

HIGHER PEAKS NEW HORIZONS

2011 INTEGRATED REPORT



e n e r g y
DEVELOPMENT CORPORATION

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About the cover

The iconic granite spires of Torres del Paine is a rare destination in Patagonia, the southernmost region of the Andes mountain range in the South American continent. Along this mountain range lies a treasure trove of fascinating history, rich wildlife and an enormous wealth of untapped geothermal energy. The rock towers of Torres del Paine are symbolic of EDC's aspiration to become the world's number one geothermal company. Sturdy and resilient against the weathering of time, they seem to last as long as the world holds together. They embody what our company has become, molded from our 35 years of existence, and the new summits we will conquer as we expand internationally.

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About This Report

Our reporting history

This report coincides with EDC's 35th anniversary and our second year to report using the Electric Utilities Sector Supplement of the Global Reporting Initiative (GRI) G3.1. The 2007 Corporate Social Responsibility Report was our first attempt at non-financial reporting following the success of the First Stakeholders Meeting conducted on the occasion of EDC's 30th anniversary. Although subsequent CSR reports were not published, we began incorporating non-financial indicators in our annual reports the following year beginning with the 2008 Integrated Annual and Sustainability Report titled *Greenenergized*. By 2009, we have already adopted the GRI G3 framework reporting at self-declared C level. We published our second GRI-based report in 2010, earning for us the recognition of being the first Philippine company to achieve B+ (Independently Assured and GRI-Checked) with at least 70 performance parameters.

Our 2011 Focus: Integration

The theme *Higher Peaks, New Horizons* reflects EDC's on-going integration strategy following the fresh mandate that comes with becoming a global energy enterprise. From operating systems to values, from projects to people, EDC has been relentlessly synergizing its homegrown expertise with global practices to realize its vision of becoming the world's number one. The effect of this integration in 2011, although painful but not crippling, is but a natural birth pain necessary to prepare the company for a full international expansion. We share snippets of important events with the purpose of providing context to

the set of financial and non-financial performance indicators that we report here. We strive to link numbers with actual impact on human lives and the environment. We aim to share information transparently about our long-term impact and how this is intrinsically linked to the creation of EDC's long-term business success.

Our approach to communications

This printed copy is a precursor to two new platforms. To better engage our stakeholders, simplified and online versions of this report are planned beginning in July 2012. These are part of the soft launch of our Five-Year Reporting Strategy, which is an integral element in communicating EDC's Business Excellence.

Future reporting

Our objective is to increasingly align our external reporting with good-practice prescriptions, such as the GRI G3.1 guidelines and the GRI Electric Utilities Sector Supplement and later on the Integrated Reporting guidelines of the International Integrated Reporting Council (IIRC).

Report boundary, scope and assurance

The information contained in this integrated report covers EDC's country operations in geothermal and hydropower for the year ending December 31, 2011, unless otherwise stated. Data are provided for EDC's wholly owned companies and subsidiaries, excluding Indonesia, Chile and Peru where the company has no commercial operation there yet. Our reporting is subject to independent third-party assurance provided by subject matter experts



mediated by the University of Asia and the Pacific (UA&P) via its Center for Social Responsibility (CSR).

Data measurement

We have developed performance indicators to provide a focus for measuring and reporting operations, sustainability and compliance. We conduct internal validity tests of all the data reported and converted to prescribed GRI units of measurement wherever possible.

Contact details

We hope you find this report engaging and informative. We welcome your input and views, which can be forwarded to: pubrels@energy.com.ph

VISION

We will become the global leader in geothermal energy as we strengthen our leadership in the Philippine renewable energy industry.

MISSION

We are committed to provide the present and the future generations a better life with clean and renewable energy.

We are committed to promote customer and investor interests, employee development, community welfare and environmental stewardship at all times.

**PhP25.26
BILLION
REVENUES**

**6,847 GWH
VOLUME SOLD**

**PhP25.06
BILLION
ECONOMIC VALUE
DISTRIBUTED**

1.24 million tons estimated CO₂ sequestered to date

84,830 hectares protected
1,052 hectares reforested in 2011



2,533 Regular Employees
(Geothermal & Hydro)

**43 Primary Partner
Communities**



RIVERS

AQUIFER

GEOTHERMAL RESERVOIR

2,633 km² Geothermal Reservation

Fluid

ST
1,1



RIG PRODUCT
WELL

EDC's business value chain is built on a simple pact between man and environment – the concession to develop raw steam power into usable electricity is to be reciprocated by the responsibility to take very good care of this resource. It was from this understanding that EDC's sustainability philosophy was born. Social equity stands with ecology and economy as fundamental to our business model. Without it, we will not be able to foster the cooperation needed to maintain the life-sustaining ability of our geothermal and hydro sites.

PhP0.6
BILLION
NET INCOME

134 MILLION
GIGAJOULES
ENERGY CONSUMED

384 MILLION
BARRELS OF OIL
DISPLACED

0.263 MILLION
GIGAJOULES
ENERGY RECOVERED

USD8
BILLION
SAVINGS FROM
DISPLACED OIL

Collection and Recycling System

STEAMFIELDS
30 MW

POWER PLANTS
1,130 MW

SEPARATION SEPARATOR

POWER PLANT

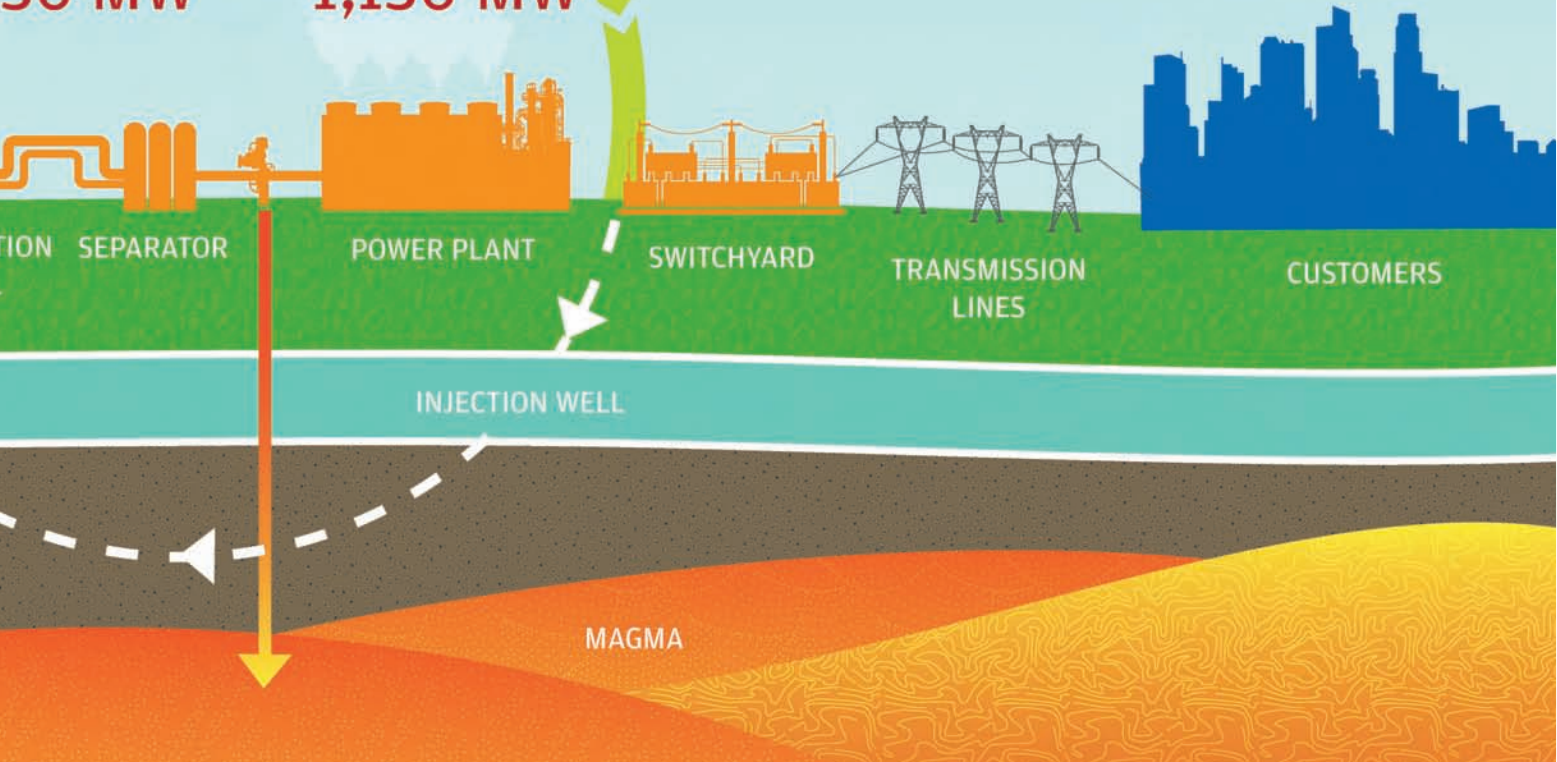
SWITCHYARD

TRANSMISSION
LINES

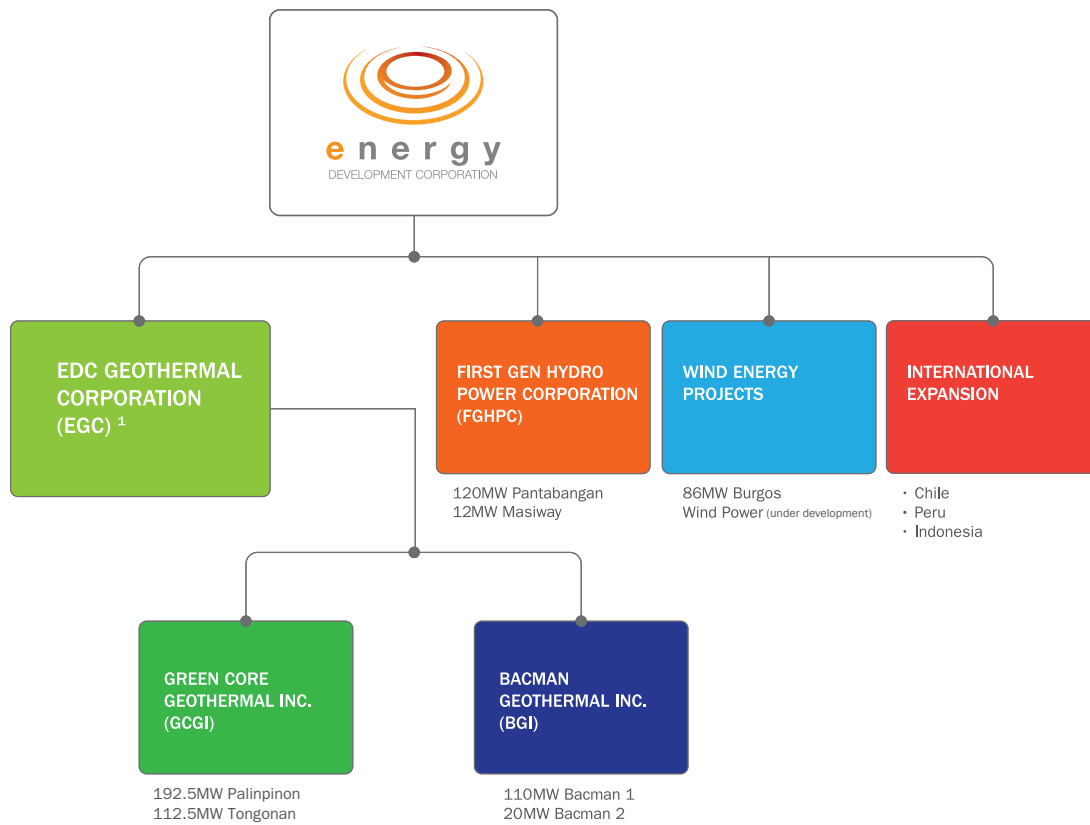
CUSTOMERS

INJECTION WELL

MAGMA



Structure and Scope of Operations



(1) Formerly First Luzon Geothermal Energy Corporation (FLGEC)



2011 NET GENERATION IN GWH

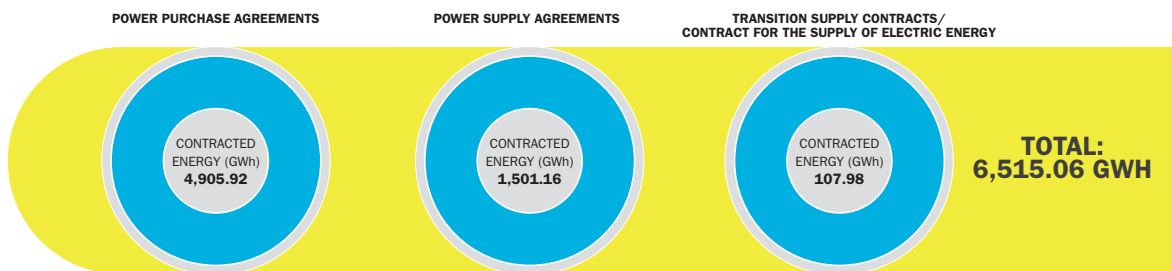


TYPE	POWER PLANT	GENERATION
GEOTHERMAL	UNIFIED LEYTE	3,897.34
	TONGONAN 1	602.99
	PALINPINON I & II	1,307.56
	MINDANAO I & II	791.41
	NORTHERN NEGROS	12.34
	BACMAN*	0
HYDRO	PANTABANGAN-MASIWAY	295.37
TOTAL		6,907.03

* Under rehabilitation

Note: Palinpinon figures are based on period Dec. 25, 2010 - Dec. 25, 2011

2011 CUSTOMERS BY TYPE OF CONTRACT



EDC'S PORTFOLIO CONSISTING OF GEOTHERMAL AND HYDRO PLANTS AND FUTURE WIND CAPACITIES

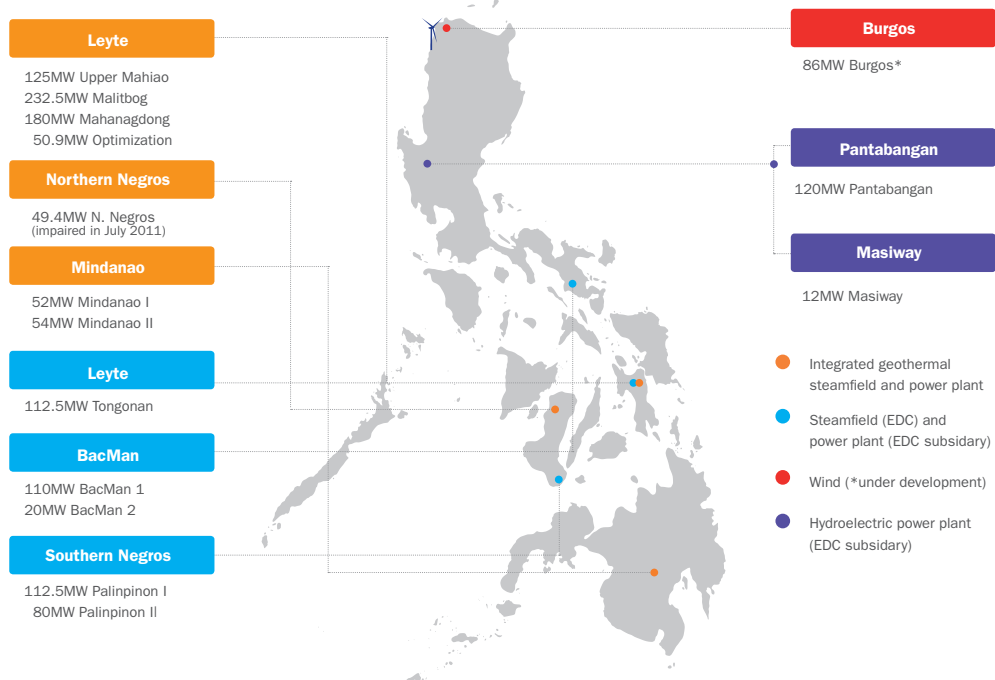
Current EDC portfolio

EDC currently has 1,130MW of geothermal and 132MW of hydro installed capacity.



