outsourced services for steam augmentation activities,
- ₱107.0 million for rehabilitation works undertaken in the Bac-Man steam field project in 2009 due to damage caused by Typhoon Dante and
- a ₱90.0 million increase in hauling services for the shipment of drilling materials to field geothermal projects in 2009.

The increase was partly offset by a ₱215.0 million decrease in 2009 of BOT fees following turnover of the Mindanao I and II geothermal power plants from the applicable BOT Contractor in June 2009.

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. The increase was primarily due to the following:

- a ₱1,116.2 million one-time reduction in 2008 for allowance in doubtful accounts;
- a ₱363.3 million income tax expense in 2009 upon receipt of the third and fourth tranches of a 2008 arbitration award in connection with contested revenues under the Unified Leyte PPA with NPC;
- a ₱214.3 million increase in consultancy services in 2009, primarily for legal services relating to real property assessments and for financial, business development and other services rendered by First Gen;
- a ₱206.3 million increase in employee related costs in 2009;
- a ₱106.2 million provision for impairment of inventory materials in 2009 compared with no such impairment in 2008; and
- a ₱26.1 million expense for office space rental in 2009 compared with no such expense in 2008. The Company began renting office space in June 2009 upon its sale of the Fort Bonifacio properties.

There was also an increase in expenditures on purchases of steam and electricity assets charged under IFRIC 12 and other business expenses incurred in 2009.

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 Company no longer applying IFRIC 12 commencing October 23, 2009.

Depreciation and amortization

Depreciation and amortization charges increased by 79.3% or ₱535.6 million, to ₱1,211.4 million in 2009 from ₱675.8 million in 2008. The increase was primarily due to depreciation/amortization charges incurred in November and December 2009 resulting from reclassification of service concession receivables and intangible assets to property, plant and equipment due to the Company no longer applying IFRIC 12 commencing October 23, 2009. In addition, the Company recognized ₱105.5 million of depreciation expense in 2009 in connection with newly acquired assets for its head office and drilling groups.

Financial expenses - net

Financial expenses-net increased by 36.5% or ₱664.3 million, to ₱2,484.2 million in 2009 from ₱1,819.9 million in 2008.

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 increase was primarily due to higher cash balances of investible funds in 2009 due to the drawdown of ₱4,048.8 million under the ₱4.1 billion IFC term loan in January 2009 and the issue of fixed rate corporate notes in July and September 2009. The increase was partially offset by ₱32.4 million less interest income accretion recognized in 2009 related to receipt of the last two installments of 2008 arbitration award in connection with contested revenues under the Unified Leyte PPA with NPC.

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 increase was primarily due to the following:

- interest expense on the Company's ₱4.1 billion IFC term loan, ₱9.0 billion fixed rate corporate notes, and ₱12.0 billion Peso public bonds in the amounts of ₱316.1 million, ₱ 391.4 million and ₱54.9 million respectively;
- a ₱129.7 million increase in short-term financing charges from local banks;
- a ₱111.9 million accrual of interest charges on potential liability in connection with expropriation proceedings with no such accruals in 2008; and
- ₱83.8 million of interest expense incurred by Green Core from October 24, 2009 to December 16, 2009 in connection with its financing from PSALM.

The foregoing increase was partially offset by the following:

- a ₱184.6 million decrease in interest charges due to repayment of the Miyazawa I loan in June 2009 and lower outstanding balances on the Company's IBRD and JBIC loans due to amortization payments on the principal balances; and
- a ₱155.7 million decrease in the accretion of a gain that had been recognized in 2003 in connection with deferred payment of royalty fees to the DOE.

Other income (charges)

The Company recognized ₱1,001.8 million other income-net in 2009 compared to ₱6,710.7 million other charges-net in 2008.

Foreign exchange gains (losses) - net

The Company recognized net foreign exchange gains of ₱1,291.2 million in 2009 compared to net foreign exchange losses of ₱9,357.1 million in 2008. The difference was primarily due to depreciation of the Japanese Yen relative to the US Dollar in 2009, as opposed to appreciation of the Japanese Yen relative to the US Dollar in 2008. In addition, the Peso appreciated relative to the US Dollar in 2009 as compared to the Peso depreciation relative to the US Dollar in 2008.

Derivatives gain (loss) - net

The Company recognized a derivatives loss of ₱198.8 million in 2009 and recognized a derivatives gain of ₱420.0 million in 2008. The 2009 loss was comprised of a ₱165.1 million loss on forward currency contracts for Japanese Yen and a ₱10.5 million loss on US Dollar hedges. In addition, FG Hydro recognized a ₱23.2 million derivatives loss in 2009 and recognized a ₱35.3 million derivatives gain in 2008 on embedded currency options in a contract with Andritz Hydro Gmbh for rehabilitation work at the Pantabangan hydroelectric power plant.

Revenue from arbitration award

The Company recognized one time ₱2,067.3 million gain from an arbitration award in 2008 in connection with contested revenues under the Unified Leyte PPA with NPC.

Miscellaneous - net

The Company recognized miscellaneous expenses-net of ₱90.6 million in 2009 compared with miscellaneous income-net of ₱159.1 million in 2008. The difference was primarily due to the following:

- a ₱206.6 million reduction in the book value of materials inventory turned over to the Company by BOT Contractors in 2009;
- a ₱129.9 million loss on the sale of Fort Bonifacio assets to PNOC;
- a ₱178.6 million write-off of input value added tax claims from the BIR in 2009 with no corresponding write-off in 2008;
- a ₱83.5 million write-off of a non-productive well in Mindanao in 2009 with no corresponding write-off in 2008;
- a ₱46.3 million gain on sale of available for sale investments in 2008; and
- a ₱3.3 million impairment loss on available for sale investments in 2009.

The foregoing were partially offset by the following:

- a ₱189.8 million loss recognized in 2008 upon receipt of its 2008 arbitration award in connection with contested revenues under the Unified Leyte PPA with NPC. The Company recognized no corresponding loss in 2009;
- a ₱168.3 million gain on royalties payable to the DOE recognized in 2009 due to deferral of royalty payments with no corresponding gain recognized in 2008; and
- ₱38.2 million of remuneration received from the BOT Contractor for the rehabilitation of Mindanao I and II power plants that were turned over to the Company in June 2009.

Provision for income tax

The Company's 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. The decrease was mainly due to the following:

- a ₱1,294.2 million decrease in 2009 due to a reduction in the corporate income tax rate to 10% under the RE Law, which commenced in February 2009, compared to rates of 30% in January 2009 and 35% in 2008;
- the recognition of ₱194.5 million of income tax expense in 2008 on tranches one and two of the arbitral award in connection with contested revenues under the Unified Leyte PPA with NPC; and
- the recognition of ₱26.2 million of Green Core's tax expense in 2009.

The decrease in income tax expense in 2009 was partially offset by recognition of ₱826.7 million income tax expense on the sale of Fort Bonifacio land and building.

The Company recognized deferred tax expense of ₱2,456.1 million in 2009 compared to deferred tax benefit of ₱835.0 million in 2008. The difference was primarily due to the following:

- a ₱2,959.2 million write-down of deferred tax assets due to the reduction in the Company's corporate income tax rate to 10% under the RE Law effective February 2009; and
- a ₱1,344.5 million decrease in deferred tax assets primarily due to a reduction in 2009 in unrealized foreign exchange losses under the Company's non-Peso denominated loans.

The foregoing were partially offset by the following:

- a ₱390.7 million income tax benefit on the reduction in allowance for doubtful accounts in 2008 in connection with the arbitral award for contested revenues under the Unified Leyte PPA with NPC; and
- a reclassification of ₱311.4 million to current tax expense in 2009 of deferred tax liabilities recognized in 2008 on the third and fourth tranches of arbitration income in connection with an arbitral award for contested revenues under the Unified Leyte PPA with NPC and a reclassification of ₱309.3 million to current tax expense related to the sale of Fort Bonifacio land and building.

Net income

As a result of the foregoing, the Company's net income increased by 149.5% or ₱2,011.7 million, to ₱3,357.0 million in 2009 from ₱1,345.3 million in 2008.

Net income is equivalent to 15.2% of total revenues in 2009 as compared to the 6.6% in 2008.

BALANCE SHEET

Horizontal and Vertical Analysis of Material Changes as of December 31, 2010 and 2009

(Amounts In PHP millions)	Dec. 2010	Dec. 2009 (Restated)	HORIZONTAL ANALYSIS Increase (Decrease) Amount	%	VERTICAL ANALYSIS 2010	2009
ASSETS						
Current Assets						
Cash and cash equivalents	**6,157.9**	**11,220.9**	**(5,063.0)**	-45.1%	7.6%	13.2%
Trade and other receivables	**4,602.1**	**5,487.2**	**(885.1)**	-16.1%	5.6%	6.5%
Available-for-sale (AFS) investments	**707.5**	**734.8**	**(27.3)**	-3.7%	0.9%	0.9%
Parts and supplies inventories	**2,577.4**	**1,946.9**	**630.5**	32.4%	3.2%	2.3%
Other current assets	**733.8**	**141.0**	**592.8**	420.4%	0.9%	0.2%
Total Current Assets	**14,778.7**	**19,530.8**	**(4,752.1)**	-24.3%	18.2%	23.0%
Noncurrent Assets						
Property, plant and equipment - net	**56,679.2**	**56,980.7**	**(301.5)**	-0.5%	69.7%	67.2%
Goodwill and water rights -net	**4,543.0**	**4,639.2**	**(96.2)**	-2.1%	5.6%	5.5%
Deferred tax assets - net	**893.7**	**1,209.6**	**(315.9)**	-26.1%	1.1%	1.4%
Exploration and evaluation assets	**1,170.4**	**1,038.1**	**132.3**	12.7%	1.4%	1.2%
Derivative assets	**-**	**9.6**	**(9.6)**	-100.0%	0.0%	0.0%
Other noncurrent assets	**3,238.6**	**1,355.6**	**1,883.0**	138.9%	4.0%	1.6%
Total Noncurrent Assets	**66,524.9**	**65,232.8**	**1,292.1**	2.0%	81.8%	77.0%
TOTAL ASSETS	**81,303.6**	**84,763.6**	**(3,460.0)**	-4.1%	100.0%	100.0%
LIABILITIES AND EQUITY						
LIABILITIES						
Current Liabilities						
Loan payable	**175.0**	**-**	**175.0**	100.0%	0.2%	0.0%
Trade and other payables	**5,123.5**	**3,985.0**	**1,138.5**	28.6%	6.3%	4.7%
Income tax payable	**71.2**	**66.4**	**4.8**	7.2%	0.1%	0.1%
Due to related parties	**335.7**	**537.0**	**(201.3)**	-37.5%	0.4%	0.6%
Current portion of:						
Long-term debts	**1,527.2**	**16,930.8**	**(15,403.6)**	-91.0%	1.9%	20.0%
Royalty fee payable	**254.2**	**244.3**	**9.9**	4.1%	0.3%	0.3%
Total Current Liabilities	**7,486.8**	**21,763.5**	**(14,276.7)**	-65.6%	9.2%	25.7%
Noncurrent Liabilities						
Long-term debts - net of current portion	**39,678.7**	**30,533.7**	**9,145.0**	30.0%	48.8%	36.0%
Royalty fee payable - net of current portion	**300.6**	**566.7**	**(266.1)**	-47.0%	0.4%	0.7%
Deferred tax liabilities - net	**-**	**17.3**	**(17.3)**	-100.0%	0.0%	0.0%
Retirement and other post-employment benefits	**1,307.1**	**1,237.1**	**70.0**	5.7%	1.6%	1.5%
Other long-term liabilities	**291.4**	**324.7**	**(33.3)**	-10.3%	0.4%	0.5%
Total Noncurrent Liabilities	**41,577.8**	**32,679.5**	**8,898.3**	27.2%	51.2%	38.7%
EQUITY						
Equity Attributable to Equity Holders of the Parent Company						
Preferred stock	**93.8**	**93.8**	**-**	0.0%	0.1%	0.1%
Common stock	**18,750.0**	**18,750.0**	**-**	0.0%	23.1%	22.1%
Common stock in employee trust account	**(379.2)**	**(391.6)**	**12.4**	-3.2%	-0.4%	-0.5%
Additional paid-in capital	**6,266.1**	**6,262.0**	**4.1**	0.1%	7.7%	7.4%
Equity reserve	**(3,706.4)**	**(3,706.4)**	**-**	0.0%	-4.5%	-4.4%
Net accumulated unrealized gain on AFS	**119.7**	**113.1**	**6.6**	5.8%	0.1%	0.1%
Retained earnings	**9,524.6**	**7,669.9**	**1,854.7**	24.2%	11.7%	9.0%
Cumulative translation adjustment	**1.3**	**-**	**1.3**	100.0%	0.0%	0.0%
	30,669.9	**28,790.8**	**1,879.1**	6.5%	37.7%	33.9%
Non-controlling Interest	**1,569.1**	**1,529.8**	**39.3**	2.6%	1.9%	1.8%
Total Equity	**32,239.0**	**30,320.6**	**1,918.4**	6.3%	39.6%	35.7%
TOTAL LIABILITIES AND EQUITY	**81,303.6**	**84,763.6**	**(3,460.0)**	-4.1%	100.0%	100.0%

The Company's total resources as of December 31, 2010, amounted to ₱81,303.6 million, 4.1% or ₱3,460.0 million lower than the December 31, 2009 year-end level of ₱84,763.6 million. EDC's debt ratio has improved to 56:44 from 61:39 as of December 31, 2010 and December 31, 2009, respectively. This year's current ratio of 1.97:1 was significantly higher than previous year's 0.90:1.

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 decreased by 45.1% or ₱5,063.0 million to ₱6,157.9 million as of December 31, 2010 from the ₱11,220.9 million December 31, 2009 balance. The decrease was primarily accounted for by the following:

- ₱19,250.3 million settlement of Miyazawa II, PNOC on-lent, PSALM's staple financing on FG Hydro's acquisition of PAHEP-MAHEP and regular debt servicing;
- ₱5,789.8 million combined capital expenditures of both FG Hydro and EDC (Parent)
- ₱2,496.3 million payment of cash dividends;
- ₱1,279.7 million payment for acquisition of Bacon-Manito Geothermal Power Plants;
- ₱452.9 million payment to First Gen by FG Hydro for the settlement of cash advance.

The decrease was partly offset by internal cash generation (₱10,798.5 million), proceeds from US$175.0 million syndicated term-loan facility (₱8,058.8 million) for Parent Company and FG Hydro's loan from local banks (₱5,000.0 million) and the interest income received on investments (₱321.5 million).

Trade and other receivables

This account, consisting of receivables from NPC, contractors and employees, decreased by 16.1% or ₱885.1 million to ₱4,602.1 million as of December 31, 2010 from the ₱5,487.2 million balance as of December 31, 2009. The reduction was primarily due to the ₱894.9 million settlement of the last tranche of the arbitral award from NPC, partly offset by an increase in allowance for doubtful accounts of ₱21.0 million.

Available-for-sale (AFS) investments

This account decreased by 3.7% or ₱27.3 million to ₱707.5 million as of December 31, 2010 from the ₱734.8 million balance as of December 31, 2009 primarily due to the foreign exchange losses in translating the outstanding placements to the continued appreciation of the Peso versus the US Dollar at end of December 2010.

Parts and supplies inventories

This account increased by 32.4% or ₱630.5 million to ₱2,577.4 million as of December 31, 2010, from the ₱1,946.9 million balance as of December 31, 2009 mainly due to the increase, net of withdrawals, on various materials and supplies for drilling, maintenance and rehabilitation activities in 2010 amounting to ₱692.3 million.

Other current assets

Other current assets consist mainly of BIR's tax credit certificates, prepaid expenses and advances to contractors.

The 420.4% or ₱592.8 million increase to ₱733.8 million as of December 31, 2010 from the ₱141.0 million balance as of December 31, 2009 was attributed mainly to the ₱300.0 million Input VAT refund certificates applicable for 2011 and the ₱226.6 million increase in prepaid insurance. .

Property, plant and equipment -net

This account decreased by 0.5% or ₱301.5 million to ₱56,679.2 million as of December 31, 2010 from ₱56,980.7 million as of December 31, 2009 mainly due to ₱3,390.0 million additional provision for impairment of NNGP's assets and ₱3,348.8 million depreciation and amortization charges and ₱401.4 million retirement of assets offset by ₱5,815.3 million capital expenditures and ₱1,279.7 million acquisition through business combination for the year.

Goodwill and water rights-net

This account pertains to the goodwill of GCGI and water rights of FG Hydro. This account dropped 2.1% or ₱96.2 million to ₱4,543.0 million at December 31, 2010 from ₱4,639.2 million at December 31, 2009 due to amortization of water rights.

Deferred tax assets - net

Deferred tax assets-net dropped by 26.1% or ₱315.9 million to ₱893.7 million as of December 31, 2010 from the ₱1,209.6 million as of December 31, 2009 mainly due to the realization of the deferred tax asset on the unrealized foreign exchange losses brought about by the full settlement of Miyazawa II and PNOC relent loans and maturing principal on OECF loans.

Exploration and evaluation assets

The 12.7% or ₱132.3 million increase to ₱1,170.4 million as of December 31, 2010 from the ₱1,038.1 million balance as of December 31, 2009 was primarily due to the exploration and evaluation cost of Energy Burgos Wind Power Corporation.

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 100% or ₱9.6 million as of December 31, 2010 due to full contract settlement made by FG Hydro during the year.

Other non-current assets

The 138.9% or ₱1,883.0 million increase to ₱3,238.6 million as of December 31, 2010 from the ₱1,355.6 million as of December 31, 2009 was mainly due to the receipt of tax credit certificates.

Loan payable

The 100% or ₱175.0 million increase as of December 31, 2010 represents unsecured short-term borrowing at 2.20% interest rate per annum obtained on December 21, 2010 for the Parent Company's working capital requirements with maturity on January 20, 2011.

Trade and other payables

This account increased by 28.6% or ₱1,138.5 million to ₱5,123.5 million as of December 31,2010 from the ₱3,985.0 million as of December 31, 2009 primarily due to the ₱1,030.2 million increase in accrued liabilities to suppliers and contractors for the Company's rehabilitation and steam augmentation program.

Income tax payable

The 7.2% or ₱4.8 million increase to ₱71.2 million as of December 31, 2010 from the ₱66.4 million December 31, 2009 balance was mainly due to ₱477.1 million accrual of income tax liability offset by ₱287.4 million payment and ₱184.9 million application of withholding tax certificates for income tax due in 2010.

Due to related parties

The 37.5% or ₱201.3 million decrease to ₱335.7 million as of December 31, 2010 from the ₱537.0 million balance as of December 31, 2009 was mainly due to FG Hydro's settlement of its liabilities to First Gen.

Current portion of long-term debts

This account decreased by 91.0% or ₱15,403.6 million to ₱1,527.2 million as of December 31, 2010 from P16,930.8 million balance as of December 31, 2009 due to the full settlement of ₱11,092.0 million of JP¥22 billion Miyazawa II maturing in June 2010 and ₱4,212.2 million PNOC relent loans,. These were partly offset by the reclassification to the current portion of additional ₱207.2 million maturing FCRN debt obligations in 2011.

Current portion of royalty fee payable

The 4.1% or ₱9.9 million increase to ₱254.2 million as of December 31,2010 from the ₱244.3 million balance as of December 31, 2009 was due to the ₱350.0 million reclassification from noncurrent portion of outstanding royalty fees payable in 2011 to DOE, ₱117.6 million royalty fee incurred during the year and ₱20.9 million accretion on Day 1 gain recognized in 2010. These were offset by ₱478.7. million royalty fee payments in CY 2010.

Long-term debts - net of current portion

Long-term debts, consisting of JP¥, US$ and PHP loans, increased by 30.0% or ₱9,145.0 million to ₱39,678.7 million as of December 31, 2010, from ₱30,533.7 million as of December 31, 2009 due mainly to the proceeds of ₱8,058.7 million from US$175.0 million syndicated term loan facility and ₱5,000.0 million from FG Hydro's loan from local banks. These were offset by the reclassification to the current portion of obligations due in 2011 amounting to ₱1,241.0 million principal amortization payments on OECF loans and Fixed Coupon Rate Notes (FCRN) of the Parent Company, ₱2,399.0 million payment on FG Hydro's deferred payment facility with PSALM, ₱257.7 million current portion of FG Hydro's ₱5,000.0 million long term loan from local banka and ₱63.0 million amortization of transaction costs.

Royalty fee payable - net of current portion

This account decreased by 47.0% or ₱266.1 million to ₱300.6 million as of December 31, 2010 from the ₱566.7 million balance as of December 31, 2009 due to the reclassification of the current portion of ₱350.0 million outstanding royalty fees payable in 2011 to DOE reduced by the ₱73.0 million royalty fee incurred during the year and ₱10.9 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 Deferred Payment Facility with PSALM. It decreased by 100.0% or ₱17.3 million as of December 31, 2010 due to the settlement of the PSALM facility in 2010.

Retirement and other post-employment benefits

This account pertains to the funded, non-contributory, defined benefit retirement plan maintained for all Parent Company's and FG Hydro's permanent employees. The 5.7% or ₱70.0 million increase to ₱1,307.1 million as of December 31, 2010 from the ₱1,237.1 million as of December 31, 2009 was due to ₱397.2 million accrual of retirement benefits offset by ₱327.6 million contributions to the fund.

Other long-term liabilities

This account decreased by 10.3% or ₱33.3 million to ₱291.4 million as of December 31, 2010 from the ₱324.7 million balance as of December 31, 2009 mainly due to ₱74.0 million payment of the 10 days monetized vacation leave of permanent employees and settlement of vacation and sick leave of separated employees reduced by ₱40.7 million accrual of vacation and sick leave benefits.

Common shares in employee trust account

This account decreased by 3.2% or ₱12.4 million to ₱379.2 million as of December 31, 2010 from ₱391.6 million as of December 31, 2009 due to the 2,625,000 shares granted to officers and employees of EDC – Parent in 2010.

Additional paid-in capital

This account increased by 0.1% or ₱4.1 million to ₱6,266.1 million as of December 31, 2010 from ₱6,262.0 million due to the adjustment on fair market value of common shares granted to officers and employees of EDC- Parent.

Accumulated unrealized gain on AFS investments

The 5.8% or ₱6.6 million increase to ₱119.7 million as of December 31, 2010 from ₱113.1 million at end of December 2009 mainly due to the increase in fair value of the investments.

Retained earnings

Retained earnings increased by 24.2% or ₱1,854.7 million to ₱9,524.6 million as of December 31, 2010 from ₱7,669.9 million as of December 31, 2009 mainly due to ₱4,115.7 million net income attributable to equity holders of the Parent Company for 2010 offset by ₱2,496.3 million total cash dividend paid on April 30, 2010 to stockholders as of April 13, 2010 record date.

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

(Amounts In PHP millions)	Dec. 2009 (Restated)	Dec. 2008	HORIZONTAL ANALYSIS Increase (Decrease) Amount	HORIZONTAL ANALYSIS Increase (Decrease) %	VERTICAL ANALYSIS 2009	VERTICAL ANALYSIS 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 receivables	**-**	**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	**1,946.9**	**1,563.3**	**383.6**	24.5%	2.3%	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%
	19,530.8	**11,926.6**	**7,604.2**	63.8%	23.0%	17.2%
Noncurrent assets held for sale	**-**	**1,797.6**	**(1,797.6)**	-100.0%	0.0%	2.6%
Total Current Assets	**19,530.8**	**13,724.2**	**5,806.6**	42.3%	23.0%	19.8%
Noncurrent Assets						
Property, plant and equipment	**56,980.7**	**5,280.1**	**51,700.6**	979.2%	67.2%	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%
Goodwill and water rights	**4,639.2**	**2,493.7**	**2,145.5**	86.0%	5.5%	3.6%
Deferred tax assets	**1,209.6**	**3,410.4**	**(2,200.8)**	-64.5%	1.4%	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	**1,355.6**	**1,366.0**	**(10.4)**	-0.8%	1.6%	2.0%
Total Noncurrent Assets	**65,232.8**	**55,621.4**	**9,611.4**	17.3%	77.0%	80.2%
TOTAL ASSETS	**84,763.6**	**69,345.6**	**15,418.0**	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-employment 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%	0.4%	0.5%
Total Noncurrent Liabilities	**32,679.5**	**24,907.5**	**7,772.0**	31.2%	38.6%	35.9%
EQUITY						
Equity Attributable to Equity Holders of the Parent Company						
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%
Net accumulated unrealized gain on AFS investments	**113.1**	**30.8**	**82.3**	267.2%	0.1%	0.0%
Retained earnings	**7,669.9**	**9,977.9**	**(2,308.0)**	-23.1%	9.0%	14.4%
Cost of treasury stock held	**-**	**(404.2)**	**404.2**	-100.0%	0.0%	-0.6%
	28,790.8	**27,251.2**	**1,539.6**	5.6%	34.0%	39.3%
Non-controlling Interest	**1,529.8**	**1,484.1**	**45.7**	3.1%	1.8%	2.1%
Total Equity	**30,320.6**	**28,735.3**	**1,585.3**	5.5%	35.8%	41.4%
TOTAL LIABILITIES AND EQUITY	**84,763.6**	**69,345.6**	**15,418.0**	22.2%	100.0%	100.0%

The Company's total resources as of December 31, 2009, amounted to ₱84,763.6 million, 22.2% or ₱15,418.0 million higher than the December 31, 2008 year-end level of ₱69,345.6 million. 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 0.90:1 was slightly 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 amount to ₱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 Plants (₱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 dividends (₱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 claims for refund reclassified to the noncurrent assets account as the processing of the refund already extends beyond 2 years; and
- Decrease in employee receivables of ₱16.3 million.

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 ₱60.3 million increase was due to foreign exchange gain sustained in translating the placements to the year-end peso-dollar exchange rate.

Parts and supplies inventories

This account increased by 24.5% or ₱383.6 million to ₱1,946.9 million as of December 31, 2009 from ₱1,563.3 million as of December 31, 2008 mainly due to the ₱393.1 million recognition of the final fair value of GCGI inventories.

Derivative assets

This account decreased by 100% from the ₱614.1 million balance as of end of 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 JP¥ 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 EDC headquarters are situated.

Property, plant and equipment

This account significantly increased by 979.2% or ₱51,700.6 million to ₱56,980.7 million as of December 31, 2009 from ₱5,280.1 million as of December 31, 2008 primarily due to service concession receivables and intangible asset reclassified to property, plant and equipment with the signing of the geothermal renewable energy service contracts (GRESCs) by virtue of R.A. 9513.

Service concession receivables – 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 (GRESCs) by virtue of R.A. 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 (GRESCs) by virtue of R.A. 9513.

Goodwill and water rights

This account pertains to the goodwill and water rights of FG Hydro. This account increased 86.0% or ₱2,145.5 million to ₱4,639.2 million at December 31, 2009 from ₱2,493.7 million at December 31, 2008 due to GCGI's recognition of goodwill following the finalization of the price purchase allocation in 2010.

Deferred tax assets - net

This account dropped 64.5% or ₱2,200.8 million to ₱1,209.6 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 JP¥ 12 billion Miyazawa I was paid in full last June 1, 2009.

Current portion of long-term debts

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 ₱11,009.8 million JP¥22 billion Miyazawa II maturing in June 2010 and ₱4,212 million OECF and IBRD PNOC relent loans offset by the ₱6,270.4 million settlement of Miyazawa I loan and ₱693.2 million foreign exchange gains on translation of foreign loans.

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 debts, 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 ₱23,557.0 million as of December 31, 2008 due mainly to the proceeds from ₱4,100.0 million IFC loan and the issuance of ₱12,000.0 million Peso public bonds and ₱9,000.0 million Fixed Rate Corporate Notes (FRCN) offset by the reclassification to the current portion of the maturing principal obligations, primarily the ₱11,009.8 million JP¥22 billion Miyazawa II, ₱4,212.2 million OECF and IBRD PNOC relent loans, ₱2,232.1 million JBIC/OECF and FG Hydro's deferred payment facility with PSALM and foreign exchange gains on translation of foreign loans.

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-employment 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 ₱75.0 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 ₱18,750.0 million as of December 31, 2009 from ₱15,000.0 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 ₱6,262.0 million as of December 31, 2009 from ₱6,278.1 million due to incidental costs on the issuance of stock dividends.

Net 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 23.1% or ₱2,308.0 million to ₱7,669.9 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.

CASH FLOWS

2010 vs. 2009 (Restated)

The Company's net cash from operating activities increased by 19.1% or ₱1,754.8 million to ₱10,947.1 million in 2010 from ₱9,192.3 million in 2009 primarily due to the decline in trade and other receivable on account of the collection of ₱894.9 million last tranche of the arbitral award from NPC and decrease in income taxes paid mainly due to the payment of taxes in 2009 of ₱826.7 million for the sale of land and building at Fort Bonifacio.

The net cash flows used in investing activities decreased by 39.9% or ₱4,937.6 million to ₱7,433.0 million from ₱12,370.6 million in 2009. This was primarily due to the ₱10,165.3 million payments for acquisition of GCGI's Palinpinon-Tongonan geothermal power plants in 2009 offset by the ₱2,593.9 million increase in capital expenditures, ₱1,279.7 million payments for acquisition of BGI's Bacon-Manito geothermal power plants in 2010 and ₱1,402.3 million proceeds from the sale of Fort Bonifacio land and buildings to PNOC in 2009.

The Company posted in 2010, ₱8,545.5 million net cash flows used in financing activities as compared to the ₱13,449.7 million net cash flow from financing activities in 2009. The ₱21,995.2 million turnaround was primarily due to the ₱13,435.5 million decrease in loan availment, ₱10,444.0 million increase in the payment of long-term loans, ₱1,134.9 million settlement of related party transactions in 2009 and ₱626.9 million higher payment of cash dividends in 2010 offset by P3,577.0 decrease in short-term borrowings.

2009 (Restated) vs. 2008

The Company's net cash from operating activities increased by 14.7% or ₱1,175.4 million to ₱9,192,3 million in 2009 from ₱8,016.9 million in 2008. This was primarily accounted by the ₱1,029.4 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 265.7% or ₱8,987.5 million to ₱12,370.6 million in 2009 from ₱3,383.1 million in 2008. This was primarily due to the ₱10,165.3 million payments for acquisition of GCGI's Palinpinon-Tongonan geothermal power plants in 2009 partly offset by ₱1,402.3 million proceeds from the sale of Fort Bonifacio land and buildings to PNOC.