EDC has a portfolio of renewable energy generating assets that rely on indigenous fuels.

In addition to expanding its geothermal and hydro portfolio, EDC is developing an 86MW wind farm in Northern Luzon.







COMPASS AND STRATEGY



Higher Peaks, New Horizons

Fellow stockholders and stakeholders,

Our company, EDC, turned 35 years in 2011 and it has been four years since we at First Gen acquired the controlling stake from the Philippine National Oil Company. Our journey continues as we consolidate the company into being the world's largest integrated geothermal power producer. As with any lifelong journey, we have encountered our share of challenges along the way but last year it was heartening to find some very important partners affirming EDC's path and direction. In 2011 we garnered the prestigious IFC Client Leadership Award which, in line with the IFC's mission, acknowledges commercially successful corporate clients that demonstrate commitment to environmental protection, social sustainability and good corporate governance. The Institute of Corporate Directors also honored EDC with a Gold Award in its corporate governance practices last year when it garnered a 98.5 percent score.

The year also saw a few bumps on the road as we decisively took steps to recognize the limitations of our existing steam resource in Northern Negros. We incurred a PhP5-billion impairment charge on our

Northern Negros Geothermal Plant (NNGP) representing its entire book value as of end-June 2011. While "non-cash," the impairment was the main cause for the 86 percent drop in our earnings. Given our findings on the steam resource, it was sensible for EDC to take the write-down and immediately redeploy the NNGP power plant to Nasulo in Southern Negros where the assets can be utilized better. The shutdown is cash accretive to EDC as NNGP's annual cash operating costs of PhP800 million will be pared down to just PhP400 million and driven down further as the plant begins operating in Nasulo. However, we will reverse a good portion of these impairment charges sometime in 2014 as Nasulo Project commences operations.

Yet another setback was conceding that the rehabilitation of our Bacman plant would not meet the aggressive internal target we set for ourselves to run by year's end. We have since scaled back our expectations to September of 2012. Despite all the challenges encountered in the rehabilitation of these assets, I am certain that our team is executing in a most thorough and effective manner and we will have a great strategic asset upon its completion this year.



During the celebration of parent firm First Philippine Holdings' 50th anniversary last year, our Chairman Emeritus Oscar M. Lopez posed a challenge for us to make EDC the largest geothermal company in the world. I take his words literally and more. Because for us it is not just about size but also about being exceptional in everything we do. It is also about bringing EDC's unique Filipino expertise to the global arena and making the world a better place. However, I do not underestimate the challenge that he poses to us. These last four to five years have made us aware that, although EDC is blessed with a 35-year head start in the field of geothermal energy, there is much we must still do to make it truly world-class. The challenges of changing mindsets and transitioning a company from government ownership to the private sector can never be misjudged. Transforming

“EDC’s 35 years of experience and its philosophy of sustainability in its core business create a unique and powerful combination Filipinos can be proud of.”

and rehabilitating assets, outdated systems and procedures from the steamfields and power plants to upgraded and best-in-class information technology and control systems are constantly on our minds and daily to-do lists. Even our ability to drill wells efficiently and effectively, despite considerable advances in the last four years, is an area we must continue to improve and drive towards an even higher bar of excellence.

An area that makes us proud is our philosophy of treating nature's

geothermal supplies as sustainable resources. We should never approach these as if geothermal heat and steam are something we will extract for maximum cash flow and net present value to the detriment of the future. Our outlook on our concession areas should be as long-term stewards and guardians not only of the steam resources but of surrounding communities, forest cover, biodiversity and all the ecosystem services that nature provides. For us, unlike too many companies around us today, sustainability isn't merely a



Standing atop majestic Mount Apo gives one a magnificent view of EDC's 106MW geothermal facility

buzzword used to greenwash bad practices. Sustainability should be built into the heart and soul of our business model and we are proud that EDC leads the energy sector in this way of thinking. In 2011, we reforested a total of 1,052 hectares with at least 770,000 seedlings from 96 species of indigenous, timber-producing, fruit-bearing, premium and endangered trees. These were planted all over the country in EDC's five geothermal project sites, at watersheds surrounding our Pantabangan-Masiway Hydro plant, at our wind project site in Burgos, Ilocos Norte as well as selected school grounds around the country. These projects were implemented with a hundred organizations, local government units, government agencies and partner schools.

EDC's 35 years of experience and its philosophy of sustainability in its core business create a unique

and powerful combination Filipinos can be proud of. It has always been our intention that we bring this expertise and the benefits of clean, indigenous geothermal energy to other parts of the world as well. It was quite moving therefore when we acquired a 70 percent stake and full management control of three geothermal projects – Longavi in Chile and Quellapacheta and Chocopata in Peru – after signing a joint venture agreement with Australian firm Hot Rock Limited in November 2011. Aside from this joint venture, EDC has also been awarded by the Chilean government exclusive contracts to develop three more sites, Newen, San Rafael and Batea and have pending applications for four more concession areas there as well.

With the many exciting developments afoot for EDC it is nice to say that after three decades, our journey is

just beginning. So we thank you, all our investors and stakeholders, for the trust and confidence you continue to grant us. It's that trust that enables us to do the great things we do at EDC and empowers us to aspire for higher peaks and venture towards new horizons.



Federico R. Lopez
Chairman | CEO



Measured Steps and Clearer Views

To our valued stakeholders,

In my letter to you last year, I stated that 2010 and 2011 are clearly transition years for EDC. In particular, we had to deliver an operating 130MW Bacman plant following its acquisition in 2010, re-price the output of and modernize our acquired 192.5MW Palinpinon and 112.5MW Tongonan plants and crucially, set forth a clear growth strategy and platform both for the domestic market in the medium term and international arena in the long term.

2011 has also been an exciting year, not least of all because the seeds that we have planted on the international side of the business are beginning to sprout but also because of a renewed confidence in the leadership of our country. With the good governance agenda of President Benigno S. Aquino III comes investor confidence and what this has spelled for your company is unprecedented access to debt capital market at low interest rate levels. The liquidity in our domestic debt markets helped us weather the European credit and confidence storms and largely insulate the Philippines from issues that swept the globe.

Key drivers remain solid

However, in addition to these basic and known transformative events, one issue in particular, that of the underperforming 49MW Northern Negros Geothermal Power Plant (NNGP), contributed to driving our income down by 86 percent. We subjected our steam resource assessment and strategy to third party peer reviews by two teams of international experts and their conclusions were the same as ours: that the steam field will be incapable of delivering 49MW and is likely to deliver closer to 10MW. With this conclusion, we were left with the duty to impair the asset even further and take a PhP5 billion non-cash accounting hit in 2011.

As a background, in 2005, EDC which was then still a government-owned-and-controlled-corporation (the

full privatization of EDC happened in November 2007), decided to construct the NNGP power plant in response to pressure from the government to show that it was taking action against a known potential power shortage in the Visayas. To say that EDC was rushed into a decision is an understatement. For what can be described as non-commercial political reasons, an order for a 49MW power plant was placed prematurely relative to the accurate determination of the sustainable size of the resource, all issues considered. Now, six years later, a privatized EDC has to grab the issue by its horns and address it once and for all. Let me assure you, our shareholders, that these major missteps are a thing of the past given the governance that we have today.

The impairment was non-cash and once the NNGP plant is moved south to another existing steam field and made operational by 2014, we expect that some of the impairment charges will be reversed. We also plan to install a smaller power plant unit in NNGP. This remains a temporary setback that will deliver long-term gains. What is critical is that by ceasing operations, we have reduced NNGP's cash operating expenses by about PhP400 million in 2011, so the decision is immediately cash accretive.

Those who know the power industry will appreciate that a brownfield or rehabilitation project is generally more challenging than a greenfield project that starts with a clean slate. This is the major reason why we bid the fairly discounted price for the 130MW Bacman power complex, paying USD0.22 million/MW or about 11 percent only of the cost of a greenfield plant which is USD2 million/MW.

While there have been some delays in the completion of the Bacman rehabilitation, our target remains to be fully operational in 2012, and even with the capital expenditures required, it is expected to deliver superior value to our shareholders. We estimate that Bacman will contribute annual revenues of about PhP4.3 billion by 2013.

The logic for the Bacman acquisition has remained unchanged. It will generate strong returns and cash flows from a vertically integrated operation that provides us with the levers we need in optimizing geothermal supply and electricity generation. Our Palinpinon and Tongonan acquisitions in 2009 have proven this, increasing our EBITDA margins from 49 percent in 2009 to 55 percent by 2010. Expect Bacman to have the same effect of improving cash generation.

Operational highlights

We continue to remain excited by the prospect of participating in an industry with increasing levels of competition. This confidence is derived from the transparent market structures in place in the Philippines as well as the fact that we are the lowest cost producer of baseload energy in the country. As proof of this, the electricity generated from our GCGI assets were successfully contracted to 21 customers in the Visayas region. Amidst the strong competition coming from fossil-fueled power companies, customers opted to contract with us given GCGI's compelling offer. In 2011, we contracted an additional 26MW which will generate PhP900 million incremental revenues in 2012.

The 23 percent increase in sales revenue coming from GCGI's re-priced power supply contracts, and the 12 percent increase in sales revenues coming from Pantabangan hydroelectric power plant cushioned the effects of NNGP write-down and the loss of steam revenues from Bacman.

We strengthened our balance sheet by further reducing our Yen exposure and extending our loan maturities. As a result, we brought down our Yen-denominated loan from PhP4.8 billion at the end of 2010 to PhP0.02 billion by the end of 2011. We raised a total of USD550 million from international bond issuance and two loan facilities out of total commitments in excess of USD1.7 billion. This allowed us

to build a war chest to finance our growth projects and other capital expenditures.

We closely monitor our reliability and availability targets. Mindanao I and II exceeded their generation targets resulting in a combined output of 791 GWh with reliability and availability factors of 99.86 percent and 98.44 percent, respectively. We continued modest steam augmentation activities in our largest combined assets, the Malitbog, Mahanagdong and Upper Mahiao plants, collectively called Unified Leyte. Unified Leyte has wells

that are approaching 30 years of use and need to be replaced with new wells. In addition to the make-up wells, additional wells are needed to build up steam supply. While Unified Leyte's reliability factor was 97.5 percent in 2011, the extended maintenance of Mahanagdong Unit 3 generator drove the availability factor to a low 92.0 percent. This issue has since been addressed.

After two years of intense effort, we have completed the updating of our geothermal reservoir simulation models for all our fields -- Leyte, Mindanao, Bacman, Palinpinon and Northern Negros. For some of these fields, the models were last updated over a decade ago. The updated models, which were done using high performance parallel computer clusters, will guide our drilling and reinjection strategies and allow us to manage our reservoirs sustainably and optimally.

Growth execution and optionality

Looking forward, we believe that the international arena will provide great opportunities for your company. Over the past two years, we have

sharpened our international strategy and, as promised to you, we became an international company in 2011.

We now have six international concessions located in Chile and Peru and four more under application. Chile and Peru are among the countries with stable political regimes and favorable business environments in Latin America. They have a combined potential of 6,000MW of geothermal energy which remains untapped. It is an opportune place and time to capitalize on EDC's 35 years of expertise in the business.

In addition to Latin America, we continue to work on creating opportunities in Indonesia and other countries with potential.

We are in a long gestation business. Over time and after conducting surface exploration studies, I am certain that some of these concessions will prove to be unviable, limited and will therefore not be pursued. However, what I am confident of in equal measure is that, in due course, some of these exploration areas will become large assets for EDC. It took EDC almost three decades to develop five sites and even now, we continue to optimize and add new projects within existing fields.

The value of these international concessions is in providing optionality and an altered risk-reward ratio. The cost of drilling an exploratory well, whether it's done in the Philippines or abroad, will be almost the same. Today, our domestic geothermal expansion projects have a total estimated capacity of 230MW, spread across several modest sized projects. Optionality arises with each concession we explore and prove up

“We have sharpened our international strategy and, as promised, we became an international company in 2011.”

considering that the cost of a well remains roughly constant, and the genuine possibility of discovering a large field overseas. If we discover a geothermal prospect as large as Leyte or Palinpinon overseas then we would have altered the risk-reward structure of our business. The skills of EDC are focused on generating options to develop larger projects and in so doing, creating a long term growth agenda extending for the next 10 to 15 years.

In addition to the early development and prospecting work we are doing overseas, we remain focused on the delivery of a combined 230MW from existing geothermal contract areas. We started drilling in one of these areas last year. Expansion of capacity where we have existing operations and harmonious relationships with LGUs and communities is a low hanging fruit – it requires less investment with more robust returns. In terms of wind power, we are keenly awaiting the Feed-in-Tariff and if feasible, we shall execute the 86MW Burgos wind power project, and subsequently develop our other wind concessions.

To propel our growth we continued to focus on the development and expansion of our talent pool. In the area of business development, I am happy to have strengthened the team, which function did not exist three years ago. We also grew the ranks of our geothermal scientists and reservoir engineers by 15 percent in preparation for all the work we anticipate overseas and to allow for increased levels of training and development. In about six years time, we will have close to 60 scientists and reservoir engineers with masters' degree and about 18 doctorate degree holders. The thinking on this is simple – with better equipped and empowered scientists and reservoir engineers comes better decision making. We are investing in training across the company as well and from an average of 12 training hours per employee in the last decade, we exceeded our target of 40 training hours per employee in 2011. The

strategy of capacity building early in the cycle fits in well with our growth plans.

We also took the bold step to align our practices with international oil and gas companies and ceased our in-house drilling operations in favor of drilling contracting. While our drilling performance hit a plateau in 2011 during the period of transition, we remain of the view that we are headed in the right direction for the long term.

Governance and sustainable business practices

As we grow your company, it is important you know that we are doing so responsibly and with the best governance systems in place. We garnered another gold award recognition from the Institute of Corporate Directors in 2011, and ranked among the top 10 listed companies in the country in terms of corporate governance practices.

In 2011, we also intensified our back-to-basics focus on both risk management and safety.

Today, our risk management process is focused on four areas: risks to strategy, risks to new projects, risks to operations and risks on execution. In 2011, the top risk areas of each business units were identified together with an accompanying risk mitigation measure and risk owners. These results have been vetted by our active Risk Management Board Committee and are reviewed semi-annually.

Our safety systems continue to improve with the team that we have brought in from companies that have best-in-class experience. While our own performance has improved and recordable incidents are down 23 percent, there is more work to be done. We now need to extend our safety systems and standards to also include all our contractors, subcontractors and suppliers because from 2010 to 2011, there was an 87 percent increase in recordable

incidents. While some of these may be attributed to more vigilant reporting, the fact remains that we need to focus on our contractors.

In preparation for issuing this integrated annual and sustainability report, we conducted a relevance assessment to identify the issues considered most important by our stakeholders. For this cycle, we report on 82 key performance indicators using the Electric Utility Sector Supplement of the Global Reporting Initiative. In the next sections of this report, we comprehensively cover the material issues identified by our stakeholders.

In October of 2011, I had the honor of receiving the IFC Client Leadership award in Washington DC. The award is truly global as it was given solely to EDC, among IFC's many international clients. The award was in recognition of EDC's exemplary governance and sustainable business practices.

As we transition from being a domestic company to an international company bringing clean and sustainable energy to the world, the IFC award is important to EDC because it affirms that we are on the right path and it reminds us loudly that we are not alone in our journey.

I would like to thank our employees, partners, suppliers, communities and shareholders for the confidence and support you have given EDC thus far.

2011 was a challenging year, but with our aggressive strides, the future is brighter and our goals are clearly in sight -- higher peaks on international horizons.



Richard B. Tantoco
President | COO



Bolstering the Foundations of Sustained Growth

Dear shareholders,

I am happy to report that our company now is on a more solid financial footing and continues to earn the vote of confidence of many of our institutional investors despite the challenges that we have promptly addressed in 2011. Most importantly, this year's extreme stress tests only highlighted EDC's resilience.

Strengthening and de-risking the company's balance sheet continued in earnest in 2011. The chairman and the president in their respective messages both mention the major decisions rendered by management that made a significant impact on our financial results for the year. These decisions include the full provisioning on the remaining value of the 49MW Northern Negros Geothermal Power Plant (NNGP), which meant PhP5-billion non-cash hit on our financials and the extended rehabilitation of the Bacman power plant generator by its OEM, which meant forgone steam revenues worth PhP1.2 billion while the plant's rehabilitation is being completed. These two events brought EDC's consolidated net earnings down by 86 percent to PhP0.6 billion from the previous year's PhP4.4 billion. The full impact of these twin events, however, was tempered with the improved revenue streams from our new, as well as re-priced power supply contracts with various electric cooperative customers.

We have also advanced our groundwork to expand the business overseas in a proactive manner. The relevant costs incurred in 2011 that are directly associated with our international activities are still insignificant and continue to be at low-burn levels at this stage.

On the insurance front, we further fortified our risk cover in terms of the insured values, retaining the strong combination of local and international insurance companies that wrote our 2011 insurance policies, maintained the levels of deductibles and negotiated lower policy premium rates compared with last year's. This year's typhoon damages in some of our sites resulted in applicable insurance claims amounting to PhP0.5 billion, net of deductibles. These claims are currently going through the usual validations and adjustments with the insurance adjusters and as in similar past claims, we expect the settlement with our insurers to come in short order.

Emerging from a solid foundation

Leveraging on the gains made in the past three years, EDC has been prepared to absorb the short-term impact of closing the sub-optimal operations of the NNGP and the rehabilitation of the Bacman power plants. The company's low net earnings turnout for 2011 had been an anticipated scenario and as such, we have prepared adequately for it.

Although consolidated revenues generated a 1.5 percent nominal increase from PhP24.9 billion in 2010 to PhP25.3 billion in 2011, net income went down as discussed. The closing down of the Northern Negros asset had effectively plugged an annual cash operating cost of at least PhP0.8 billion had the power plant continued to operate at that state. The decision to close NNGP now gives us the flexibility to maximize the capabilities of the 49MW power plant. We have already identified an ideal location for the plant where our investment objectives can be better realized.

In Bacman, our optimistic estimates that would have been reasonable based on experience and conventional wisdom yielded some unconventional realities. When issues that were not apparent during static checks surfaced during reliability runs, we promptly decided to ship the generators off to the original equipment manufacturer, Alstom, for the necessary full rewinding of the generator rotor. It was determined that a complete rewinding is still the prudent option as a new plant would have cost us around USD2 million per megawatt versus the combined cost of acquisition and full rehabilitation of USD1.44 million per megawatt. We are now eagerly anticipating the plants' re-commissioning by the third quarter of 2012.

Delivering on electricity generation targets

Our generating assets that include Unified Leyte, the Mindanao Geothermal Power Plants and subsidiaries Green Core Geothermal Inc. (GCGI) and the FirstGen Hydroelectric Power Complex (FGHPC) have continued to deliver strong cash flows with a combined PhP24.5 billion in revenues in 2011, up by PhP1.6 billion from PhP22.9 billion the year before. The increase was primarily brought about by the improved sales of our Tongonan I and the Palinpinon power plants following

the renewal and re-pricing of GCGI's Power Supply Agreements (PSA) and the increase in sales revenues coming from FGHPC. EDC's entry into the hydroelectric power business reinforces the wisdom in diversifying our renewable energy portfolio. We can only look forward to the completion of the 86MW Burgos wind energy project, for which we were already able to secure USD75 million from International Finance Corporation.

Sustaining investor confidence

It gives us great confidence to know that many of our investment partners have looked beyond the face value of the figures and had seen the rationale behind our decisions.

The favorable condition prevailing in both the international and domestic financial markets have allowed us to take advantage of low interest rates as we refinance and restructure loan agreements that had been arranged during the difficult times in previous years. Likewise, the company was never short of opportunities to finance its growth prospects. By middle of 2011, EDC was able to complete three major fund raising activities totalling USD550 million, from commitments in excess of USD1.7 billion, at very favorable pricing and with more liberal terms. This enabled us to build a war chest worth in excess of USD200 million that have been earmarked for the initial financing of our growth program, prepaying bulk of the remaining Japanese Yen loans and in the process also realizing additional interest savings in excess of USD2 million per annum.

EDC successfully issued a 3.5 times oversubscribed 10-year USD300 million Regulation S Bonds in January 2011. This was followed by a 15-year, USD75 million facility with the International Finance Corporation in May. Buoyed by the strong confidence of our diverse investors, EDC again closed a six-year USD175 million syndicated loan facility with a group of seven foreign banks in June.

Led by Australia and New Zealand Banking Group Limited (ANZ), Bank of Tokyo-Mitsubishi UFJ, Ltd., Chinatrust Commercial Bank, ING Bank N.V., Manila Branch, Maybank Group, Mizuho Corporate Banking, Ltd., and Standard Chartered Bank syndicated the loan that was used solely to refinance an existing three-year USD175 million credit facility then maturing in June 2013. The new loan effectively extended the remaining life of the existing facility from two years to six years and substantially lowered the interest costs. For this refinancing, we received offers in excess of USD600 million or three times more than the target amount. This represents our third successful fund-raising exercise executed in the first six months of 2011, indicating positive outlook by a diverse group of investors and lenders on EDC's long-term commercial viability.

Our financial performance and standing still prove to be strong. Despite the opportunity loss in sale of steam to Bacman in 2011, our Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) was almost steady at PhP13.2 billion compared to PhP13.8 billion in 2010. Net Debt to Equity increased from 1.09x in 2010 to 1.31x in 2011 due to the reduction of our equity accounts as a result of the non-cash provisioning for NNGP. Meanwhile, Current Ratio improved significantly from 1.98x in 2010 to 2.22x in 2011 due mainly to higher cash balance as we built a war chest to help fund part of our future growth expansion.

As we get closer to the end of our initiatives to de-clutter the balance sheet and minimize foreign currency risks, we retired about PhP4.8 billion worth of our Japanese Yen debts, leaving a balance of only PhP0.02 billion at the end of 2011 which is due in January 2012.

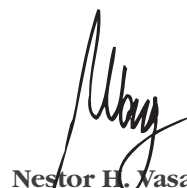
And finally, despite the two big events that weighed heavily on our 2011 financial performance, we are happy to note that EDC's ability to

issue cash dividends was not at all affected with the company's over PhP6.3 billion in unrestricted retained earnings. During the year, EDC had in fact paid cash dividends amounting to PhP3.3 billion to its preferred and common shareholders.

Onward and upward

Our ambitious long-term goals for international expansion require focus and clarity. The bottom line may have taken a hit for now, but I believe we have closed out the year with a cleaner and a much stronger balance sheet. We will continue to do this in 2012 as we strive to operate with our stable and predictable cash flows emanating from our contracted capacity combined with a stronger accountability and our more robust and focused risk management practices.

Although the underlying profit for 2011 was lower than a year ago, we can safely say that we have delivered on our strategy and successfully carried out a number of measures during the year to boost future profitability and improve our financial position even more. We are confident that the short term setbacks will result in sustainable long term gains. As you continue to put your trust in us, we will work even harder to solidify the foundation of sustained growth as we aggressively embark on our new and exciting international ventures.



Nestor H. Vasay
Chief Financial Officer



At EDC, excellence in doing field work starts with strategic planning, focus and clarity



Mindanao I and II exceeded their generation targets resulting in a combined output of 791GWh

Business Review

Our portfolio of 1,130MW sold a consolidated volume of 6,847GWh to distribution utilities, government corporations, industrial and commercial users and private electricity consumers. Through our 60 percent equity interest in First Gen Hydro (FG Hydro), we indirectly operate the 120MW and 12MW Masiway hydroelectric power plants located in Central Luzon. With FG Hydro, we have become an operator of another renewable energy resource and now have the capability to sell power on a merchant basis. Together with our subsidiaries, we employ about 2,533 people in nine business offices in the Philippines.

Results of business operation

Our revenues come from the business segments steam, electricity and third party drilling services.

Geothermal steam is sold to National Power Corporation (NPC) pursuant to Steam Sales Agreements (SSAs). For 2011, there were no steam revenues as a result of the acquisition of the Bacman Geothermal Power Plants. The billings and collections by EDC were temporarily waived until such time that the acquired assets resume operations. Revenues from sale of electricity increased by seven percent to PhP24.55 billion in 2011 from PhP22.94 billion in 2010.

Electricity generated by our power plants are sold to NPC and privately-owned distribution utilities (DUs), pursuant to Power Purchase Agreements (PPAs) and Electricity Sales Agreements (ESAs), respectively. In 2011, electricity revenues increased by seven percent from PhP24.55 billion compared with the PhP22.94 billion revenues in 2010. The increase was driven by spot market sales, re-priced PSAs, and the fresh contribution from FG Hydro's revenues. Of the total sales volume, 55.9 percent was generated by Unified Leyte.

The company provides drilling services to the Lihir Gold Limited in Papua New Guinea. Third Party Drilling contributed PhP0.71 billion



in 2011 as compared to the PhP0.75 billion in 2010 primarily due to less drilling days and a lower average exchange rate.

The cost of sales and services increased by 14.4 percent to P11.35 billion in 2011 from PhP9.92 billion in 2010 mainly due to higher operations and maintenance of steam field and electricity plant facilities. The increase was partially offset by lower personnel costs because of the closure of the Well Construction Group in February and lower maintenance expenses of Rig 11. Net

EDC is the Philippines' premier geothermal energy company. Geothermal energy comes from the heat of the earth. To produce geothermal power, a reservoir or heat source has to be discovered first. The heat source can be found in volcanic areas or hot rocks beneath the earth's surface. The heat in a geothermal system can be harnessed in the form of steam or with water as a medium. This water, when heated by the magma, turns into steam. To harness that steam, wells are drilled. The average depth of such wells is three kilometers deep. The steam is drawn up through a production well and is run through a separator station. Here, the steam is separated from the brine. After separation, the steam is used to turn huge turbines, which now generates electricity. The generated electricity is then sold to distribution utilities and the electricity spot market. Meanwhile, the brine is injected back, thereby recharging the geothermal reservoir. The resource will not be depleted as long as it is properly managed. This zero discharge system works in all of EDC's geothermal steamfields in various locations in Bicol, Leyte, Negros Island and Mindanao.

financial expenses increased by 10.6 percent to P3.72 billion in 2011 from PhP3.36 billion in 2010 due to the increase in outstanding borrowings. Impairment loss on property, plant and equipment of NNGP increased by 47.5 percent to PhP5 billion in 2011 from PhP3.39 billion in 2010 due to higher provision of allowance for impairment of the assets. Net foreign exchange losses increased by 687.7 percent to PhP0.11 billion from PhP0.013 billion in 2010, mainly due to the decline in value of US dollar investments/placements partially offset by gains on payment/realignment of foreign denominated long-term loans transacted during the year. Our current tax expense decreased by 11.8 percent to PhP0.42 billion in 2011 from PhP0.48 billion in 2010 mainly due to lower taxes from the forgone Bacman revenues.

As a result, EDC's net income decreased by 86 percent to PhP0.61 billion from PhP4.39 billion the previous year. Net income is equivalent to 2.4 percent of total revenues in 2011 as compared to the 17.6 percent in 2010.

With the privatization of the majority of NPC-owned power generation facilities, the establishment of the

FINANCIAL HIGHLIGHTS

(IN PHP BILLIONS)	2011	2010	2009
REVENUES	25.26	24.90	22.07
OPERATING EXPENSES*	21.07	18.45	13.32
INCOME BEFORE INCOME TAX	0.49	5.17	7.27
NET INCOME (LOSS)	0.61	4.40	3.36
EBITDA	13.24	13.75	10.71
RECURRING NET INCOME ATTRIBUTABLE TO EDC	4.45	6.64	7.16
CURRENT ASSETS	20.68	14.85	19.53
TOTAL ASSETS	90.02	81.30	84.76
TOTAL LIABILITIES	60.37	49.06	54.44

*Including loss on impairment of property, plant & equipment

Wholesale Electricity Spot Market (WESM), and the impending implementation of open access and retail trading, we face competition from other power generation plants, particularly in terms of acquiring off-

takers for the recently acquired plants and future projects. We compete with power generation companies that rely not only on geothermal energy, but also on coal, gas and oil, all of which are imported.

STOCKHOLDER'S NOOK

EDC is a listed company in the Philippine Stock Exchange. The total number of stockholders as of December 31, 2011 was 702. Price as of last trading day was PhP6.29 per share. Public float level is 52.81 percent or at least 9.9 billion common shares. On March 15, 2011, the Board of Directors approved cash dividends to stockholders paid at PhP0.0008 per share on the preferred shares and PhP0.16 per share on the common shares.

	HIGHEST CLOSE (PhP)	LOWEST CLOSE (PhP)	
2010	1ST QUARTER	5.20	4.45
	2ND QUARTER	5.60	4.55
	3RD QUARTER	6.48	4.34
	4TH QUARTER	6.32	5.37
2011	1ST QUARTER	6.29	5.50
	2ND QUARTER	6.96	6.27
	3RD QUARTER	7.02	5.28
	4TH QUARTER	6.36	5.42

2011 IMPORTANT EVENTS

Q1

EDC closes USD bond offering

EDC received the proceeds of its USD300 million bond offering. EDC's Notes, which were listed on the Singapore Exchange Securities Trading Limited (SGX), is the first Philippine corporate bond issued in 2011. Proceeds from the Notes will be used to fund EDC's growth projects, capital expenditures, debt servicing requirements and other general corporate purposes.

GCGI secures new power supply deals

The subsidiary Green Core Geothermal, Inc. (GCGI) secured seven new long-term power supply contracts with electric cooperatives in the Leyte and Negros islands to supply 58MW of electricity. GCGI signed a 10-year, 25-MW power supply contract with the Negros Oriental II Electric Cooperative (NORECO II) and inked a separate contract with six members of the Association of Visayan Electric Cooperatives (AVEC).

Q2

Prepayment of Yen obligations

On April 8, the amount of JPY8.1 billion was prepaid as partial payment of a debt owed to the Japan International Cooperation Agency (JICA), as successor institution of the Overseas Economic Cooperation Fund (OECF). To date, only JPY543.6 million of principal remain outstanding representing 0.64 percent of the total loans of the company

15-year, USD75 million IFC loan

EDC signed a 15-year USD75 million loan facility with the International Finance Corporation (IFC). The proceeds of the loans will be used to fund EDC's medium-term CAPEX program.

USD175 million syndicated term loan facility

On June 17, Australia and New Zealand Banking Group Limited (ANZ), Bank of Tokyo-Mitsubishi UFJ, Ltd., Chinatrust Commercial Bank, ING Bank N.V., Manila Branch, Maybank Group, Mizuho Corporate Banking, Ltd., and Standard Chartered Bank opened a six-year USD 175 million Transferable Syndicated Term Loan Facility for EDC. The loan will be used solely to refinance EDC's existing three-year USD175 million Transferable Syndicated Term Facility maturing on June 17, 2013, effectively lengthening the remaining life of the existing facility and substantially lowering interest costs.

2nd Gold for exemplary corporate governance

The Philippines' Institute of Corporate Directors (ICD) conferred on EDC the Gold Award for exemplary corporate governance practices. EDC continued its gold streak for the second consecutive year. Its higher rating is attributed to its perfect scores in the following areas: equitable treatment of shareholders, role of stakeholders and disclosure and transparency.

Ring of Fire project

World Wide Fund for Nature, Philippines (WWF-Philippines) joined forces with EDC to accelerate geothermal development in Asia, via the landmark *Ring of Fire* project. The Ring of Fire initiative aims to replicate the Philippines' global success in sustainable geothermal production for Indonesia's largely untapped geothermal energy resources.

The project supports WWF's 100 percent Renewable Energy Vision by 2050 and has the ultimate goal of increasing installed geothermal capacity in the region by 150 percent in 2015 and 300 percent by 2020.

Q3

RP's first GRI-checked sustainability report

EDC has officially put the Philippines on the global sustainability map with the launch of its 2010 integrated annual and sustainability report that is also the first report of a Philippine company to be validated by the Global Reporting Initiative (GRI) organization in Amsterdam. EDC uses the more stringent Electric Utilities Sector Supplement (EUSS), which covers 109 key performance indicators.