The Company registered in 2009 ₱13,449.7 million net cash flows from financing activities as compared to the ₱6,975.6 million net cash flow used in financing activities in 2008. The ₱20,425.3 million turnaround was primarily due to the ₱25,100.0 million proceeds of long-term loans from IFC, FRCN and Peso Public Bonds, ₱3,433.6 million drop in cash dividends, ₱648.0 million return to non-controlling interest of deposit for future stock subscriptions in 2008 (none in 2009), ₱404.2 million purchase of treasury stock in 2008 (none in 2009) and ₱133.0 million reduction in settlement of obligations to a power plant contractor. These were partly offset by the ₱10,308.1 million full settlement of Miyazawa I loan and short-term loans.

Selected Financial Data

Financial Statements (Amounts in PHP millions)	**2010**	**2009**	**2008**
a) Cash and Cash Equivalents			
Cash on hand and in bank (Peso)	266.1	159.4	15.0
Cash in bank (US$)	159.8	100.5	12.5
Cash in bank (Yen)	-	-	0.4
Marketable securities (Peso)	5,585.6	9,303.2	132.3
Marketable securities (US$)	146.4	1,657.8	796.9
Total	**6,157.9**	**11,220.9**	**957.1**
b) Accounts Receivables – Others			
Non-trade accounts receivable	73.1	77.3	237.5
Loans and notes receivable	61.3	67.5	60.4
Advances to employees	30.4	20.8	26.7
Employee receivables	18.7	15.0	31.4
Claims receivable	0.1	0.2	293.1
Total	**183.6**	**180.8**	**649.1**
c) General and Administrative Expenses			
Personnel costs	1,790.1	1,110.0	958.4
Purchased services and utilities	1,095.1	858.6	579.8
Rental, insurance and taxes	776.9	808.7	408.9
Business and related expenses	552.6	313.7	229.6
Materials and supplies issued	173.6	160.6	159.7
Repairs and maintenance	80.4	118.6	58.1
Write-down of parts and supplies inventories	-	106.2	-
Provision for doubtful accounts	77.6	24.4	15.6
Reduction in allowance for impairment of parts and supplies	(15.0)		
Credit adjustment on allowance for doubtful accounts	(2.4)	(2.6)	(1,116.2)
Total	**4,528.9**	**3,498.2**	**1,293.9**
d) Other Income, Interest Expense and Others			
Interest income	347.7	403.0	332.6
Interest expense	(3,708.5)	(2,887.2)	(2,152.5)
Foreign exchange gains (losses) - net	(13.8)	1,291.2	(9,357.1)
Derivatives gain (loss) - net	437.0	(198.8)	420.0
Revenue from arbitration award	-	-	2,067.3
Miscellaneous - net	1,656.1	(90.6)	159.1
Total	**(1,281.5)**	**(1,482.4)**	**(8,530.6)**

DISCUSSION ON THE SUBSIDIARY COMPANIES

Green Core Geothermal Inc.

December 2010 vs. December 2009 Results

(Amounts in PHP millions)	CY 2010	CY 2009 (Restated)*
Revenues	6,798.7	1,067.1
Operating expenses	(6,847.5)	(985.0)
Other charges - net	(504.4)	(9.0)
Income (loss) before income tax	(553.2)	73.1
Benefit from (Provision for) income tax	51.4	(24.9)
Net income (loss)	(501.8)	48.2
Total Current Assets	1,378.3	995.1
Total Non-Current Assets	9,504.1	9,678.0
Total Current Liabilities	7,170.5	6,457.9
Total Equity	3,711.9	4,215.2

**GCGI was incorporated in the Philippines on June 8, 2009.*

GCGI's revenues increased by ₱5,731.6 million, to ₱6,798.7 million in 2010 from ₱1,067.1 million in 2009 due largely to higher sales volume by 1,621.1GWh as GCGI started its commercial operation on October 24, 2009 only.

For the year 2010, revenues came from the electric energy supplied by Palinpinon and Tongonan Geothermal Power Plants to various customers with Power Supply Contracts (₱6,282.3 million), replacement power supplied by GCGI to EDC (₱243.3 million) and the excess generations supplied by GCGI to NPC Customers – net of the electricity provided by NPC to GCGI customers (₱153.1 million). The remaining ₱120 million revenues were attributed to the replacement power delivered by East Asia Utilities Corporation (EAUC) and SPC Island Power Corporation (SIPC) to GCGI customers.

Operating expenses increased by ₱5,862.5 million to ₱6,847.5 million in 2010 from ₱985.0 million in 2009 brought about by the full year's operation in 2010 as compared to two months in 2009. The increase was attributed to fuel – geothermal steam provided by EDC to GCGI's power plants (₱4,518.4 million), operations and maintenance (₱540.7 million), depreciation expense (₱486.0 million), purchased services and utilities (₱179.6 million) and general and administrative expenses (₱137.8 million).

Other charges - net increased by ₱495.4 million to ₱504.4 million in 2010 from ₱9.0 million in 2009. The increase was attributed to higher interest expense (₱418.4 million) owing to full year's interest charges on due to related party as compared to last year's interest expense from October 24 – December 31, 2009 coupled with lower foreign exchange gain (₱82.2 million).

Net deferred tax income of ₱51.4 million was recognized in 2010 in contrast to last year's net current tax expense of ₱24.9 million.

Total current assets increased by 38.5% or ₱383.2 million, to ₱1,378.3 million as of December 31, 2010 from ₱995.1 million as of December 31, 2009 primarily due to the ₱336.0 million increase in trade and other receivables.

Total noncurrent assets decreased by 1.8% or ₱173.9 million, to ₱9,504.1 million as of December 31, 2010 from ₱9,678.0 million as of December 31, 2009 due to this year's depreciation expense (₱583.2 million). The decline was offset by this year's acquisition of property, plant and equipment (₱312.1 million) and higher deferred tax asset (₱51.4 million).

Total liabilities increased by 11.0% or ₱712.6 million, to ₱7,170.5 million as of December 31, 2010 from ₱6,457.9 million as of December 31, 2009 owing to the increase in due to related party (₱441.4 million) and trade and other payable (₱294.5 million).

Total equity decreased by 11.9% or ₱503.3 million, to ₱3,711.9 million in 2010 from ₱4,215.2 million in 2009 due to this year's net loss of ₱501.8 million.

FG Hydro

December 2010 vs. December 2009 Results

(Amounts in PHP millions)	CY 2010	CY 2009
Revenues	2,139.5	1,247.2
Operating expenses	(1,125.2)	(868.4)
Other charges	(332.6)	(258.2)
Income before income tax	681.7	120.6
Benefit from (provision for) income tax	22.9	(6.5)
Net income	704.6	114.1
Total Current Assets	1,581.5	378.4
Total Non-Current Assets	7,434.6	7,239.4
Total Current Liabilities	516.9	1,884.3
Total Noncurrent Liabilities	4,570.2	1,909.1
Total Equity	3,929.0	3,824.4

FG Hydro generated revenues of ₱2,139.5 million in 2010, ₱892.3 million or 71.5% higher than revenues of ₱1,247.2 million in 2009. The favorable variance was mainly on account of the combined effects of higher dispatch due to increased irrigation requirements and increase in power generation capacity to 132 MW on account of the completion of PAHEP's Unit 1 in January 2010 and Unit 2 in December 2010, and significantly higher spot prices in the WESM driven by supply shortage in the first quarter.

Operating expenses increased by ₱256.8 million, or 29.6%, to ₱1,125.2 million in 2010 from ₱868.4 million in 2009 mainly due to higher loss on disposal of property, plant and equipment (₱399.2 million in 2010 versus ₱273.6 million in 2009) and higher depreciation due to the completion of the refurbishment of PAHEP's Unit 1 and Unit 2.

Other charges increased by ₱74.4 million, or 28.8%, to ₱332.6 million in 2010 from ₱258.2 million in 2009 mainly due to the increase in interest expense due to the availing of the ₱5,000.0 million peso loan in 2010.

Benefit from income tax of ₱22.9 million in 2010 was ₱29.4 million, or 452.3% turnaround/improvement from the provision for income tax of ₱6.5 million in 2009 mainly due to the settlement of the dollar-denominated deferred payment facility with PSALM.

Total current assets increased by ₱1,203.1 million, or 317.9%, to ₱1,581.5 million as of December 31, 2010 from ₱378.4 million as of December 31, 2009 mainly due to higher cash balance from peso loan proceeds.

Total liabilities increased by 34.1% or ₱1,293.7 million to ₱5,087.1 million as of December 31, 2010 from ₱3,793.4 million as of December 31, 2009 attributed mainly to the availing of the ₱5,000.0 million peso loan in 2010 for the refinancing of the deferred payment facility with PSALM.

Top Five (5) Key Performance Indicators

Ratio	Dec – 10	Dec – 09
Current Ratio	1.97:1	0.90:1
Debt-to-Equity Ratio	1.28:1	1.57:1
Net Debt-to-Equity Ratio	1.09:1	1.20:1
Return on Assets (%)	5.3	4.4
Return on Equity (%)	14.1	11.4

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, 29.7% of EDC's total long-term debt as of December 31, 2010 are foreign currency-denominated, 18.7% in USD and 11.7% in JPY. Any USD or JPY movement therefore affects the debt portfolio of EDC.

Inflation and Interest Rates

The Philippines 2010 full-year average inflation reached 3.8 percent and is within the central bank's target range of 3.5-5.5 percent. This is slightly higher than the 3.2 percent recorded in 2009 because the higher annual rates of price increases in food, beverage, and tobacco were offset by slower annual growth registered in fuel, electricity, and water.

Inflation rate is expected to be stable in 2011 and is forecasted to be within the 3-5 percent range.

In 2010, the 91-day Treasury bill rate averaged 3.5725 percent, 70 basis points lower as compared with 2009 average of 4.2687 percent due to mainly to high market liquidity levels. The Bangko Sentral ng Pilipinas' move in the forex market flooded the system with pesos which the banks parked in very short-term placements.

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 PNOC 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").

In addition to the above long-term loans, the Company also issued (a) five year and seven year fixed rate corporate notes, (b) a five and a half year and seven year fixed rate retail notes and (c) 3-year transferable syndicated term loan facility. Under the loan agreement of these said notes, the Company is restricted from directly or indirectly creating liens upon its assets and revenues, making capital expenditures and making loans or advances. In addition, the Company is subject to the following covenants (tested semi-annually): a ratio of total liabilities to total equity of no more than 70 to 30; a ratio of current assets to current liabilities of at least 1.0 to 1.0; and a debt service coverage ratio of a minimum of 1.2 to 1.0.

The loan agreement for (a) and (b) is also subject to cross-default and cross-acceleration in the event of a failure of payment, a default or a violation of any obligation that would result in the acceleration of payment under any other financial indebtedness of the Company, or one for which the Company has agreed to act as guarantor, surety or accommodation party in the same amount or more. While the loan agreement for (c) is subject to cross-default if any of the Company's other financial indebtedness of U.S.$10.0 million or more are not paid when due, is accelerated or capable of being declared to be prematurely payable, or any commitment under such indebtedness is cancelled or suspended due to default or a similar event.

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

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

Seasonal aspects that have material effect on the FS

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

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

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

Audit and Audit-Related Fees

The following table sets out the aggregate fees billed for each of the last three fiscal years for professional services rendered by SGV & Co. from 2008 to 2010.

	Year-ended December 31,		
	2010	2009	2008
Audit and Audit-Related Fees	5,424,500	4,874,500	4,160,437
All Other Fees[1]	895,273	36,810	309,220
	6,319,773	4,911,310	4,469,657

Material Commitments for Capital Expenditures

The Company has a total budget for capital expenditures of approximately ₱12,023.7 million for 2011. Out of the total budget, 39.0% (₱4,416.2 million) is allotted to the project development costs of the Burgos Wind Power Project while 24.0% (P2,652.0 million) is allotted to the power plant rehabilitation costs of Green Core Geothermal Inc. and Bacman Geothermal Inc. The budget also includes expenditures amounting to ₱1,866.9 million for the upgrade of two (2) drilling rigs.

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 four years. The Company has not had any material disagreements on accounting matters or financial disclosure matters with both Commission on Audit and SGV & Co.

[1] *For services relating to conduct of seminars.*

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors

Oscar M. Lopez, 80

Mr. Lopez, Filipino, is the Chairman Emeritus of EDC. Prior to his election as Chairman Emeritus, he was the Company's Chairman since its full privatization in 2007. He is also the Chairman Emeritus of both the Lopez Holdings Corporation (formerly Benpres Holdings Corporation), the holding company for major investments in broadcast, telecoms and cable, power generation and distribution, and road infrastructure; and First Philippine Holdings Corporation (FPHC), the specific associate holding company for power generation and distribution. In addition, he is the Chairman of First Balfour, Inc. First Phil. Electric Corp., First Philippine Industrial Corp., First Philippine Industrial Park, Inc., First Sumiden Circuits, Inc. First Philec Solar Corp., and all member-companies of the First Gen and First Gas groups of companies.

Mr. Lopez is one of the most respected and admired business leaders in Asia. He was Management Association of the Philippines' Management Man of the Year in 2000 and one of the top 20 finalists for CNBC and TNT International's Asia Business Leader Awards in 2004. He was the first Filipino businessman to be awarded the most prestigious Officer's Cross of the Order of Merit of the Federal Republic of Germany in 2005. 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. Named by Forbes Magazine as among the "Heroes of Philanthropy" in Asia, he is involved in several social and environmental concerns, among them the Eugenio Lopez Foundation, Lopez Group Foundation, Philippine Business for Social Progress and Conservation International.

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).

Federico R. Lopez, 49

Mr. Lopez, Filipino, is the incumbent Chairman and Chief Executive Officer (CEO) of EDC and has been a member of its Board of Directors since the Company's full privatization in 2007. He is also the Chairman and CEO of First Gen Corp. and FPHC. He is a director of ABS-CBN, First Private Power Corp., and Bauang Private Power Corp. He also serves as director, President and CEO of FG Bukidnon Power Corp., First Gen Hydro Power Corp., First Gen Energy Solutions, Inc., Red Vulcan Holdings Corp., Prime Terracota Holdings Corp., First Gas Holdings Corp., First Gas Power Corp., FGP Corp., Unified Holdings Corp., First NatGas Power Corp., and First Gas Pipeline Corp. Mr. Lopez is also a member of FPHC's Energy Task Force since 1993, where he is involved not only in project development but also in efforts to introduce market reforms in the power industry. A staunch environmentalist, he is President of First Philippine Conservation, Inc. and a director of Conservation International. He is also a member and Chapter Officer of the Young President's Organization.

Mr. Lopez is a graduate of the University of Pennsylvania with a Bachelor of Arts degree in Economics and International Relations, *cum laude* (1983).

Peter D. Garrucho, Jr., 66

Mr. Garrucho, Filipino, has been a Director of EDC since November 2007. He also sits in the board of First Gen Corp. Until his retirement in January 2008 as Managing Director for Energy of FPHC, he held the positions of Vice Chairman and CEO of First Gen. He is Vice Chairman of Franklin Baker Corp., and sits in the boards of FPHC, First Private Power Corp., FG Bukidnon Power Corp., First Gen Hydro Power Corp., First Gen Energy Solutions, Inc., Red Vulcan Holdings Corp., Prime Terracota Holdings Corp., First Gas Holdings Corp., First Gas Power Corp., FGP Corp., Unified Holdings Corp., First Gas Pipeline Corp. and FL Geothermal. 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. In 2000, he was given the award of an Honorary Officer of the Order of the British Empire by Her Majesty, Queen Elizabeth.

Mr. Garrucho earned his Master in Business Administration degree from Stanford University (1971) and his AB-BSBA degree from the De La Salle University (1966).

Elpidio L. Ibañez, 60

Mr. Ibañez, Filipino, has been a Director of EDC since July 2010. He is also the 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., First Gas Pipeline Corp., FL Geothermal, and GCGI. 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).

Richard B. Tantoco, 44

Mr. Tantoco, Filipino, is the President and Chief Operating Officer (COO) of EDC and has been a Director of the Company since November 2007. He is also an Executive Vice President of First Gen Corp. He is Senior Vice President of FPHC, and President and CEO of First Gas Pipeline Corp. He is a director, Executive Vice President and Chief Operating Officer of FG Bukidnon Power Corp., First Gen Hydro Power Corp., First Gen Energy Solutions, Inc., Red Vulcan Holdings Corp., Prime Terracota Holdings Corp., First Gas Holdings Corp., First Gas Power Corp., FGP Corp., Unified Holdings Corp., First NatGas Power Corp., and FGLand Corp. He worked previously with management consulting firm Booz, Allen and Hamilton, Inc. in New York and London where he specialized in mergers and acquisition advisory, turnaround strategy advisory, and growth strategy formulation for media and manufacturing companies.

Mr. Tantoco 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).

Ernesto B. Pantangco, 60

Mr. Pantangco, Filipino, has been a Director of EDC since November 2007 and is also the Company's Executive Vice President (EVP). He is an EVP of First Gen, and President and CEO of FPPC and BPPC. He also sits in the boards of FG Luzon, GCGI, EWEHI, 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 the President of the Philippine Independent Power Producers Association (PIPPA) for the last eight 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.

Francis Giles B. Puno, 46

Mr. Puno, Filipino, has been a Director of EDC since November 2007. He is the President and COO of First Gen, and Senior Vice President and Chief Financial Officer (CFO) of FPHC. He is director, Executive Vice President and Chief Financial Officer of FG Bukidnon Power Corp., First Gen Hydro Power Corp., First Gen Energy Solutions, Inc., Red Vulcan Holdings Corp., Prime Terracota Holdings Corp., First Gas Holdings Corp., First Gas Power Corp., FGP Corp., Unified Holdings Corp., and First Gas Pipeline Corp. He is also a member of the board of First Gen Renewables, Inc., First Private Power Corp., Bauang Private Power Corp., FL Geothermal, GCGI, and EWHI. 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).

Jonathan C. Russell, 46

Mr. Russell, British, has been a Director of EDC since November 2007. He is also an Executive Vice President of First Gen and director of GCGI. 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).

Francisco Ed. Lim, 56

Mr. Lim, Filipino, is an Independent Director of EDC since July 2010. He is also a Senior Partner of Angara Abello Concepcion Regala & Cruz Law Offices (ACCRALAW) and 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. He is a member of both the Philippine Bar and New York State Bar.

He 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 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, 54

Mr. Chua, Filipino, is an Independent Director of EDC since July 2010. He is also 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 more than 30 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 July1999 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.

Key Executive Officers

Agnes C. de Jesus, 57 - 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 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).

Nestor H. Vasay, 57 - Senior Vice President and Chief Financial Officer

Mr. Vasay, Filipino, was appointed by the Board in October 2010. He has been with the Lopez Group since 1997 and held appointments with First Gen under various capacities including his current position as Senior Vice President and Comptroller. Prior to joining First Gen, he held key positions in Metropolitan Bank and Trust Company, Chase Manhattan Bank and International Exchange Bank.

Mr. Vasay earned his Bachelor's Degree in Business Administration from the Angeles University (1976), and passed the Philippine Government Board Examinations for Certified Public Accountant (CPA) a year later. He holds a Diploma in International Executive Management from Chartered Management Institution of Ashridge Berkhamsted-London (2006).

Marcelino M. Tongco, 56 – Senior 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, 54 – Senior 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, 54 – Senior Vice President for Power Generation

Mr. Catigtig, Filipino, has been with the Company since February 1980 and has held his current position since November 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, 47 – 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, 59 – 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, 38 – 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, FL Geothermal, GCGI and BGI. He is the Treasurer of the Wind Energy Developers Association of the Philippines. Prior to joining First Gen, 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).

Ellsworth R. Lucero, 52 – Vice President for Power Generation

Mr. Lucero, Filipino, was appointed by the Board in December 2010. He joined the Company as an engineer in LGPF in 1982, and since then has been assigned to different geothermal production fields across the country holding various positions. He was promoted to manager of the BGPF in 1994 and to resident manager of MGPF in 2004.

Mr. Lucero graduated with a B. S. in Mechanical Engineering from the Cebu Institute of Technology (1979) and passed the Mechanical Engineer Licensure Examination in the same year. He completed the Management Development Program of AIM (1995) and has undergone geothermal energy training in New Zealand (1986).

Dwight A. Maxino, 52 – Vice President, Southern Negros and Northern Negros Geothermal Production Fields

Mr. Maxino, Filipino, was appointed by the Board in December 2010. He has been with EDC since February 1980 and has held various positions including well test aide, reservoir engineer, production superintendent, FCRS supervisor, and production manager. He served as the Resident Manager of LGPF from 2004 to 2005 and SNGPF from 2006-2010, and as OIC Resident Manager of NNGPF from 2009 to 2010.

Mr. Maxino graduated with a B. S. in Mechanical Engineering from the Cebu Institute of Technology (1979) and passed the Mechanical Engineer Licensure Examination (1980). He holds a Diploma in Geothermal Technology from the University of Auckland (New Zealand) and completed the Management Development Program of AIM (1993).

Manuel C. Paete, 53 – Vice President, Leyte Geothermal Production Field

Mr. Paete, Filipino, was appointed by the Board in December 2010. He started his career in EDC as a reservoir engineer trainee in LGPF in 1980. He then assumed various positions in well test measurements and FCRS operations before becoming the LGPF Production Manager in 2004 and Resident Manager in 2005.

Mr. Paete graduated with a B. S. in Mechanical Engineering from the Leyte Institute of Technology (1978) and passed the Mechanical Engineer Licensure Examination in the same year. He became a Professional Mechanical Engineer in 2010. He also completed a course on Geothermal Technology with specialization in Borehole Geophysics at the United Nations University, Reykjavik, Iceland (1983).

Liberato S. Virata, 51 - Vice President, BacMan Geothermal Production Field

Mr. Virata, Filipino, was appointed by the Board in December 2010. He started working for EDC in 1982 and held various positions including Field Maintenance Manager for LGPF and Production Manager for BGPF prior to his current position.

Mr. Virata graduated with a B. S. in Mechanical Engineering from the Mapua Institute of Technology in Manila (1981). He became a Registered Mechanical Engineer in 1982 and a Professional Mechanical Engineer in 2006. He completed the Management Development Program of AIM (1993), Refinery Operations Course at Shell Refinery Clyde, Sydney New South Wales, Australia (1988), and Diploma Course in Maintenance Management System (JICA) at Kitakyushu, Japan (2003).

Erwin O. Avante, 36 – Vice President, Corporate Finance Division

Mr. Avante, Filipino, was appointed by the Board in March 2011. Prior to joining Lopez Group, Mr. Avante worked as Senior Audit In-charge at SyCip, Gorres, Velayo &. Co. Mr. Avante has Masters in Business Administration (2000) and Masters of Science in Computational Finance (2003), both obtained from the Graduate School of Business – De La Salle University, and a Bachelor of Science in Accountancy degree from De La Salle University (1994). Mr. Avante placed 1st in the May 1995 Certified Public Accountants board examination. He is also a CFA charterholder.

Teodorico Jose R. Delfin, 42 - Corporate Secretary

Atty. Delfin, Filipino, was appointed by the Board in July 2010. He is Assistant Corporate Secretary of First Gen, FG Bukidnon Power Corp., First Gen Renewables, Inc., and Red Vulcan Holdings Corporation. He is also the Corporate Secretary of First Gen Energy Solutions.

Mr. Delfin graduated with a Bachelor of Arts in Political Science degree from the University of the Philippines (1989) and earned his Bachelor of Laws degree from the University of the Philippines College of Law (1997).

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 University of the Philippines College of Law (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.

Glenn L. Tee, 39 - Senior Manager, Internal Audit and Chief Audit Executive

Mr. Tee, Filipino, was appointed by the Board in October 2010. Prior to his appointment at EDC, he was Internal Audit Head of First Gen for two years. He has been with the Lopez Group since 1994 and has held key positions in the internal audit and accounting departments of First Philippine Holdings Corp. and First Philippine Infrastructure and Development Corp.

Mr. Tee graduated from San Beda College (1992), and is both a Certified Public Accountant and Certified Internal Auditor. He completed the academic requirements of the Executive Masters in Business Administration from the AIM (2009).

Erudito S. Recio, 53 - 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).

Significant Employees

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

Family Relationships

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

Involvement in Certain Legal Proceedings

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

1. Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;

2. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in

any type of business, securities, commodities, or banking activities; and

4. Any final and executory judgment by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

Mr. Tantoco in his capacity as President has been impleaded as respondent in one ongoing 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 Officer.

EXECUTIVE COMPENSATION

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

Name	Position	Salaries/Director's Fees/Bonuses/Other Income
Oscar M. Lopez	Chairman, Emeritus	
Federico R. Lopez	Director, Chairman and CEO, July 29, 2010	
Peter D. Garrucho, Jr.	Director	
Elpidio L. Ibañez	Director, July 29, 2010	
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	
Francisco Ed. Lim	Independent Director, July 29, 2010	
Edgar O. Chua	Independent Director, July 29, 2010	
John A. Prasetio	Independent Director, July 29, 2010 – February 1, 2011	
Agnes C. De Jesus	Sr. Vice President for Environmental and External Affairs, and Compliance Officer	
Anthony M. Mabasa	Sr. Vice President, resigned effective January 24, 2011	
Nestor H. Vasay	Sr. Vice President, Chief Financial Officer and Treasurer, November 8, 2010	
Marcelino M. Tongco	Sr. Vice President for Operations	
Manuel S. Ogena	Sr. Vice President for Technical Services	
Danilo C. Catigtig	Sr. 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	
Ellsworth R. Lucero	Vice President - Power, December 15, 2010	
Dwight A. Maxino	Vice President – SNGPF, December 15, 2010	
Manuel C. Paete	Vice President – LGPF, December 15, 2010	
Liberato S. Virata	Vice President – BGPF, December 15, 2010	
Erwin O. Avante	Vice President – Corporate Finance Division, March 15, 2011	
Aggregate compensation (all key executive officers and Directors as a group)	2009 Short-term benefits	₱ 75,170,646
	2009 Post employment benefits	₱ 90,670,000
	2010 Short-term benefits	₱ 126,184,215
	2010 Post employment benefits	₱ 192,690,000
	2011 Short-term benefits (estimate)	₱ 108,600,000
	2011 Post employment benefits (estimate)	₱ 309,500,000

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

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of December 31, 2010

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 3rd 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.	Foreign	7,840,616,142	41.82%
Common	PCD Nominee Corporation (Filipino) *	There are no beneficial owners of more than 5% of the outstanding shares.	Filipino	2,735,680,171	14.59%
Common	First Gen Corporation 3rd 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.

Security Ownership of Directors and Management as of December 31, 2010

Title of Class	Name of Beneficial Owner	Amount of Shares	Nature of Ownership	Citizenship	Percent of Class
Directors					
Common	Oscar M. Lopez	200,501 500,000	Direct Indirect	Filipino Filipino	0.000% 0.003%
Common	Federico R. Lopez	6,092,501	Direct	Filipino	0.032%
Common	Peter D. Garrucho, Jr.	5,670,000 1,000,000	Direct Indirect	Filipino Filipino	0.030% 0.005%
Common	Richard B. Tantoco	2,584,401 1,125,000	Direct Direct	Filipino Filipino	0.014% 0.006%
Common	Elpidio L. Ibañez	100,001	Direct	Filipino	0.001%
Common	Ernesto B. Pantangco	37,501	Direct	Filipino	0.000%
Common	Francis Giles B. Puno	2,102,501	Direct	Filipino	0.011%
Common	Jonathan C. Russell	3,073,751	Direct	British	0.016%
Common	Edgar O. Chua	1	Direct	Filipino	0.000%
Common	Francis Ed. Lim	30,001	Direct	Filipino	0.000%
Common	John A. Prasetio	1	Direct	Filipino	0.000%

Title of Class	Name of Beneficial Owner	Amount of Shares	Nature of Ownership	Citizenship	Percent of Class
Key Executive Officers					
Common	Agnes C. De Jesus	325,000	Direct	Filipino	0.002%
Common	Nestor H. Vasay	0	-	Filipino	0.000%
Common	Anthony M. Mabasa	300,000	Direct	Filipino	0.002%
Common	Marcelino M. Tongco	387,500	Direct	Filipino	0.002%
Common	Manuel S. Ogena	886,251 215,625	Direct Indirect	Filipino Filipino	0.005% 0.001%
Common	Danilo C. Catigtig	262,500	Direct	Filipino	0.001%
Common	Glenn I. Funk	0	-	Filipino	0.000%
Common	Ernesto G. Espinosa	0	-	Filipino	0.000%
Common	Vincent Martin C. Villegas	500	Direct	Filipino	0.000%
Common	Ellsworth R. Lucero	150,000	Direct	Filipino	0.001%
Common	Dwight A. Maxino	150,000	Direct	Filipino	0.001%
Common	Manuel C. Paete	150,000	Direct	Filipino	0.001%
Common	Liberato S. Virata	174,000	Direct	Filipino	0.001%
Common	Teodorico Jose R. Delfin	0	-	Filipino	0.000%
Common	Ana Maria A. Katigbak-Lim	0	-	Filipino	0.000%
Common	Glenn L. Tee	50,000	Direct	Filipino	0.000%
Common	Erudito S. Recio	40,000 4,000	Direct Indirect	Filipino Filipino	0.000% 0.000%

As of December 31, 2010, the total number of shares owned by the Directors and key executive officers is 25,611,536 or 0.137% of total common shares.

Voting Trust Holders of 5% or more

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

Certain Relationships and Related Transactions

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 2010 and 2009:

a. First Balfour, Inc. (First Balfour)

Following the usual bidding process in 2010, the Company awarded to First Balfour procurement contracts amounting to ₱217.67 million for various works such as Pal 1 zero condensate disposal system, Civil, Structural and Mechanical/ Piping Works in Leyte and Bacman and refurbishment of BGI's geothermal power plants.

As of December 31, 2010, the outstanding balance of ₱59.88 million recorded under "Due to related parties" account pertained to the accrued progress billings of ₱55.74 million and payment retention of ₱4.14 million until such time the work acceptance certificate is issued.

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 ₱8.70 million per month plus applicable taxes. This was increased to ₱11.8 million per month plus applicable taxes effective September 2009 to cover the cost of additional officers and staff assigned to the Parent Company. Total consultancy services amounted to ₱170.75 million and ₱130.66 million for the years ended December 31, 2010 and 2009, respectively, and was included in the "Purchased services and utilities" account.

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 of ₱504.14 million under the "Due to related parties" account as of December 31, 2009 was fully settled in April to July 2010.

c. IFC

The Parent Company entered into a loan agreement with the IFC, a shareholder of the Parent Company, on November 27, 2008 for US$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, 2010, the outstanding loan amounted to ₱4,034.27 million, net of unamortized transaction cost of ₱65.73 million and included under the "Long-term debts" account in the consolidated statements of financial position.

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.

Bauang 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 Holdings, parent company of First Gen, is an associate of Lopez Holdings Corporation (formerly Benpres Holdings Corporation).

Bayan Telecommunications Inc. (Bayantel) is 97.3%-owned by Bayantel Holdings on which Lopez Holdings Corporation has 47.3% ownership.

Sky Cable Corporation (Sky Cable) is 80.72%-owned by ABS-CBN Corp. on which Lopez Holdings Corporation has 57.3% interest.

First Philippine Realty Corp. (FPRC), formerly known as INAEC Development Corp, is a wholly owned subsidiary of First Holdings.

Following are the amounts of transactions and outstanding balances as of and for the years ended December 31, 2010 and 2009:

		Transactions for the years ended December 31		Net amount due to related parties as of December 31	
Related Party	Nature of Transaction	**2010**	2009	**2010**	2009
First Gen	Interest-bearing advances	**(₱504,141,759)**	₱440,660,560	**₱**–	₱504,135,656
	Consultancy fee	**170,752,941**	130,656,470	**23,600,000**	–
	Interest-free advances	**254,398,672**	6,639,905	**247,744,841**	2,709,905
First Balfour, Inc.	Steam augmentation and other contracts	**141,279,058**	356,753,986	**59,883,402**	29,438,812
Bauang Private Power Corporation	Acquisition of one unit MVA transformer	**37,641,428**	–	–	–
	Interest-free advances (payment)	–	(150,286)	–	–
First Gas Holdings Corporation	Interest-free advances	**625,750**	491,800	**1,199,850**	574,100
First Gas Power Corporation	Interest-free advances	**4,461**	40,924	**45,385**	150,677
First Private Power Corporation	Acquisition of one unit 1980 CESSNA 340A	**8,000,000**	–	–	–
FPRC	Purchase of services and utilities	**5,161,713**	–	–	–
Bayantel	Purchase of services and utilities	**5,728,590**	–	**3,169,012**	–
Eugenio Lopez Foundation, Inc.	Donation to Lopez Museum	**2,403,000**	2,400,000	–	–
Lopez Group Foundation, Inc.	Donation to support Group's Corporate Social Responsibility efforts	–	7,239,765	–	–
Lopez Holdings Corporation	Budget expense allocation	**10,322,515**	6,384,283	–	–
Red Vulcan	Interest-free advances	**7,994**	11,059	**7,994**	11,059
Sky Cable	Purchase of services and utilities	**59,400**	–	–	–
		132,243,763	951,128,466	**335,650,484**	537,020,209
IFC	Interest-bearing loans	**7,386,328**	4,170,132,778	**4,034,266,907**	4,026,880,578
		₱139,630,091	₱5,121,261,244	**₱4,369,917,391**	₱4,563,900,787

EDC's subsidiary in Chile is participating in the bids for geothermal concession areas by the Chilean government. The bid rules call for the provision of proof of EDC Chile Limitada's financial capability to participate in said bids or evidence of financial support from its Parent Company. Letters of credit amounting to US$80.0 million were issued by EDC in favor of EDC Chile Limitada as evidence of its financial support. There were no guarantees received from any related party.

The purchases from related parties are made at normal commercial terms and conditions. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given in 2010 and 2009.

The Company has not recognized any impairment losses on receivables from related parties as of December 31, 2010 and 2009.

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.

PART V – CORPORATE GOVERNANCE

2010 CORPORATE GOVERNANCE REPORT

In 2010, the Energy Development Corporation continued its corporate governance activities with the aim of becoming the benchmark for good corporate governance in the industry and in the country.

RECOGNITION AND AWARDS FOR EDC'S CORPORATE GOVERNANCE ACTIVITIES IN 2010

In 2010, EDC received its third consecutive recognition for exemplary corporate governance practices in the Philippines from the Institute of Corporate Directors (ICD). EDC was given a Gold Award for obtaining an overall Corporate Governance rating of 95.4%, where the company obtained excellent scores in all categories (Rights of Shareholders-100%, Equitable Treatment of Shareholders-92%, Role of Stakeholders-91%, Disclosure and Transparency-96%, and Board Responsibility-96%).

Likewise in 2010, the Management Association of the Philippines (MAP) cited not only EDC's corporate governance practices but also the company's financial reporting and disclosures when EDC's "Greenergized" Annual Report was awarded as one of the Top 20 Best Annual Reports.

This is the second consecutive year where EDC's Annual Report is given recognition as among the top Annual Reports in the country, and also the second consecutive year that the award for Best in Visual Design was given for EDC's Annual Reports.

COMPLIANCE WITH POLICIES, RULES AND REGULATIONS ON CORPORATE GOVERNANCE

Pursuant to the governance principles of transparency and disclosure, EDC fully complied with the SEC and PSE'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 structured reports involving, among others, public ownership report and financial statements, not to mention the various and timely disclosure of unstructured reports, such as 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.

Likewise, other reports required from the company by other regulators are constantly monitored and prepared for their timely submission and compliance.

THE CORPORATE GOVERNANCE MANUAL

The Company's Corporate Governance Manual was originally adopted and approved by the Board of Directors 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, the Corporate Governance Manual has undergone several revisions in order to include best practices on corporate governance as well as to comply with the changes in the regulatory requirements of the SEC.

In 2010, the Manual underwent two revisions: in March, in compliance with the requirements of the SEC's Revised CG Code pursuant to SEC Memorandum No. 6, series of 2009, and in September, for the amendments to the Board Committee provisions.

EDC'S CORPORATE GOVERNANCE-RELATED POLICIES

The importance given by EDC to corporate governance is strengthened by various governance-related policies which ensure that the principles of ethical conduct, fairness, accountability and transparency are observed by all Directors, Officers and employees. At present, EDC's corporate governance-related policies include the Code of Conduct and Business Ethics, the Conflict of Interest Policy, the Guidelines on Trading Rules and Restrictions, Fraud Policy and Whistleblower Policy, among others.

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. Even then, EDC constantly keeps itself agile and flexible, striving to be at par – or even better than – the world's best, in the face of rapidly-changing rules of business engagement brought about by globalization, the impact of information technology, the increased demand for accountability and transparency by the company's stakeholders and stockholders alike.

The Code provides 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.

Likewise, 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.

As a sign of commitment to the Company's Code of Conduct and Business ethics, all employees and officers immediately signed off the Code after its 2004 launch.

In 2010, the Company's Code of Conduct and Business Ethics was put under review for purposes of updating the provisions and customizing the same to EDC's present private corporation status.

b) Conflict of Interest Policy

EDC's Conflict of Interest Policy is generally covered under EDC's Personnel Manual and as such serves as a guide to all EDC personnel in the conduct of their day-to-day transactions in EDC. 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 as 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.

At present, a consolidated Company Manual on the Guidelines on Disclosure Rules and Trading Restrictions is under review for future implementation in EDC.

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.

In furtherance of EDC's good governance initiatives and in consonance with its internal Fraud Policy and the Code of Conduct and Business Ethics, the Company's Internal Audit Department (IAD) made available a hotline to enable and encourage employees to report serious concerns of irregularities and

wrongdoings. All reports will be acted upon and treated with strict confidentiality in accordance with the provisions of EDC's Protected Disclosure Policy.

THE BOARD OF DIRECTORS

Election of the Board of Directors and Composition

In July 29, 2010, the stockholders elected eleven (11) highly-qualified and very experienced professionals from the field of business, local and international finance and power generation to the Board of Directors of the Energy Development Corporation. Of the 11 directors in the Board, eight (8) are regular directors, comprising of a good combination of executive and non-executive directors.

EDC also more than complied with the corporate governance requirement on the number of Independent Directors in the board with the election of three (3) Independent Directors, namely: Atty. Francis Ed. Lim, Mr. Edgar O. Chua, and Mr. John A. Prasetio*.

All EDC Directors, most specially its Independent Directors, are active participants during meetings and in major corporate undertakings.

**On February 1, 2011, Independent Director Mr. John A. Prasetio resigned from the EDC Board of Directors due to the demands of his position as Commissioner of the PermataBank in Indonesia. A disclosure was made on the same day with the Philippine Stock Exchange.*

Definition of Independent Directors

More than going beyond the required number of independent directors, EDC fully adheres to the definition of an Independent Director.

An independent Director is one 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 the exercise of his independent judgment in carrying out his responsibilities as a director of the Company. An Independent Director is also one who possesses all the qualifications and none of the disqualifications for an independent director under existing laws, government issuances, rules or regulations. And more importantly, an independent director should provide indispensable independent judgment and objectivity on all issues presented to the Board.

The Board Committees and their Composition

The Board of Directors of EDC has created five (5) Committees to handle specific oversight functions on matters which would require careful study and deliberation prior to elevating the same to the Board of Directors for final decision or approval.

EDC's Board Committees are the **Audit and Governance**, **Nomination and Compensation**, **Risk Management**, **Corporate Social Responsibility** and **Operations**.

Beyond compliance with the governance regulations and issuances, independent directors figure prominently in the following Committees:

- In the Audit and Governance Committee, 100% of the Independent Directors comprises the majority of the Committee membership, with the Chairmanship being held by an Independent Director;
- In the Nomination and Compensation Committee, one of the Committee members is an Independent Director and he is likewise eligible for Chairmanship in the Committee;
- In the CSR Committee, an Independent Director is among the Committee members.

Further, as a sign of commitment to governance, the Chairman of the Board is an active member of several Board committees, and even sits as Chairman of the Corporate Social Responsibility (CSR) Committee.

Annual Committee Reports

For 2010, all the Board Committees submitted their Annual Committee Reports, enumerating therein their significant accomplishments for the year ending December 31, 2010.

a. Audit and Governance Committee

- On **Financial Reporting**, by reviewing with management and the external auditor the annual audited financial statements and endorsed the same for Board approval. And by reviewing with management the quarterly unaudited financial statements and endorsed the same for Board approval.
- On **Internal Control Environment**, by monitoring the effectiveness of the internal control environment through various measures such as: the review of external audit's results; 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.
- On **External and Internal Audit**, by reviewing the overall scope of external auditor's audit plan, as well as the management evaluation on the external auditor's performance, approves Internal Audit's annual plan, ensuring that independence is maintained, the scope of work is sufficient and resources are adequate.
- On **Compliance**, by monitoring the Company's compliance to laws, regulations and policies, approves Compliance Office's annual plans and programs, and taking 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; ensuring smooth monitoring and implementation of recommendations to improve corporate governance as contained in the study made by the Asian Institute of Management; ensuring that all directors and senior executives comply with the corporate governance training requirements; endorsing the conduct of the annual evaluation of the Board and President's performance; and, providing continued support to the company's participation in the Corporate Governance Scorecard Project which won for the company the 'Gold Awardee' rank as recognized by ICD/SEC/PSE in May 2010.

b. Nomination and Compensation Committee

- The Committee studied and proposed improvements in the Company's Stock Option Plan.
- The Committee likewise reviewed the qualifications of nominees for Independent Director, as well as regular Director, and endorsed the same candidates for approval and election in the 2010 Annual Stockholders Meeting.
- Announced the resignation of key executives of the Company, and reviewed and screened the nominees to fill the vacated positions.

c. Risk Management Committee

- **Risk Management System Enhancement** – As an integral part of EDC's strategic pillars and long-term objective, RMC focused on enhancing the ERM system of the company wherein it was aligned to ISO 31000:2009 (Risk Management – Principles and Guidelines) and risk management reviews in all level of the organization with the Board of Directors has been conducted as part of its enhancement.
- **Risk Administration** – The committee monitors the company's exposure to foreign exchange risk, conducted study on the company's ICT (Information and Communications Technology) capabilities, conducted project risk review, and identified the company's key strategic risks for 2011 which will be continuously monitored to ensure that they are properly managed.

- **ERM Awareness** – Various ERM seminars, workshops, and discussions were conducted in 2010 to re-introduce to the line and senior management the concept of enterprise risk management and the enhanced ERM system.
- **RMC Charter Changes** – The RMC conducted a year-end review of the risk management activities and the enhancements made to the company's ERM system and decided to implement certain changes in its composition requirements.

d. Corporate Social Responsibility Committee

- Reviewed and monitored the following:

i. financial and operational performance and approval of operational matters of the priority CSR Projects;
ii. Global Reporting Initiative (GRI) performance indicators for EDC's 2009 and 2010 Sustainability Reports;
iii. implementation status of the four (4) modules of BINHI : Greening Legacy Project
iv. Sustainability measures and exit plan for key reforestation projects;
v. Status of resettlement projects for communities in EDC project sites;

- Approval of revisions in the EDC Board CSR Committee Charter; and
- Review of other CSR projects, such as the progress of education and enterprise development modules, participation in the 2010 CSP Expo of the League of Corporate Foundation (LCF), and support for the Alliance for Mindanao Off-Grid Renewable Energy (AMORE) Project.

e. Operations Committee

- the Operations Committee approved/endorsed approval of eighty-seven (87) high-valued procurement items, twenty-six (26) items of authority for expenditures, twenty-one (21) Operational Support items and nineteen (19) matters on Policy guidelines, with a total of one-hundred fifty-three (153) items

Directors' Attendance in Board Meetings

For the year ended December 31, 2010, below are the tables showing the frequency of meetings and the respective attendance of the EDC Board of Directors:

The summary of the directors' attendance in Board meetings is shown in the table below.

Director's Attendance in EDC Board Meetings in 2010

	DATE OF BOARD MEETINGS											
Name of Directors	01.20.10	02.16.10	03.10.10	03.25.10	04.23.10	05.25.10	06.15.10	06.23.10	07.19.10	07.29.10	09.15.10	11.08.10
OSCAR M. LOPEZ	/	/	/	/	/	/	/	/	/	/	/	/
PAUL A. AQUINO	/	/	/	/	/	/	/	/	/	NA	NA	NA
RICHARD B. TANTOCO	/	/	/	/	/	/	/	/	/	/	/	/
FRANCIS G. ESTRADA	/	/	/	/	/	/	/	/	/	NA	NA	NA
PETER D. GARRUCHO, JR.	/	/	/	/	/	X	/	/	/	/	/	/
FEDERICO R. LOPEZ	/	/	/	/	/	/	/	/	/	/	/	/
ERNESTO B. PANTANGCO	/	/	/	/	/	/	/	/	/	/	/	/
VICENTE S. PEREZ, JR.	/	/	/	X	/	/	/	/	/	NA	NA	NA
FRANCIS GILES B. PUNO	/	/	/	/	/	/	/	/	/	/	/	/
CESAR V. PURISIMA	/	/	/	/	/	/	/	X	/	NA	NA	NA
JONATHAN C. RUSSELL	/	/	/		/	/	/	/	/	/	/	/
JOHN A. PRASETIO	NA	NA	NA	NA	NA	NA	NA	NA	NA	/	/	/
FRANCIS ED. LIM	NA	NA	NA	NA	NA	NA	NA	NA	NA	/	/	/
EDGAR O. CHUA	NA	NA	NA	NA	NA	NA	NA	NA	NA	/	/	/
ELPIDIO L. IBANEZ	NA	NA	NA	NA	NA	NA	NA	NA	NA	/	/	/

LEGEND: Present (√) Absent (x) Not Applicable (NA)

Also, below is a table showing the frequency of meetings and the respective attendance of the members of EDC's Board Committees before and after the 2010 Annual Stockholders' Meeting held last July 29, 2010:

Committee Attendance of Directors before the 2010 Annual Stockholders' Meeting

EDC DIRECTORS	Audit & Governance (5 Meetings)	Nomination & Compensation (2 Meetings)	Risk Management (2 Meetings)	Corporate Social Responsibility (2 Meetings)	Operations (17 Meetings)
Paul A. Aquino		2	1		16 *(M)*
Oscar M. Lopez					
Federico R. Lopez		2 (M)	1	2 (C)	4 (M)
Richard B. Tantoco		2	1		17 *(M)*
Ernesto B. Pantangco	5 (M)	1	1	2 (M)	14 *(M)*
Francis Giles B. Puno	5 (M)	1	2 (C)		9 (M)
Jonathan C. Russell		2	2 (M)		9 (M)
Peter D. Garrucho, Jr.		2 (M)	2 (M)		8 (M)
Vicente S. Perez, Jr. *(Independent Director)*	5 (M)			2 (M)	
Francis G. Estrada (Independent Director)	1 (M)	2 (C)	1		
Cesar V. Purisima (Independent Director)	4 (C)	1			

At the Annual Stockholders' Meeting, seven (7) directors were re-elected; also, four (4) new Directors were elected to the EDC Board, namely: Elpidio L. Ibanez, Francis Ed. Lim *(Independent)*, Edgar O. Chua *(Independent)*, and John a. Prasetio *(Independent).*

Committee Attendance of Directors after the 2010 Annual Stockholders' Meeting

EDC DIRECTORS	Audit & Governance (1 Meeting)	Nomination & Compensation (1 Meeting)	Risk Management (4 Meetings)	Corporate Social Responsibility (1 Meeting)	Operations (12 Meetings)
Oscar M. Lopez		1			
Federico R. Lopez		1 (C)	2	1 (C)	4 (M)
Richard B. Tantoco		1	3		11 *(M)*
Ernesto B. Pantangco	1 (M)	1	2	1 (M)	11 *(M)*
Francis Giles B. Puno		1 (M)	4 (C)		5 (M)
Jonathan C. Russell		1	4 (M)		10 *(M)*
Peter D. Garrucho, Jr.		1 (M)	3 (M)		10 *(M)*
Elpidio L. Ibanez		1 (M)	2		8 (M)
Francis Ed. Lim (Independent Director)	1 (M)	1			

Edgar O. Chua (Independent Director)	**1 (C Aug. '10 - present)**	**1**		**1 (M)**	
John A. Prasetio (Independent Director)	**1 (M)**	**1 (M)**			

Note:
Legend: C=Chairman; M=Member
Directors who are non-members of Committees are allowed to attend and participate in the discussion, pursuant to a Board Resolution. Their presence in committee meetings were counted in their attendance record.
For the Operations Committee, there is no Chairman, pursuant to its Charter.
Data Source: Committee Secretariats and Director Relations Office Records.

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER
**In compliance with the PSE CG Disclosure requirements*

In 2010, the positions of Chairman and Chief Executive Officer (CEO) have been vested upon one person. In addition to existing checks and balances provided by the Company By-Laws and Corporate Governance Manual, the Board also undertook to take steps to ensure that proper checks and balances will be laid down to ensure that the Board gets the benefit of independent views and perspectives

CORPORATE GOVERNANCE EVALUATION

Since 2008, the Company has adopted an annual Board Self-assessment Evaluation and President's Evaluation, with majority of the Board providing their inputs and insights on the Board's overall performance as well as their assessment of the President's performance, leadership, operational management, working relationship with the Board, and financial management

For 2010, in addition to the Board's Self-Assessment, the Board of Directors conducted two President's Evaluation to cover the performance of the both the outgoing and incoming Presidents.

With the conduct of the annual governance evaluations, the Board of Directors and the President were afforded insights on their expected roles in governing the Company which was evidenced by marked improvements in the ratings for every year the governance evaluations were undertaken.

BOARD STRATEGIC RETREAT

In compliance with the provisions of the Corporate Governance Manual, the Board underwent Strategic Retreat Workshop in 2010 where the directions set in 2009 became more refined and concrete.

RISK MANAGEMENT

Beyond Enterprise-wide Risk Management (ERM) awareness, EDC has adopted a system in its budget and work planning activities which incorporate risk management and risk treatment. The treatment and measures to address the various identified risks have also been made as integral parts of the process of preparing the Company's 2011 plans, programs and budget.

VISION, MISSION AND VALUES

In 2010, the Company launched its reenergized vision, mission and core values, emphasizing its objective of becoming a global leader in geothermal energy while strengthening its leadership in the Philippine renewable energy industry.

Its commitment to providing present and future generations clean and renewable energy is likewise guided by the company's core values of **bias for action**, **excellence**, **integrity**, **entrepreneurial spirit**, **stewardship**, **fairness** and **results-driven teamwork.**

The Company is fully committed to effectively implement these values by institutionalizing and identifying the President and all the Company's Vice-Presidents to model and monitor the values espoused.

DISCLOSURE AND TRANSPARENCY

The Company, through its Investor Relations Office, fully complied with the requirement of full, fair and accurate disclosures to the investing public via immediate disclosures with the Philippine Stock Exchange (PSE) and the Securities and Exchange Commission (SEC).

Further, the Company's website (www.energy.com.ph) is kept updated at all times to comply with the requirement of providing accurate and timely disclosures, as well as full information and disclosure on the company's corporate governance activities.

PLAN TO IMPROVE

EDC, 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.

DEVIATIONS

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

EDC 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. Through the Compliance Office, EDC has likewise affiliated itself with good corporate governance advocates and practitioners in the country composed of representatives from publicly-listed corporations with known good corporate governance practices.

PART VI – EXHIBITS AND SCHEDULES

Exhibits

Exhibit 1 – 2010 and 2009 Financial Statements
Exhibit 2 – Supplementary Schedules (Schedules A - J)
Exhibit 3 – 2010 Audit and Governance Committee Report

Reports on SEC Form 17-C

The Company filed the following reports on SEC Form 17-C during the period January to December 2010:

1.	EDC Awarded Patent for Homegrown On-Line Steam Purity Monitoring System	January 15
2.	Certification on EDC's Compliance with Corporate Governance Manual	January 19
3.	Certification on EDC Board of Directors Attendance for 2009	January 29
4.	EDC General Information Sheet (GIS) as of December 31, 2009	February 11
5.	"New rig to boost EDC's savings and income from drilling".	February 26
6.	General Information Sheet as of December 31, 2009 (Amended)	February 25
7.	Clarification of news article re: EDC out to raise geothermal output by 300 MW	February 27
8.	Appointment of SVP Agnes C. de Jesus as Compliance Officer	March 1
9.	March 26, 2010 EDC Investors'/Analysts' Briefing	March 8
10.	Clarification of News Article re: "EDC to Raise $175-M in Loans"	March 11
11.	Declaration of Cash Dividend and Appointment of Deputy Treasurer	March 22
12.	EDC's Revised Manual of Corporate Governance	March 23
13.	Press Release re: "EDC Core Net Income Rises 26.5% to P7.38 Billion in 2009″	March 25
14.	June 8, 2010, Annual Stockholders' Meeting	April 23
15.	General Information Sheet as of March 10, 2010	April 27
16.	Clarification of News Article: "Lopezes eye state loan for BacMan plant bid"	May 6
17.	EDC Submitted the Winning Bid of US$28.25 Million for 150 MW BacMan Geothermal Power Plants	May 6
18.	Press Release: "Power plant earnings boost EDC Q1 net income to P3.80 billion"	May 6
19.	Postponement of the June 8, 2010 Annual Stockholders' Meeting	May 14
20.	Annual List of Stockholders as of May 7, 2010	May 17
21.	Board Approval of Change in the Corporate Name	May 26
22.	Press release: "EDC unit seals power supply agreements with Aklan, Iloilo electric cooperatives"	May 31
23.	EDC Signs a 3-Year $175 Million Syndicated Term Loan Facility	June 21
24.	Clarification of News Article re: "EDC inks $175 M loan deal"	June 22
25.	EDC Annual Stockholders' Meeting on July 29, 2010	June 28
26.	EDC Settles Miyazawa II Loan	June 28
27.	Resignation of Deputy Treasurer Maria Theresa P. Mañalac	July 1
28.	Resignation of Independent Director Cesar V. Purisima	July 2
29.	Definitive Information Statement for July 29, 2010 Annual Stockholders' Meeting	July 5
30.	Change in Time of July 29, 2010 Annual Stockholders' Meeting	July 5
31.	Press release: "EDC H1 net income soared 113.7% to Php5.74 billion"	July 23
32.	Clarification of news article re EDC lines up P67 billion worth of projects	July 30
33.	July 29, 2010 ASM Approved Resolutions	July 30
34.	Clarification of news article entitled "Holding firm for EDC's international	August 2

ventures mulled"

35. Certificate of Independent Directors Edgar O. Chua & Francis Ed. Lim — August 20
36. Certificate of Qualification of Independent Director John A. Prasetio — August 26
37. Press Release: "EDC Unit Signs Power Supply Agreement with Capiz Electric Cooperative" — August 27
38. General Information Sheet as of July 29, 2010 — September 13
39. Press release: "EDC Subsidiary Pays PHP1.28 Billion for Bacman Power Plants" — September 15
40. Notarized Certificate of Qualification of Independent Director John A. Prasetio — September 24
41. Election of Mr. Edgar O. Chua as Chairman of Audit and Governance Committee — October 1
42. Revised Corporate Governance Manual — October 12
43. Press release: "EDC unit allocates 40 MW of clean & affordable power to 3 provinces in the Visayas — September 13
44. Resignation of CFO Regina Pia B. Go and Appointment of Nestor H. Vasay as Acting CFO — September 15
45. Board of Directors' Appointment of CFO Nestor H. Vasay and Internal Audit Manager Glen L. Tee; SEC Approval of Change in Corporate Name — November 9
46. November 17, 2010 Investors'/Analysts' Briefing on YTD September 30, 2010 Financial and Operating Results — November 11
47. Board of Directors' Appointment of Nestor H. Vasay as Senior Vice President and Chief Financial Officer — November 15
48. Press Release: "EDC net income rises 446% to PhP7.58 billion in 9 months" — November 17
49. EDC temporarily shuts down Northern Negros plant for further studies — November 22
50. EDC General Information Sheet as of November 8, 2010 — December 15
51. Promotion of EDC Principal Officers — December 16
52. Closure of EDC Well Construction Group — December 17
53. Clarification of News Article: "EDC eyes $200M from bonds to fund wind power projects" — December 17

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned, thereunto duly authorized, in the City Taguig on March 15, 2011.

By:

FEDERICO R. LOPEZ
Chairman and Chief Executive Officer

RICHARD B. TANTOCO
President and Chief Operating Officer

NESTOR H. VASAY
Sr. Vice President and Chief Financial Officer

MARIBEL A. MANLAPAZ
Comptroller

TEODORICO R. DELFIN
Corporate Secretary

SUBSCRIBED AND SWORN to before me this MAR 16 2011 day of March 2011 affiant(s) exhibiting to me his/her Philippine passport, as follows:

NAMES	PASSPORT/ DRIVER'S LICENSE NO.	DATE OF ISSUE	PLACE OF ISSUE
Federico R. Lopez	WW0204385	September 17, 2007	Manila
Richard B. Tantoco	XX4559479	September 11, 2009	Manila
Nestor H. Vasay	XX1484169	June 26, 2008	Manila
Maribel A. Manlapaz	EB0036421	March 27, 2010	Manila
Atty. Teodorico R. Delfin	N04-90-164413		Manila

ATTY. MELANIE JOHANNA C. NERY
Notary Public for the City of Makati until 12/31/2011
Appointment No. M-440 (2010-2011)
Roll No. 55524, April 23, 2008
PTR No. A-1184840, January 4, 2011, Taguig City
IBP No. 844667, January 4, 2011, Quezon City

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Energy Development Corporation [formerly Energy Development Corporation (EDC) Corporation] and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 15, 2011. 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
BIR Accreditation No. 08-001998-52-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641530, January 3, 2011, Makati City

March 15, 2011

Exhibit 2

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, 2010

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

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, 2010

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	31,616,780	28,633,918	10,997,014	-	30,163,926	19,089,758	49,253,685
Directors	-	-	-	-			-
TOTAL	**31,616,780**	**28,633,918**	**10,997,014**	-	**30,163,926**	**19,089,758**	**49,253,685**

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, 2010

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, 2010

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

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
SCHEDULE E - INTANGIBLE ASSETS - OTHER ASSETS
As of December 31, 2010

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
Water rights	2,104,181,553	-	96,191,157				2,007,990,396
Goodwill	2,535,051,530						- 2,535,051,530
TOTAL	4,639,233,083	-	96,191,157	-	-	-	4,543,041,926

Note:

Addition to goodwill arose from the acquisition of the Palinpinon and Tongonan Power Plants by GCGI which was finalized in September 2010. Consolidated financial statements as of and for the year ended December 31, 2009 have been restated to properly reflect the final fair values of the net assets acquired based on the purchase price allocation

The amounts charged to cost and expenses represent regular amortization and is credited through an accumulatec amortization account.