Northern Negros Geothermal Project downgraded

After conclusive results of EDC and third-party surveys, the capacity of the Northern Negros Geothermal Project (NNGP) was downgraded from 49MW to about 10MW.

Q4

CENECO signs PSA for 10 megawatts

A Power Sales Agreement was signed with Central Negros Electric Cooperative (CENECO). GCGI will supply 10MW until June 2014. GCGI has always prioritized electric cooperatives in its host areas so they can enjoy the benefits of clean, reliable and affordable power. Geothermal's many advantages have been the reason for electric cooperatives to sign long-term power supply contracts with GCGI.

EDC, DENR to establish RP's 1st arboretum of 96 premium species

A partnership with the Philippine Department of Environment and Natural Resources (DENR) will establish a seed bank and arboretum using 96 endangered Philippine tree species in a 9.35-hectare arboretum in Valencia, Negros Oriental. The arboretum will be a germplasm – a living collection of the rare, threatened, endangered indigenous and endemic prime timber species that can be a source of propagation materials in the future. It will also serve as a research laboratory for biological and environmental scientists. The 96 species are categorized into threatened, vulnerable, rare and endangered status identified by the International Union of Conservation of Nature (IUCN).

Partnership with Hot Rock Limited

Hot Rock Limited (HRL), an Australia-based international renewable energy company signed a Heads of Terms Agreement (HOTA) with EDC on November 28, giving EDC a 70 percent equity stake in respect of HRL's geothermal projects located in Chile and Peru. The HOTA sets the framework and main commercial principles for EDC's acquisition of a 70 percent interest in the granted volcanic Longavi geothermal concession in Chile, where EDC has a representative office, and the Quellaapatcheta and Chocopata geothermal projects in Peru.

Bonds maintain highest credit rating

The Philippine Rating Services Corporation (PhilRatings) maintained its PRS Aaa issue credit rating for EDC's PhP12 billion bonds. The rating was arrived at after considering EDC's reinforced sustainable revenue stream and strong cash flow generation, enhanced standing as the leading vertically integrated geothermal power producer, and its financial flexibility and improved debt profile. PhilRatings also considered EDC's weakened profitability during the interim period, the write-off of the Northern Negros power asset in particular.



EDC President and COO Richard B. Tanco receives the Client Leadership Award from IFC Executive Vice President and CEO Lars Thunell at a luncheon ceremony in Washington, DC on September 22, 2011

EDC receives top IFC Client Leadership Award

EDC bested 129 companies and organizations from 70 countries to win the prestigious Global Client Leadership Award from the International Finance Corporation (IFC). EDC was selected for its exemplary performance in operational excellence, sustainability, environmental management, social responsibility and corporate governance. The IFC recognized EDC's pioneering role in the commercial development of geothermal energy in the Philippines and its seamless integration of sustainable corporate social responsibility with the pursuit of geothermal leadership.

IFC has been a key investor of EDC since its privatization in 2006 up to the present. In 2011, the IFC exhibited its continued support for the company through a USD75-million loan to fund EDC's medium-term capital expenses. The third loan is a testament to EDC's consistency in meeting IFC's Performance Standards throughout the development of its business and in managing the environmental and social impacts of its projects.

2011 AWARDS AND RECOGNITION

1. IFC Client Leadership Award
2. Gold award for exemplary corporate governance from the Institute of Corporate Directors
3. Philippine Environment Partnership Program (PEPP) Seal of Approval for the Leyte Geothermal Project and Green Core Geothermal, Inc.
4. Safety and Health Association of the Philippines, Energy Sector (SHAPES) Certificate of Recognition for "No Lost Time" to the following projects:
 - a. Geothermal Production Fields – Steamfield Operations Sector
 - Southern Negros Production Field (SNGPF) – 3,080,792 safe man-hours since February 6, 2007
 - Mindanao Geothermal Production Field (MGPF) – 3,199,007 safe man-hours since October 2, 2007
 - b. Geothermal Power Plants – Power Generation Sector
 - Upper Mahiao Power Plant (UMPP) – 1,612,204 safe man-hours since June 25, 2007
 - Mahanagdong Geothermal Power Plant (MGPP) – 1,603,771 safe man-hours since July 25, 2007
 - Northern Negros Geothermal Power Plant (NNGPP) – 485,885 safe man-hours since January 1, 2007
 - Mt. Apo Geothermal Power Plant (MAGPP) – 460,663 safe man-hours since June 18, 2009
5. Anvil Awards from Public Relations Society of the Philippines (PRSP)
 - a. Award of Excellence for *Master of Green Power* Communication Program
 - b. Award of Merit for *Sustain via Renew* EDC's 2009 Integrated Annual and Sustainability Report
6. Quill Awards from the International Association of Business Communicators (IABC)
 - a. Award of Excellence for EDC's Sustainability Program
 - b. Award of Merit for the Kananga-EDC Institute of Technology (KEITECH) Communication Program
 - c. Finalist citation for *Values @ Work*, EDC's 2010 Integrated Annual and Sustainability Report
7. Lopez Achievement Award, Public Responsibility for *KEITECH: Producing the world's greatest nation builders*
8. Lopez Achievement Award for Public Responsibility for *Bacman Gives Back Real Power to the Community*
9. Lopez Achievement Plaque of Recognition, Corporate Image Building for *KEITECH: Producing the world's greatest nation builders*

A scenic landscape photograph of Mount Apo in Mindanao, Philippines. The mountain is the central focus, partially shrouded in mist or low clouds. The sky is a warm, golden-orange color, suggesting sunrise or sunset. In the foreground, there is a dense forest of tropical trees, including palm trees, silhouetted against the bright sky. A dirt path or road leads from the bottom center towards the base of the mountain. The overall mood is peaceful and picturesque.

Picturesque Mount Apo greets guests and employees in EDC's Mindanao Geothermal Power Complex each sunny day





Our Performance

Aligning Practices with Principles

Our innovations are manifestations of what runs deep in our corporate blood – our shared credo. EDC was borne out of a nationalistic impetus in the middle of the oil crisis in the 1970s, created for the purpose of developing the country’s very own natural resource to put in place a long-term energy security plan. By successfully commercializing this on-site power resource, EDC has developed a unique business model that has become a national pride, a contributor to economic well-being and a catalyst for sound environmental and community business practices.



Our 192.5MW Southern Negros Geothermal Power Complex provides sustainable, green power to Visayas

A Note on EDC's Sustainability Platforms

What makes EDC stand out among the rest is its unyielding adherence to fulfill its mandate – to discover and develop alternative resources of energy to serve the present and future generations. Long before environmentalism and sustainable development became mainstream agenda, EDC has already built its model on the principles of inclusive progress. In the midst of a dynamic business environment we remain steadfast on our promise. We continue to serve our customers, our shareholders, our employees and our communities with an unwavering resolve to stay focused despite challenges along the way to reach our business goal and an unbridled passion of conquering summits, symbolic and otherwise, so that we can deliver on our promise of making renewable power the first choice rather than a mere alternative.

Our Business Premise

More than a business imperative, power producers are duty-bound to provide clean and reliable energy for the public good. This report describes our commitments to operational, environmental and social responsibilities, which are at the core of our company's history, culture and business strategy.

Geothermal and hydropower—the indigenous and renewable energy resources that EDC harnesses for power generation—are what may be called an *in situ* energy resources that are commonly found in forested mountain areas. For instance, geothermal can only be utilized at

the site where it is tapped. Thus, geothermal requires localized development and management so as to maintain its productive and renewable capacity. It is for this reason that EDC has been adopting systems and technologies that ensure the optimal and sustained operation of its geothermal projects.

For this cycle, EDC moves toward better integration of its performance reporting ensuring that balanced reporting is achieved. The challenges of 2011 were not as daunting as the ones experienced three decades ago or in the mid-80s when profits plunged to an all-time low. We conduct our business with emphasis on integrity, responsibility and transparency to stakeholders. Our track record in the past three decades reflects the proven viability of our business model, which we are reinventing today as we bring Filipino geothermal mastery into our international expansion projects. The most important thing we will do over the mid-term is to have a fact-based



Agnes C. de Jesus, EDC's Compliance Officer and SVP for Environment and External Relations has been spearheading the company's sustainability excellence strategy and communication

understanding of the entire impact that we have over our value chain. This report chronicles the first few steps of our very own sustainability journey.

Our Approach to Sustainable Economic Growth

We are strengthening our leadership in the Philippine renewable energy industry. We build on our foundation of technical expertise, operational excellence, and strong financial position to achieve this. Part of our growth platform is to generate value

“This report describes our commitments to operational, environmental and social responsibilities, which are at the core of our company’s history, culture and business strategy.”

by increasing our total geothermal capacity not only in the country but also in other countries that are rich in this renewable energy resource. We will also develop wind energy resources here in the country starting with the 86MW Burgos wind energy project in Northern Luzon. We painstakingly optimize the availability, reliability, and efficiency of all our operating steam fields and power-generating assets as we maintain a competitive cost structure. We strive to ensure that the company’s progress is at pace with environmental and host communities’ prosperity. Thus, we directly award the procurement of goods and services to qualified locally based suppliers, continuously build the capabilities of community organizations and cooperatives for manpower deployment, and prioritize competent applicants for local employment from our host communities. Through these, we shall achieve superior long standing relationships with our customers and become the preferred supplier of clean power in the country.

Our approach to business leadership and human resource development

We believe that only a highly trained and motivated workforce can fortify the company’s geothermal leadership position and reputation for global excellence. We care for our employees’ welfare so that we can

build our “next-in-line leaders” who will propel the company to sustained growth, profitability, and operational excellence in the coming years. A leadership development program supports succession planning and management, and we make it a point to monitor the career development of each staff. We promote a results-oriented workplace and provide our employees with training and education so that they can be the best in their fields of expertise. We seek to be the best employer and we uphold equal opportunity in the workplace to attract and retain the most skilled personnel in the industry. We also work with partner local government units in terms of employing qualified local residents and members of indigenous peoples. Given the level of expertise required of our employees, we ensure rewards and remuneration in compliance with existing legal and statutory wage requirements nationwide, internally equitable, and market competitive. Good management-employee relations are further contributory factors to our goals of workplace productivity and industrial harmony. Ensuring occupational health and safety not only for all employees, but even among contractors and various stakeholders, is our priority.

Our approach to environmental management

Beyond compliance is our deep commitment to environmental stewardship, which finds its concrete expression in our *Corporate Environmental Policy* and *Code of Conduct and Business Ethics*. We seek to reduce risks in the workplace by implementing safe operating procedures, employing clean technologies and waste-minimization strategies, promoting scientific investigations and sound environmental management programs, and guaranteeing emergency preparedness at all times. We practice resource regeneration following the natural cycles of the environment and this is manifested in our zero discharge practice that uses a system of

minimal wastage and proper re-injection of geothermal resources. By protecting and enhancing the forest cover in our work sites, we ensure the delivery of optimum forest goods and services that help in the recharge of the geothermal and hydropower reservoirs and serve the various publics and industries that are dependent on the watershed. We shall enhance biodiversity and the ecosystem in areas where we operate. We partner with environmental organizations to work towards this end. We work with governments, industry and the academe to share expertise and best practices.

Our approach to stakeholder partnerships and policy advocacy

Doing good business by doing good. This is EDC’s guiding principle in the pursuit of corporate excellence that goes beyond the financial bottom line. Our Community Partnerships program empowers our stakeholders and partner communities to become agents of their own development. Ultimately, we recognize that our stakeholders provide insights on how best to responsibly improve on our service, efficiency, productivity, and innovation. We liaise with the government as part of our participation in policy consultations, as well as providing voice to the agenda of our stakeholders in appropriate policy-making venues.

We underscore the importance of partnership in achieving the goals of creating safe environments and hospitable social climates, and of harmonious relationships with stakeholders in areas where we operate.

Our sustainability team

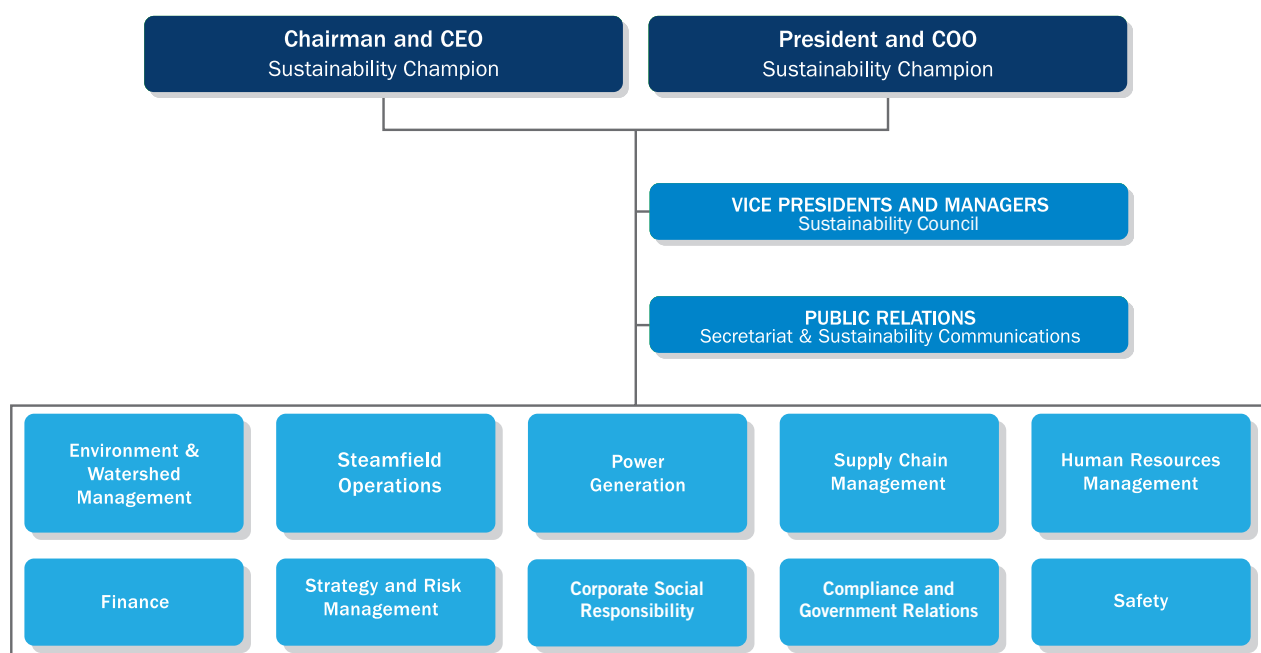
The information contained in this report is based on materials gathered by our dedicated Sustainability Team, a core group of 20 employees from the head office and the field offices banded together contributing their individual expertise to set up a system that will identify material

indicators, monitor performance, analyze and integrate for project decisions and communicate for wider dissemination and better understanding of EDC's triple bottomline performance. The Sustainability Team reports to the

consider material information to be that which is of greatest interest to, and which has the potential to affect the perception of those stakeholders who wish to make informed decisions and judgments about EDC's commitment to environmental,

issues were raised and plotted them in the stakeholder salience map using two spectrums: Level of Concern to Stakeholders and Impact of Concern on EDC. We note that all issues and concerns raised by our stakeholders are considered important.

SUSTAINABILITY TEAM



chairman and the president, the company's sustainability champions, and the vice presidents and managers who act in advisory capacity as members of the Sustainability Council. All 2,533 regular employees contribute to achieving the business excellence objectives which are the drivers of our sustainability initiative. The people of EDC at all levels have an important impact on the sustainability of our business, our communities and our planet.

Our assessment of material issues

Guided by the GRI framework on materiality testing, our Sustainability Team conducted an assessment of stakeholder issues and concerns that intersect with the potential issues that could impact the company's business objectives in the mid-term. We

social and economic progress. The Sustainability Team together with the Sustainability Council identified and prioritized the issues after conducting a series of stakeholder consultations in the five business sites.