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
SCHEDULE F - LONG-TERM DEBT
As of December 31, 2010

Title of Issue and Type of Obligation	Amount Authorized by Indenture		Balance at December 31, 2010		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:													
OECF 8th Yen	¥ 6,561,412,998	1,292,240,000	¥ 107,975,617	57,968,291	¥ 71,983,200	38,645,235	¥ 35,992,417	19,323,056	3% / 3.2%	¥ 35,991,600	19,322,617	20 semi-annual payments	January 31, 2012
OECF 9th Yen	¥ 8,516,352,319	2,104,600,000	¥ 207,715,000	111,514,839	¥ 207,715,000	111,514,839	¥ -	-	3%	¥ 207,715,000	111,514,839	41 semi-annual payments	June 20, 2011
OECF 18th Yen	¥ 77,377,486	18,833,680	¥ 47,180,752	25,329,677	¥ 3,774,460	2,026,374	¥ 43,406,292	23,303,303	3%+2.5%	¥ 1,887,230	1,013,187	41 semi-annual payments	January 20, 2023
OECF 19th Yen	¥ 320,145,638	79,275,168	¥ 218,596,000	117,356,463	¥ 15,614,000	8,382,604	¥ 202,982,000	108,973,858	4.9%	¥ 7,807,000	4,191,302	41 semi-annual payments	December 10, 2024
OECF 21st Yen	¥ 10,425,977,324	4,299,364,022	¥ 8,391,537,000	4,505,119,491	¥ 508,578,000	273,037,545	¥ 7,882,959,000	4,232,081,946	2.7% / 2.3%	¥ 254,289,000	136,518,772	41 semi-annual payments	March 20, 2027
USD 175M Club Lo	$ 175,000,000	8,058,750,000	$ 169,427,882	7,427,718,353	$ -	-	$ 169,427,882	7,427,718,353	3.25% + LIBOR	$ 175,000,000	7,672,000,000	bullet payment	June 23, 2013
Domestic Loans:													
FRCN - Series 2	₱ 4,856,000,000	4,856,000,000	₱ 4,563,263,831	4,563,263,831	229,236,350	229,236,350	₱ 4,334,027,481	4,334,027,481	9.40%	(ave) ₱ 346,857,143	499,368,581	14 semi-annual payments	July 3, 2016
FRCN - Series 1	₱ 2,644,000,000	2,644,000,000	₱ 2,357,049,582	2,357,049,582	387,259,453	387,259,453	₱ 1,969,790,128	1,969,790,128	8.37%	(ave) ₱ 264,400,000	339,575,350	10 semi-annual payments	July 3, 2014
FRCN - Series 3	₱ 1,500,000,000	1,500,000,000	₱ 1,336,158,515	1,336,158,515	219,405,774	219,405,774	₱ 1,116,752,741	1,116,752,741	8.43%	(ave) ₱ 150,000,000	190,850,011	10 semi-annual payments	July 4, 2014
PESO PUBLIC BONI	₱ 8,500,000,000	8,500,000,000	₱ 8,397,293,756	8,397,293,756	-	-	₱ 8,397,293,756	8,397,293,756	8.64%	₱ 8,500,000,000	8,500,000,000	bullet payment	June 4, 2015
PESO PUBLIC BONI	₱ 3,500,000,000	3,500,000,000	₱ 3,455,439,211	3,455,439,211	-	-	₱ 3,455,439,211	3,455,439,211	9.33%	₱ 3,500,000,000	3,500,000,000	bullet payment	December 4, 2016
IFC	₱ 4,100,000,000	4,100,000,000	₱ 4,034,266,907	4,034,266,907	-	-	₱ 4,034,266,907	4,034,266,907	7.40%	(ave) ₱ 170,833,333	170,833,333	30 semi-annual payments	October 15, 2023
5B PHP Loan	₱ 5,000,000,000	5,000,000,000	₱ 4,817,468,934	4,817,468,934	257,740,196	257,740,196	₱ 4,559,728,738	4,559,728,738	9.03%	(ave) ₱ 250,000,000	250,000,000	20 semi-annual payments	May 7, 2020
TOTAL		15,853,062,870		41,205,947,848		1,527,248,370		39,678,699,478					

ENERGY DEVELOPMENT (EDC) CORPORATION AND SUBSIDIARIES
SCHEDULE G - INDEBTEDNESS TO RELATED PARTIES
(Long-Term Loans from Related Companies)
As of December 31, 2010

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, 2010

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, 2010

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
Common Stock	30,000,000,000	18,750,000,000	-	7,500,000,000 (40%)	25,611,536 (0.137%)
Preferred Stock	15,000,000,000	9,375,000,000	-	9,375,000,000 (100%)	-

ENERGY DEVELOPMENT (EDC) CORPORATION - PARENT
SCHEDULE J - RECONCILIATION OF RETAINED EARNINGS FOR DIVIDEND DECLARATION
As of December 31, 2010

TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND, JANUARY 1, 2010			P 5,750,320,917
Add: Net income actually earned/realized during the period			
Net income in 2010 closed to Retained Earnings		4,594,355,198	
Less: Non-actual/unrealized income			
	Net unrealized foreign exchange gain (net of tax)	(30,383,051)	
	Provision for impairment of PP&E of NNGP (net of tax)	3,051,000,000	
Net income actually earned during the period			**7,614,972,147**
Add(Less):	Cash Dividend declaration in 2010		(2,256,333,333)
TOTAL RETAINED EARNINGS, DECEMBER 31, 2010 AVAILABLE FOR DIVIDEND			P **11,108,959,731**

2010 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 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, stockholders and lenders. 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 audit; 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 2007 – 2009 contract) and approved the re-engagement of SGV & Co. for another year (2010 audit).
- 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; ensuring smooth monitoring and implementation of recommendations to improve corporate governance as contained in the study made by the Asian Institute of Management; ensuring that all directors and senior executives comply with the corporate governance training requirements; endorsing the conduct of the annual evaluation of the Board and President's performance; and, providing

continued support to the company's participation in the Corporate Governance Scorecard project which won for the company the 'Gold Awardee' rank as recognized by ICD/SEC/PSE in May 2010.

*Committee Meetings**

- We conducted six meetings in 2010. Almost all the Committee members were able to attend at least a majority of the meetings.

February 22, 2011

Edgar O. Chua
Chairman
(September 2010 to present)

Francis E. Lim
Member
(July 2010 to present)

Francis Giles B. Puno
Member
(January 2008 to present)

Ernesto B. Pantangco
Member
(July 2009 to present)

* *Independent director Cesar V. Purisima was AGC chairman from September 2009 up until his resignation from the Board effective June 29, 2010;*
Independent director Vincent S. Perez, Jr. was AGC chairman from June 2007 to August 2009 and AGC member from September 2009 up until his resignation from the Board effective July 29, 2010;
Independent director Francis G. Estrada was AGC member from February 2008 up until his resignation from the Board effective July 29, 2010; and
Independent director John A. Prasetio was AGC member from July 2010 up until his resignation from the Board effective February 1, 2011.

energy
DEVELOPMENT CORPORATION

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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 15, 2011

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

The management of Energy Development Corporation is responsible for all information and representations contained in the consolidated statements of financial position as at December 31, 2010 and 2009 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, 2010. 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.

Federico R. Lopez
Chairman

Richard B. Tantoco
President / COO

Nestor H. Vasay
Senior Vice-President / CFO

SUBSCRIBED AND SWORN TO before me this MAR 15 2011 in MAKATI CITY, Metro Manila; affiants exhibiting to me their respective Passport numbers, as follows:

Name	Passport No.	Date/Place of Issue
Federico R. Lopez	WW0204385	September 17, 2007 / Manila
Richard B. Tantoco	XX4559479	September 11, 2009 / Manila
Nestor H. Vasay	XX1484169	June 26, 2008 / Manila

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SERIES OF 2011

ATTY. MELANIE JOHANNA C. NERY
Notary Public for the City of Makati until 12/31/2011
Appointment No. M-440 (2010-2011)
Roll No. 55524, April 29, 2008
PTR No. A-1184840, January 4, 2011, Taguig City
IBP No. 844657, January 4, 2011, Quezon City

Exhibit I

COVER SHEET

| | | |

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Energy Development Corporation [formerly Energy Development (EDC) Corporation] and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, 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, 2010, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 auditors consider 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 Corporation and Subsidiaries as of December 31, 2010 and 2009, and their financial performance and cash flows for each of the three years in the period ended December 31, 2010, 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
BIR Accreditation No. 08-001998-52-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641530, January 3, 2011, Makati City

March 15, 2011

ENERGY DEVELOPMENT CORPORATION
[Formerly Energy Development (EDC) Corporation] AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2010	2009 (Restated, Note 5)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 35)	**₱6,157,925,132**	₱11,220,897,157
Trade and other receivables (Notes 8, 15, 25, 29 and 35)	**4,602,047,375**	5,487,246,002
Available-for-sale (AFS) investments (Notes 3, 9, 30 and 35)	**707,524,992**	734,811,000
Parts and supplies inventories (Notes 3, 10, 24 and 25)	**2,577,442,827**	1,946,879,650
Other current assets (Notes 11, 15 and 30)	**733,797,284**	140,998,551
Total Current Assets	**14,778,737,610**	19,530,832,360
Noncurrent Assets		
Property, plant and equipment (Notes 3, 5 and 12)	**56,679,162,602**	56,980,708,681
Goodwill and water rights (Notes 3, 5 and 13)	**4,543,041,926**	4,639,233,083
Deferred tax assets - net (Note 32)	**893,702,182**	1,209,613,615
Exploration and evaluation assets (Notes 3, 14, and 30)	**1,170,407,115**	1,038,052,272
Derivative assets (Note 35)	**–**	9,611,022
Other noncurrent assets (Notes 8, 9, 15, 25, 29, 30 and 35)	**3,238,541,427**	1,355,560,188
Total Noncurrent Assets	**66,524,855,252**	65,232,778,861
TOTAL ASSETS	**₱81,303,592,862**	₱84,763,611,221
LIABILITIES AND EQUITY		
Current Liabilities		
Loan payable (Notes 16 and 35)	**₱175,000,000**	₱–
Trade and other payables (Notes 3, 17, 19 and 35)	**5,123,491,686**	3,985,053,445
Income tax payable	**71,247,509**	66,400,060
Due to related parties (Notes 22 and 35)	**335,650,484**	537,020,209
Current portion of:		
Long-term debts (Notes 19, 22, 27 and 35)	**1,527,248,370**	16,930,776,636
Royalty fee payable (Notes 18, 27, 35 and 38)	**254,155,199**	244,306,963
Total Current Liabilities	**7,486,793,248**	21,763,557,313
Noncurrent Liabilities		
Long-term debts - net of current portion (Notes 19, 22, 27 and 35)	**39,678,699,478**	30,533,721,755
Royalty fee payable - net of current portion (Notes 18, 27, 35 and 38)	**300,628,373**	566,697,746
Deferred tax liabilities - net (Note 32)	**–**	17,340,023
Net retirement and other post-employment benefits (Notes 3 and 31)	**1,307,137,045**	1,237,097,147
Other long-term liabilities (Note 20)	**291,353,661**	324,661,737
Total Noncurrent Liabilities	**41,577,818,557**	32,679,518,408
Total Liabilities	**49,064,611,805**	54,443,075,721

(Forward)

	December 31	
	2010	2009 (Restated, Note 5)
Equity		
Equity attributable to equity holders of the Parent Company:		
Preferred stock (Note 21)	**₱93,750,000**	₱93,750,000
Common stock (Note 21)	**18,750,000,000**	18,750,000,000
Common shares in employee trust account (Notes 21 and 34)	**(379,219,785)**	(391,643,364)
Additional paid-in capital (Note 34)	**6,266,099,283**	6,262,027,052
Equity reserve (Notes 4 and 5)	**(3,706,430,769)**	(3,706,430,769)
Net accumulated unrealized gain on AFS investments (Notes 9 and 30)	**119,718,797**	113,177,323
Cumulative translation adjustment (Note 4)	**1,370,000**	–
Retained earnings (Note 21)	**9,524,603,810**	7,669,894,141
	30,669,891,336	28,790,774,383
Non-controlling interest	**1,569,089,721**	1,529,761,117
Total Equity	**32,238,981,057**	30,320,535,500
TOTAL LIABILITIES AND EQUITY	**₱81,303,592,862**	₱84,763,611,221

See accompanying Notes to Consolidated Financial Statements.

ENERGY DEVELOPMENT CORPORATION
[Formerly Energy Development (EDC) Corporation] AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2010	2009 (Restated, Note 5)	2008
REVENUES			
Sale of electricity (Notes 3, 40, 41, 42 and 48)	**₱22,944,227,877**	₱15,245,966,218	₱12,518,203,534
Sale of steam (Notes 3 and 39)	**1,208,696,413**	3,781,367,064	4,242,467,491
Interest income on service concessions (Notes 3 and 37)	**–**	1,650,208,827	2,107,841,224
Revenue from drilling services	**748,691,558**	847,879,359	726,145,231
Construction revenue (Notes 3 and 37)	**–**	541,458,209	932,254,227
	24,901,615,848	22,066,879,677	20,526,911,707
OPERATING EXPENSES			
Operations and maintenance (Notes 10, 18, 24, 26, 31 and 48)	**(8,963,699,836)**	(6,066,988,240)	(5,046,039,223)
Purchased services and utilities (Notes 22 and 23)	**(1,510,220,483)**	(2,073,123,457)	(1,523,933,710)
General and administrative (Notes 8, 10, 15, 25, 26, 31 and 48)	**(4,528,933,402)**	(3,498,219,579)	(1,293,989,935)
Construction costs (Notes 3 and 37)	**–**	(467,262,081)	(803,667,437)
Depreciation and amortization (Notes 12 and 13)	**(3,445,004,630)**	(1,211,412,390)	(675,803,008)
	(18,447,858,351)	(13,317,005,747)	(9,343,433,313)
FINANCIAL INCOME (EXPENSE)			
Interest income (Notes 7 and 35)	**347,695,016**	402,950,235	332,562,785
Interest expense (Notes 16, 17, 18, 19, 27 and 35)	**(3,708,457,266)**	(2,887,155,929)	(2,152,523,656)
	(3,360,762,250)	(2,484,205,694)	(1,819,960,871)
OTHER INCOME (CHARGES)			
Foreign exchange gains (losses) - net (Note 28)	**(13,871,472)**	1,291,239,839	(9,357,131,312)
Derivatives gain (loss) - net (Note 35)	**436,998,854**	(198,809,759)	420,019,743
Revenue from arbitration award (Note 29)	**–**	–	2,067,343,343
Miscellaneous - net (Notes 9, 11, 14, 15, 18 and 30)	**1,656,137,951**	(90,660,616)	159,074,890
	2,079,265,333	1,001,769,464	(6,710,693,336)
INCOME BEFORE INCOME TAX	**5,172,260,580**	7,267,437,700	2,652,824,187
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 32)			
Current	**(477,801,870)**	(1,454,387,054)	(2,142,562,014)
Deferred:			
Effect of Renewable Energy Law (Note 47)	**–**	(2,959,213,001)	–
Others	**(299,382,845)**	503,126,079	835,013,077
	(777,184,715)	(3,910,473,976)	(1,307,548,937)
NET INCOME	**₱4,395,075,865**	₱3,356,963,724	₱1,345,275,250
Net income attributable to:			
Equity holders of the Parent Company	**₱4,115,747,261**	₱3,311,335,906	₱1,308,021,833
Non-controlling interest	**279,328,604**	45,627,818	37,253,417
	₱4,395,075,865	₱3,356,963,724	₱1,345,275,250
Basic/Diluted Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 33)	**₱0.219**	₱0.176	₱0.070

See accompanying Notes to Consolidated Financial Statements.

ENERGY DEVELOPMENT CORPORATION
[Formerly Energy Development (EDC) Corporation] AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2010	2009 (Restated, Note 5)	2008
NET INCOME	**₱4,395,075,865**	₱3,356,963,724	₱1,345,275,250
OTHER COMPREHENSIVE INCOME (LOSS)			
Changes in fair value of AFS investments recognized in equity (Notes 9 and 35)	**6,541,474**	79,022,336	(291,399,507)
Cumulative translation adjustment	**1,370,000**	–	–
Impairment loss on AFS investments removed from equity and recognized in profit or loss (Notes 9, 30 and 35)	–	3,328,633	–
Net unrealized gain removed from equity and recognized in profit or loss (Notes 9, 30 and 35)	–	–	(46,323,392)
	7,911,474	82,350,969	(337,722,899)
Adjustment of related deferred tax liability of properties stated at appraised values and designated at deemed cost (Note 21)	–	–	(449,433,875)
	7,911,474	82,350,969	(787,156,774)
TOTAL COMPREHENSIVE INCOME	**₱4,402,987,339**	₱3,439,314,693	₱558,118,476
Total comprehensive income attributable to:			
Equity holders of the Parent Company	**₱4,123,658,735**	₱3,393,686,875	₱520,865,059
Non-controlling interest	**279,328,604**	45,627,818	37,253,417
	₱4,402,987,339	₱3,439,314,693	₱558,118,476

See accompanying Notes to Consolidated Financial Statements.

ENERGY DEVELOPMENT CORPORATION
[Formerly Energy Development (EDC) Corporation] AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	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	Cumulative Translation Adjustment	Retained Earnings: Appropriated	Retained Earnings: Unappropriated	Cost of Treasury Stock Held	Subtotal	Non-controlling Interest	Total Equity
Balances, 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:													
Net income	–	–	–	–	–	–	–	–	1,308,021,833	–	1,308,021,833	37,253,417	1,345,275,250
Changes in fair value of AFS investments recognized in equity (Notes 9 and 35)	–	–	–	–	–	(291,399,507)	–	–	–	–	(291,399,507)	–	(291,399,507)
Net unrealized gain removed from equity and recognized in profit or loss (Notes 9 and 30)	–	–	–	–	–	(46,323,392)	–	–	–	–	(46,323,392)	–	(46,323,392)
Adjustment of related deferred tax liability of properties stated at appraised values and designated at deemed cost (Note 21)	–	–	–	–	–	–	–	–	(449,433,875)	–	(449,433,875)	–	(449,433,875)
Total other comprehensive loss	–	–	–	–	–	(337,722,899)	–	–	(449,433,875)	–	(787,156,774)	–	(787,156,774)
	–	–	–	–	–	(337,722,899)	–	–	858,587,958	–	520,865,059	37,253,417	558,118,476
Purchase of treasury stock (Note 21)	–	–	–	–	–	–	–	–	–	(404,219,068)	(404,219,068)	–	(404,219,068)
Reversal of appropriations for exploration projects (Note 21)	–	–	–	–	–	–	–	(1,653,315,043)	1,653,315,043	–	–	–	–
Return of deposit for future stock subscriptions of First Gen Hydro Power Corporation to non-controlling interest (Note 21)	–	–	–	–	–	–	–	–	–	–	–	(648,027,600)	(648,027,600)
Cash dividends (Note 21)	–	–	–	–	–	–	–	–	(4,052,999,997)	–	(4,052,999,997)	–	(4,052,999,997)
Cash dividends to non-controlling interest (Note 21)	–	–	–	–	–	–	–	–	–	–	–	(1,250,000,000)	(1,250,000,000)
Balances, 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:													
Net income, as previously reported	–	–	–	–	–	–	–	–	3,322,662,211	–	3,322,662,211	45,627,818	3,368,290,029
Purchase price allocation adjustment (Note 5)	–	–	–	–	–	–	–	–	(11,326,305)	–	(11,326,305)	–	(11,326,305)
Net income, as restated	–	–	–	–	–	–	–	–	3,311,335,906	–	3,311,335,906	45,627,818	3,356,963,724
Changes in fair value of AFS investments recognized in equity (Notes 9 and 35)	–	–	–	–	–	79,022,336	–	–	–	–	79,022,336	–	79,022,336

(Forward)

	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	Cumulative Translation Adjustment	Retained Earnings		Cost of Treasury Stock Held	Subtotal	Non-controlling Interest	Total Equity
								Appropriated	Unappropriated				
Impairment loss on AFS investments removed from equity and recognized in profit or loss (Notes 9 and 30)	₱–	₱–	₱–	₱–	₱–	₱3,328,633	₱–	₱–	₱–	₱–	₱3,328,633	₱–	₱3,328,633
Total other comprehensive income	–	–	–	–	–	82,350,969	–	–	–	–	82,350,969	–	82,350,969
	–	–	–	–	–	82,350,969	–	–	3,311,335,906	–	3,393,686,875	45,627,818	3,439,314,693
Stock dividend (Note 21)	–	3,750,000,000	–	–	–	–	–	–	(3,750,000,000)	–	–	–	–
Preferred shares subscription (Note 21)	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 21)	–	–	(404,219,068)	–	–	–	–	–	–	404,219,068	–	–	–
Share-based payment (Note 34)	–	–	12,575,704	2,614,296	–	–	–	–	–	–	15,190,000	–	15,190,000
Deferred tax effect of share-based payment (Notes 32 and 34)	–	–	–	180,833	–	–	–	–	–	–	180,833	–	180,833
Cash dividends (Note 21)	–	–	–	–	–	–	–	–	(1,869,375,000)	–	(1,869,375,000)	–	(1,869,375,000)
Balances, December 31, 2009, as restated	**₱93,750,000**	**₱18,750,000,000**	**(₱391,643,364)**	**₱6,262,027,052**	**(₱3,706,430,769)**	**₱113,177,323**	**₱–**	**₱–**	**₱7,669,894,141**	**₱–**	**₱28,790,774,383**	**₱1,529,761,117**	**₱30,320,535,500**
Balances, December 31, 2009, as previously reported	**₱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**
Purchase price allocation adjustment (Note 5)	–	–	–	–	–	–	–	–	(11,326,305)	–	(11,326,305)	–	(11,326,305)
Balances, December 31, 2009, as restated	**93,750,000**	**18,750,000,000**	**(391,643,364)**	**6,262,027,052**	**(3,706,430,769)**	**113,177,323**	**–**	**–**	**7,669,894,141**	**–**	**28,790,774,383**	**1,529,761,117**	**30,320,535,500**
Total comprehensive income:													
Net income	–	–	–	–	–	–	–	–	**4,115,747,261**	–	**4,115,747,261**	**279,328,604**	**4,395,075,865**
Changes in fair value of AFS investments recognized in equity (Notes 9 and 35)	–	–	–	–	–	**6,541,474**	–	–	–	–	**6,541,474**	–	**6,541,474**
Cumulative translation adjustment	–	–	–	–	–	–	**1,370,000**	–	–	–	**1,370,000**	–	**1,370,000**
Total other comprehensive income	–	–	–	–	–	**6,541,474**	**1,370,000**	–	–	–	**7,911,474**	–	**7,911,474**
	–	–	–	–	–	**6,541,474**	**1,370,000**	–	**4,115,747,261**	–	**4,123,658,735**	**279,328,604**	**4,402,987,339**
Documentary stamp tax on:													
Preferred shares subscription	–	–	–	–	–	–	–	–	**(131,250)**	–	**(131,250)**	–	**(131,250)**
Common shares subscription	–	–	–	–	–	–	–	–	**(4,573,009)**	–	**(4,573,009)**	–	**(4,573,009)**
Share-based payment (Note 34)	–	–	**12,423,579**	**4,142,231**	–	–	–	–	–	–	**16,565,810**	–	**16,565,810**
Deferred tax effect of share-based payment (Notes 32 and 34)	–	–	–	**(70,000)**	–	–	–	–	–	–	**(70,000)**	–	**(70,000)**
Cash dividends (Note 21)	–	–	–	–	–	–		–	**(2,256,333,333)**	–	**(2,256,333,333)**	–	**(2,256,333,333)**
Cash dividends to non-controlling interest (Note 21)	–	–	–	–	–	–	–	–	–	–	–	**(240,000,000)**	**(240,000,000)**
Balances, December 31, 2010	**₱93,750,000**	**₱18,750,000,000**	**(₱379,219,785)**	**₱6,266,099,283**	**(₱3,706,430,769)**	**₱119,718,797**	**₱1,370,000**	**₱–**	**₱9,524,603,810**	**₱–**	**₱30,669,891,336**	**₱1,569,089,721**	**₱32,238,981,057**

See accompanying Notes to Consolidated Financial Statements.

ENERGY DEVELOPMENT CORPORATION
[Formerly Energy Development (EDC) Corporation] AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2010	2009 (Restated, Notes 2 and 5)	2008 (Restated, Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱5,172,260,580**	₱7,267,437,700	₱2,652,824,187
Adjustments for:			
Interest expense (Note 27)	**3,708,457,266**	2,887,155,929	2,152,523,656
Depreciation and amortization (Notes 12 and 13)	**3,445,004,630**	1,211,412,390	675,803,008
Impairment loss on:			
Property, plant and equipment of Northern Negros Geothermal Project (Notes 12 and 24)	**3,390,000,000**	349,000,000	–
Noncurrent AFS investments (Notes 9, 30 and 35)	–	3,328,633	–
Recovery of impairment loss on input value-added tax (VAT) claims (Notes 11, 15 and 30)	**(1,638,884,447)**	–	–
Loss on:			
Disposal of property, plant and equipment of a subsidiary (Notes 12 and 24)	**398,927,321**	273,575,293	–
Retirement of property, plant and equipment	**2,460,681**	92,041	–
Sale of noncurrent assets held for sale (Note 30)	–	129,867,348	–
Unused tax credit certificates	–	12,207,982	–
Provision for:			
Retirement and other post-employment benefits (Note 31)	**386,578,060**	396,716,593	231,125,943
Share-based benefit cost (Note 34)	**15,601,571**	15,190,000	–
Interest income (Notes 7 and 35)	**(347,695,016)**	(402,950,235)	(332,562,785)
Unrealized foreign exchange losses (gains) - net	**(168,978,452)**	(815,455,990)	8,815,719,940
Derivatives loss (gain) - net (Note 35)	**9,598,487**	198,809,759	(420,019,743)
Interest income on service concessions (Notes 3 and 37)	–	(1,650,208,827)	(2,107,841,224)
Additions to intangible assets arising from service concessions (Note 13)	–	(541,458,209)	(932,254,227)
Write-off of input VAT claims (Note 30)	–	178,639,119	–
"Day 1" gain on deferred royalties (Notes 18, 30 and 35)	–	(168,284,986)	–
Write-down of exploration and evaluation assets (Notes 14 and 30)	–	83,531,992	–
Income from receipt of parts and supplies inventories from power plant contractor (Note 30)	–	(53,992,600)	(260,614,700)
"Day 1" loss on NPC receivable (Notes 15 and 30)	–	–	189,790,628
Gain on sale of AFS investments (Notes 9, 30 and 35)	–	–	(46,323,392)
Operating income before working capital changes	**14,373,330,681**	9,374,613,932	10,618,171,291
Decrease (increase) in:			
Trade and other receivables	**280,053,478**	(579,131,374)	(758,735,419)
Service concession receivables	–	3,356,946,305	4,307,827,550
Parts and supplies inventories	**(605,220,377)**	63,473,496	(161,884,316)
Other current assets	**(142,186,723)**	93,241,853	(745,659,204)
Increase (decrease) in:			
Trade and other payables	**1,645,853,895**	1,317,258,253	(861,715,447)
Royalty fee payable	**(312,323,998)**	(842,909,314)	(738,431,448)
Due to related parties	**(172,553,945)**	(14,943,535)	47,213,065
Cash generated from operations	**15,066,953,011**	12,768,549,616	11,706,786,072
Interest and other financing charges paid	**(3,592,715,769)**	(2,700,414,973)	(1,824,642,785)
Income tax paid	**(199,551,244)**	(701,657,001)	(1,731,066,639)
Retirement and other post-employment benefits contributions (Note 31)	**(327,566,659)**	(174,169,047)	(134,153,008)
Net cash flows from operating activities	**10,947,119,339**	9,192,308,595	8,016,923,640

(Forward)

	Years Ended December 31		
	2010	2009 (Restated, Notes 2 and 5)	2008 (Restated, Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment (Note 12)	**(₱5,815,310,918)**	(₱3,221,380,750)	(₱1,072,520,719)
Payments for acquisition of:			
Bacon-Manito Geothermal Power Plants (Notes 5 and 12)	**(1,279,725,000)**	–	–
Palinpinon-Tongonan Geothermal Power Plants (Notes 5 and 12)	–	(10,165,337,657)	–
First Gen Hydro Power Corporation (Note 5)	–	–	(4,114,597,818)
Interest received	**346,163,528**	330,024,062	222,740,387
Proceeds from sale of noncurrent assets held for sale	–	1,402,330,152	–
Decrease (increase) in:			
AFS investments	–	–	298,122,708
Amounts due from related parties	–	(648,237,396)	(96,365,150)
Exploration and evaluation assets	**(132,354,844)**	29,963,765	264,098,324
Other noncurrent assets	**(551,749,880)**	(97,999,704)	1,114,834,803
Proceeds from sale of property and equipment	–	–	537,690
Net cash flows used in investing activities	**(7,432,977,114)**	(12,370,637,528)	(3,383,149,775)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Long-term debts (Note 19)	**(19,255,755,199)**	(8,806,243,829)	(2,528,459,825)
Short-term loans	**(452,950,000)**	(4,030,376,500)	–
Cash dividends (Note 21)	**(2,496,333,333)**	(1,869,375,000)	(5,302,999,997)
Documentary stamp tax	**(4,704,259)**	(18,843,725)	–
Obligations to a power plant contractor	–	(112,187,446)	(245,241,580)
Proceeds from:			
Long-term debts (Note 19)	**13,058,750,000**	25,100,000,000	–
Short-term loans (Note 16)	**638,840,000**	2,033,113,100	2,000,000,000
Subscription to preferred shares of stock (Note 21)	–	18,750,000	–
Increase in other long-term liabilities	**(33,308,076)**	–	–
Increase in amounts due to related parties	–	1,134,854,786	153,386,379
Return to non-controlling interest of deposit for future stock subscriptions (Note 21)	–	–	(648,027,600)
Purchase of treasury stock (Note 21)	–	–	(404,219,068)
Net cash flows from (used in) financing activities	**(8,545,460,867)**	13,449,691,386	(6,975,561,691)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,031,318,642)**	10,271,362,453	(2,341,787,826)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(31,653,383)**	(7,553,556)	2,299,136
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**11,220,897,157**	957,088,260	3,296,576,950
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱6,157,925,132**	₱11,220,897,157	₱957,088,260

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Energy Development Corporation [formerly 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"), were separately incorporated and registered with the Philippine Securities and Exchange Commission (SEC) except for Energy Development (EDC) Corporation Chile Limitada (EDC Chile Limitada) which was incorporated in Santiago, Chile. Below are the Parent Company's ownership interests in its subsidiaries:

	Percentage of Ownership		
	2010		2009
	Direct	**Indirect**	
First Luzon Geothermal Energy Corporation (FL Geothermal)	**100.00%**	–	100.00%
Green Core Geothermal Inc. (GCGI)	–	**100.00%**	100.00%
Bac-Man Geothermal Inc. (BGI) *	–	**100.00%**	–
Unified Leyte Geothermal Energy Inc. (ULGEI) *	–	**100.00%**	–
EDC Chile Limitada *	**99.99%**	**0.01%**	–
EDC Drillco Corporation (EDC Drillco) **	**100.00%**	–	100.00%
First Gen Hydro Power Corporation (FG Hydro)	**60.00%**	–	60.00%
EDC Wind Energy Holdings Inc. (EWEHI) *	**100.00%**	–	–
EDC Burgos Wind Power Corporation (EBWPC) *	**33.33%**	**66.67%**	–

**Incorporated in 2010 and has not yet started commercial operations.*
***Incorporated in 2009 and has not started commercial operations.*

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 then established through First Gen's 60% indirect voting interest in EDC. Meanwhile, First Philippine Holdings Corporation (First Holdings) directly owns 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 Tongonan Geothermal Project (TGP), Southern Negros Geothermal Project (SNGP), Bacon-Manito Geothermal Project (BMGP), Mt. Apo Geothermal Project (MAGP) and Northern Negros Geothermal Project (NNGP) under the Geothermal Service Contracts (GSCs, see Note 38)

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, see Note 38) on October 23, 2009. Geothermal steam produced is sold to the National Power Corporation (NPC) or is fed to the Parent Company's and GCGI'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 (see Notes 39 and 40). EDC sells steam to GCGI under the Geothermal Resources Service Contracts (GRSCs, see Note 39). EDC also sells electricity to Iloilo 1 Electric Cooperative (ILECO) under the Electricity Sales Agreement (see Note 41). Separately, it also has drilling activities in Papua New Guinea.

On the July 29, 2010 annual stockholders meeting, the stockholders approved the amendment of the Parent Company's name from Energy Development (EDC) Corporation to Energy Development Corporation. The SEC approved the change of the Parent Company's name on November 5, 2010.

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 (TPSCs, see Note 48).

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 being the investment holding company of its wholly owned subsidiaries, namely GCGI, BGI and ULGEI. It also has a 0.01% stake in EDC Chile Limitada.

GCGI is a special-purpose company incorporated on June 22, 2009 that participated in the bid for another local power plant. 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.

BGI is a special-purpose company incorporated on April 7, 2010 to participate in the bid for another local power plant. BGI won the bid by submitting the highest offer price on May 5, 2010 as discussed in Note 5.

EWEHI is a holding company incorporated on April 15, 2010.

EBWPC is a company incorporated on April 13, 2010 to carry on the general business of generating, transmitting, and/or distributing energy.

ULGEI is a company incorporated on June 23, 2010 to carry on the general business of generating, transmitting, and/or distributing energy.

EDC Chile Limitada is a limited liability company incorporated on February 11, 2010 in Santiago, Chile with the purpose of exploring, evaluating and extracting any mineral or substance to generate geothermal energy.

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

The consolidated financial statements were reviewed and recommended for approval by the Audit and Governance Committee to the Board of Directors (BOD) on February 22, 2011. The same consolidated financial statements were also approved and authorized for issuance by the BOD on March 15, 2011.

2. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for parts and supplies inventories that have been measured at lower of cost or net realizable value and derivative instruments and AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso (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 accordance 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 accounting standards that became effective beginning January 1, 2010.

- PFRS 3, *Business Combinations (Revised)*, and Philippine Accounting Standards (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. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions. The Company's acquisition of Bacon-Manito (Bac-Man) Geothermal Power Plants in 2010 was accounted for using PFRS 3 (Revised) (see Note 5).

Adoption of the following changes in standards and Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) interpretations did not have any significant impact on the Company's financial statements.

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*
- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

Improvements to PFRS
In May 2008 and April 2009, the International Accounting Standards Board (IASB) issued omnibus amendments to the following standards, primarily with a view of removing inconsistencies and clarify wording. The adoption of the following amendments resulted in changes to accounting policies but did not have significant impact on the financial position and performance of the Company.

- PFRS 8, *Operating Segments*, 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. As the Company's chief operating decision maker does review segment assets and liabilities, the Company has continued to disclose this information in Note 6.

- PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. Certain items related to Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (IFRIC 12), in the consolidated statements of cash flows have been restated to conform to this improvement in PAS 7. The restatement resulted in the decrease in net cash flows from operating activities by ₱541.46 million and ₱932.25 million in 2009 and 2008, respectively.

Other amendments resulting from the Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Company.

Issued in May 2008
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*

Issued in April 2009
- PFRS 2, *Share-based Payment*
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

3. Significant Accounting Judgments, Estimates and Assumptions

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 Peso, United States dollar (US$), and Japanese yen (JP¥). 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 IFRIC 12 up to October 22, 2009, the Company had made a judgment that its GSCs (see Notes 37 and 38) were within the scope of IFRIC 12 primarily because the grantor controls the significant residual interest over the steam fields, power plants and related facilities at the end of the concession period.

The Company also made a judgment that the GSCs for Tongonan, Leyte; Palinpinon, 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 Notes 37 and 38), 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 fields, 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 steam fields, 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 12).

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.

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 Notes 37 and 38). 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 (see Note 47).

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 44 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.

The classification of financial assets and financial liabilities of the Company are presented in Note 35.

Operating Leases
The PPAs and SSAs of the Company qualify as a lease on the basis that the Company sells all its outputs to NPC/PSALM and, in the case of the SSAs, the agreement calls for a take-or-pay arrangement where payment is made principally on the basis of the availability of the steam field facilities and not on actual steam deliveries. This type of arrangements is determined to be an operating lease where a significant portion of the risks and benefits of ownership of the assets are retained by the Company since it does not include transfer of the Company's assets. Accordingly, the steam field facilities and power plant assets are recorded as part of the cost of property, plant and equipment and the capacity fees billed to NPC/PSALM are recorded as operating revenue based on the terms of the PPAs and SSAs.

The Company has also entered into commercial property leases where it has determined that the lessor retains all the significant risks and rewards of ownership of these properties and has classified the leases as operating leases (see Note 44).

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. The specific allowance 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 are ₱4,603.05 million as of December 31, 2010 and ₱5,487.25 million as of December 31, 2009. The total amount of impairment losses recognized in 2010, 2009 and 2008 amounted to ₱23.41 million, ₱0.19 million and ₱15.62 million, respectively (see Notes 8, 15 and 25).

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, see Notes 37 and 38) were no longer accounted for under IFRIC 12. Accordingly, the Company recognized the steam fields, power plants and related infrastructure assets that were previously accounted for as concession receivables and intangible assets arising from service concession arrangements, and their estimated useful lives are as follows:

	Number of Years
Power plants	15–30
Production wells	10–40
Fluid Collection and Recycling System (FCRS)	13–20
Buildings, improvements and other structures	5–35
Exploration, machinery and equipment	2–25
Transportation equipment	5–10
Furniture, fixtures and 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 amount of the property, plant and equipment amounted to ₱56,679.16 million and ₱56,980.71 million as of December 31, 2010 and 2009, respectively (see Note 12). The carrying amount of water rights amounted to ₱2,007.99 million and ₱2,104.18 million as of December 31, 2010 and December 31, 2009, respectively (see Note 13).

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, 2010 and 2009 amounted to ₱2,577.44 million and ₱1,946.88 million, respectively (see Note 10). Parts and supplies for disposal amounting to ₱106.21 million were written down to zero net realizable value in 2009 (see Notes 10 and 25).

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. As of December 31, 2010 and 2009, the carrying amount of capitalized exploration and evaluation costs

amounted to ₱1,170.41 million and ₱1,038.05 million, respectively (see Note 14). The Company has written off ₱83.53 million exploration and evaluation assets in 2009 (see Notes 14 and 30).

Acquisition of Power Plants and Estimation of Fair Value of Identifiable Net Assets of an Acquiree in a Business Combination
On September 2, 2009, GCGI acquired the Palinpinon and Tongonan power plants and accounted for the acquisition in accordance with PFRS 3 which was the applicable standard for business combination before the adoption of PFRS 3 (Revised) in 2010; and on May 5, 2010, BGI acquired Bac-Man power plants which were accounted for in accordance with PFRS 3 (Revised), under which these acquisitions fall within the definition of a business combination.

In accounting for business combinations, the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. The determination of fair values requires estimates of economic conditions and other factors. Transactions qualified as business combinations are discussed in Note 5.

Retirement and Other Post-employment Benefits
The cost of defined benefit retirement plan and other post-employment 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 and other post-employment benefits liability as of December 31, 2010 and 2009 was ₱1,307.14 million and ₱1,237.10 million, respectively. The detailed information with respect to the Company's retirement and other post-employment benefits is presented in Note 31 to the consolidated financial statements.

Provision for Dismantlement, Removal and Restoration Costs
In 2009, with the conversion of its GSCs to GRESCs, the Company has made a judgment that the GRESCs are subject to the 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 and, accordingly, has not recognized any provision as of December 31, 2010 and 2009.

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. As of December 31, 2010 and 2009, provision for these liabilities, included under "Trade and other payables" account, amounted to ₱805.11 million and ₱406.02 million, respectively (see Notes 17 and 44).

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.

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 loss on AFS investments amounting to ₱3.33 million was recognized in 2009 and nil in 2010 and 2008 (see Notes 9, 30 and 35). The total carrying amount of current and noncurrent AFS investments was ₱725.69 million and ₱750.20 million as of December 31, 2010 and 2009, respectively (see Notes 9, 15 and 35).

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 input VAT claims for refund) 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 (CGU) 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 NNGP 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 were 4% and 5% in 2010 and 2009, respectively, which do not exceed the average annual demand growth of 5% and 6% in 2010 and 2009, respectively, for the Visayas power industry market where the unit operates. The pre-tax discount rate used were 10.24% in 2010 and 10.28% in 2009 computed based on the CGU's weighted average cost of capital.

Based on the foregoing, the Company recorded an impairment loss of ₱3,390.0 million in 2010, ₱349.0 million in 2009 and nil in 2008 for NNGP's property, plant and equipment. The impairment loss in 2010 and 2009 were recorded under the "Operations and maintenance expenses" account in the consolidated statements of income (see Notes 12 and 24).

The carrying amount of property, plant and equipment as of December 31, 2010 and 2009 was ₱56,679.16 million and ₱56,980.71 million, respectively (see Note 12). The carrying amount of water rights as of December 31, 2010 and 2009 was ₱2,007.99 million and ₱2,104.18 million, respectively (see Note 13). The carrying amount of input VAT claims for refund as of December 31, 2010 and 2009 was ₱603.01 million and ₱489.59 million, respectively (see Note 15).

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 CGUs to which goodwill is allocated. Estimating value in use requires the Company to estimate the expected future cash flows from the CGUs 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 and GCGI covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10.65% in 2010 and 9.78% in 2009 for FG Hydro and 10.79% for GCGI. The cash flows beyond the remaining term of the existing agreements are extrapolated using growth rates of 4.20% and 4.70% for the years ended December 31, 2010 and 2009, respectively, for FG Hydro and 4% for GCGI.

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 CGU. 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 CGU for which future estimates of cash flows have not been adjusted.

No impairment loss on goodwill was recognized in the consolidated financial statements in 2010, 2009 and 2008. The carrying value of goodwill as of December 31, 2010 and 2009 amounted to ₱2,535.05 million (see Note 13).

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 ₱2,024.93 million and ₱2,400.50 million as of December 31, 2010 and 2009, respectively (see Note 32).

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.

The Company's construction revenue amounted to nil in 2010, ₱541.46 million in 2009 and ₱932.25 million in 2008.

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 35).

4. Summary of Significant Accounting Policies

Basis of Consolidation
Basis of consolidation starting January 1, 2010
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 of each year.

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 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.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary, carrying amount of any non-controlling interest (including any attributable components of other comprehensive income recorded in equity), and recognizes the fair value of the consideration received, fair value of any investment retained, and any surplus or deficit recognized in the consolidated statement of income. The Company also reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2010
The above-mentioned requirements were applied on a prospective basis. The difference, however, is carried forward in certain instances from the previous basis of consolidation. Losses incurred by the Company were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the Parent Company, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interests and the equity holders of the Parent Company.

The accounts of FG Hydro have been included in the 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).

Non-controlling 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 Company. Acquisitions of non-controlling interests are accounted for as an equity transaction.

Business Combinations and Goodwill

Business combinations starting January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Company acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Business combinations prior to January 1, 2010

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. This involved recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of income any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Company's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different on the date of each exchange transaction. Any adjustments to those fair values relating to previously held interests of the Company is a revaluation to be accounted for as such and presented separately as part of equity. If the revaluation relates directly to an identifiable fixed asset, the revaluation will be transferred directly to retained earnings when the asset is derecognized in whole through disposal or as the asset concerned is depreciated or amortized.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset

Foreign Currency Translation of Foreign Operations

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. Each entity or subsidiary in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange prevailing at reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences between the rate at transaction date and the rate at settlement date or reporting date are credited to or charged against current operations.

The functional currencies of the Company's subsidiaries are Peso except for EDC Chile Limitada which is in Chilean peso. For subsidiaries whose functional currency is different from the presentation currency, the Company translates the results of their operations and financial position into the presentation currency. As at the reporting date, the assets and liabilities presented (including comparatives) are translated into the presentation currency at the closing rate of exchange prevailing at the reporting date while the capital stock and other equity balances are translated at historical rates of exchange. The income and expenses for the consolidated statement of income presented (including comparatives) are translated at the exchange rates at the dates of the transactions, where determinable, or at the weighted average rate of exchange during the year. The exchange differences arising on the retranslation to the presentation currency are recognized as a separate component of equity under the "Cumulative translation adjustment" account in the consolidated statement of financial position.

Foreign Currency-Denominated Transactions

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the functional currency rate of exchange as at financial reporting date. All differences are taken to the 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 original maturities of three months or less from dates of acquisition 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 taxes 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 12 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 the invoice amount, net of trade and cash discounts. Cost is calculated using the moving average method. Net realizable value represents the current replacement cost.

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
	(in years)	
Power plants	–	15-30
Production wells	–	10-40
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 and equipment	3-10	3-10
Laboratory equipment	5-10	5-10

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, and the date the asset is derecognized.

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.

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, *Revenue*, 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 reporting date.

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

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 on intangible assets arising from service concession arrangements and on water rights is recognized under depreciation and amortization in the consolidated statement of income.

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 starting October 23, 2009 and to either intangible asset or concession receivable at its fair value at the date of reclassification prior to October 23, 2009.

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Non-financial assets include property, plant and equipment, intangible assets arising from service concession arrangements, water rights and input VAT claims for refund. 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 CGU'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 CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs 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 every December 31 of each year.

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 market place. Derivatives are also recognized on a trade date basis.

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments 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.

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 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 and liabilities are part of a group of financial assets, financial liabilities, or both, 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 derivative liabilities (see Note 35).

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company has the positive intention and ability to hold to maturity. Where the Company sells other 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 effect of restatement of foreign-currency denominated HTM investments are also recognized in the consolidated statement of income.

The Company has no HTM investments as of December 31, 2010 and 2009.

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, and long-term receivables (see Notes 7, 8, 15 and 35).

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.

After initial measurement, AFS investments 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 equity are recognized in the consolidated statement of 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 35).

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities, which include loan payable, trade and other payables, due to related parties, long-term debts and royalty fee payable (see Notes 16, 17, 18, 19, 22 and 35) 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 rate 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 Assets

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 individually and 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 reporting 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 comprehensive income.

In the case of debt instruments classified as AFS investments, 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.

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.

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.

Retirement and Other Post-employment Benefits
The Company maintains a funded, non-contributory defined benefit retirement plan. The Company also provides post-employment 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. 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 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 “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 economic benefits 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. Capital stock includes common stock and preferred stock.

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 debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an 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 the "Retained earnings" account.

Common Shares in Employee Trust Account
Common shares in the employee trust account, 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.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

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.

Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

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 balance sheet 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 benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient taxable profits 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 sufficient taxable profits 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 profits will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits 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 other comprehensive income is recognized in consolidated statement of comprehensive income 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 noncurrent 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, 2010 and 2009, 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
Events after the financial reporting period that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the financial reporting period 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 and interpretations and assess their impact when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these standards and interpretations to have significant impact on its financial statements.

Effective in 2011

- PAS 24, *Related Party Disclosures (Amended)*
  The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*
  The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14 (Amendment) - *Prepayments of a Minimum Funding Requirement*
  The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19 - *Extinguishing Financial Liabilities with Equity Instruments*
  Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in consolidated statement of income.

Effective in 2012

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*
  The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012, provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

- 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.

Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as

defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Improvements to PFRS (issued in May 2010)

Improvements to IFRS is an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Company expects no impact on the consolidated financial statements from the adoption of the following amendments:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

5. Business Combinations

Acquisition of Bac-Man Geothermal Power Plants
On May 5, 2010, BGI submitted the highest offer price of US$28.25 million for the 150 MW Bac-Man Geothermal Power Plants in a competitive bidding conducted by Power Sector Assets and Liabilities Management Corporation (PSALM).

Located in Bacon, Sorsogon City and Manito, Albay in the Bicol region, the Bac-Man plant package consists of two steam plant complexes. The Bac-Man I geothermal facility comprises two 55 MW turbines, which were both commissioned in 1993. Bac-Man II, on the other hand, consists of two 20 MW units namely, the Cawayan located in Barangay Basud and the Botong in Osiao, Sorsogon City. The Cawayan unit was commissioned in 1994 and the Botong unit in 1998. EDC supplies the steam that fuels these plants.

On September 3, 2010, BGI remitted to PSALM the amount of ₱1,279.73 million representing the full payment of the Bac-Man power plants acquisition. This acquisition was accounted for using PFRS 3 (Revised).

The provisional fair values of the identifiable assets and liabilities that were recognized on acquisition date are as follows:

Property, plant and equipment	₱1,279,725,000
Liabilities	–
Net assets	1,279,725,000
Percentage of ownership acquired	100%
Share in the net assets acquired	1,279,725,000
Provisional goodwill arising from acquisition	–
Total acquisition cost	₱1,279,725,000

The net assets recognized in the December 31, 2010 financial statements were based on a provisional assessment of 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 asset and contingent liability. 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, fair values recognized on acquisition date were based on the actual purchase price.

The net loss of BGI from the acquisition date until December 31, 2010 amounted to ₱32.47 million, which has been included in the Company's results of operations in 2010. The net income (loss) of Bac-Man Geothermal Power Plants for the year ended December 31, 2010, as though the acquisition date for the business combination had been as of January 1, 2010, is impracticable to determine since the Company has no access to PSALM's records.

The Bac-Man Geothermal Power Plants are currently under rehabilitation to restore capacity and reliability.

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 PSALM where GCGI submitted the highest complying financial bid of US$220 million. This acquisition was accounted for using PFRS 3 which was the applicable standard for business combination before the adoption of PFRS 3 (Revised) in 2010.

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 (US$82.55 million) representing 40% of the purchase price plus ₱0.33 billion (US$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 (US$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 US$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 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 Peso. GCGI has remitted to PSALM the total amount of ₱5.8 billion representing the Peso equivalent of the outstanding principal and accrued interest of the loan.

The provisional and final fair values of the identifiable assets and liabilities that were recognized on acquisition date are as follows:

	Provisional Fair Values	Final Fair Values
Property, plant and equipment	₱10,160,105,505	₱7,281,444,330
Parts and supplies inventories	–	393,076,163
Deferred tax assets	–	249,081,716
Prepaid expenses	5,232,152	–
Liabilities	–	–
Net assets	10,165,337,657	7,923,602,209
Percentage of ownership acquired	100%	100%
Share in the net assets acquired	10,165,337,657	7,923,602,209
Goodwill arising from acquisition	–	2,241,735,448
Total acquisition cost	₱10,165,337,657	₱10,165,337,657

The valuation of the Palinpinon and Tongonan Geothermal Power Plants, which were acquired by GCGI, including the identification and valuation of any other identifiable assets was finalized in September 2010. Thus, the consolidated financial statements as of and for the year ended December 31, 2009 were restated to reflect the final fair values of the net assets acquired based on the purchase price allocation. Accordingly, the effects on the depreciation expense and related deferred income tax resulted to a reduction in the retained earnings as of December 31, 2009 by ₱11.3 million.

The net income of GCGI from the acquisition date until December 31, 2009 amounted to ₱48.18 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 112 MW 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.

On October 20, 2008, the Parties executed a First Supplement to the SPIA in which it was agreed that the issuance of the Preferred Shares to First Gen shall be deferred pending finalization of the features of the Preferred Shares. As of March 15, 2011, the BOD of EDC and FG Hydro have agreed to amend the features of the Preferred Shares covered by the First Supplement to the SPIA. With this amendment, FG Hydro has yet to submit its application to amend its Articles of Incorporation to the Philippine SEC.

The transaction was accounted for similar to a pooling-of-interests method since First Gen controlled FG Hydro and EDC before and after the execution of the transaction in the SPIA. Accordingly, 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). This also resulted to recognition of equity reserve amounting to ₱3,706.43 million as of December 31, 2007.

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 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 and GCGI's sales to various NPC-assigned and new 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.

Segment performance is evaluated based on net income (loss) for the year and earnings before interest, taxes, and depreciation and amortization (EBITDA). Net income (loss) for the year is measured consistent with consolidated net income (loss) in the consolidated financial statements. EBITDA is calculated as total revenues minus total operating expenses except non-cash items such as depreciation and amortization, impairment loss on property, plant and equipment of NNGP, and loss on disposal of property, plant and equipment of a subsidiary among others.

NPC is the main customer for the electricity segment which comprised 59.78% of the total electricity revenue in 2010 and the only external customer for the steam segment. Central Negros Electric Cooperative, Inc. (CENECO) is also an external customer for the electricity segment which comprised 9.95% of the total electricity revenue in 2010.

Financial information on the operating segments are summarized as follows:

	Electricity	Steam	All Others	Eliminations	Total
Year Ended December 31, 2010					
Segment revenue from external customers	**₱22,944,227,877**	**₱1,208,696,413**	**₱748,691,558**	**₱–**	**₱24,901,615,848**
Intersegment revenue	**243,331,926**	**5,297,367,214**	**–**	**(5,540,699,140)**	**–**
Total segment revenue	**23,187,559,803**	**6,506,063,627**	**748,691,558**	**(5,540,699,140)**	**24,901,615,848**
Segment expenses	**(20,043,936,340)**	**(3,424,191,753)**	**(502,931,313)**	**5,540,699,140**	**(18,430,360,266)**
Segment results	**₱3,143,623,463**	**₱3,081,871,874**	**₱245,760,245**	**₱–**	**6,471,255,582**
Unallocated segment expenses					**(17,498,085)**
Unallocated interest income					**347,695,016**
Unallocated interest expense					**(3,708,457,266)**
Unallocated other income - net					**2,079,265,333**
Unallocated income taxes					**(777,184,715)**
Net income					**₱4,395,075,865**
EBITDA	**₱10,142,991,914**	**₱3,372,419,841**	**₱249,971,521**	**₱–**	**₱13,765,383,276**
Unallocated expenses					**(17,475,297)**
					₱13,747,907,979

	Electricity	Steam	All Others	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	(9,460,016,440)	(3,369,878,868)	(1,273,503,000)	800,393,768	(13,303,004,540)
Segment results	₱7,275,354,852	₱1,372,685,717	₱115,834,568	₱–	8,763,875,137
Unallocated segment expenses					(14,001,207)
Unallocated interest income					402,950,235
Unallocated interest expense					(2,887,155,929)
Unallocated other income - net					1,001,769,464
Unallocated income taxes					(3,910,473,976)
Net income					₱3,356,963,724
EBITDA	₱9,018,305,160	₱1,528,102,828	₱179,407,867	₱–	₱10,725,815,855
Unallocated expenses					(13,965,090)
					₱10,711,850,765

	Electricity	Steam	All Others	Eliminations	Total
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)
Segment results	₱9,068,414,350	₱1,880,963,441	₱245,610,148	₱–	11,194,987,939
Unallocated segment expenses					(11,509,545)
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					₱1,345,275,250
EBITDA	₱9,111,719,785	₱1,397,098,529	₱261,395,317	₱–	₱10,770,213,631
Unallocated expenses					(11,500,941)
					₱10,758,712,690

**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 Others	Eliminations	Total
As of and for the year ended December 31, 2010					
Segment assets	**₱61,887,182,131**	**₱8,739,317,275**	**₱1,477,083,683**	**₱–**	**₱72,103,583,089**
Unallocated corporate assets					**9,200,009,773**
Total assets					**₱81,303,592,862**
Segment liabilities	**₱29,974,801,728**	**₱14,735,627,501**	**₱1,375,234,436**	**₱–**	**₱46,085,663,665**
Unallocated corporate liabilities					**2,978,948,140**
Total liabilities					**₱49,064,611,805**
Capital expenditure	**₱4,960,911,113**	**₱1,916,413,339**	**₱125,180,894**	**₱–**	**₱7,002,505,346**
Unallocated capital expenditure					**91,205,270**
Total capital expenditure					**₱7,093,710,616**
Depreciation and amortization	**(₱3,165,734,160)**	**(₱275,082,901)**	**(₱4,164,781)**	**₱–**	**(₱3,444,981,842)**
Unallocated depreciation and amortization					**(22,788)**
Total depreciation and amortization					**(₱3,445,004,630)**
Impairment loss	**₱3,390,000,000**	**₱–**	**₱–**	**₱–**	**₱3,390,000,000**
Other non-cash items	**(₱3,640,935,233)**	**(₱181,051,208)**	**(₱4,297,625)**	**₱–**	**(₱3,826,284,066)**
Unallocated non-cash items					**1,689,402,806**
Total other non-cash items					**(₱2,136,881,260)**

	Electricity	Steam	All Others	Eliminations	Total
As of and for the year ended December 31, 2009					
Segment assets	₱69,975,632,763	₱1,027,087,909	₱3,899,590,505	₱–	₱74,902,311,177
Unallocated corporate assets					9,861,300,044
Total assets					₱84,763,611,221
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					54,443,075,721
Capital expenditure	₱8,321,548,001	₱793,544,660	₱1,279,879,950	₱–	10,394,972,611
Unallocated capital expenditure					107,852,469
Total capital expenditure					₱10,502,825,080
Depreciation and amortization	(₱1,092,040,155)	(₱64,668,917)	(₱54,667,201)	₱–	(₱1,211,376,273)
Unallocated depreciation and amortization					(36,117)
Total depreciation and amortization					(₱1,211,412,390)
Impairment loss	(₱349,000,000)	₱–	₱–	₱–	(₱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
Total other non-cash items					(₱295,543,173)

The following table shows the Company's reconciliation of EBITDA to the consolidated net income for the years ended December 31, 2010, 2009 and 2008.

	2010	2009	2008
EBITDA	**₱13,747,907,979**	₱10,711,850,765	₱10,758,712,690
Add (Deduct):			
Depreciation and amortization	**(3,445,004,630)**	(1,211,412,390)	(675,803,008)
Impairment loss on property, plant and equipment of NNGP	**(3,390,000,000)**	(349,000,000)	–
Loss on disposal of property, plant and equipment of a subsidiary	**(398,927,321)**	(273,575,293)	–
Net reduction in allowance (provision) for doubtful accounts	**(75,257,592)**	(21,782,506)	1,100,568,712

(Forward)

	2010	2009	2008
Reduction in allowance for/write-off of (provision for) impairment of parts and supplies inventories	**₱15,039,061**	(₱106,206,646)	₱–
Interest income	**347,695,016**	402,950,235	332,562,785
Interest expense	**(3,708,457,266)**	(2,887,155,929)	(2,152,523,656)
Foreign exchange gains (losses) - net	**(13,871,472)**	1,291,239,839	(9,357,131,312)
Derivatives gain (loss) - net	**436,998,854**	(198,809,759)	420,019,743
Revenue from arbitration award	**–**	–	2,067,343,343
Provision for income tax	**(777,184,715)**	(3,910,473,976)	(1,307,548,937)
Miscellaneous - net	**1,656,137,951**	(90,660,616)	159,074,890
Consolidated net income	**₱4,395,075,865**	₱3,356,963,724	₱1,345,275,250

The Parent Company has intersegment revenue from/to GCGI for the sale of steam/electricity. Intersegment revenues are all eliminated in consolidation. Segment information is measured in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements. Intersegment revenue are made at normal commercial terms and conditions.

Unallocated expenses pertain to expenses of the corporate, technical and administrative support groups while unallocated corporate assets and liabilities which include among others certain cash and cash equivalents, property, plant and equipment, parts and supplies inventories, trade and other payables and retirement and post-retirement benefits, pertain to the Head Office and are managed on a group basis.

7. Cash and Cash Equivalents

	2010	2009
Cash on hand and in banks	**₱425,895,226**	₱259,974,540
Cash equivalents	**5,732,029,906**	10,960,922,617
	₱6,157,925,132	₱11,220,897,157

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 ₱318.28 million in 2010, ₱324.39 million in 2009 and ₱220.97 million in 2008 (see Note 35).

8. Trade and Other Receivables

	2010	2009
Trade (Note 15)	**₱4,449,033,196**	₱5,316,014,965
Others:		
Non-trade accounts receivable	**73,070,811**	77,268,776
Loans and notes receivables	**61,297,851**	67,573,603
Advances to employees	**30,389,460**	20,826,816

(Forward)

	2010	2009
Employee receivables	**₱18,728,878**	₱14,998,506
Claims receivables	**133,971**	161,218
Total other receivables	**183,620,971**	180,828,919
	4,632,654,167	5,496,843,884
Less allowance for doubtful accounts	**30,606,792**	9,597,882
	₱4,602,047,375	₱5,487,246,002

Trade receivables are non-interest-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 on trade receivables as presented below is based on specific impairment.

	2010	2009
Balance at beginning of year	**₱9,597,882**	₱11,780,063
Provision for doubtful accounts (Note 25)	**21,008,910**	–
Recoveries (Note 25)	**–**	(2,182,181)
Balance at end of year	**₱30,606,792**	₱9,597,882

9. AFS Investments

	2010	2009
Current:		
Quoted government debt securities	**₱707,524,992**	₱734,811,000
Noncurrent (Note 35):		
Quoted equity securities	**₱18,091,803**	₱15,313,878
Unquoted equity securities	**74,550**	74,550
	₱18,166,353	₱15,388,428

The current AFS investments consist of government debt securities, specifically Republic of the Philippines (ROP) bonds with maturities between 2013 to 2016 as of December 31, 2010 and 2009. Such bonds were acquired at a discount and bear interest between 7.25% to 9% in 2010 and 2009.

The noncurrent AFS investments amounting to ₱18.17 million and ₱15.39 million as of December 31, 2010 and 2009, respectively, are included under the "Other noncurrent assets - others" account in the consolidated statements of financial position (see Note 15).