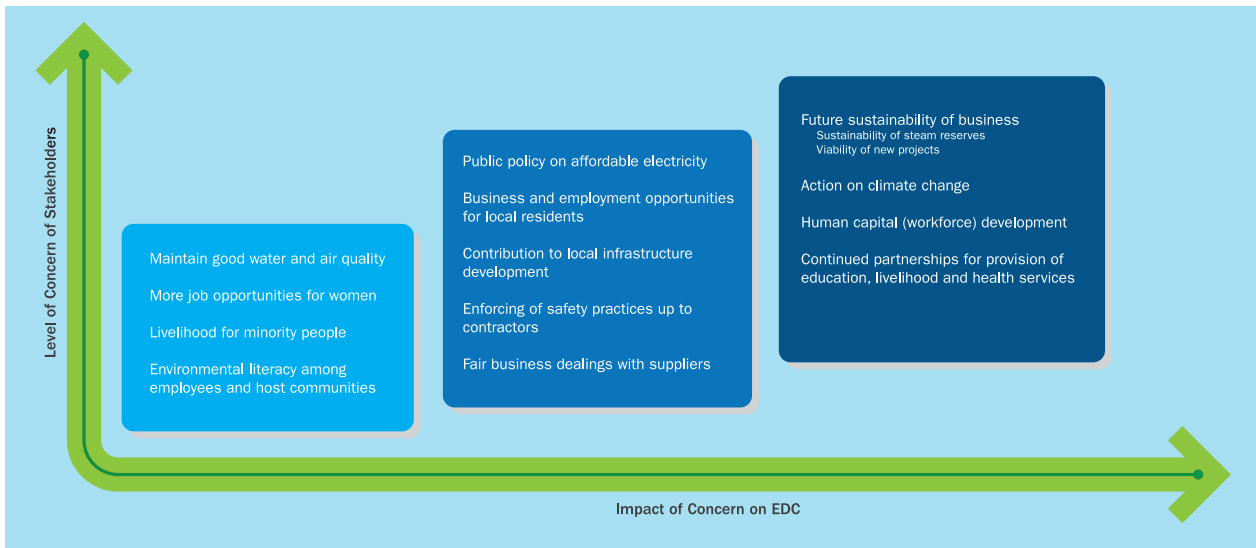
We partnered with the Center for Social Responsibility (CSR) of the University of Asia and the Pacific (UA&P) to obtain impartial commentaries from our stakeholders in the different sites. The commentaries gathered by UA&P were reviewed internally.

The issues were identified from the comments from employees and major external stakeholders such as host communities, government officials, suppliers and dealers, investors and non-governmental organizations. We noted the frequency with which

We have used the analysis to identify issues to cover in our reporting and as an input to the development of our Business Excellence Strategy. The methods and the resulting analysis are works in progress. We acknowledge the overlaps and the evolving nature of stakeholder interests given the conditions of the economy, political events and local development trends.

Our engagement with stakeholders

Through open and honest dialogue, we are actively engaged with our employees, business partners, customers and communities. We use the full range of methods to communicate with stakeholders, from published reports and disclosures, such as this integrated report, to face-to-face dialogue and informal



discussions. We engage with electric cooperatives and inform them of the benefits of buying green power from us, we listen to their feedback so we can better serve their needs. We partner with our host communities, all 43 of them, to ensure that our business operations will always reflect our commitment to inclusive progress. The result of our baselining activity in 2011 resulted in a clearer understanding of the different stakeholder expectations on our company.

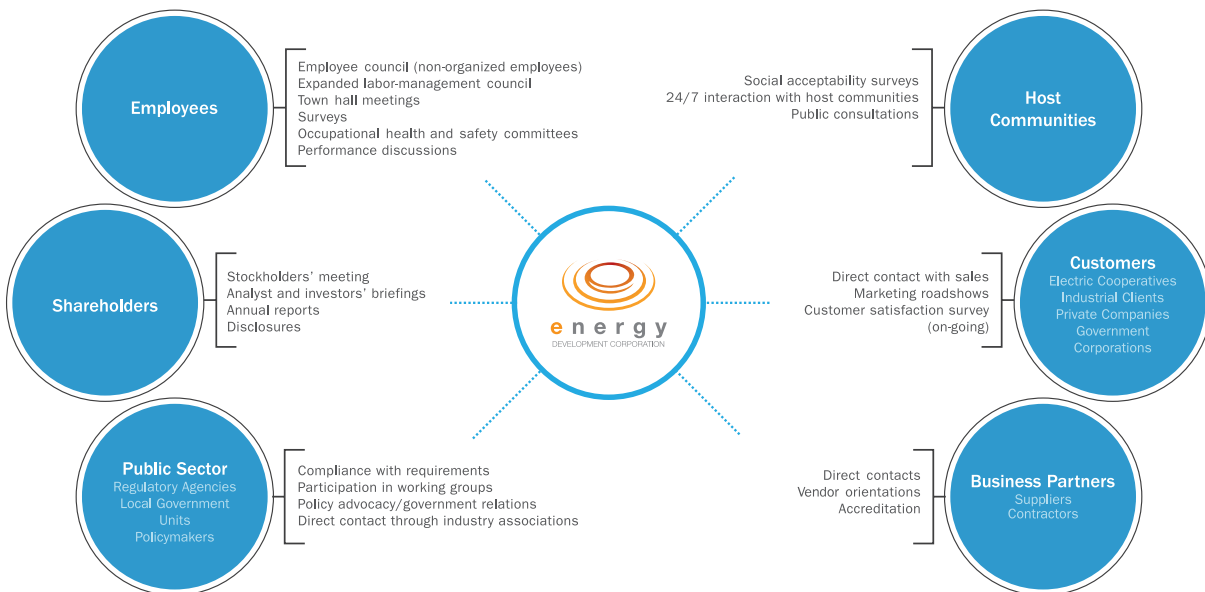
Reporting and communicating

We report in an integrated manner our triple bottomline performance in 2011. We invite you to join us in helping us in crafting a sustainable future. At present we are building our set of sustainability communications tools beginning with the infomercials (with local language translation) on energy conservation and presentation of corporate initiatives in CSR and environment. We strive to provide relevant materials that meet the information needs of our

stakeholders. All our materials adhere to responsible communications and ethical practices espoused by the Advertising Board of the Philippines.

We are grateful to the members of the External Review Committee for their independent assessment and helpful recommendations in producing our 2011 Integrated Report. EDC would also like to thank the Technical Working Group (TWG) both at the head office and the sites who have tirelessly worked every day in the last few months to produce this report.

OUR STAKEHOLDERS



Our roadmap

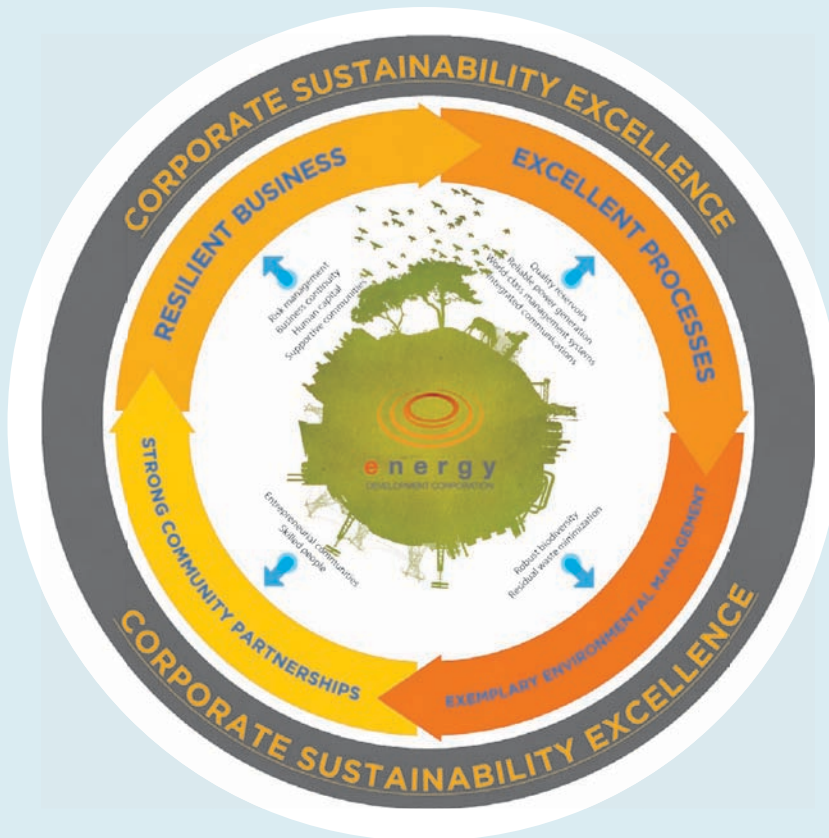
Beginning this year until 2014, we will work on a set of 12 identified areas where our business sectors' respective expertise will be able to contribute to EDC's Business Excellence Pillars. We pursue four key strategies, namely: excellent processes, exemplary environmental management, strong stakeholder partnerships and resilient business.

Aligning our processes with global standards is one of the key activities

communication of our different business databases.

We will maintain our exemplary performance in environmental management. On top of our existing programs on watershed and environmental management, we will pursue a biodiversity research program and develop a climate change hazard decision support system.

With the institutionalization of stakeholder partnerships, we are optimistic that we will be able to create



we are doing right now to be able to participate in international markets. We will practice world-class management systems. We will develop technologies that will utilize acidic wells and preserve steam quality and apply patents for these. We will operate reliable power generating assets to contribute more clean electricity to the national power grid. We will integrate our information technology platforms for easier interaction and

self-sustaining communities. By working with various stakeholder groups, we will instill entrepreneurial spirit among our organized farmers' groups and community associations as well as with local contractors and industries.

We are committed to ensuring that our people, facility and power generation remain safe and secure, and that the ability to serve our customers remains uninterrupted. We are strengthening



The Chairman and the President (above) join the Sector Vice Presidents in committing to the Corporate Sustainability Excellence Goals

our risk management plan, business continuity plan, and safety policies. These will be used to maintain a state of preparedness in anticipation of natural or man-made hazards that could result in business interruptions, or in the worst case, business closure. We commit to managing risks, constant planning for business continuity, developing our human capital and engaging our stakeholders vis-à-vis stronger community support.

Economic Benefits

21st Century Fire Bringer

We took it upon ourselves to actively participate in the development of communities where we operate. Intrinsic rewards fuel our work knowing that as a purveyor of public good, we are making a positive impact both at the national and local levels. The feedback from the community and positive changes we actually see in their lives confirm that we can be an instrument of change. We, however, do not deny our need for reciprocal support from our immediate neighbors to maintain hospitable social climates for our facilities & personnel. At the end of the day, it is not the level of achievement that is important to us. Together with our business partners and other interested stakeholders in local development, we have committed to contribute to our nation's progress by supplying clean electricity and to reduce poverty through the advancement of community wealth and welfare.

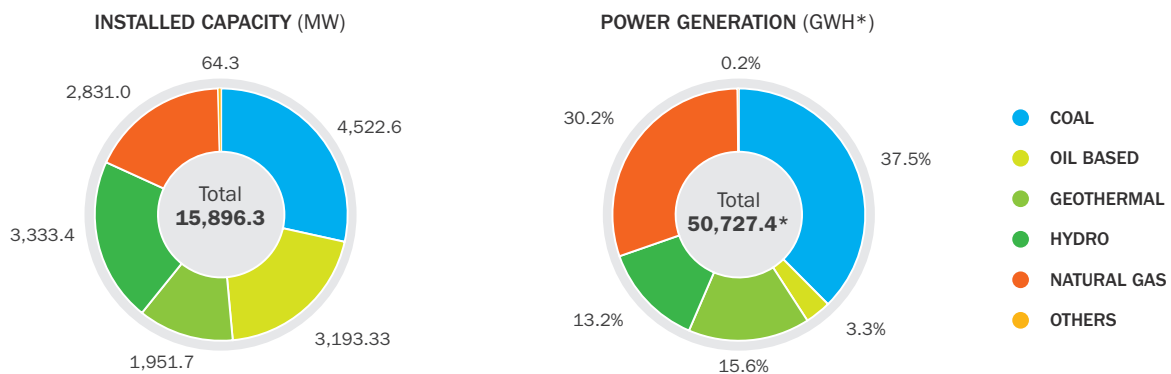
In a year that saw a significant dip in our bottom line, we remained steadfast in fulfilling our obligations to our partners in the communities. Our Chairman Emeritus Oscar M. Lopez once said, *"A commercial firm which could hardly make both ends meet but, which gives real satisfaction to the community is more successful*

than a multi-million corporation which only keeps huge profits to itself, neglecting the community which sustains its business." Following this philosophy, we fulfill our economic responsibility by contributing to the broader social context to which we belong.

Market presence and economic value distributed

Faced by the country's goal of achieving energy security through renewable and alternative energy sources, we respond by laying down an extensive capital expenditure program to increase our total capacity

EDC'S ECONOMIC CONTRIBUTION: CLEAN ENERGY IN THE SUPPLY MIX



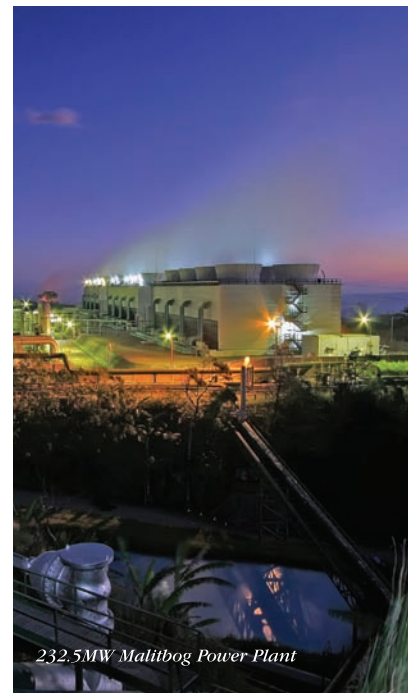
*Note: DOE's preliminary gross generation as of September 30, 2011

from new development projects and to improve our existing assets' availability and reliability. We are diversifying our portfolio to include other indigenous renewable energy sources notably wind and hydro energy sources.

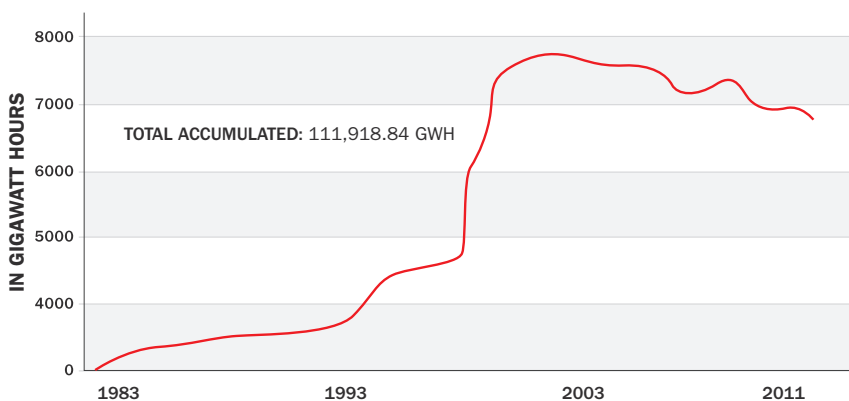
Under our care are customer groups of distribution utilities, industrial and commercial businesses and government corporations that benefit from our supply of green energy marketed at a very competitive cost structure.