The movements of gain or loss related to the foregoing investments are presented in the consolidated statements of comprehensive income with details as follows:

	2010	2009	2008
Net accumulated unrealized gain on AFS investments at beginning of year	**₱113,177,323**	₱30,826,354	₱368,549,253
Changes in fair value recognized in equity (Note 35)	**6,541,474**	79,022,336	(291,399,507)
Impairment loss on AFS investments removed from equity and recognized in profit or loss (Notes 30 and 35)	–	3,328,633	–
Net unrealized gain removed from equity and recognized in profit or loss (Notes 30 and 35)	–	–	(46,323,392)
	6,541,474	82,350,969	(337,722,899)
Net accumulated unrealized gain on AFS investments at end of year	**₱119,718,797**	₱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 debt and equity instruments.

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 are transferred to the consolidated statement of income.

10. Parts and Supplies Inventories

	2010	2009 (Restated, Note 5)
On hand:		
Drilling tubular products and equipment spares	**₱784,091,559**	₱632,635,671
Power plant spares	**434,541,821**	480,925,825
Chemical, chemical products, gases and catalyst	**378,798,354**	265,694,829
Pump, production/steam gathering system, steam turbine, valves and valve spares	**378,024,500**	135,793,178
Electrical, cable, wire product and compressor spares	**102,394,673**	87,011,228
Automotive, mechanical, bearing, seals, v-belt, gasket, tires and batteries	**92,344,107**	94,907,958
Heavy equipment spares	**51,758,570**	54,416,254
Measuring instruments, indicators and tools, safety equipment and supplies	**50,870,815**	71,243,316

(Forward)

	2010	2009 (Restated, Note 5)
Construction and hardware supplies, stationeries and office supplies, hoses, communication and other spares and supplies	**₱29,463,704**	₱22,741,436
	2,302,288,103	1,845,369,695
In transit	**275,154,724**	101,509,955
	₱2,577,442,827	₱1,946,879,650

Inventories in transit include items not yet received but ownership or title to the goods have already passed to the Company.

Other than parts and supplies for disposal which are carried at zero net realizable value with cost amounting to ₱91.01 million and ₱106.21 million as of December 31, 2010 and 2009, respectively, the other parts and supplies inventories are carried at cost, which is lower than their net realizable values as of December 31, 2010 and 2009. The amount of inventory charged to expense amounted to ₱894.75 million in 2010, ₱1,327.01 million in 2009 and ₱1,128.77 million in 2008 (see Notes 24 and 25).

11. Other Current Assets

	2010	2009
Tax credit certificates (Notes 15 and 30)	**₱300,000,000**	₱–
Withholding tax certificates	**254,743,755**	53,645,782
Prepaid expenses	**122,179,796**	69,309,011
Advances to contractors	**33,178,432**	16,422,345
Others	**23,695,301**	1,621,413
	₱733,797,284	₱140,998,551

12. Property, Plant and Equipment

	2010										
	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											
Balances at January 1, 2010, as previously reported	₱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
Purchase Price Allocation Adjustment (Note 5)	(2,371,304,218)	–	(260,474,935)	(36,829,233)	137,700	3,594,776	(219,017,417)	–	–	–	(2,883,893,327)
Balances at January 1, 2010, as restated	32,819,925,675	14,407,980,612	4,277,603,274	3,615,826,830	77,916,278	422,120,327	201,428,804	333,082,705	86,852,124	3,449,685,161	59,692,421,790
Acquisition through business combination (Note 5)	–	–	–	–	–	–	–	–	–	1,279,725,000	1,279,725,000
Additions	120,898,606	–	77,126,525	246,843,928	13,414,527	88,905,171	53,170,073	841,846	30,858,430	5,183,251,812	5,815,310,918
Retirements/Write-off (Note 24)	(451,492,400)	–	(66,310,776)	(16,453,349)	(21,174,438)	(18,700,917)	(5,057,652)	–	3,405,825	–	(575,783,707)
Reclassifications	4,118,020,678	2,984,160,534	(2,489,827,076)	(42,376,907)	(2,915,952)	3,360,326	206,880,245	–	(68,086,300)	(4,814,934,685)	(105,719,137)
Balances at December 31, 2010	36,607,352,559	17,392,141,146	1,798,591,947	3,803,840,502	67,240,415	495,684,907	456,421,470	333,924,551	53,030,079	5,097,727,288	66,105,954,864
Accumulated Depreciation and Impairment											
Balances at January 1, as previously reported	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
Purchase Price Allocation Adjustment (Note 5)	24,679,917	–	(4,105,168)	(1,958,690)	7,650	206,003	(6,244,929)	–	–	–	12,584,783
Balances at January 1, as restated	453,898,777	326,670,521	597,267,399	1,044,814,617	56,220,762	179,028,770	53,812,263	–	–	–	2,711,713,109
Depreciation for the year	2,212,876,258	645,100,713	98,887,909	276,606,163	6,202,475	68,386,772	40,753,183	–	–	–	3,348,813,473
Impairment - NNGP (Notes 3 and 24)	1,105,150,535	2,284,849,465	–	–	–	–	–	–	–	–	3,390,000,000
Retirements/Write-off (Note 24)	(90,905,093)	–	(26,841,654)	(15,826,915)	(20,893,155)	(14,871,292)	(5,057,596)	–	–	–	(174,395,705)
Reclassifications	373,635,711	–	(381,686,981)	157,034,864	1,128,785	554,650	(5,644)	–	–	–	150,661,385
Balances at December 31, 2010	4,054,656,188	3,256,620,699	287,626,673	1,462,628,729	42,658,867	233,098,900	89,502,206	–	–	–	9,426,792,262
Net Book Value	₱32,552,696,371	₱14,135,520,447	₱1,510,965,274	₱2,341,211,773	₱24,581,548	₱262,586,007	₱366,919,264	₱333,924,551	₱53,030,079	₱5,097,727,288	₱56,679,162,602

	2009 (Restated, Note 5)										
	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											
Balances 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 (Note 5)	6,784,860,175	–	54,487,003	107,298,526	137,700	3,594,776	10,945,660	–	–	320,120,490	7,281,444,330
Additions	–	–	74,855,254	1,273,742,920	700,000	26,127,652	25,671,715	285,682	33,297,159	1,786,700,368	3,221,380,750
Retirements/Write-off (Note 24)	–	–	(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 (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
Balances at December 31, 2009	32,819,925,675	14,407,980,612	4,277,603,274	3,615,826,830	77,916,278	422,120,327	201,428,804	333,082,705	86,852,124	3,449,685,161	59,692,421,790
Accumulated Depreciation and Impairment											
Balances 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	332,031,372	99,537,926	203,279,096	201,549,629	7,589,441	27,944,914	8,373,886	–	–	–	880,306,264
Impairment - NNGP (Notes 3 and 24)	121,867,405	227,132,595	–	–	–	–	–	–	–	–	349,000,000
Retirements/Write-off (Note 24)	–	–	(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
Balances at December 31, 2009	453,898,777	326,670,521	597,267,399	1,044,814,617	56,220,762	179,028,770	53,812,263	–	–	–	2,711,713,109
Net Book Value	₱32,366,026,898	₱14,081,310,091	₱3,680,335,875	₱2,571,012,213	₱21,695,516	₱243,091,557	₱147,616,541	₱333,082,705	₱86,852,124	₱3,449,685,161	₱56,980,708,681

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 corresponding steam fields, 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).

In 2010, the Parent Company engaged third party experts to perform parallel independent assessments of the Northern Negros steam resource development plan and long-term viability and sustainability of the Northern Negros Geothermal Project's steam field. On November 22, 2010, the Parent Company temporary shutdown the power plant and steam field of NNGP while technical studies are being conducted as the survey will need zero disturbance of the reservoir.

The Parent Company evaluates the assets on a CGU basis for any indication of impairment at each reporting date. The Parent Company assessed that there continues to be an indication of impairment for NNGP and, based on its impairment testing, recognized an estimated impairment loss of ₱3,390.0 million in 2010 and ₱349.0 million in 2009 (see Notes 3 and 24). The impairment loss is included under the electricity segment (see Note 6).

In accordance with the Pantabangan Refurbishment and Upgrade Project Contract (PRUP), FG Hydro completed the refurbishment and upgrade of Unit 1 of PAHEP in 2009 and Unit 2 in 2010 (see Note 48). The PRUP provides for the replacement and upgrade of significant parts and equipment of PAHEP. For the years ended December 31, 2010 and 2009, the cost and related accumulated depreciation of the property, plant and equipment that was replaced amounting to ₱398.93 million and ₱273.58 million, respectively, were derecognized and the net book value included in the "Operations and maintenance expense" account in the consolidated statements of income (see Note 24).

There are no property, plant and equipment used as collaterals for loans (see Note 19).

Details of depreciation and amortization charges recognized in the statements of income are shown below:

	2010	2009	2008
Property, plant and equipment	**₱3,348,813,473**	₱880,306,264	₱297,713,889
Intangible assets (Note 13)	**96,191,157**	331,106,126	378,089,119
	₱3,445,004,630	₱1,211,412,390	₱675,803,008
Operations and maintenance	**₱3,236,938,415**	₱1,162,079,964	₱657,075,338
General and administrative expenses	**208,066,215**	49,332,426	18,727,670
	₱3,445,004,630	₱1,211,412,390	₱675,803,008

The reclassifications in the accumulated depreciation and amortization include the capitalized depreciation charges amounting to ₱146.69 million in 2010 under construction in progress which relates to ongoing drilling of wells as of December 31, 2010.

13. Goodwill and Water Rights

	2010		
	Water Rights	**Goodwill**	**Total**
Cost			
Balances at January 1, 2010, as previously reported	**₱2,404,778,918**	**₱293,316,082**	**₱2,698,095,000**
Purchase price allocation adjustment (Note 5)	**–**	**2,241,735,448**	**2,241,735,448**
Balances at January 1, 2010, as restated and December 31, 2010	**2,404,778,918**	**2,535,051,530**	**4,939,830,448**
Accumulated Amortization			
Balances at January 1, 2010	**300,597,365**	**–**	**300,597,365**
Amortization (Note 12)	**96,191,157**	**–**	**96,191,157**
Balances at December 31, 2010	**396,788,522**	**–**	**396,788,522**
Net Book Value	**₱2,007,990,396**	**₱2,535,051,530**	**₱4,543,041,926**

	2009 (Restated, Note 5)			
	Intangible Assets Arising from Service Concessions	Water Rights	Goodwill	Total
Cost				
Balances at January 1, 2009	₱9,835,385,122	₱2,404,778,918	₱293,316,082	₱12,533,480,122
Additions (Note 5)	541,458,209	–	2,241,735,448	2,783,193,657
Reversal arising from conversion of GSCs to GRESCs (Notes 3 and 12)	(10,376,843,331)	–	–	(10,376,843,331)
Balances at December 31, 2009	–	2,404,778,918	2,535,051,530	4,939,830,448
Accumulated Amortization				
Balances at January 1, 2009	446,192,031	204,406,208	–	650,598,239
Amortization (Note 12)	234,914,969	96,191,157	–	331,106,126
Reversal arising from conversion of GSCs to GRESCs (Notes 3 and 12)	(681,107,000)	–	–	(681,107,000)
Balances at December 31, 2009	–	300,597,365	–	300,597,365
Net Book Value	₱–	₱2,104,181,553	₱2,535,051,530	₱4,639,233,083

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 20.9 years and 21.9 years as of December 31, 2010 and 2009, respectively.

Management believes that the intangible assets are not impaired in 2010 and 2009 based on the assessments 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 Parent Company derecognized the intangible assets arising from service concessions and their carrying values as of October 22, 2009 became the beginning balance of property, plant and equipment (see Note 12).

14. Exploration and Evaluation Assets

	2010	2009
Balances at beginning of year	**₱1,038,052,272**	₱999,757,259
Additions	**132,354,843**	121,827,005
Write-off (Notes 3 and 30)	**–**	(83,531,992)
Balances at end of year	**₱1,170,407,115**	₱1,038,052,272

Exploration and evaluation assets are intangible and consist of deferred costs pertaining to the following project areas:

	2010	2009
Cabalian, Southern Leyte	**₱574,378,601**	₱571,460,625
Mindanao	**285,883,658**	284,727,369
Ilocos Norte	**198,656,370**	81,379,857
Dauin, Southern Negros	**54,443,822**	52,387,892
Bac-Man-Rangas/Kayabon	**35,136,713**	35,824,216
Other areas	**21,907,951**	12,272,313
	₱1,170,407,115	₱1,038,052,272

Write-off pertains to plugged and abandoned well which was determined to be unproductive and can no longer be utilized in future activities.

15. Other Noncurrent Assets

	2010	2009
Tax credit certificates (Note 30)	**₱1,338,884,446**	₱–
Input VAT	**1,105,783,755**	657,733,453
Input VAT claims for refund	**681,799,381**	2,408,505,632
Special deposits and funds	**112,373,475**	48,361,874
Long-term receivables	**36,567,506**	35,576,619
Prepaid expenses	**15,532,903**	58,530,604
Others (Note 9)	**61,956,464**	101,340,545
	3,352,897,930	3,310,048,727
Less allowance for doubtful accounts	**114,356,503**	1,954,488,539
	₱3,238,541,427	₱1,355,560,188

Tax credit certificates

The ₱1,338.88 million tax credit certificates (TCC) issued by the Bureau of Internal Revenue (BIR) from May to June 2010 pertains to the Company's input VAT claims on Build-Operate-Transfer (BOT) fees for 1998 and 1999 amounting to ₱1,894.72 million. Such TCCs shall be utilized over a period of four (4) years starting 2012 to 2015 with a cap of ₱300.0 million per year, except in 2015 where the remaining balance will be fully applied. The current portion of tax credit certificates amounting to ₱300.0 million included under "Other current assets" account shall be utilized starting 2011 (see Note 11). The remaining balance of ₱255.84 million which was disallowed by the BIR was written off.

Input VAT claims for refund

The outstanding input VAT claims of ₱681.80 million as of December 31, 2010, pertained to input VAT claims for 2009 (₱168.02 million), 2008 (₱131.62 million), 2007(₱89.10 million) and 2006

(₱293.06 million) which are still pending with the BIR/Court of Tax Appeals (CTA) as of December 31, 2010.

Special deposits and funds
The special deposits and funds mainly consist of escrow account in favor of terminated employees, sinking fund required by the Department of Finance and security deposit of the Company's new office in Ortigas Center, Mandaluyong City (see Note 44).

Long-term receivables
Long-term receivables consist of NPC accounts and other receivables. As discussed in Note 29, 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 consolidated statement of income (see Note 30). Subsequent to the initial recognition, the receivable is accreted to its maturity value based on its effective interest rate. The accretion recognized in 2010, 2009 and 2008 amounted to ₱6.01 million, ₱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:

	2010	2009
Balance at beginning of year	**₱888,922,358**	₱1,813,252,839
Collection during the year	**(894,930,272)**	(1,000,000,000)
Accretion	**6,007,914**	75,669,519
Balance at end of year	**–**	888,922,358
Less current portion	**–**	888,922,358
Noncurrent portion	**₱–**	**₱–**

Allowance for doubtful accounts
The rollforward analysis of the allowance for doubtful accounts pertaining to input VAT claims for refund and long-term receivables is presented below.

	2010			
	Input VAT claims for Refund	**NPC**	**Others**	**Total**
Balances at beginning of year	**₱1,918,911,920**	**₱3,087,482**	**₱32,489,137**	**₱1,954,488,539**
Write-off of uncollectible accounts	**(255,835,548)**	**–**	**–**	**(255,835,548)**
Provision for doubtful accounts (Note 25)	**54,597,072**	**–**	**2,396,749**	**56,993,821**
Recoveries (Note 25 and 30)	**(1,638,884,447)**	**–**	**(2,405,862)**	**(1,641,290,309)**
Balances at end of year	**₱78,788,997**	**₱3,087,482**	**₱32,480,024**	**₱114,356,503**
Specific impairment	**₱78,788,997**	**₱3,087,482**	**₱–**	**₱81,876,480**
Collective impairment	**–**	**–**	**32,480,024**	**32,480,023**
Total	**₱78,788,997**	**₱3,087,482**	**₱32,480,024**	**₱114,356,503**

	2009			
	Input VAT claims for Refund	NPC	Others	Total
Balances at beginning of year	₱1,894,719,994	₱3,500,052	₱62,803,527	₱1,961,023,573
Write-off of uncollectible accounts	–	–	(30,499,721)	(30,499,721)
Provision for doubtful accounts (Note 25)	24,191,926	–	185,331	24,377,257
Recoveries (Notes 25)	–	(412,570)	–	(412,570)
Balances at end of year	₱1,918,911,920	₱3,087,482	₱32,489,137	₱1,954,488,539
Specific impairment	₱1,918,911,920	₱3,087,482	₱–	₱1,921,999,402
Collective impairment	–	–	32,489,137	32,489,137
Total	₱1,918,911,920	₱3,087,482	₱32,489,137	₱1,954,488,539

16. Loan Payable

Loan payable as of December 31, 2010 consists of an unsecured short-term borrowing amounting to ₱175.0 million at 2.20% interest rate per annum obtained from a local bank on December 21, 2010 for the Parent Company's working capital requirements. The loan matured on January 20, 2011and was rolled over for another 29 days, with new maturity date on February 18, 2011, at 2.30% interest rate per annum.

On February 18, 2011, a partial payment was made on the principal amounting to ₱85.0 million and the balance of ₱90.0 million was rolled over for 31 days to mature on March 21, 2011 at 2.30% interest rate per annum.

17. Trade and Other Payables

	2010	2009
Accounts payable	**₱3,931,068,832**	₱2,832,923,865
Accrued interest and guarantee fees (Note 19)	**889,806,777**	923,147,531
Withholding and other taxes payable	**257,346,704**	194,692,777
Deferred credits	**6,446,576**	17,304,418
SSS and other contributions payable	**2,722,658**	8,768,580
Other payables	**36,100,139**	8,216,274
	₱5,123,491,686	₱3,985,053,445

Accounts payable are non-interest-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 19 to the consolidated financial statements.

As of December 31, 2010 and 2009, the Company has ₱6.0 billion and ₱5.77 billion of unused credit facilities from various local banks, respectively, which may be available for future operating activities.

18. **Royalty Fee Payable**

	2010	2009
Due to DOE and Local Government Units (LGUs) (Note 38)	**₱554,783,572**	₱811,004,709
Less current portion	**254,155,199**	244,306,963
Noncurrent portion	**₱300,628,373**	₱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:

	2010	2009
Balance at beginning of year	**₱98,380,719**	₱–
Accretion (Notes 27 and 35)	**(56,102,861)**	(69,904,267)
Additions (Notes 30 and 35)	**–**	168,284,986
Balance at end of year	**₱42,277,858**	₱98,380,719

As discussed in Note 38, 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 Parent 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 noninterest-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 ranged from 1.05% to 2.94% in 2010 and 7.63% to 8.09% in 2009. "Day 1" gain recognized is nil in 2010 and 168.28 million in 2009, 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 (see Note 30). 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 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 (IRR) of the Local Government Code of 1991.

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 2009, royalty fee due shall be paid as it becomes due.

Accretion recognized in 2010, 2009 and 2008 amounted to ₱56.10 million, ₱69.90 million and ₱225.59 million, respectively. These were included under the "Interest expense" account in the consolidated statements of income (see Notes 27 and 35).

Royalty fee expense decreased due to the fiscal incentives availed pursuant to the RE Law which was implemented starting February 1, 2009 retroactive to the effective date of the RE Law on January 30, 2009.

19. Long-term Debts

The Company's foreign-currency denominated long-term loans were translated into Philippine peso based on the prevailing foreign exchange rates as at financial reporting date (US$1=JP¥81.659: US$1=₱43.840 as of December 31, 2010) and (US$1=JP¥91.634: US$1=PH₱46.200 as of December 31, 2009).

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

Creditor/Project	Maturities	Interest Rate	**2010**	2009
International Bank for Reconstruction and Development (IBRD)				
3164 PH Energy Sector Loan				
▪ US$118 million	1995 to 2010	½ of 1% over cost of qualified borrowings	**₱ –**	₱339,700,832
3702 PH Geothermal Exploration Project				
▪ US$64 million	1999 to 2013	½ of 1% over cost of qualified borrowings	–	1,012,141,577
3747 PH Geothermal Exploration Project				
▪ US$114 million	1999 to 2014	½ of 1% over cost of	–	1,189,036,548
▪ JP¥12.4 billion	1999 to 2014	qualified borrowings/3.5%	–	927,908,710
Overseas Economic Cooperation Fund (OECF)				
8th Yen Tongonan I Geothermal Power Plant (share in OECF-NPC loan)				
▪ JP¥5.8 billion	1990 to 2010	3.0%	–	71,833,988
▪ JP¥1.5 billion (Restructured)		3.2%	**57,968,291**	90,731,741
9th Yen Palinpinon I Geothermal Power Plant				
▪ JP¥8.5 billion	1991 to 2011	3.0%	**111,514,839**	314,177,620
15th Yen Palinpinon I Geothermal Power Plant				
▪ JP¥4.0 billion	1999 to 2019	5.7%	–	743,394,119
18th Yen Palinpinon II Geothermal Power Plant				
▪ JP¥77.4 million	2003 to 2023	5.5%	**25,329,677**	25,690,629
19th Yen Mt. Labo Geothermal Project				
▪ JP¥320 million	2004 to 2024	4.9%	**117,356,463**	118,084,138
21st Yen NNGP				
▪ JP¥14.5 billion, of which JP¥5.9 billion was drawn in 2007	2007 to 2027	2.7%/2.3%	**4,505,119,490**	4,487,265,321
Miyazawa II				
▪ JP¥22.0 billion	June 26, 2010	2.37%	–	11,009,849,524
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	**4,034,266,907**	4,026,880,578
Fixed Rate Corporate Note (FRCN)				
▪ ₱2.6 billion	2010-2014	8.3729%	**2,357,049,582**	2,611,270,810
▪ ₱4.9 billion	2010-2016	9.4042%	**4,563,263,831**	4,792,814,858
▪ ₱1.5 billion	2010-2014	8.4321%	**1,336,158,514**	1,480,136,400
Peso Public Bond				
▪ ₱8.5 billion	June 4, 2015	8.6418%	**8,397,293,756**	8,382,949,034
▪ ₱3.5 billion	December 4, 2016	9.3327%	**3,455,439,211**	3,451,657,688
Syndicated Term Loan				
▪ US$175.0 million		LIBOR plus a margin of 325 points	**7,427,718,353**	–

(Forward)

Creditor/Project	Maturities	Interest Rate	2010	2009
Philippine National Bank (PNB) Peso Loan		9.025%	**₱3,372,228,254**	₱–
Allied Bank Peso Loan		9.025%	**1,445,240,680**	–
Deferred payment facility with PSALM			**–**	2,388,974,276
Total			**41,205,947,848**	47,464,498,391
Less current portion			**1,527,248,370**	16,930,776,636
Noncurrent portion			**₱39,678,699,478**	₱30,533,721,755

The long-term debts are presented net of unamortized transaction costs. A rollforward analysis of unamortized transactions costs follows:

	2010	2009
Balance at beginning of year	**₱436,414,307**	₱174,928,940
Addition	**406,519,971**	376,360,871
Amortization (Notes 27 and 35)	**(203,086,285)**	(109,852,266)
Foreign exchange loss (gain) - net	**(13,707,081)**	(5,023,238)
Balance at end of year	**₱626,140,912**	₱436,414,307

Amortization during the year is included under the "Interest expense" account in the consolidated statements of income (see Note 27).

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 US$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 Parent 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 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 Parent 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 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.

In May 2010, the Parent Company fully settled the PNOC on-lent loans (IBRD and 5th yen loans) amounting to ₱4,212.2 million.

In June 2010, the Parent Company signed a three-year US$175.0 million (₱8,058.7 million) syndicated term loan facility with Australia and New Zealand Banking Group Limited (ANZ) Manila Branch, Credit Agricole Corporate and Investment Bank, and Standard Chartered Bank as Mandated Lead Arrangers and Bookrunners. The loan carries an interest of LIBOR plus a margin of 325 basis points.

On June 28, 2010, the Parent Company fully settled its JP¥22.0 billion Miyazawa II loan (₱11,091.97 million).

The loan covenants covering its outstanding debts include, among others, maintenance of certain level of current, debt-to-equity and debt-service ratios. As of December 31, 2010 and 2009, the Parent Company is in compliance with the loan covenants of all its outstanding debts except for the prohibition in issuing any guarantee by the Parent Company and the Financial Debt to EBITDA ratio required by IFC for which the Parent Company has obtained a waiver as discussed below. The Parent Company had satisfactorily met the required Financial Debt to EBITDA ratio of not more than 3.6 in the second quarter of 2010, and, therefore, ends the Temporary Waiver Period of the first waivers.

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$72.0 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.

On the December 21, 2010 letter from the IFC, the IFC has approved the Parent Company's requests for waivers in relation to the issuance of the Regulation-S Unrated US Dollar Bonds. The IFC granted, subject to the terms and conditions, the following waivers on a temporary basis until March 30, 2011:

a. with respect to Section 5.01 (n) (ii) *(Financial Ratios)* of the Loan Agreement, the USD Bonds shall not be included in the calculation of Financial Debt to EBITDA Ratio; and

b. with respect to Section 5.02 (c) (iii) (C) *(Permitted Financial Debt)* of the Loan Agreement, the USD Bonds shall not be included in the calculation of Peak Debt Service Coverage Ratio.

The waivers granted are subject to the condition that the USD Bonds shall be in a total amount not exceeding US$300.0 million.

The temporary waivers granted shall expire automatically on March 30, 2011 and shall have no further effect thereafter, unless such waivers are superseded in the meantime by written amendments entered into by IFC and the Parent Company of the aforesaid provisions of the Loan Agreement. For the avoidance of doubt, upon the expiration of the waivers, the USD Bonds shall henceforth be included in the calculation of Financial Debt to EBITDA Ration and Peak Debt Service Coverage Ratio.

In connection with processing the waivers requested, the Parent Company shall pay to IFC no later than April 15, 2011, an administrative fee of US$0.05 million.

FG Hydro Loan

On October 5, 2006, FG Hydro entered into an 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.

On May 7, 2010, FG Hydro fully paid the balance of the Deferred Payment Facility with part of the proceeds of the PNB and Allied Bank loan.

Details of the deferred payment facility with PSALM are as follows:

	2010		2009	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
		(In Thousands)		
Balance at beginning of year	**$51,709**	**₱2,388,974**	$61,288	₱2,912,405
Payments during the year	**(51,709)**	**(2,299,000)**	(9,579)	(478,795)
Foreign exchange adjustments	–	**(89,974)**	–	(44,636)
Balance at end of year	–	–	51,709	2,388,974
Less current portion	–	–	10,762	497,227
Noncurrent portion	**$–**	**₱–**	$40,947	₱1,891,747

On May 7, 2010, FG Hydro signed a loan agreement for a 10-year ₱5,000.0 million Peso loan with PNB and Allied Bank. The loan is secured by a Real Estate and Chattel mortgages on all present and future mortgageable assets of FG Hydro. The loan carries an interest rate of 9.025% subject to re-pricing after five years. Loan repayment is semi-annual based on increasing percentages yearly as set forth in Schedule 3 of the loan agreement with the first payment made on November 8, 2010. The loan proceeds was used to finance the full payment of the Deferred Payment Facility and the PRUP, and fund general corporate and working capital requirements of FG Hydro.

FG Hydro has been compliant to the covenants of its existing loans as of December 31, 2010.

20. 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.

21. 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 Parent 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 715 common stockholders and one preferred stockholder as of December 31, 2010, 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		
	2010	2009	2008
Preferred stock - ₱0.01 par value per share			
Authorized	**15,000,000,000**	15,000,000,000	7,500,000,000
Issued and outstanding:			
Balance at beginning of year	**9,375,000,000**	7,500,000,000	7,500,000,000
Additional subscriptions	**–**	1,875,000,000	–
Balance at end of year	**9,375,000,000**	9,375,000,000	7,500,000,000
Common stock - ₱1 par value per share			
Authorized	**30,000,000,000**	30,000,000,000	15,000,000,000
Issued:			
Balance at beginning of year	**18,750,000,000**	15,000,000,000	15,000,000,000
Stock dividends - 25%	**–**	3,750,000,000	–
Balance at end of year	**18,750,000,000**	18,750,000,000	15,000,000,000
Outstanding:			
Balance at beginning of year	**18,750,000,000**	14,907,000,000	15,000,000,000
Stock dividends - 25%	**–**	3,750,000,000	–
Issuances	**–**	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

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 Parent Company's common shares, representing approximately four percent of the Parent 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 ended 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. In 2008, the Parent Company 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 BDO Trust for the benefit of the executive/employee grantees under the Parent Company's Employee Stock Grant Plan (ESGP). The 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 dividend. These shares will not revert to EDC even if the planned stock grant plan or other such plan 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 34).

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 May 7, 2010, FG Hydro paid cash dividend to the Company's non-controlling interest amounting to ₱240.0 million.

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, which were paid on May 11, 2009:

- cash dividend of ₱0.0008 per share on the preferred shares totaling ₱6.0 million
- regular cash dividend of ₱0.125 per 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 per share on the preferred shares totaling ₱3.0 million
- regular cash dividend of ₱0.125 per share on the common shares totaling ₱1,875.0 million
- special cash dividend of ₱0.145 per share on the common shares totaling ₱2,175.0 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.

Non-controlling 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 FirstGen amounted to ₱1,250.0 million (₱2.59 per share) in 2008. The said cash dividends are presented as a reduction of non-controlling interest in the 2008 consolidated statement of changes in equity in accordance with the pooling-of-interests method.

22. 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 2010 and 2009:

a. First Balfour, Inc. (First Balfour)

Following the usual bidding process in 2010, the Company awarded to First Balfour procurement contracts amounting to ₱217.67 million for various works such as Palinpinon 1 zero condensate disposal system, Civil, Structural and Mechanical/ Piping Works in Leyte and Bac-Man and refurbishment of BGI's geothermal power plants.

As of December 31, 2010, the outstanding balance of ₱59.88 million recorded under "Due to related parties" account pertained to the accrued progress billings of ₱55.74 million and payment retention of ₱4.14 million until such time the work acceptance certificate is issued.

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 ₱8.70 million per month plus applicable taxes. This was increased to ₱11.80 million per month plus applicable taxes effective

September 2009 to cover the cost of additional officers and staff assigned to the Parent Company. Total consultancy services amounted to ₱170.75 million and ₱130.66 million for the years ended December 31, 2010 and 2009, respectively, and were included in the "Purchased services and utilities" account (see Note 23). In addition, First Gen charged ₱236.40 million in 2010 for the reimbursement of the employee costs of its seconded personnel to the Company and was included in the general and administrative expenses under "Business and related expenses" account (see Note 25). There were no similar charges in 2009 and 2008.

In 2009, 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 of ₱504.14 million under the "Due to related parties" account as of December 31, 2009 was fully settled from April to July 2010.

c. IFC

The Parent Company entered into a loan agreement with the IFC, a shareholder of the Parent Company, on November 27, 2008 for US$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, 2010 and 2009, the outstanding loan amounted to ₱4,034.27 million and ₱4,026.88 million, respectively, net of unamortized transaction costs of ₱65.73 million and ₱73.12 million, respectively, and included under the "Long-term debts" account in the consolidated statements of financial position (see Note 19).

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.

Bauang 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 Holdings, parent company of First Gen, is an associate of Lopez Holdings Corporation (formerly Benpres Holdings Corporation).

Bayan Telecommunications Inc. (Bayantel) is 97.3%-owned by Bayantel Holdings on which Lopez Holdings Corporation has 47.3% ownership.

Sky Cable Corporation (Sky Cable) is 80.72%-owned by ABS-CBN Corp. on which Lopez Holdings Corporation has 57.3% interest.

First Philippine Realty Corp. (FPRC), formerly known as INAEC Development Corp, is a wholly owned subsidiary of First Holdings.

Following are the amounts of transactions and outstanding balances as of and for the years ended December 31, 2010 and 2009:

Related Party	Nature of Transaction	Transactions for the years ended December 31		Net amount due to related parties as of December 31	
		2010	2009	**2010**	2009
First Gen	Interest-bearing advances (payment)	**(₱504,141,759)**	₱440,660,560	**₱–**	₱504,135,656
	Consultancy fee	**170,752,941**	130,656,470	**23,600,000**	–
	Interest-free advances	**254,398,672**	6,639,905	**247,744,841**	2,709,905
First Balfour, Inc.	Steam augmentation and other contracts	**141,279,058**	356,753,986	**59,883,402**	29,438,812
Bauang Private Power Corporation	Acquisition of one unit MVA transformer	**37,641,428**	–	**–**	–
	Interest-free advances (payment)	**–**	(150,286)	**–**	–
First Gas Holdings Corporation	Interest-free advances	**625,750**	491,800	**1,199,850**	574,100
First Gas Power Corporation	Interest-free advances	**4,461**	40,924	**45,385**	150,677
First Private Power Corporation	Acquisition of one unit 1980 CESSNA 340A	**8,000,000**	–	**–**	–
FPRC	Purchase of services and utilities	**5,161,713**	–	**–**	–
Bayantel	Purchase of services and utilities	**5,728,590**	–	**3,169,012**	–
Eugenio Lopez Foundation, Inc.	Donation to Lopez Museum	**2,403,000**	2,400,000	**–**	–
Lopez Group Foundation, Inc.	Donation to support Group's Corporate Social Responsibility efforts	**–**	7,239,765	**–**	–
Lopez Holdings Corporation	Budget expense allocation	**10,322,515**	6,384,283	**–**	–
Red Vulcan	Interest-free advances	**7,994**	11,059	**7,994**	11,059
Sky Cable	Purchase of services and utilities	**59,400**	–	**–**	–
		132,243,763	951,128,466	**335,650,484**	537,020,209
IFC (Note 19)	Interest-bearing loans	**7,386,328**	4,170,132,778	**4,034,266,907**	4,026,880,578
		₱139,630,091	₱5,121,261,244	**₱4,369,917,391**	₱4,563,900,787

EDC's subsidiary in Chile is participating in the bids for geothermal concession areas by the Chilean government. The bid rules call for the provision of proof of EDC Chile Limitada's financial capability to participate in said bids or evidence of financial support from its Parent Company. Letters of credit amounting to US$80.0 million were issued by EDC in favor of EDC Chile Limitada as evidence of its financial support. There were no guarantees received from any related party.

The purchases from related parties are made at normal commercial terms and conditions. The amounts outstanding are unsecured and will be settled in cash. Except for the US$80.0 million letters of credit issued by the Parent Company in favor of EDC Chile Limitada as mentioned above, there were no guarantees that have been given to or and received from any related party in 2010 and 2009.

The Company has not recognized any impairment losses on receivables from related parties as of December 31, 2010 and 2009.

e. Remuneration of Key Management Personnel

The remuneration of the directors and other members of key management personnel by benefit type are as follows:

	2010	2009	2008
Short-term employee benefits	**₱126,184,215**	₱75,170,646	₱79,192,591
Post-employment benefits (Note 31)	**192,690,000**	90,670,000	82,218,181
Share-based payments (Note 34)	**15,684,375**	15,190,000	–
	₱334,558,590	₱181,030,646	₱161,410,772

23. Purchased Services and Utilities

	2010	2009	2008
Professional and technical services	**₱595,954,627**	₱981,264,759	₱684,647,336
Purchased services	**550,763,684**	364,411,435	247,672,243
Purchased utilities	**166,009,837**	21,373,651	17,619,911
Contractual personnel costs	**92,276,009**	103,150,460	19,254,749
Hauling and handling costs	**60,477,365**	166,221,695	75,159,487
Rig mobilization charges	**32,664,335**	241,587,531	76,685,866
BOT fees	**–**	183,224,477	393,981,872
Others	**12,074,626**	11,889,449	8,912,246
	₱1,510,220,483	₱2,073,123,457	₱1,523,933,710

24. Operations and Maintenance Expenses

	2010	2009	2008
Impairment loss on property, plant and equipment of NNGP (Notes 3 and 12)	**₱3,390,000,000**	₱349,000,000	₱–
Personnel costs (Notes 26, 31 and 34)	**1,782,408,107**	1,786,563,040	1,388,397,780
Repairs and maintenance (Note 48)	**1,557,986,675**	1,273,202,012	1,894,545,092
Rental, insurance and taxes	**922,718,338**	934,178,837	271,786,514
Parts and supplies issued (Note 10)	**721,165,159**	1,166,397,599	969,116,159
Loss on disposal of property, plant and equipment of a subsidiary (Note 12)	**398,927,321**	273,575,293	–
Royalty fees (Note 18)	**222,831,401**	214,373,965	590,120,392
Proceeds from insurance claims	**(129,005,463)**	(89,259,730)	(205,157,285)
Business and related expenses	**96,668,298**	158,957,224	137,230,571
	₱8,963,699,836	₱6,066,988,240	₱5,046,039,223

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 are subsequently recognized upon receipt.

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.

25. General and Administrative Expenses

	2010	2009	2008
Personnel costs (Notes 26, 31 and 34)	**₱1,790,137,643**	₱1,110,060,984	₱958,409,776
Purchased services and utilities	**1,095,072,764**	858,569,171	579,832,277
Rental, insurance and taxes	**776,907,951**	808,686,176	408,948,862
Business and related expenses	**552,613,600**	313,712,652	229,617,376
Parts and supplies issued (Note 10)	**173,585,849**	160,616,956	159,656,358
Repairs and maintenance	**80,444,752**	118,584,488	58,093,998
Provision for doubtful accounts (Notes 8 and 15)	**77,575,943**	24,377,257	15,617,282
Reduction in allowance for impairment of parts and supplies	**(14,999,238)**	–	–
Credit adjustment on allowance for doubtful accounts (Notes 8, 15 and 29)	**(2,405,862)**	(2,594,751)	(1,116,185,994)
Write-down of parts and supplies inventories (Notes 3 and 10)	**–**	106,206,646	–
	₱4,528,933,402	₱3,498,219,579	₱1,293,989,935

The credit adjustment on allowance for doubtful accounts in 2008 was the result of the arbitral settlement award related to receivables from NPC (see Notes 15 and 29).

26. Personnel Costs

	2010	2009	2008
Salaries and other benefits (Note 34)	**₱3,322,197,742**	₱2,596,430,527	₱2,360,519,581
Retirement benefit costs (Note 31)	**397,606,557**	384,871,712	240,719,196
Social security costs	**38,791,600**	44,623,404	44,480,804
	₱3,758,595,899	₱3,025,925,643	₱2,645,719,581

Personnel costs amounting to ₱186.05 million, ₱129.30 million and ₱298.91 million were capitalized under property, plant and equipment and intangible assets in 2010, 2009 and 2008, respectively.

27. Interest Expense

	2010	2009	2008
Interest on long-term debts including amortization of transaction costs (Notes 19 and 35)	**₱3,643,864,967**	₱2,541,047,618	₱1,892,397,374
Interest on loans payable (Note 35)	**304,361**	164,255,636	34,535,508
Interest accretion of "Day 1" gain (Notes 18 and 35)	**56,102,861**	69,904,267	225,590,774
Interest on liability from litigation	**8,185,077**	111,948,408	–
	₱3,708,457,266	₱2,887,155,929	₱2,152,523,656

Interest accretion of "Day 1" gain pertains to deferred royalty fee payable while interest on liability from litigation pertains to expropriation cases.

28. Foreign Exchange Gains (Losses)

	2010	2009	2008
Foreign exchange gains (losses) on long-term debts	**₱61,516,336**	₱1,338,780,330	(₱9,229,710,609)
Foreign exchange losses on other accounts	**(75,387,808)**	(47,540,491)	(127,420,703)
Net foreign exchange gains (losses)	**(₱13,871,472)**	₱1,291,239,839	(₱9,357,131,312)

This account pertains to foreign exchange adjustments realized on repayment of loans and unrealized on 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 reporting date:

	Equivalent to US$1.00		
Currency	**2010**	2009	2008
Japanese yen	**¥81.66**	¥91.63	¥90.94
Philippine peso	**₱43.84**	₱46.20	₱47.52

29. 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 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	August 2010
	₱2,894.93 million		

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 remaining amount of ₱894.93 million included in trade receivables as of December 31, 2009 was fully settled in August 2010 (see Note 8).

30. Miscellaneous Income (Charges)

	2010	2009	2008
Recovery of impairment loss on input VAT claims (Notes 11 and 15)	**₱1,638,884,447**	₱–	₱–
Write-off of input VAT claims	–	(178,639,119)	–
"Day 1" gain on deferred royalties (Notes 18 and 35)	–	168,284,986	–
Loss on sale of noncurrent assets held for sale	–	(129,867,348)	–
Write-off of exploration and evaluation assets (Notes 3 and 14)	–	(83,531,992)	–
Income from receipt of parts and supplies inventories from power plant contractor	–	53,992,600	260,614,700
Waste disposal fees	–	17,836,715	16,525,517
Impairment loss on AFS investments (Notes 3, 9 and 35)	–	(3,328,633)	–
Gain on sale of AFS investments (Notes 9 and 35)	–	–	46,323,392
"Day 1" loss on NPC receivable (Note 15)	–	–	(189,790,628)
Others - net	**17,253,504**	64,592,175	25,401,909
	₱1,656,137,951	(₱90,660,616)	₱159,074,890

The Parent Company recognized recovery of impairment loss on input VAT claims amounting to ₱1,638.88 million on account of the tax credit certificates issued by the BIR in May and June 2010 (see Notes 11 and 15).

In 2009, the Parent Company has written 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.

The "Day 1" loss of ₱189.79 million in 2008 pertained to 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 15 and 29).

31. Retirement and Other Post-employment Benefits 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. The Parent Company also provides post-employment medical and life insurance benefits which are unfunded.

In 2010, FG Hydro has set up an unfunded, non-contributory, defined benefit retirement plan which was included in the consolidated financial statements.

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:

	2010	2009	2008
Current service cost	**₱187,139,907**	₱196,844,916	₱165,734,850
Interest cost on benefit obligation	**273,393,511**	310,284,773	188,497,828
Expected return on plan assets	**(142,453,424)**	(125,493,939)	(113,828,988)
Net actuarial loss recognized	**86,988,383**	3,235,962	315,506
Past service cost	**7,214,400**	–	–
Curtailment gain	**(14,676,220)**	–	–
Net retirement expense (Note 26)	**₱397,606,557**	₱384,871,712	₱240,719,196
Actual return on plan assets	**₱324,216,027**	₱215,043,596	₱65,258,618

	2010	2009
Present value of defined benefit obligations	**₱3,434,199,212**	₱3,265,217,548
Fair value of plan assets	**(1,877,950,146)**	(2,035,048,917)
	1,556,249,066	1,230,168,631
Net unrecognized actuarial gains (losses)	**(249,112,021)**	6,928,516
Net retirement and other post-employment benefits	**₱1,307,137,045**	₱1,237,097,147

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

	2010	2009
Defined benefit obligation at beginning of year	**₱3,265,217,548**	₱3,179,147,273
Current service cost	**187,139,907**	196,844,916
Interest cost	**273,393,511**	310,284,773
Benefits paid	**(808,881,457)**	(146,934,285)
Actuarial losses (gains) on obligation	**524,791,523**	(274,125,129)
Past service cost	**7,214,400**	–
Curtailment gain	**(14,676,220)**	–
Defined benefit obligation at end of year	**₱3,434,199,212**	₱3,265,217,548

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

	2010	2009
Fair value of plan assets at beginning of year	**₱2,035,048,917**	₱1,792,770,559
Expected return or plan assets	**142,453,424**	125,493,939
Contributions by employer	**327,566,659**	174,169,047
Benefits paid	**(808,881,457)**	(146,934,285)
Actuarial gains on plan assets	**181,762,603**	89,549,657
Fair value of plan assets at end of year	**₱1,877,950,146**	₱2,035,048,917

The Parent Company expects to contribute ₱325.17 million to its defined benefit retirement plan in 2011.

The major categories of the Parent Company's plan assets as a percentage of the fair value of total plan assets are as follows:

	2010	2009
Fixed income	**88.62%**	89.85%
Equities	**8.62%**	7.82%
Real properties	**1.12%**	1.37%
Others	**1.64%**	0.96%
	100.00%	100.00%

The principal actuarial assumptions used in determining retirement and other post-employment benefits as of December 31 of each year are as follows:

	2010		2009
	EDC	**FG Hydro**	EDC
Discount rate	**6.25%**	**8.61%**	8.74%
Expected rate of return on assets	**7.00%**	**7.00%**	7.00%

	2010		2009
	EDC	**FG Hydro**	EDC
Future salary increase rate	**6.00%**	**12.00%**	8.00%
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. 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% for the Parent Company, while the expected rate of salary increases is around 12% to 14% for FG Hydro.

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

	2010	2009	2008	2007	2006
Defined benefit obligation	**₱3,434,199,212**	₱3,265,217,548	₱3,179,147,273	₱2,692,826,116	₱2,187,879,669
Plan assets	**(1,877,950,146)**	(2,035,048,917)	(1,792,770,559)	(1,626,128,399)	(1,468,777,785)
Deficit	**₱1,556,249,066**	₱1,230,168,631	₱1,386,376,714	₱1,066,697,717	₱719,101,884

The experience adjustments on plan liabilities amounted to ₱293.92 million in 2010, ₱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 of the Parent Company would have the following effects:

	2010		2009	
	Increase	**Decrease**	Increase	Decrease
Effect on the aggregate current service cost and interest cost	**13.90%**	**11.90%**	43.14%	28.85%
Effect on the defined benefit obligation	**12.50%**	**10.90%**	37.45%	26.33%

32. Income Tax

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2010	2009
Deferred tax assets - net	**₱893,702,182**	₱1,209,613,615
Deferred tax liabilities - net	**–**	(17,340,023)

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.

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

Deferred Tax Assets

	Foreign Exchange Losses BOT Power Plants	**Unrealized Foreign Exchange Losses**	**Allowance For Doubtful Accounts**	**IFRIC 12 Adjustments**	**Impairment Loss on Property, Plant and Equipment**	**Others**	**Total**
At January 1, 2010, as previously reported	**₱1,229,428,727**	**₱477,420,442**	**₱198,560,823**	**₱–**	**₱34,900,000**	**₱209,849,740**	**₱2,150,159,732**
Restatement (Note 5)	**–**	**–**	**–**	**–**	**–**	**250,340,194**	**250,340,194**
At January 1, 2010, as restated	**1,229,428,727**	**477,420,442**	**198,560,823**	**–**	**34,900,000**	**460,189,934**	**2,400,499,926**
Charged to income for the year	**(105,320,740)**	**(431,336,284)**	**(181,905,156)**	**–**	**339,000,000**	**3,176,622**	**(376,385,558)**
Charged to equity	**–**	**–**	**–**	**–**	**–**	**811,435**	**811,435**
At December 31, 2010	**₱1,124,107,987**	**₱46,084,158**	**₱16,655,667**	**₱–**	**₱373,900,000**	**₱464,177,991**	**₱2,024,925,803**

	Foreign Exchange Losses (Gains) BOT Power Plants	Unrealized Foreign Exchange Losses (Gains)	Allowance For Doubtful Accounts	IFRIC 12 Adjustments	Impairment Loss on Property, Plant and Equipment	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 (Note 47)	(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
Business combination fair value adjustments on property, plant and equipment (Note 5)	–	–	–	–	–	249,081,716	249,081,716
Charged to income for the year	(122,703,619)	(386,060,156)	4,329,352	(3,367,609,125)	34,900,000	11,287,062	(3,825,856,486)
At December 31, 2009, as restated	₱1,229,428,727	₱477,420,442	₱198,560,823	₱–	₱34,900,000	₱460,189,934	₱2,400,499,926

As of December 31, 2010, "Others" pertain to the difference in the acquisition cost and fair value of Palinpinon and Tongonan Geothermal Power Plants, NOLCO, unamortized pension costs, allowance for impairment of inventories for disposal and interest charges on liability for litigation.

Deferred Tax Liabilities

	IFRIC 12 Adjustments	Others	Total
At January 1, 2010	**(₱1,152,912,850)**	**(₱55,313,484)**	**(₱1,208,226,334)**
Charged to income for the year	**82,472,364**	**(5,469,651)**	**77,002,713**
At December 31, 2010	**(₱1,070,440,486)**	**(₱60,783,135)**	**(₱1,131,223,621)**

	Deductible Expenses Under P.D. 1442	IFRIC 12 Adjustments	Others	Total
At January 1, 2009	(₱3,681,358,648)	(₱13,225,388,187)	(₱1,107,416,502)	(₱18,014,163,337)
Effect of RE Law (Note 47)	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)

The following tables summarize the Company's deferred tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities	Net
At January 1, 2010, as previously reported	**₱2,150,159,732**	**(₱1,208,226,334)**	**₱941,933,398**
Restatement (Note 5)	**250,340,194**	**–**	**250,340,194**
At January 1, 2010, as restated	**2,400,499,926**	**(1,208,226,334)**	**1,192,273,592**
Charged to income for the year	**(376,385,558)**	**77,002,713**	**(299,382,845)**
Charged to equity	**811,435**	**–**	**811,435**
At December 31, 2010	**₱2,024,925,803**	**(₱1,131,223,621)**	**₱893,702,182**

	Deferred Tax Assets	Deferred Tax Liabilities	Net*
At January 1, 2009	₱21,413,261,302	(₱18,014,163,337)	₱3,399,097,965
Effect of RE Law (Note 47)	(15,436,167,439)	12,476,954,438	(2,959,213,001)
Charged to equity	180,833	–	180,833
Business combination fair value adjustments on property, plant and equipment (Note 5)	249,081,716	–	249,081,716
Charged to income for the year	(3,825,856,486)	4,328,982,565	503,126,079
At December 31, 2009, as restated	₱2,400,499,926	(₱1,208,226,334)	₱1,192,273,592

* *This includes FG Hydro's net deferred tax liabilities amounting to ₱17.34 million.*

A numerical reconciliation between provision for income tax and the product of accounting income multiplied by the tax rates of 10%/30%/35% follows:

	2010	2009 (Restated, Note5)	2008
Accounting income	**₱5,172,260,580**	₱7,267,437,700	₱2,652,824,187
Income tax at statutory tax rate	**₱614,035,636**	₱702,539,342	₱928,488,465
Non-deductible provisions	**342,902,265**	260,464,301	1,602,816
Income tax holiday (ITH) incentives	**(281,870,518)**	(19,562,230)	(164,525,410)
Effect of Renewable Energy Law and effect of change in tax rate	**109,954,650**	2,961,729,957	491,089,744

(Forward)

	2010	2009 (Restated, Note5)	2008
Interest income net of final tax	**(₱95,440,903)**	(₱104,149,985)	(₱77,787,866)
Non-deductible temporary differences	**77,949,479**	–	–
Tax effect of non-deductible interest expense	**15,477,353**	41,576,237	41,242,350
Non-taxable foreign exchange loss (gains)/discount amortization in ROP bonds	**9,635,830**	–	–
Excess amortization of debt issuance costs under effective interest method over straight line method	**1,809,430**	–	–
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 foreign contractor's tax - excess	–	4,416,423	403,557
Non-deductible/(taxable) losses/(gains) on ROP bonds	–	3,024,741	(27,612,838)
Movement of unrecognized net deferred tax assets	–	–	141,654,925
Additional expenses (50%) on Adopt-A-School Act of 1998	–	–	(913,963)
Others	**(17,268,507)**	(6,045,008)	(26,092,843)
Provision for income tax	**₱777,184,715**	₱3,910,473,976	₱1,307,548,937

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 R.A. 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, the Company computed their income tax based on itemized deductions for their income subject to 35% RCIT rate. For 2009 and 2010, the Company computed their income tax based on itemized deductions for their income subject to either 10% or 30% income tax rate.

33. Basic/Diluted Earnings Per Share (EPS)

The basic/diluted EPS amounts were computed as follows:

	2010	2009 (Restated, Note5)	2008
(a) Net income attributable to equity holders of the Parent Company	**₱4,115,747,261**	₱3,311,335,906	₱1,308,021,833
Less dividends on preferred shares (Note 21)	**7,500,000**	7,500,000	6,000,000
(b) Net income attributable to common shareholders of the Parent Company	**₱4,108,247,261**	₱3,303,835,906	₱1,302,021,833
(c) Weighted average number of common shares outstanding	**18,750,000,000**	18,750,000,000	18,715,918,555
Basic/Diluted EPS (b/c)	**₱0.219**	₱0.176	₱0.070

The Company does not have dilutive common stock equivalents.

The 2008 EPS were adjusted for the effect of the 3.75 billion shares (25%) stock dividends declared in 2009 (see Note 21).

34. Share-Based Payment

On January 23, 2009, the BOD of the Parent Company approved the ESGP. The ESGP is an integral part of the Parent 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 Parent 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 21).

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 Parent 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
June 18, 2010	2,625,000	4.70

The fair value per share was determined based on the market price of the stock at the date of grant. Out of the 7,000,000 shares granted on December 1, 2009, 3,616,667 shares vested on January 1, 2010. There were no stock awards cancelled in 2010 and 2009.

Total compensation expense recognized on the vesting of the fair value of stock awards in 2010 and 2009 amounted to ₱15.68 million and ₱15.19 million, respectively (see Note 22). A corresponding decrease in the "Common shares in employee trust account" amounting to ₱12.42 million and ₱12.58 million and increase in "Additional paid-in capital" account amounting to ₱4.14 million and ₱2.61 million was recorded for the years ended December 31, 2010 and 2009, respectively.

35. 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, 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; and
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 and 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 RMEC 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, foreign currency risk, interest rate risk and liquidity 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 its 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, other receivables, AFS investments and derivatives assets, 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.

	2010	2009
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	**₱6,152,532,452**	₱11,216,297,117
Trade receivables	**4,418,426,404**	5,306,417,083
Non-trade accounts receivables	**73,070,811**	77,268,776
Loans and notes receivables	**61,297,851**	67,573,603
Employee receivables*	**37,757,241**	38,346,612
Advances to employees	**30,389,460**	20,826,816
Long-term receivables	**1,000,000**	–
AFS investments:		
Debt investments	**707,524,992**	734,811,000
Equity investments	**18,166,353**	15,388,428
Financial assets at FVPL:		
Derivative assets	–	9,611,022
	₱11,500,165,564	₱17,486,540,457

**Includes noncurrent portion of employee receivables included under other noncurrent assets - others.*

The following tables show the Company's aging analysis of past due but not impaired financial assets as of December 31, 2010 and 2009:

	2010						
		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
				(In Thousand Pesos)			
Loans and receivables:							
Cash and cash equivalents	**₱6,152,532**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱6,152,532**
Trade receivables	**4,078,000**	**1,684**	**221,256**	**117,486**	**–**	**30,607**	**4,449,033**
Non-trade receivables	**49,827**	**–**	**7,831**	**15,413**	**–**	**–**	**73,071**
Loans and notes receivables	**61,298**	**–**	**–**	**–**	**–**	**–**	**61,298**
Employee receivables	**37,757**	**–**	**–**	**–**	**–**	**–**	**37,757**
Advances to employees		**–**	**10,219**	**19,910**	**260**	**–**	**30,389**
Long-term receivables	**1,000**	**–**	**–**	**–**	**–**	**35,568**	**36,568**
AFS investments:							
Debt investments	**707,525**	**–**	**–**	**–**	**–**	**–**	**707,525**
Equity investments	**18,166**	**–**	**–**	**–**	**–**	**–**	**18,166**
Total	**₱11,106,105**	**₱1,684**	**₱239,306**	**₱152,809**	**₱260**	**₱66,175**	**₱11,566,339**

	2009						
		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
				(In Thousand Pesos)			
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	38,347	–	–	–	–	–	38,347
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	₱17,423,769	₱5,258	₱45,785	₱15,354	₱975	₱45,175	₱17,536,316

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, 2010 and 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 is mainly from the financial assets and liabilities that are denominated in US dollar and Japanese yen. This primarily arises from future payments of foreign-currency denominated loans 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 US 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, 2010 and December 31, 2009 are as follows:

	2010				2009		
	Original Currency				Original Currency		
	Yen	**US Dollar**	**Sweden Kroner (SEK)**	**Peso Equivalent[1]**	Yen	US Dollar	Peso Equivalent[2]
Financial Assets							
Loans and receivables:							
Cash equivalents	–	**3,340,000**	–	**146,425,600**	–	35,882,643	1,657,778,096
Cash on hand and in banks	–	**3,644,584**	–	**159,778,563**	–	2,176,322	100,546,084
Trade and other receivables	–	**4,279,825**	–	**187,627,528**	–	4,946,733	228,539,071
AFS investments:							
Government debt securities	–	**16,138,800**	–	**707,524,992**	–	15,905,000	734,811,000
Financial assets at FVPL:							
Derivative assets	–	–	–	–	–	208,031	9,611,022
Total financial assets	–	**27,403,209**	–	**1,201,356,683**	–	59,118,729	2,731,285,273
Current Financial Liabilities							
Liabilities at amortized cost:							
Trade and other payables	**11,589,841**	**12,443,772**	**3,976,330**	**578,828,344**	2,153,900	3,195,225	148,705,325
Current portion of long-term debts	**807,664,660**	–	–	**433,606,597**	26,309,860,127	65,759,866	16,303,002,458
Due to related Parties	–	–	–	–	–	10,912,094	504,138,756
Accrued interest on long - term debts	**457,836,928**	**1,559,537**	–	**314,166,560**	500,091,989	3,510,193	414,307,135
Total current financial liabilities	**1,277,091,429**	**14,003,309**	**3,976,330**	**1,326,601,501**	26,812,106,016	83,377,378	17,370,153,674
Noncurrent Financial Liabilities							
Liabilities at amortized cost:							
Long-term debts - net of current portion	**8,165,339,709**	**169,427,882**	–	**11,811,400,510**	8,973,004,364	40,946,914	6,415,753,795
Total financial liabilities	**9,442,431,138**	**183,431,191**	**3,976,330**	**13,138,002,011**	35,785,110,380	124,324,292	23,785,907,469

[1]USD1=JPY81.659 as of December 31, 2010, USD1=SEK6.81 and USD1= ₱43.840 as of December 31, 2010
[1]USD1=JPY91.634 as of December 29, 2009 and USD1= ₱46.200 as of December 29, 2009

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and Japanese yen exchange rates, with all other variables held constant, of the Company's profit before tax as at December 31, 2010 and 2009 (arising from revaluation of monetary assets and liabilities and derivative instruments.)

	2010	
	Foreign Currency Appreciates (Depreciates) By	**Effect on Income Before Income Tax**
USD	**10% or PHP4.38**	**(₱796,663,382)**
	(10% or PHP4.38)	**796,663,382**
JPY	**10% or PHP0.05965**	**(566,012,566)**
	(10% or PHP0.04881)	**463,101,190**
SEK	**10% or PHP0.70957**	**(2,821,471)**
	(10% or PHP0.58055)	**2,308,476**

	2009	
	Foreign Currency Appreciates (Depreciates) By	Effect on Income Before Income Tax
USD	10% or PHP4.62	(₱293,611,227)
	(10% or PHP4.62)	268,296,414
JPY	10% or PHP0.05602	(2,004,680,577)
	(10% or PHP0.04583)	1,640,193,199
EURO[(a)]	10% against USD	33,122,515
	(10% against USD)	(7,807,701)

[(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 values 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, 2010 and 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 and AFS debt investments.

The interest rates of some of the Company's long-term borrowings and AFS debt investments are fixed at the inception of the loan agreement.

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.