Since we began commercial operations, we generated a total of 111,918.84GWh of electricity from steam, displacing 186 million tons of oil equivalent with a savings of USD8 billion. We consider it part of our responsibility as a business to assure our customers of clean, reliable, and

Success therefore is also gauged by the cooperation, admiration, and respect we have gained from the common folk, deep in the hinterlands where our business value chain operates as we pursue our mission of providing clean energy to present and future generations



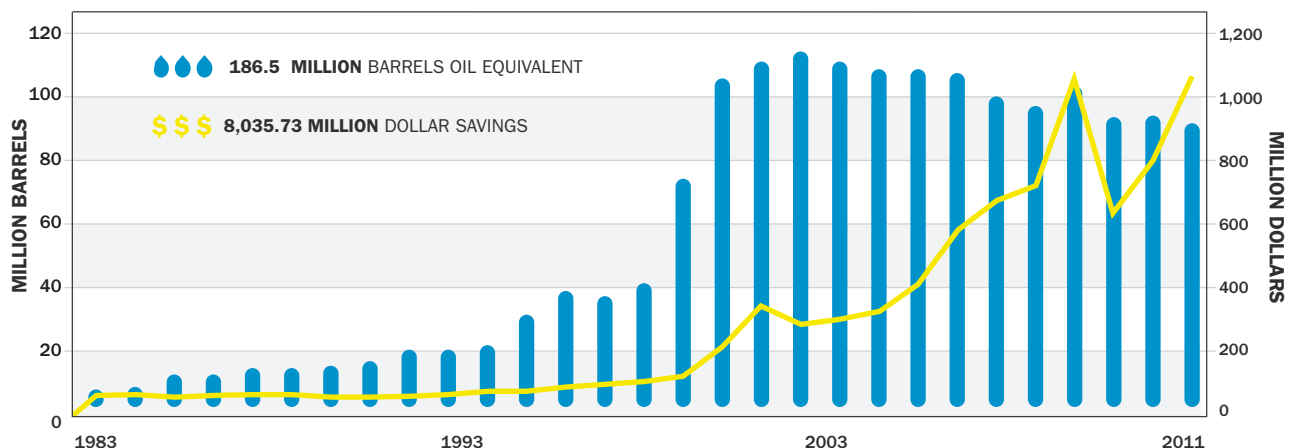
POWER GENERATED, 1983-2011



affordable power sources, which in turn support the growth of society.

We consider economic prosperity in areas where we operate as a meaningful indicator of how well we are able to contribute to local economic development. To pursue this, it is our policy to purchase from local suppliers whenever possible, continuously build the capabilities of community organizations and cooperatives for manpower deployment, and prioritize qualified

OIL DISPLACED AND DOLLARS SAVED, 1983-2011





Our Fluid Collection and Recycling System reinjects separated brine back to the earth's surface to recharge the geothermal reservoir

applicants for local employment from our host communities.

Our Board declared dividends worth PhP3.34 billion paid to all shareholders in March 2011. We paid our regular and contractual employees, in terms of salaries and wages or 10 percent of the economic value distributed. Contributions in terms of taxes paid amounted to more than PhP2 billion, 70 percent of which was made to the government at PhP1.4 billion or 8.2 percent of our total economic value distributed for the year.

Being a private corporation, we neither required nor received significant financial assistance from the government. Fifty percent or an equivalent of PhP12.6 billion was spent on our operating costs.

While we set our sights on international shores, we know that a meaningful indicator of our economic value has to do with our contributions to local economic development.

Our operating costs were sourced locally spending about 60 percent of the total purchases made in 2011. We see to it that the company creates opportunities for our host communities to participate in their economic development, one that is in pace with EDC's economic prosperity. Our community investments designed to make people become more self-reliant amounted to PhP340.2 million or 1.4 percent of the economic value distributed.

Understanding the indirect impact of the business

As our operations are located in remote towns and mountainous areas, it is incumbent upon us to build roads and other basic infrastructure. In doing so, we help local governments stir economic activity. Employment is generated as we build necessary infrastructure thereby alleviating poverty and providing additional income.

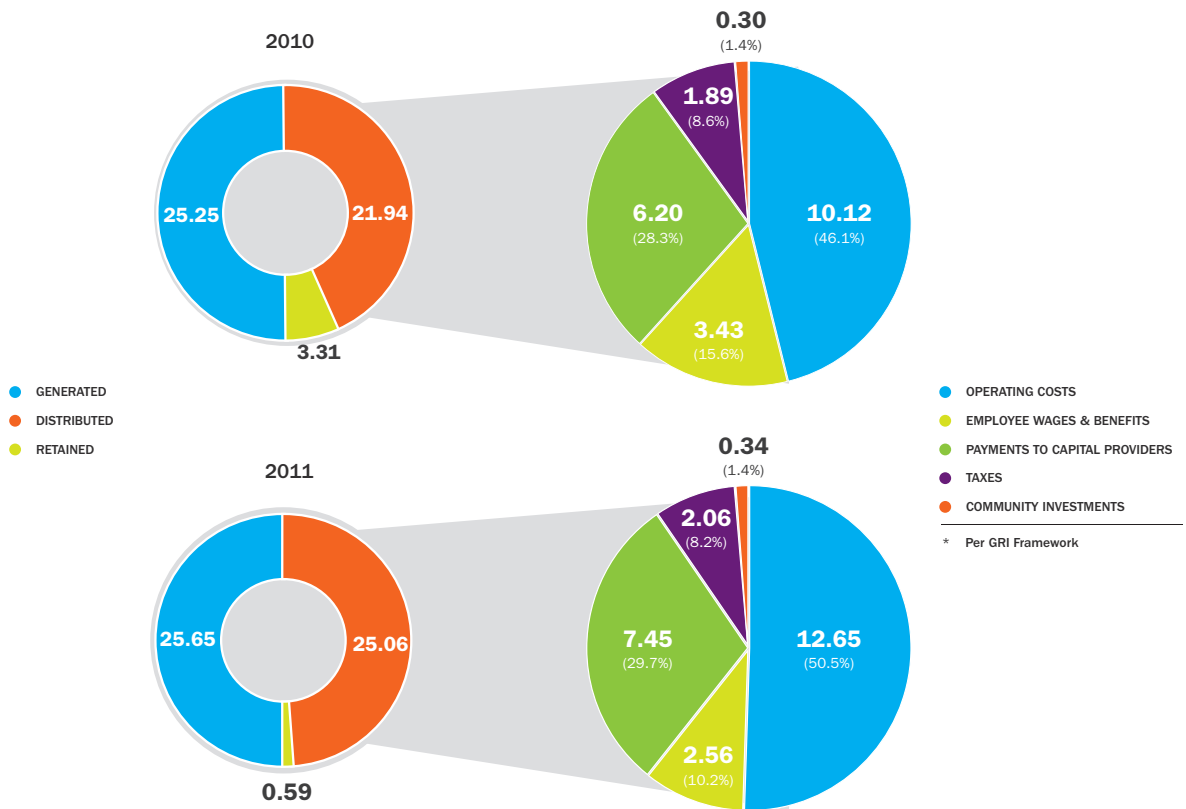
Our CSR investments are not meant to be dole-outs from the start. The

farmers' associations organized earlier to help in the protection and preservation of watersheds are now community entrepreneurs that sustain the barangay or village economy. Our work with the farmers' association is only a part of a bigger goal we hope to achieve – that of creating the cycle of wealth and welfare in our areas of operation.

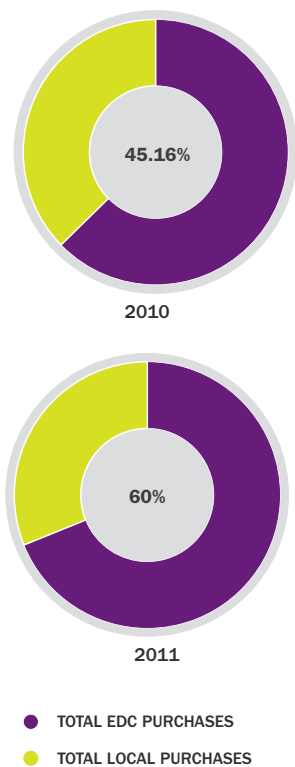
Aside from the taxes and royalties that we pay, we also set aside one centavo per kilowatt-hour of electricity sales as an added benefit to host communities as provided for by the Department of Energy Act of 1992 and Energy Regulation 1-94. The amount goes to electrification, development and livelihood projects and to reforestation, watershed management, health and environmental enhancement.

From the beginning, we ensure that we minimize the effects of involuntary resettlement and to compensate affected residents. Affected residents were brought away from the natural geological

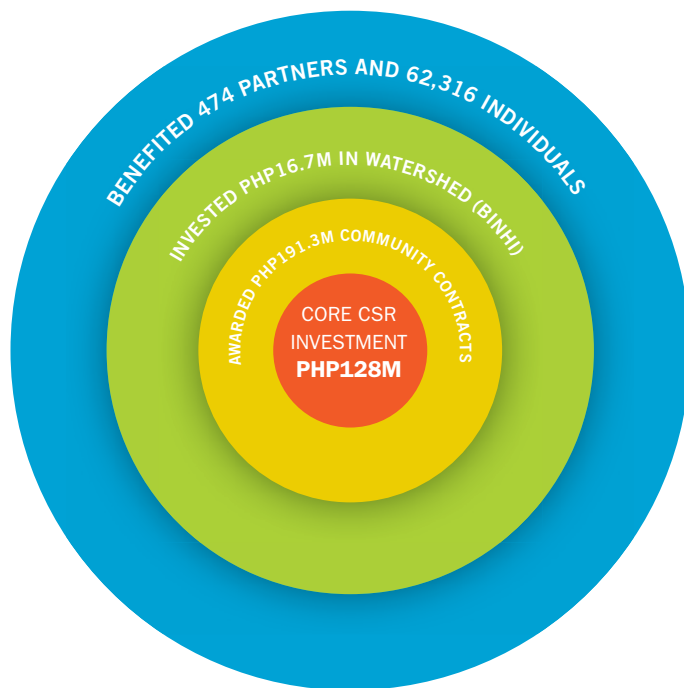
ECONOMIC VALUE GENERATED, DISTRIBUTED AND RETAINED (IN PHP BILLIONS)



LOCAL SPEND AS A PORTION OF TOTAL PURCHASES



IMPACT OF OUR CSR INVESTMENT



PHILIPPINE POWER SUPPLY AND DEMAND PROFILE (MW)



hazard areas. They are brought to a relocation site with the least disruption in their living. Today, our relocated villagers in Leyte and Mindanao live in a two-bedroom core house on at least 200-square meter lot. The resettlements have access to roads and subdivision alleys, a town hall, chapel, and recreational plaza plus electricity, water supply and drainage systems. The villagers are given priority employment in contracted community services as well as various projects to enhance their livelihood. Such benefits stay with the recipients for life.

We employ thousands of workers during project construction that benefit local residents who gain work experience and capital for a better life for their families. Upland dwellers are also involved in our integrated social forestry projects. Values formation, leadership and team building seminars are regularly held to help farmers see the value of cooperativism. Technical support and training in skills are conducted such as agroforestry, nursery, and plantation operations, financial management and other related disciplines.

When we say we are a success, we speak in absolute terms such as megawatts of installed capacity. But success is also defined in terms of the infrastructure that we put up, the ancillary industries that have thrived because of our geothermal operations, employment, opportunities that our projects have generated and social improvements we introduced in our project areas.

AVAILABILITY AND RELIABILITY OF OUR POWER GENERATING ASSETS

The previous efforts in rehabilitating our power plants after our acquisition from the government after EDC won in a competitive bidding, have yielded positive results allowing us to set our target reliability factor at 99 percent and target availability factors of 94-96 percent across all power plants. Our strategic initiatives and technical services sectors are tasked to constantly undertake research and development in areas such as improving energy conversion efficiency of power plants, recovering waste heat energy for productive use, and mitigating other energy losses to improve efficiency, reliability, and availability of power and steamfield facilities and equipment.



The 112.5MW Tongonan Geothermal Power Plant is operated by our power generation subsidiary, Green Core Geothermal Inc.





Environmental Performance

It was auspicious that geothermal has been cited as an “environmentally advantageous” energy resource in the Rio Declaration during the Earth Summit in 1992. How has business progressed from being an outsider to becoming a key part of the solution? Interestingly, some of the most promising ideas to help address sustainability problems are coming from the business sector. Based on our experience in managing geothermal reservations, we agree that, indeed, we cannot make good business in a collapsing planet.

Our green option

The choice to ambitiously develop a powerful natural force is what we refer to as the green option, a choice that makes good business and environmental sense. The major advantage of geothermal over fossil-based options is its assured fuel supply on site. During project development, we use directional drilling technology and multi-well pads. This allows several wells to be drilled from a single well pad to avoid forests, populated areas and other critical land uses – in other words, least disturbance on all the ecosystems above the geothermal reservoir.

In areas which we cannot avoid, we mitigate the impact of the project. The trees that were affected were not cut but instead allowed to thrive in another area. Fast-growing species are immediately planted as roads and well pads are constructed. The vegetation shields the soil from rainfall while the roots of the plant hold the soil intact. In other instances, engineering structures such as riprapping and check dams are employed to prevent slopes from collapsing.

Areas opened up during the construction and development phases of geothermal operation such



Geothermal innovations

We have a brain trust from among our technical specialists that finds ways on how our geothermal processes could always be improved. We have applied for the patent of our technological breakthroughs. We take pride in sharing with you some of our innovations that make our practices environment-friendly.

Fluid collection and recycling system (FCRS)

Geothermal in the Philippines is of the wet type, producing 70 percent brine and 30 percent steam. We devised a way that addressed not only the disposal of brine but also found a way on how to recycle brine through the so-called reinjection technology. Reinjection facilitates the recycling of fluids helping the reservoir to recover from the draw down from steam-producing wells. To avoid quenching the reservoir, injection wells are constructed away from the production zone.

Steam line interconnection (SLI)

A spin-off of the FCRS idea is the development of an injection line that runs across many steamfields. This addressed the problem of injecting brine where the separator station is located far from the reinjection wells. Not only that, by constructing lines for brine, we were also able to find another good use for this and that is to provide interconnected lines from the steamfields to the power plants. This is very useful in our Leyte project where steamfields are servicing five geothermal power plants and three optimization plants. Any power plant that encounters steam shortfall can be fed with steam from the interconnected system. We call this our Steam Super Highway in Leyte. It facilitates reinjection, links the steam fuel and power generator, minimizes environmental impact and improves on the overall sustainability of the project.

Online steam purity monitoring system (ONLINE SPM)

Steam quality is one of the most important parameters in the efficient operation of the geothermal power plants. Through our continuous online monitoring technology, we are ensured that we get accurate, real-time data. Simply, this technology provides an integrated system complete with condensate sampling, sodium analysis and automatic data transmittal from the flame photometer to the control center – all done without the presence of an operator at the monitoring shed. The objective of using the online SPM is to maintain a steady supply of quality steam to run the turbines of the power plant. We have already obtained a Philippine patent for this invention.

Well acidizing technique

Although most of the technology that we use is borrowed from the petroleum industry, we are constantly seeking ways to improve them in the context of geothermal necessity. For instance, our engineers have developed well acidizing techniques that have stimulated and improved the permeability of the well and increase its capacity by dissolving mineral deposits along the bore. These resulted in significant savings for the company since no replacement wells needed to be drilled.

Geogard SX

In our Bacman project, we made a breakthrough by developing a silica inhibitor called Geogard SX. Geogard SX is a result of 10 years of collaborative research. Geothermal wells and pipelines normally become clogged with silica deposits over time, creating a major problem in geothermal systems. Geogard SX disperses these silica deposits, prolonging the useful life of wells and pipelines.

Compact development and multi-well pads

Our Southern Negros project is a showcase of excellence both in geoscientific work and surface design and engineering. Because of the limited space, the pipelines and other surface facilities had to be aligned in a space-maximizing manner. Also, directional drilling had to be applied to drill more wells from a single pad. This multi-well system minimized the need for rig movement and additional water lines, thereby saving on water consumption and minimizing surface impact.

as for roads, well pads and other facilities are immediately rehabilitated through vegetative means to provide immediate cover. EDC pioneered the use of cogon matting in its slope stabilization activities where the seemingly useless indigenous material like cogon leaves are woven and intertwined to form mats and laid in open slopes.

On the other hand, bio-engineering measures are employed in critical areas and slopes such as access roads, pads, and pipeline corridors inside the geothermal project sites. These measures mainly alter the mechanical characteristics of soil thus reducing or totally eliminating the likelihood of massive soil erosion or mass movement in order to protect these facilities.

Because of the experiences gained by the company in the field of corporate environmentalism, EDC is acknowledged as one of the leaders

projects that promote environmental protection and preservation. Our environmental practices are among those acknowledged by national and international organizations as models for environmental protection and development. We conduct regular water, air and biological quality monitoring of the environment in all our operations to ensure compliance with environmental and health standards. Our impact is regularly monitored by an independent multi-sectoral monitoring team (MMT). In 2011 we streamlined and updated our Environmental Policy in keeping with our initiatives in various environmental and watershed management areas. All our environmental and technical services laboratories are ISO-certified. We are installing an Environmental Management System (EMS) as part of our ISO-14000 application process. In 2011, we have invested PhP243 million in environment and watershed management and related

are moving up the learning curve with these improvements with the objective of fully reporting our environmental performance on a year-on-year basis.