Interest Rate Risk Table

The following tables provide for the effective interest rates and interest payments by period of maturity of the Company's long-term debts:

	Interest Rates	**Within 1 Year**	**More than 1 year but less than 4 years**	**4–5 Years**	**More than 5 Years**	**Total**
2010 Fixed Rate						
OECF	**3%–5.7%**	**₱10,371,578**	**₱18,488,771**	**₱4,992,596**	**₱21,212,798**	**₱55,065,743**
JBIC(b) 21st yen	**2.3% & 2.7%**	**119,136,041**	**313,725,243**	**89,806,538**	**506,205,123**	**1,028,872,945**
PNB and Allied Bank	**9.03%**	**442,550,903**	**1,135,576,892**	**295,004,688**	**670,476,024**	**2,543,608,507**
IFC	**7.40%**	**328,398,611**	**875,164,931**	**224,284,236**	**872,275,000**	**2,300,122,778**
FRCN Series 1	**8.37%**	**196,443,538**	**320,569,780**	**–**	**–**	**517,013,318**
FRCN Series 2	**9.40%**	**434,119,972**	**985,419,672**	**162,243,975**	**69,768,715**	**1,651,552,334**
FRCN Series 3	**8.43%**	**112,234,764**	**183,152,239**	**–**	**–**	**295,387,003**

(Forward)

	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	4–5 Years	More than 5 Years	Total
Peso Public Bonds						
Series 1	**8.64%**	**₱734,553,000**	**₱2,570,935,500**	**₱–**	**₱–**	**₱3,305,488,500**
Series 2	**9.33%**	**326,644,500**	**1,143,255,750**	**326,644,500**	**163,322,250**	**1,959,867,000**
2010 Floating Rate						
USD 175.0						
Syndicated Term Loan	**3.25% + Libor**	**306,846,243**	**460,269,365**	**–**	**–**	**767,115,608**

	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						
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
Peso 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
2009 Floating Rate						
IBRD	7.54%	169,684,783	–	–	–	169,684,783

(a) The Export - Import Bank of Japan
(b) Japan Bank for International Cooperation

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 in 2010 and 2009 and equity as of December 31, 2010 and 2009. The effect also includes impact of changes in interest rates on derivatives.

	2010		
	Increase/Decrease in Basis Points	**Effect on Income Before Income Tax**	**Effect on Equity Excluding Income**
USD	**+100**	**(₱76,720,000)**	**(₱19,027,873)**
	-100	**76,720,000**	**22,130,588**

	2009		
	Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Equity Excluding Income
USD	+100	(₱23,935,811)	(₱19,438,385)
	-100	24,897,799	33,746,396
EURO	+100	(574,657)	–
	-100	1,552,248	–

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 cash flows as of December 31, 2010 and December 31, 2009.

	December 31, 2010						
	On Demand	**Within 30 Days**	**31 to 60 Days**	**61 to 180 Days**	**181 to 360 Days**	**Over 360 Days**	**Total**
	(In Thousand Pesos)						
AFS investments -							
Debt investments	**₱707,525**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱707,525**
Loans and receivables -							
Cash equivalents	–	**5,732,030**	–	–	–	–	**5,732,030**
	₱707,525	**₱5,732,030**	**₱–**	**₱–**	**₱–**	**₱–**	**₱6,439,555**

	December 31, 2009						
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
	(In Thousand Pesos)						
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	₱2,792,341	₱2,536,712	₱5,631,870	₱–	₱–	₱11,695,734

The table below summarizes the maturity analysis of the Company's financial liabilities as of December 31, 2010 and 2009 based on contractual undiscounted payments:

	2010						
	On Demand	**Less than 3 Months**	**3 to 6 Months**	**>6 to 12 Months**	**>1 to 5 Years**	**More than 5 Years**	**Total**
	(In Thousand Pesos)						
Liabilities at amortized cost:							
Accounts payable	**₱–**	**₱3,156,018**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,156,018**
Accrued interest and guarantee fees	**271,584**	**476,394**	**141,829**	**–**	**–**	**–**	**889,807**
Other current liabilities	**–**	**853**	**–**	**–**	**–**	**–**	**853**
Short-term loan payable	**–**	**175,000**	**–**	**–**	**–**	**–**	**175,000**
Due to related parties	**335,650**	**–**	**–**	**–**	**–**	**–**	**335,650**
Royalty fee payable	**–**	**87,500**	**87,500**	**175,000**	**311,573**	**–**	**661,573**
Long-term debts	**–**	**516,272**	**1,084,786**	**2,365,026**	**35,945,189**	**15,726,688**	**55,637,961**
Total	**₱607,234**	**₱4,412,037**	**₱1,314,115**	**₱2,540,026**	**₱36,256,762**	**₱15,726,688**	**₱60,856,862**

	2009						
	On Demand	Less than 3 Months	3 to 6 Months	>6 to 12 Months	>1 to 5 Years	More than 5 Years	Total
	(In Thousand Pesos)						
Liabilities at amortized cost:							
Accounts payable	₱–	₱2,202,141	₱–	₱–	₱–	₱–	₱2,202,141
Accrued interest and guarantee fees	252,201	462,241	208,706	–	–	–	923,148
Other current liabilities	–	8,066	–	–	–	–	8,066
Due to related parties	537,020	–	–	–	–	–	537,020
Royalty fee payable	–	87,500	87,500	175,000	693,011	–	1,043,011
Long-term debts	–	1,224,743	13,059,012	5,697,286	30,299,838	12,004,016	62,284,895
Total	₱789,221	₱3,984,691	₱13,355,218	₱5,872,286	₱30,992,849	₱12,004,016	₱66,998,281

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, 2010 and 2009.

	2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱6,157,925,132**	**₱6,157,925,132**	₱11,220,897,157	₱11,220,897,157
Trade receivables	**4,418,426,404**	**4,418,426,404**	5,306,417,083	5,306,417,083
Non-trade receivables	**73,070,811**	**73,070,811**	77,268,776	77,268,776
Loans and notes receivables	**61,297,851**	**61,297,851**	67,573,603	67,573,603
Employee receivables	**37,757,241**	**37,757,241**	38,346,612	38,346,612
Advances to employees	**30,389,460**	**30,389,460**	20,826,816	20,826,816
Long-term receivables	**1,000,000**	**942,912**	–	–
AFS investments:				
Debt investments	**707,524,992**	**707,524,992**	734,811,000	734,811,000
Equity investments	**18,166,353**	**18,166,353**	15,388,428	15,388,428
Financial assets at FVPL:				
Derivative assets	**–**	**–**	9,611,022	9,611,022
	₱11,505,558,244	**₱11,505,501,156**	₱17,491,140,497	₱17,491,140,497
Financial Liabilities				
Financial liabilities at amortized cost:				
Accounts payable	**₱3,156,017,521**	**₱3,156,017,521**	₱2,202,140,914	₱2,202,140,914
Accrued interest and guarantee fees	**889,806,777**	**889,806,777**	923,147,531	923,147,531
Other current liabilities	**852,593**	**852,593**	8,066,092	8,066,092
Short term loan payable	**175,000,000**	**175,000,000**	–	–
Due to related parties	**335,650,484**	**335,650,484**	537,020,209	537,020,209
Royalty fee payable	**554,783,572**	**568,334,506**	811,004,709	808,848,102
Long-term debts	**41,205,947,848**	**45,500,550,049**	47,464,498,391	49,044,197,906
	₱46,318,058,795	**₱50,626,211,930**	₱51,945,877,846	₱53,523,420,754

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, Due to Related Parties, Trade and Other Payables and Short-term Loan Payable

These are instruments with relatively short maturity ranging from 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 2.94% in 2010 (nil in 2009).

AFS Investments
Fair values of quoted debt and equity 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
The fair value of currency forwards was 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 Debts and Royalty Fee Payable
The fair values for the Company's long-term debts are estimated using the discounted cash flow methodology with the applicable rates ranging from 2.18% to 9.73% in 2010 and 6.54% to 12.25% in 2009.

Fair values of royalty fee payable are determined using discount rates ranging from 3.05% to 4.94% in 2010 and 6.54% to 7.17 % in 2009.

The following tables show the fair value information of financial instruments classified under FVPL and AFS investments 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, 2010	**Level 1**	**Level 2**	**Level 3**	**At Cost**
AFS investments:					
Debt investments	**₱707,524,992**	**₱707,524,992**	**₱–**	**₱–**	**₱–**
Equity investments	**18,166,353**	**18,091,803**	**–**	**–**	**74,550**

	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	15,313,878	–	–	74,550

During 2010 and 2009, 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.

The Company classifies its financial instruments in the following categories.

	2010			
	Loans and Receivables	**AFS Investments**	**Liabilities at Amortized Cost**	**Total**
	(In Thousand Pesos)			
Financial Assets				
Cash and cash equivalents	**₱6,157,925**	**₱–**	**₱–**	**₱6,157,925**
Trade receivables	**4,418,426**	**–**	**–**	**4,418,426**
Non-trade receivables	**73,071**	**–**	**–**	**73,071**
Loans and notes receivables	**61,298**	**–**	**–**	**61,298**
Employee receivables	**37,757**	**–**	**–**	**37,757**
Advances to employees	**30,389**	**–**	**–**	**30,389**
Other long-term receivables	**1,000**	**–**	**–**	**1,000**
AFS - debt investments	**–**	**707,525**	**–**	**707,525**
AFS - equity investments	**–**	**18,166**	**–**	**18,166**
Financial Liabilities				
Accounts payable	**–**	**–**	**3,156,018**	**3,156,018**
Accrued interest and guarantee fees	**–**	**–**	**889,807**	**889,807**
Other current liabilities	**–**	**–**	**853**	**853**
Short-term loan payable	**–**	**–**	**175,000**	**175,000**
Due to related parties	**–**	**–**	**335,650**	**335,650**
Royalty fee payable	**–**	**–**	**554,784**	**554,784**
Long-term debts	**–**	**–**	**41,205,948**	**41,205,948**
Total	**₱10,779,866**	**₱725,691**	**₱46,318,060**	**₱57,823,617**

	2009				
	Loans and Receivables	AFS Investments	Financial Assets at FVPL	Liabilities at Amortized Cost	Total
	(In Thousand Pesos)				
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	38,347	–	–	–	38,347
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	–	–	–	2,202,141	2,202,141
Accrued interest and guarantee fees	–	–	–	923,148	923,148
Other current liabilities	–	–	–	8,066	8,066
Due to related parties	–	–	–	537,020	537,020
Royalty fee payable	–	–	–	811,005	811,005
Long-term debts	–	–	–	47,464,498	47,464,498
Total	₱16,731,331	₱750,199	₱9,611	₱51,945,878	₱69,437,019

The following table demonstrates the income, expense, gains or losses of the Company's financial instruments for the years ended December 31, 2010, 2009 and 2008:

	2010		2009		2008	
	Effect on Profit or Loss Increase (Decrease)	**Effect on Equity Increase (Decrease)**	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)
Loans and receivables						
Interest income on cash in banks	**₱6,336,497**	**₱–**	₱1,742,901	₱–	₱1,917,865	₱–
Interest income on cash equivalents	**311,947,757**	–	322,651,978	–	219,049,172	–
Interest income on trade receivables	**6,007,914**	–	75,669,519	–	108,113,195	–
Interest income on employee receivables	**1,063,286**	–	1,104,060	–	381,892	–
Interest income on due from related parties	–	–	–	–	261,069	–
Interest income on concession receivables	–	–	1,650,208,827	–	2,107,841,224	–
"Day 1" loss on NPC receivable	–	–	–	–	(189,790,628)	–
Interest income on other receivables	**21,265,870**	–	723,946	–	1,996,895	–
AFS investments						
Equity investments:						
Net gain (loss) recognized in equity	–	**2,777,926**	–	1,791,090	–	(2,813,418)
Impairment loss on AFS investments	–	–	(3,328,633)	–	–	–
Provision for impairment loss removed from equity	–	–	–	3,328,633	–	–
Debt investments:						
Gain on sale of AFS investments	–	–	–	–	46,323,392	–
Net gain removed from equity	–	–	–	–	–	(46,323,392)
Net gain (loss) recognized in equity	–	**3,763,548**	–	77,231,146	–	(288,586,089)
Interest income on ROP Bonds	**1,073,692**	–	1,057,831	–	842,697	–
Derivative Financial Instruments at FVPL						
Fair value changes and premium on forward contracts	**446,597,342**	–	(175,648,625)	–	384,715,411	–
Unrealized gain (loss) on fair value on changes on currency options	**(9,598,488)**	–	(23,161,134)	–	35,304,332	–
Financial liabilities at amortized cost	–	–	–	–	–	–
Interest expense on long-term debts	**(3,440,778,682)**	–	(2,431,195,352)	–	(1,771,562,904)	–
Interest expense on royalty payable	**(56,102,861)**	–	(69,904,267)	–	(225,590,774)	–
Interest expense on short-term loans	**(304,361)**	–	(164,255,636)	–	(34,535,508)	–
Amortizations of transactions costs on loans	**(203,086,285)**	–	(109,852,266)	–	(120,834,470)	–
"Day 1" gain on royalty fee	–	–	168,284,986	–	–	–
	(₱2,915,578,319)	**₱6,541,474**	(₱755,901,865)	₱ 82,350,869	₱564,432,860	(₱337,722,899)

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 long-term debts. 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 of December 31, 2010 and 2009.

	2010	2009
Long-term liabilities	**₱41,205,947,848**	₱47,464,498,391
Equity	**32,238,981,057**	30,320,535,500
Total	**₱73,444,928,905**	₱77,785,033,891
Debt ratio	**56.1%**	61.02%

Derivative Financial Instruments

The Company's derivative financial instruments are accounted for as financial instruments at FVPL.

Freestanding Derivatives. The Company enters into derivative transactions to hedge the foreign currency exposure arising from its foreign currency denominated loan contracts. In 2010 and 2009, 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.

Foreign Currency Forward Contracts. 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.

In 2010, the Company instituted a total of 16 foreign currency forward contracts which all matured on June 24, 2010. These contracts which include two non-deliverable buy yen - sell dollar, 13 deliverable buy yen - sell dollar and a deliverable buy dollar - sell peso forward contracts, have notional amounts and average rates of JP¥3,107 million and JP¥93.5, JP¥22,261 million and JP¥93.43 and US$12.0 million and ₱46.29, respectively. The total net mark-to-market gain recognized in the 2010 statement of comprehensive income relative to these forward contracts is ₱446.60 million, with ₱12.47 million and ₱434.10 million attributable to non-deliverable and deliverable contracts, respectively.

In 2009, the Company had a total of 14 foreign currency forward contracts with various counterparty banks. While all contracts had same maturity date on May 28, 2009, five of these were entered in 2009. As of December 31, 2009, the Company's deliverable buy yen - sell dollar and deliverable buy dollar - sell peso forward contracts had aggregate notional amounts and weighted average forward rates of JP¥4,000 million and US$118 million and JP¥98.6 and ₱48.59, respectively. The net mark-to-market loss recognized in the 2009 statement of comprehensive income 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	JP¥ 5 Billion	JP¥ 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	JP¥96-JP¥106	JP¥97-JP¥107
Fixing period (in days)	260	258
Net mark-to-market loss	₱102,325,462	₱62,757,894

The premium paid by the Company on May 28, 2009 for the JP¥5 billion and JP¥3 billion range bonus forwards amounted to ₱168.5 million and ₱93.4 million, respectively. As of December 31, 2008, the accrued premium for the JP¥5.0 billion and JP¥3.0 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 had embedded currency options in its Pantabangan Refurbishment and Upgrade Project Contract with VA TECH HYDRO, Gmbh Contractor which already matured in September 2010. Under the PRUP Contract, the Company had the option to pay the Contractor in European Euro (Euro) or in US Dollar at a strike rate of €1.4691 to US$1.00 for the original contract and €1.5549 to US$1.00 for the contract options availed during the year. As of December 31, 2010 and 2009, the embedded currency options have notional amounts of nil and €7.8 million, respectively. The net mark-to-market loss recognized in the 2010 and 2009 statements of comprehensive income were ₱9.6 million and ₱23.16 million, respectively.

Fair Value Changes of Derivatives

The tables below summarize the net movement in fair values of the Company's derivatives as of December 31, 2010 and December 31, 2009.

Freestanding Derivatives

	December 31, 2010		December 31, 2009	
	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)	–
Settlement	–	–	(535,763,001)	–
Balance at end of year	**₱–**	**₱–**	**₱–**	**₱–**
Currency Forwards				
Balance at beginning of year	**₱–**	**₱–**	**₱–**	(₱54,250,018)
Net changes in fair value	**449,477,342**	**(2,880,000)**	68,344,713	(78,909,982)
Settlement	**(449,477,342)**	**2,880,000**	(68,344,713)	133,160,000
Balance at end of year	**₱–**	**₱–**	**₱–**	**₱–**
Total	**₱–**	**₱–**	**₱–**	**₱–**

Embedded Derivatives

Derivative Assets	**December 31 2010**	December 31, 2009
Balance at beginning of year	**₱9,611,022**	₱34,907,195
Net changes in fair value of derivatives	**(9,598,488)**	(23,161,134)
Fair value of settled derivatives	**–**	(1,800,163)
Foreign exchange difference	**(12,534)**	(334,876)
Balance at end of year	**₱–**	₱9,611,022

The net changes in fair value of the Company's derivatives for the years ended December 31, 2010 and 2009 amounting to ₱437.0 million gain and ₱198.81 million loss, respectively, were taken to the "Derivatives gain (loss)" account in the consolidated statements of income, inclusive of premium on range bonus forwards recognized for the year ended December 31, 2009 of ₱86.8 million (nil in 2010).

36. Wind Energy Service Contracts

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.

In 2010, the Parent Company has entered into five WESCs with the DOE for the following contract areas:

1. Pagudpud Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-040 (expiring in 2035)
2. Camiguin Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-041 (expiring in 2035)
3. Taytay Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-042 (expiring in 2035)
4. Dinagat Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-043 (expiring in 2035)
5. Siargao Wind Project,
   Under DOE Certificate of Registration No. WESC 2010-02-044 (expiring in 2035)

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

The service contracts provide that, among other privileges, the 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 2010, 2009 and 2008 on exchanging construction services for a financial or an intangible asset amounted to nil, ₱541.46 million and ₱932.25 million, respectively; and nil, ₱74.20 million and ₱128.59 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 38: Leyte, Southern Negros, Bac-Man, Mindanao, and Northern Negros. Aside from the tax incentives arising from the conversion to GRESCs as discussed in Notes 38 and 47 to the consolidated financial statements, the significant terms of the service concessions under the GRESCs are similar to the GSCs except for the Parent Company has control over any significant residual interest over the steam fields, 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 Parent 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, 2010 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.

38. Geothermal Service Contracts/Renewable Energy Service Contracts

As discussed in Note 37, 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, 2009 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 projects:

(i) Tongonan Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-001
(ii) Southern Negros Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-002
(iii) Bacon-Manito Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-003
(iv) Mt. Apo Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-004
(v) Northern Negros Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-005

On February 19, 2010, the Parent Company's GSC in Mt. Labo, Camarines Norte and Sur was converted to GRESC 2010-02-020.

On March 24, 2010, the DOE issued to the Parent Company a new GRESC of Mainit Geothermal Project under DOE Certificate of Registration No. GRESC 2010-03-021.

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% of the 1.5% government share in the gross income of EDC, and the remaining 40% 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 18 of the consolidated financial statements.

39. Steam Sales Agreements and Geothermal Resources Sales Contracts

The geothermal energy currently produced by the Parent 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 Parent 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 Parent 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 Parent 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 Parent 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 Bac-Man geothermal resources entered in November 1988 provides, among others, that NPC shall pay the Parent 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
Bac-Man 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 Parent 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.

The Company's revenue from Steam Sales Agreements amounted to ₱1,208.70 million, ₱3,963.55 million and ₱4,507.35 million for the years ended December 31, 2010, 2009 and 2008, respectively.

40. Power Purchase Agreements

The electricity produced by the Parent 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 15 and 29). 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.

Revenue from sale of electricity covered by Power Purchase Agreements amounted to ₱13,715.33 million, ₱14,182.74 million and ₱12,941.02 million for the years ended December 31, 2010, 2009 and 2008, respectively.

41. 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.

Revenue from sale of electricity covered by Electricity Sales Agreements amounted to ₱533.96 million, ₱238.38 million and ₱36.65 million for the years ended December 31, 2010, 2009 and 2008, respectively.

42. Power Supply Contracts

With GCGI's takeover of Palinpinon and Tongonan power plants effective October 23, 2009, Schedule X of the APA provides for the extension to GCGI of Power Supply Contracts of NPC with the following assigned customers:

Customers	Contract Expiration
Palinpinon	
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
Guimaras Electric Cooperative, Inc. (GUIMELCO)	December 25, 2012
Iloilo I Electric Cooperative, Inc. (ILECO I)	December 25, 2009
Philippine Foremost Milling Corp. (PFMC)	March 25, 2016
Iloilo Provincial Government (IPG)	December 25, 2011
Tongonan	
Don Orestes Romualdez Electric Cooperative, Inc. (DORELCO)	September 25, 2010
Leyte II Electric Cooperative, Inc. (LEYECO II)	December 25, 2009
Philippine Phosphate Fertilizer Corp. (PHILPHOS)	December 25, 2011
Philippine Associated Smelting and Refining Corp. (PASAR)	September 25, 2009

At the end of 2010, five of the 12 NPC power supply contracts assigned to GCGI remain effective namely, DMDC, GUIMELCO, PFMC, IPG and PHILPHOS. Since GCGI's takeover of the power plants, 15 new Power Supply Agreements (PSA) have been signed as follows:

Customers	Contract Start	Contract Expiration
Leyte		
Don Orestes Romualdez Electric Cooperative, Inc. (DORELCO)	December 26, 2010	December 25, 2020
Leyte II Electric Cooperative, Inc. (LEYECO II)	December 26, 2010	December 25, 2020
Leyte V Electric Cooperative, Inc. (LEYECO V)	December 26, 2010	December 25, 2020
Philippine Associated Smelting and Refining Corp. (PASAR)	October 24, 2009	December 25, 2012
Cebu		
Visayan Electric Company, Inc. (VECO)	December 26, 2010	December 25, 2015
Balamban Enerzone Corporation (BEZ)	December 26, 2010	December 25, 2015
Negros Occidental Electric Cooperative, Inc. (NOCECO)	December 26, 2010	December 25, 2020
Negros Oriental I Electric Cooperative, Inc. (NORECO I)	December 26, 2010	December 25, 2020
Negros Oriental II Electric Cooperative, Inc. (NORECO II)	December 26, 2010	December 25, 2020
V.M.C. Rural Electric Service Cooperative, Inc. (VRESCO)	December 26, 2010	December 25, 2020
Dumaguete Coconut Mills, Inc. (DUCOM)	October 26, 2010	October 25, 2020
Panay		
Aklan Electric Cooperative, Inc. (AKELCO)	March 26, 2010	December 25, 2020
Capiz Electric Cooperative, Inc. (CAPELCO	January 27, 2010	December 25, 2020
Iloilo I Electric Cooperative, Inc. (ILECO I)	March 26, 2010	December 25, 2022[a]
Iloilo II Electric Cooperative, Inc. (ILECO II)	December 26, 2010	December 25, 2020

[a] *GCGI has already submitted to ERC last November 15, 2010 the application for the approval of the PSA between ILECO I and GCGI.*

Preparations are ongoing for the filing with the ERC of the applications for the approval of the PSAs with the other distribution-utility customers.

Under the Power Supply Contracts of GCGI, revenue from sale of electricity amounted to ₱6,555.40 million, ₱1,045.69 million and nil for the years ended December 31, 2010, 2009 and 2008, respectively.

43. 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 steam fields. 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 steam fields. GeothermEX, in their report released in October 2008, used the same volumetric reserve estimation method employed by the Parent Company patterned after the US Geological Survey but differ only in heat recovery

factor. GeothermEX concluded that the Parent 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 Parent 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 Parent Company's steam fields that would warrant recalculations of the geothermal energy reserves.

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

Estimated Geothermal Energy Reserves

Field	Mean Reserves Parent 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

44. Commitments and Contingencies

Stored Energy

On various dates, the Parent Company entered into Addendum Agreements to the PPAs for the Unified Leyte and GRSC for Bac-Man 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, 2010, the commitments for stored energy in gigawatt-hours are as follows:

Plant	Stored Energy (in gigawatt-hours)
Unified Leyte	4,326.6
Bac-Man 2 - Cawayan	671.9

Lease Commitments

Future minimum lease payments under the operating leases as of December 31, 2010 and 2009 are as follows:

	2010	2009
Within one year	**₱106,164,134**	₱90,804,680
After one year but not more than five years	**312,741,882**	47,230,090
After five years	**81,375,806**	1,029,484
Total	**₱500,281,822**	₱139,064,254

The Parent Company's lease commitments pertain to the drilling rigs and various office space and warehouse rentals.

On October 1, 2010, the Contract of Lease for the use of the new office buildings at Ortigas Center was entered into between the Company and Amberland Corporation with the rental rate of ₱6.05 million per month, inclusive of VAT. The Contract of Lease covers the use of office space from 36th to 42nd floors of the One Corporate Centre Office Condominium with a total area of 11,598.2 sq.m and 176 parking spaces located at the basement level of the Building. This contract will commence on December 1, 2011 or upon full occupancy of the units whichever comes earlier and will expire on December 1, 2016, subject to pre-termination as provided in Sections 22, 23 and 24 or renewal at option of the Lessor as provided in Section 1 of the Contract of Lease.

The Contract of Lease for the use of the office buildings at Fort Bonifacio was entered into between the Parent Company and PNOC 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, 2010 and 2009 amounted to ₱103.46 million and ₱82.7 million, respectively, of which, contractual commitments for the acquisition of property, plant and equipment amounts to ₱103.36 million in 2010. These are expected to be settled in the next financial year.

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).

45. Events After the Financial Reporting Period

On January 13, 2011, the Parent Company has completed the international roadshow in connection with its US$ bond offering. Following the book-building exercise, the Parent Company successfully launched its maiden US$300.0 million 10-year bond issuance. The Notes due 2021 were priced at par at a yield of 6.5%.

On January 21, 2011, the Parent Company received the proceeds of the US$300.0 million Notes. Such Notes were listed and quoted on the Singapore Exchange Securities Trading Limited (SGX-ST) on the same day.

As of the close of business hours on February 28, 2011, the Parent Company has closed its Well Construction Group and has therefore ceased to engage new drilling business, except only to the extent it is bound to honor its existing contractual commitments.

On March 15, 2011, the BOD of the Parent Company approved the following cash dividends in favor of all stockholders of record as of March 29, 2011 and payable on or before April 22, 2011:

- cash dividend of ₱0.0008 per share on the preferred shares
- cash dividend of ₱0.16 per share on the common shares

46. 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 150 MW Bacon-Manito Geothermal Power Plants, NPC has privatized approximately 92% 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. As of October 2010, the government has turned over more than 62% of NPC IPP contracts to IPP Administrators. However, the selection of IPP Administrators for the remaining contracts of NPC have been postponed indefinitely. These include contracts for the 560 MW Unified Leyte Geothermal, the 630 MW Malaya, 96 MW Cebu Thermal I & II, and the 36 MW Cebu Diesel.

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.

In terms of market share limitations, no generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao grids, and/or 25% of the total nationwide installed generating capacity. As of October 2010, NPC/PSALM's share has been reduced to 11% of the total capacity nationwide. Also, no generation company associated with a DU may supply more than 50% 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 WESM has also been launched successfully in the Visayas Grid last December 26, 2010. The Philippine Electricity Market Corporation (PEMC) acts as the market operator that governs the WESM. In accordance with the EPIRA, the present structure of PEMC will undergo changes upon implementation of an independent market operator set up. The WESM is envisioned to develop two main markets: energy market and reserve market. In Luzon, the reserve market is expected to start in year 2011.

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 full compliance with the provisions of the EPIRA and its IRR.

47. **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. The Parent Company implemented the RE Law retroactive February 1, 2009 resulting to the decrease in the provision for income tax expense and related income tax payable going forward.

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.

48. **FG Hydro's Contracts and Agreements**

Power Supply Contracts

In 2006, FG Hydro has existing contracts, which were originally transferred by NPC to FG Hydro as part of the acquisition of PAHEP/MAHEP for the supply of electric energy with several customers within the vicinity of Nueva Ecija. All of these contracts had expired as of December 31, 2010. Upon renegotiation with the customers and due process as stipulated by the ERC, the expired contracts were renewed except for the contract with Pantabangan Municipal Electric System (PAMES).

FG Hydro shall generate and deliver to these customers the contracted energy on a monthly basis. FG Hydro is bound to service these customers for the remainder of the stipulated terms, the range of which falls between December 2007 and December 2020.

Upon expiration, these contracts may be renewable upon renegotiation with the customers and due process as stipulated by the ERC. As of December 31, 2010, there are five remaining power supply contracts being serviced by FG Hydro.

Revenue from sale of electricity covered by FG Hydro's Power Supply Contracts amounted to ₱2,139.54 million, ₱1,247.18 million and ₱1,383.49 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Details of the existing contracts of FG Hydro are as follows:

Related Contracts	Expiry Date	Other Developments
Nueva Ecija II Electric Cooperative, Inc., Area 2 (NEECO II - Area 2)	December 25, 2016	The ERC granted a provisional approval on the Power Supply Agreement between FG Hydro and NEECO II-Area 2 on August 2, 2010 with a pending final resolution of the application for the approval thereof.
Pantabangan Municipal Electric System (PAMES)	December 25, 2008	There is no new agreement between FG Hydro and PAMES yet. In the meantime, FG Hydro has continued to supply electricity to PAMES on a month-to-month basis.
Nueva Ecija I Electric Cooperative, Inc. (NEECO I)	December 25, 2012	FG Hydro and NEECO I signed a new agreement in December 2007 for the supply of electricity for the next 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 (ECSIP)	December 25, 2020	A new agreement was signed by FG Hydro and ECSIP in November 2010 for the supply of power in the succeeding ten years.
NIA-Upper Pampanga River Integrated Irrigation System (UPRIIS)	October 25, 2020	FG Hydro and NIA-UPRIIS signed a new agreement in October 2010 for the supply of power in the succeeding ten years.

Operation and Maintenance Agreement (O&M Agreement)
In 2006, 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 ₱98.4 million, ₱82.5 million and ₱113.3 million in 2010, 2009 and 2008, respectively, and are included under "Operations and maintenance expenses" account in the consolidated statements of income, specifically "Repairs and maintenance" account.

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 2010, 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" account.

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 (US$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 US Dollar, at an exchange rate fixed by reference to the European Central Bank fixing rate for converting Euro to US Dollar as at the date of the LA, plus a premium of US$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 US Dollar, at an exchange rate fixed by reference to the European Central Bank fixing rate for converting Euro to US Dollar as at the date of the relevant option notice, plus a premium of US$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.

Commissioning of the second unit commenced in November 2010 and was successfully completed on December 8, 2010. Contract options and variations and closure of punchlist items, however, were completed in early 2011. The completion of the refurbishment of the second unit increased power generation capacity by another 10 MW bringing total plant capacity to 132 MW.