Resource productivity

The intensity of our operation is reflected in the basic resources that we use in the process of producing steam and generating electricity, namely materials, energy and water.

A large portion of the materials used, with a total of 80.3 million tons, came from drilling activities, steam pipeline construction and maintenance and oil use. Early this year, we began laying down a new materials inventory program which would enable us to account for the use of different materials at all levels of operation. Next year, we hope to fully report on our material intensity. This year we enhanced the accounting procedures for primary energy sources. We have

2011 RESOURCE PRODUCTIVITY

MATERIALS USED	DIRECT ENERGY USED	INDIRECT ENERGY USED	ENERGY SAVINGS	WATER WITHDRAWAL
80.3 million tons	134 million Gigajoules	0.035 million Gigajoules	0.262 million Gigajoules	1.56 million cubic meters

in the local environmental sector and is recognized by the regulatory agencies as a candidate for piloting their proposed procedures. Some of our environmental programs are adopted by the government in various national policy guidelines and are serving as models to other companies.

Among the company initiatives worth mentioning is our practice on public consultation, which is enhanced by implementing participatory dialogues, conflict resolution, multi-sectoral monitoring, and community-based Environmental Impact Assessment System (EIA) procedures.

With the full force of our people and resources, we have put into place

programs. Moving forward, we will continue to allocate appropriate budget for the better integration of best environment management practices in our operations.

Key indicators of our environmental performance

For this report, we made improvements in our data monitoring process. As a result of enhancing our templates based on the GRI framework, we were able to address some of the gaps of last year's report. The establishment of the Environment Template Committee allowed us to thoroughly review all the data gathering and monitoring requirements of each core and non-core environment indicators. We

accounted for the total amount of harvested steam (including blow-offs) from the geothermal reservoir for each geothermal project site as well as the energy sources sold (i.e. net electricity generated). We were also able to account for the electricity consumption of all geothermal project sites and hydroelectric power plants. We reconciled the gaps of reporting from different sectors to determine energy productivity which is a measure of both direct and indirect energy usage. By completely reporting on energy intensity, this becomes the new baseline from which future energy management reporting will be compared with. We generated energy savings of about 262,670 gigajoules due to the implementation of energy efficiency

initiatives such as energy audits, measurement of heat loss in FCRS, replacement of energy efficient lighting systems and fixtures and other energy conservation measures.

Diminishing supplies of clean, potable water is an important environmental challenge we face going forward. There are competing demands for fresh water supplies due to growing population, drought and inefficient water infrastructure. For our part, we made an initiative to establish the baseline of our water intensity so that we will be able to monitor and consume with the objective of using water with least or no wastage. To be able to monitor our water consumption, we have procured flow meters to be installed in all project sites. This will give us actual logs of how much has been consumed along the entire value chain, from drilling, steam production, power generation and domestic use. The 1.56 million cubic meter water withdrawn in 2011 is partially reported. The bases of the information on water are referenced from the permits that we secured from the National Water Resources Board (NWRB). Next year, we will be able to fully report after the flow meters are installed.

Emissions and waste management

We implement a zero discharge system in all our operating sites. In November last year, we reiterated the strict implementation and practice of the Zero Discharge System Policy at all times. Any leakage, spill or accident related to the handling of fluid wastes is required to be reported immediately for prompt action. We continue to achieve zero incident of significant spills and zero environmental case in 2011. We are compliant with applicable pollution control laws, regulations and standards. Our sumps and thermal ponds are fully lined to prevent leaks. We secure pollution control permits and equip our personnel and subcontractors with safety training and protective equipment. Hazardous waste transporters and treaters are strictly checked for

HOW DO WE CONSERVE ENERGY

- Conducting energy audits and heat loss measurements
- Performing regular engine checks
- Riding in service shuttle or car pooling
- Promoting "paperless" office communication
- Using efficient lighting systems
- Using appliances with high energy efficiency rating
- Using passive cooling in building structures, whenever possible

262,670 GJ

ENERGY SAVINGS

2011 WATER WITHDRAWAL, BY PROJECT SITE*

LOCATION	CONSUMPTION (In cubic meters)
Head Office	38,892.00
Bacman (Geothermal)	184,769.40
Leyte (Geothermal)	443,119.85
Mindanao (Geothermal)	453,149.39
Northern Negros (Geothermal)	28,968.34
Southern Negros (Geothermal)	414,000.00
Nueva Ecija (Hydro)	418.09
LOCATION	1,563,495.06

**Partially reported*

accreditation and legal compliance, and are audited for proper handling, treatment and disposal practices. Our water quality monitoring is conducted through regular checks of compliance of waterways with water quality guideline values. We likewise maintain the air quality within normal levels and we are fully compliant with the Philippine Clean Air Act.

Beyond compliance, we continue to find ways that will enhance our waste management protocols. For instance, two of our greening goals declared in the Business Sustainability Excellence pertain to the phased reduction of ozone-depleting substances in our

operation, as well as the minimization of all our solid wastes. The use of the vertical discharge diffuser or VDD has enabled us to mitigate temporary defoliation of adjacent forest stands during well testing. The brine sprays that are discharged during well testing contain naturally high concentrations of salts. By using the VDD, brine sprays are diverted to the silencer to prevent the damage of nearby vegetation.

The GHG emissions of EDC for 2011 is computed at 652,888 tons of CO2 equivalent as compared to 2010 figures of 702,362 tons of CO2 equivalent. We included several GHG

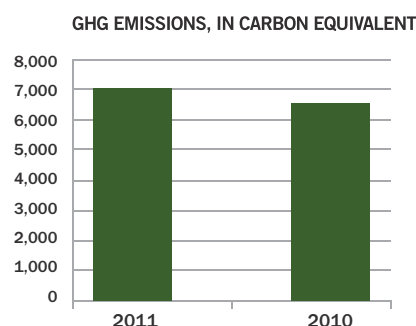
NOx, SOx, and other significant air emissions by type and weight (tons)				
Site	Nitrogen Oxides (NOx)	Sulfur Oxides (SOx)	Particulate Matter (PM)	Carbon Monoxide (CO)
Leyte	3.181	0.210	0.685	0.072
Bacman	4.318	0.286	0.931	0.098
Southern Negros	1.146	0.076	0.247	0.026
Northern Negros ¹	49.396	3.267	10.644	1.115
Mindanao	0.659	0.044	0.142	0.015
Pantabangan ²	0.00	0.00	0.00	0.00

Notes:

1. After the back feed of National Grid Corporation of the Philippines stopped last July 2011, NNGP's power was supplied by a back-up generator up to November 2011 when electricity was provided already by the local cooperative (CENCECO)
2. Stand-by generator set was not operated in 2011
3. Emission calculation was based on US EPA AP-42: Compilation of Air Pollutant Emission Factors
4. Based on fuel used, fuel consumption, and emission exhaust rate, the pollutant concentrations from each generator set included in the table above are within applicable standards of the Philippine Clean Air Act

emission sources (steam blow-offs, utilization of sulfur hexafluoride or SF6) in the computation of total emissions. In compliance with the GRI reporting guidelines as well as the 2006 IPCC GHG Guidelines for National Greenhouse Gas Inventories and the 2004 GHG Protocol Corporate Accounting and Reporting Standard, we made computations using Scope 1 (Direct GHG Emissions) and Scope 2 (Indirect GHG Emissions).

In 2011, we disposed a total of 1,511 tons of wastes which were handled properly. Non-hazardous wastes were either recovered or disposed in landfill. We struck an agreement with ABS-CBN Foundation Inc. (AFI) so



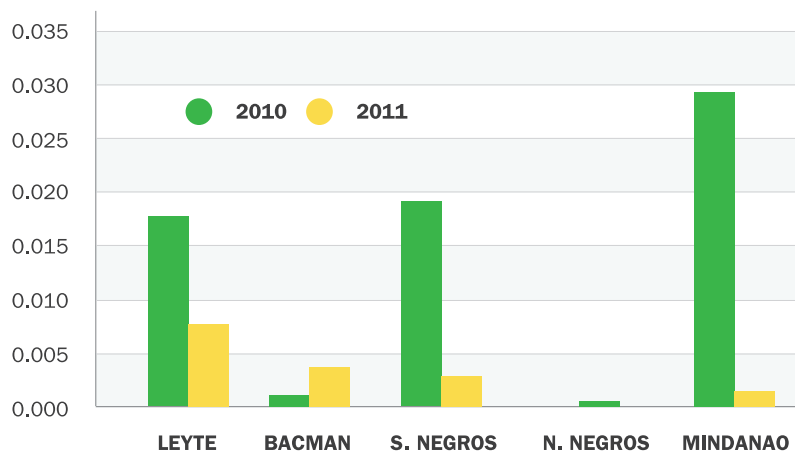
that our waste oil and batteries could be recycled. Accumulated hazardous wastes were sent to a treatment facility before they were disposed in a sanitary landfill for treated hazardous wastes. We engaged third party contractors accredited by the Department of Environment and

LABORATORY ACCREDITATIONS AND RECOGNITIONS

We maintained ISO/IEC 17025 accreditation of our six environmental laboratories and five geoscientific laboratories. The environmental laboratory in our head office maintained its recognition as conforming to the Department Administrative Order (DAO) 8-63 of the Philippine Department of Environment and Natural Resources. It has satisfactorily met the requirements of accreditation of laboratories performing environmental analyses.

Environmental Management Department (EMD) of EDC maintained the recognition of its Head Office Environmental Laboratory in conformance with the requirements of the Department of Environment and Natural Resources (DENR) Administrative Order [DAO] 98-63 covering accreditation of laboratories performing environmental analyses.

EMISSIONS OF OZONE-DEPLETING SUBSTANCES (IN TONS)



Notes:

1. Variance was due mainly to the number of recharges conducted for each year
2. Computation was based on the Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories: Reference Manual and Montreal Protocol

Natural Resources for the transport, treatment and off-site disposal of hazardous wastes.

In 2011, we did not have spills or any violation of such kind. We complied with all applicable laws, regulations, standards and permit conditions.

Key indicators of our watershed management performance

Energy companies have been stereotyped as a development aggressor more than as a corporate environmentalist. Hence there were some initial opposition and disbelief that EDC being an energy company could nurture a healthy habitat within a geothermal environment. But as we became recognized as a serious green advocate, we gained more respect even from those who were initially not supportive of geothermal projects. Ultimately, people have begun to see that geothermal development is intrinsically interlaced with watershed management as the source of our steam is meteoric, or water derived from earth's atmospheric cycle. Because of the nature of our business, we are the first energy company in the Philippines to introduce a forest-based strategy as a new business paradigm since the 80s. This has been improved and sustained until today as this paradigm is embedded in our corporate mission.

2011 TOTAL WEIGHT OF WASTE DISPOSED (IN TONS)

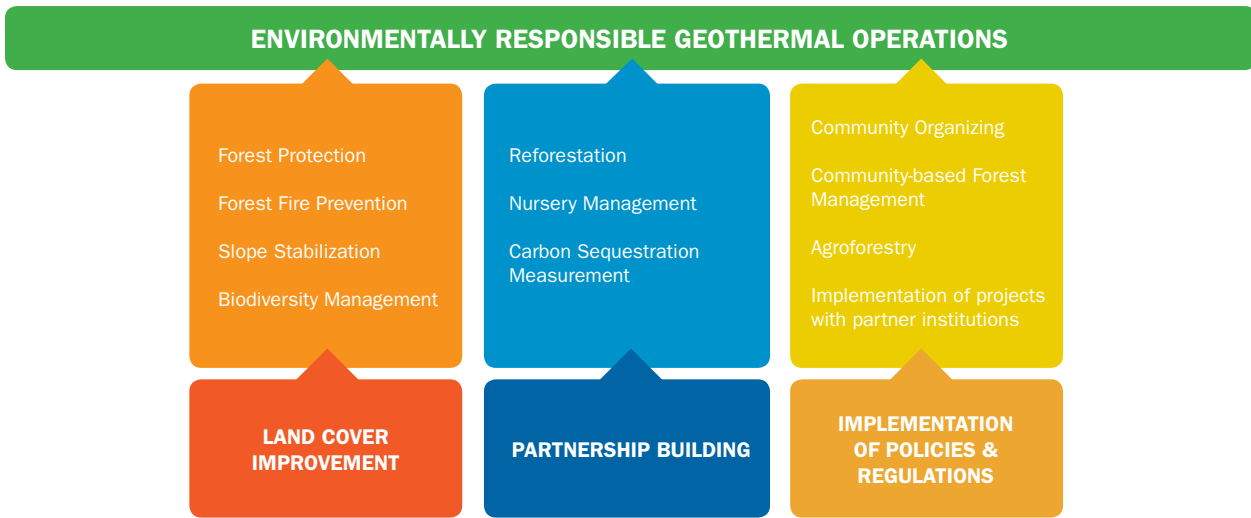
Type and Method of Disposal	CONSUMPTION (In cubic meters)
Hazardous	801.49
Recycling	256.44
Landfill	545.05
Non-Hazardous	709.72
Re-used/Recovered	3.42
Landfill	706.3
Total	1,511.21

*Note: Partially reported
 * Hazardous wastes that undergo recycling are waste oil and used lead-acid battery (under the Bantay Kalikasan Program of ABS-CBN Foundation, Inc.). Hazardous wastes includes cooling tower sludge, busted fluorescent lamps, medical wastes and asbestos-contaminated materials.*

An on-going partnership with the government

We retained our deputation after privatization with the government allowing us to manage on its behalf the watershed areas and the forests around our five geothermal through a Memorandum of Understanding with the Philippine National Oil Corporation. Also, these geothermal sites-Bacman, Leyte, North Negros, Southern Negros and Mindanao-cradle areas of rich biodiversity that we need to look after. Although our deputation covers only 34,794 hectares of watershed areas, our watershed management activities benefit all the geothermal reservations which has a total area of 266,327 hectares of public land or one percent of the

Philippine land area. We implement watershed development projects under the multiple-use management principle, to regulate and monitor land uses in order to avoid conflicts that will adversely affect our geothermal operations, and to enforce forestry laws, rules and regulations to ensure sound and healthy forest cover. We believe that a healthy watershed is essential in ensuring sustainability of the geothermal recharge, in providing various goods and services to forest communities and other public interest activities. Today, we are actively managing several watershed programs through a three-pronged approach – land cover improvement, partnership building and implementation of policies and regulations.



HOW WE TAKE CARE OF OUR GEOTHERMAL RESERVATION

TOTAL CONTRACT AREA, SQ. KM	PUBLIC / FOREST LAND, SQ. KM	FOREST COVER, SQ. KM	DEVELOPMENT BLOCK, SQ. KM	ACTUAL DEVELOPMENT, SQ. KM
2,663.27	1,276.21	1,161.37	144.06	4.81

Our forest protection efforts resulted in the apprehension of four incidents of timber poaching and 17 incidents of illegal occupancy with a combined total of 47.14 cubic meters of logs or timber in 2011. These were turned over to the concerned local government offices for litigation. We ensure our compliance to forestry laws and regulations through permit acquisition and renewal program as well as ensuring our adherence to various terms and conditions set forth in these licenses. In 2011, we allocated about PhP107.70 million for watershed management programs. We also maintained about 3,000 hectares of old reforested and newly reforested plantations by doing replanting, cultivation and weeding activities.

BINHI

One of our major watershed management strategies is reforestation. We initially used fast growing species in the 80s but we slowly shifted to planting indigenous forest tree species beginning 2000. Since 1989 to 2011, we have been able to reforest at least 10,700 hectares of open and denuded lands. One way to ensure that this is maintained is by eliciting the help of the people living in these lands. We are tapping the services of the upland farmers from seedling production to actual plantation establishment, maintenance and protection activities. These upland farmers which were organized into farmers associations (FA) starting 1989, eventually became partners of EDC in the management and protection of the watersheds to date.

BINHI has four modules: Tree for the Future, which is about rescuing premium endangered trees while educating the Filipino youth about

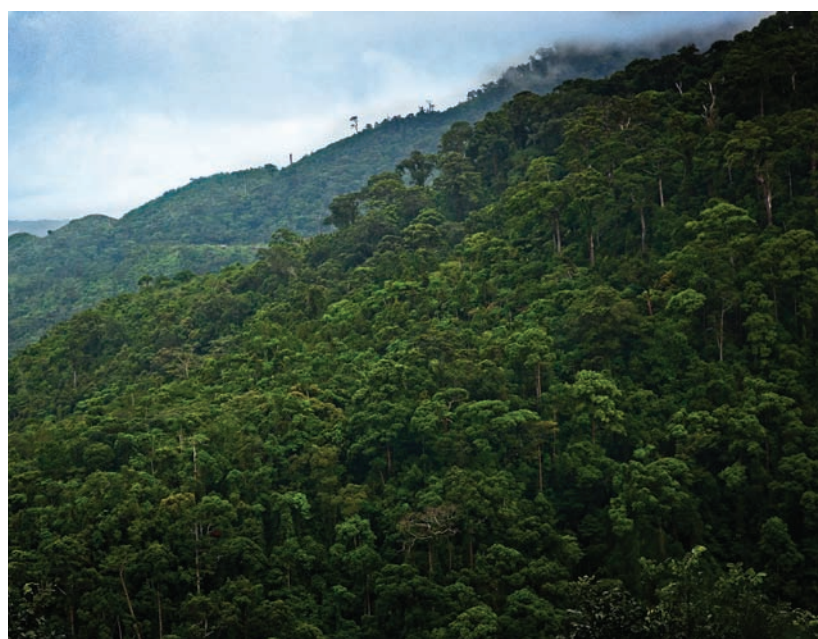
their importance, hence the strategy of planting mother trees in schools and educational institutions; Tree for Life which is about bridging forest gaps between important mountain systems and addressing the fragmentation of habitats; Tree for Food, which is about providing sources of income for upland communities while hastening the revegetation of denuded lands; and Tree for Leisure, which is about developing geothermal forests into ecotourism destinations. BINHI is on its third year of implementation. In 2011, at least half a million BINHI seedlings were planted in 1,052 hectares across our project sites. BINHI was chosen as the partner of the National Greening Program of the Department of Environment and Natural Resources (DENR) in the same year.

Nursery management

Each geothermal project site has its own central nursery where most of



the seedling requirements for the different reforestation projects are reared, while satellite nurseries are also established as needed. All the nurseries managed by the company have an aggregate capacity of more than one million seedlings. Although production of seedlings of indigenous species has been proven difficult, EDC foresters and nursery workers painstakingly germinated and nurtured these seedlings. Among the endemic and premium species being raised are the endangered Kalantas (*Toona kalantas*), Almaciga (*Agathis*



philippinensis) and Kamagong (*Diospyros philippinensis*); other species are Supa (*Sindora supa*), Dao (*Dracontomelon dao*), Ipil (*Intsia bijuga*), Akle (*Albizzia acle*) and other dipterocarp species. Fruit trees and fast-growing species however, are still raised in these nurseries for livelihood purposes of forest residents. In 2011, we produced a total of 952,560 seedlings, with about 400,000 available in our project sites.

five project sites located in eight Key Biodiversity Areas (KBA) of the country. As caretakers of such biologically diverse reservations, we took it upon ourselves to understand how we can better protect these areas using scientific research.

We entered into an agreement with the Institute of Biology of the University of the Philippines, Diliman to implement a three-year study that



WILDLIFE FLAGSHIP SPECIES

Charismatic, tropical forest species are often recruited as flagship species to save remaining forests and subsequently protecting other species that live in an area. They are chosen primarily because of their unusual appearance and enigmatic behavior. Our biodiversity research aims to identify flagship species that will represent each of the five geothermal project sites. The species will be the subject of research, monitoring, and conservation by protecting and enhancing the management of the geothermal forest they inhabit. The discovery of the colonies of the Golden Crowned Flying Fox (*Acerodon jubatus*) makes them the ideal candidates for flagship species for Bacman, Southern Negros and Northern Negros. Training on bat count and conservation was conducted to teach our staff to identify and monitor this particular species of bats. Meanwhile, the initial flagship species identified for Leyte and Mindanao is none other than the Philippines' national bird, the Philippine Eagle (*Pithecophaga jefferyi*). By using them as our biodiversity peg, we will be able to determine the presence or absence of other different species at other sites in order to build distribution maps. Information from such distribution surveys are most valuable for rare or endangered species or for species that can be used as indicators of forest conditions.

are excited to obtain the result of our biodiversity inventory. This is the first step that would help us install a monitoring system. We have already developed specific research projects that focus on forest restoration, forest succession and wildlife flagship species. All the information that will be generated will provide scientific knowledge that will guide us in making decisions to address the impact of our operation on the environment. We will be reporting our progress with this initiative in the succeeding reports.

Watershed management plans

As our initiative to improve how we manage our watershed areas, we have updated and begun formulating a unified watershed management plan, with the objective of ensuring the optimum and rational land use of all EDC-managed watersheds. These will be structured in a geographic database format, which will utilize

Biodiversity conservation and monitoring

A geothermal environment does not only harbor clean energy but also wildlife species. In other words, truly rich in any life form. Wild plant and animal species make substantial contributions to the development of agriculture, medicine and industry. Perhaps even more important is that many species are basic to climate change stabilization, protection of watersheds, prevention of soil erosion and protection of nursery and breeding grounds. It is amazing what the total economic value of a biologically diverse area could benefit mankind. The loss of biodiversity compromises the ability of future generations to meet their needs. We maintain the diverse habitat of our

aims to understand the processes and various mechanisms within the forest ecosystem as a tool in assessing the health of the forest. We are now in the middle of assessing the biophysical surroundings and we

EDC Reforestation 1989-2011, in km ²			
Site	1989-2011	2011	Total as of 2011
Leyte	34.25	1.87	36.12
Southern Negros	21.9	1.48	23.38
Northern Negros	8.97	2.6	11.57
North Cotabato	8.92	0.67	9.59
Bicol	19.1	2.4	21.5
Nueva Ecija	2	1	3
Isabela	2	-	2
Ilocos Norte	-	0.5	0.5
TOTAL	97.13	10.52	107.66

Geographic Information System (GIS) technology for data integration, visualization and analysis that will ultimately support our policy-formulation and decision-making capability. We are formulating the plan with the University of the Philippines Los Baños Foundation Inc. Once completed, we will be able to align our existing watershed programs with the prescribed strategies.

Initiative on climate change

Our strength as the environment leader in the energy industry may also be our natural advantage in combating the effects of changing climate. At the same time, the business case for systematically addressing climate change at the level of operations has become more compelling as we feel the adverse impact of extreme weather events like the super typhoons that have caused damage to our facilities. From 2006 to 2010, we were affected by seven tropical cyclones that caused business interruptions and damaged our assets. We, therefore, need to minimize the impact of such events on our people and assets. In 2011, the top risk areas of each business unit were identified and accompanying risk mitigation

FOREST REFORESTATION + PROTECTION

Project Areas	2010 Forest Cover (ha)	Reforestation Areas that Overlap with Forest Classification	Total Refo area	Total Area Protected and Reforested
BGPF	6,358.63 ¹	260.07	2,150.00	8,248.56
LGPF	37,276.35 ²	1,945.91	3,612.00	38,942.44
SNGPF	27,706.58	829.3	959.00	27,836.28
MGPF	601.06		1,156.00	1,757.06
NNGP	5,708.17 ³		2,337.00	8,045.17
TOTAL	77,650.79		10,214.00	84,829.51

¹ 2002 forest cover

² Forest area derived from the 2010 satellite imagery

³ Total forest cover of brigys. Minoyan and Mailum where forest protection/patrolling is regularly conducted by NNGP-WMD

measures were developed. These results have been vetted by our active Risk Management Board Committee and are reviewed semi-annually.

While there is now awareness of the risks involved with climate change, there has also been a growing appreciation to consider the technological and economic opportunities emerging from the increasing global activities related to addressing climate change impacts. Among them, potential savings through improved energy and operational efficiency as a result of carbon management and access to climate financing and revenues through the carbon markets. We aim to complement our watershed

management programs with an integrative risk and decision-making tool that will not only reduce our vulnerability but make our business resilient. In 2011, we conceptualized a tool called Hazard Decision Support System (HDSS). HDSS is designed to model the possible biophysical, social and financial impacts of climate-induced hazards like landslides and floods on assets and facilities with the objective of informed short and long term business decisions. HDSS is envisioned to be used as a powerful GIS-based program capable of translating rich databases into early warning protocols. We are partnering with the University of the Philippines, Los Banos in developing the prototype.

INITIATIVES TO MITIGATE IMPACT

Zero Discharge System Policy

Effluent or wastewaters that exceed the Effluent Standards shall require prior treatment before discharge

Solid Waste Management

Construction of Materials Recovery Facilities (MRF) and improvements on junkyard fence

Climate Change Program

BINHI reforestation program, forest carbon assessment in LGPF and GHG accounting and auditing

Control of seepage or leaks

Canal lining and containment pit for above-ground fuel tanks

Erosion control measures

Installation of gabion walls, ripraps, and cocon matting



EDC uses a mist irrigation system in its nurseries for indigenous tree species

Flagship Species and Select Species Thriving in Geothermal Sites

We embarked on a science-based study that will be the basis of our biodiversity conservation measures and management prescriptions for the geothermal reservations. A baseline inventory is first conducted then the requirements of the indicator species are studied in order to nurture them. Rare and endangered species are the focus. By protecting the habitat of these species, more resistant species living in the same habitat are also protected.





03 Visayan Warty Pig (*Sus cebifrons*)
Photo by: Tim May, Blackbrook



04 Rufous-Headed Hornbill (*Aceros waldini*)
Photo by: Pavel Hospodarsky



05 Negros Bleeding Heart Pigeon (*Gallicolumba keayi*)
Photo by: Desmond Allen



06 Kalingag (*Cinnamomum mercadoi Vidal.*)
Photo from: www.beatbotika.com



07 Kapa-kapa (*Medinilla magnifica Lindl.*)
Photo by: Tuysonvien



08 Mapilig (*Xanthostemon bracteatus Merr.*)
Photo by: Pastor Malabrigo

Our biodiversity program also focuses on identifying potential flagship species in our geothermal sites.

Four species of flying foxes were recorded in Northern Negros, Southern Negros and Bacman. The presence of the golden-crowned fruit bat *Acerodon jubatus* was confirmed in all the three sites in the series of surveys. The population count of flying foxes in the three roost sites shows that the Bacman roost has the greatest number of flying foxes compared to the two sites.

Our researchers from the Institute of Biology in the University of the Philippines were able to observe a pair of Philippine Eagles (*Pitheophaga jefferyi*) in the Mindanao geothermal site, where the facility is located midway to Mount Apo, the country's tallest mountain. The adjacent towns of Magpet and Makilala are known to harbor populations of the Philippine Eagle. Our geothermal facility in Mount Apo is the adoptive home of Geothermica, adopted in 2005 through the Philippine Eagle Foundation (PEF).

Interestingly, the team had an encounter with the Mindanao wood shrew, or the species known as *Podogymnura truei*. It is found only on Mindanao Island and was discovered in 1905 in Mount Apo. It is known only in two mountain ranges in the Island, Mount Apo and Mount Kitanglad. The species is nine inches, has a long, slender, flexible snout and small eyes. The species prefer montane forest as its habitat.

Although the species is classified as least concern by the International Union for the Conservation of Nature (IUCN), given its restricted range and habitat preference, the species could face extinction if present trend of forest destruction continues.

Aside from these flagship species, we also feature some of the remarkable species that are thriving in our geothermal sites.

FAUNA

- 01 **Golden-Crowned Fruit Bats** (*Acerodon jubatus*)
Family: **Pteropodidae** | IUCN Classification: Endangered
- 02 **Philippine Eagle** (*Pitheophaga jefferyi*)
Family: **Accipitridae** | IUCN Classification: Critically Endangered
- 03 **Visayan Warty Pig** (*Sus cebifrons*)
Family: **Suidae** | IUCN Classification: Critically Endangered
- 04 **Rufous-Headed Hornbill** (*Aceros waldini*)
Family: **Bucerotidae** | IUCN Classification: Critically endangered
- 05 **Negros Bleeding Heart Pigeon** (*Gallicolumba keayi*)
Family: **Columbidae** | IUCN Classification: Critically endangered

FLORA

- 06 **Kalingag** (*Cinnamomum mercadoi Vidal.*)
Family: **Lauraceae** | IUCN Classification: Vulnerable
- 07 **Kapa-kapa** (*Medinilla magnifica Lindl.*)
Family: **Melastomataceae** | IUCN Classification: Endangered
- 08 **Mapilig** (*Xanthostemon bracteatus Merr.*)
Family: **Myrtaceae** | IUCN Classification: Critically Endangered





Social Stewardship

Our own geothermal history is something we Filipinos are proud of. Our company is a major player in that history, a history that tells about the introduction of renewable energy that created transformations in the socio-economic life of the country. It has always been the symbol of the Filipino's ingenuity and positive response to a crisis. Then and now, our thrust remains the same: to seek, develop and operate clean sources of energy for present and future users. We have our own definition of corporate excellence and that has propelled us to world geothermal leadership. The kind of globalization we are more apt to pursue is the one that has to be understood first by our people. The company is only as good as the people who run it and the values they adhere to in running the company.

Human Resource Development

You cannot pay employees to be proud and passionate of their work. Both should be innate in the workforce and embedded in the company's culture.



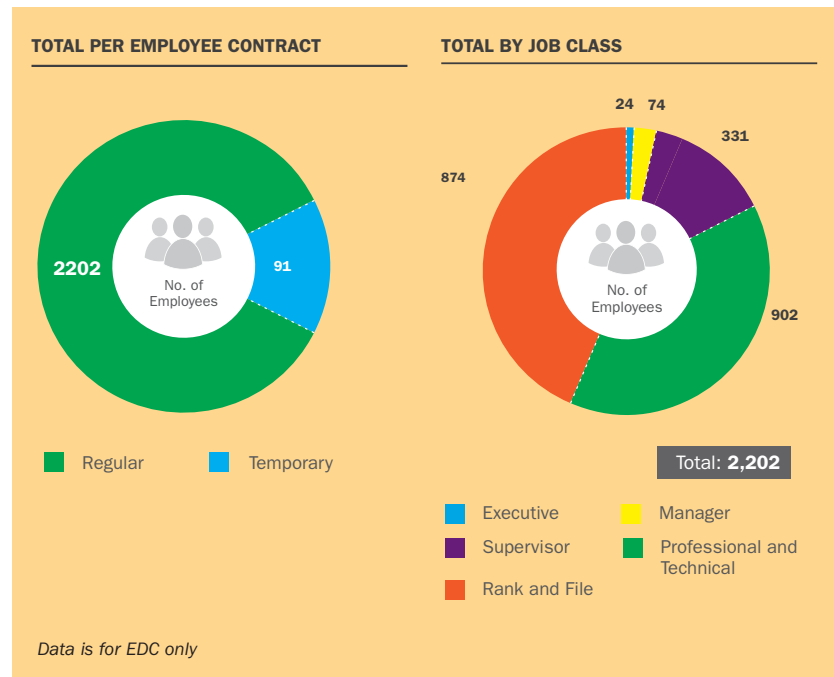
112.5MW Palinpinon Geothermal Power Plant

Investing in people

During the energy crisis era, EDC employees were once referred to as a breed of new heroes. They were ordinary Joes with an extraordinary mission to carry out. Searching for geothermal resources involves many different scientific and engineering specialties. Geologists test rock permeability on the surface. Geochemists determine the character of underground fluids. Geophysicists approximate both the shape and size of the geothermal field. If the results of the analyses indicate the presence of a promising geothermal reservoir, then exploratory wells can be drilled. When Well 401 sputtered a loud spout of steam a hundred meters into the air, that motley crew earned the right to be called new heroes. After the pilot 3MW Tongonan was commissioned, the rest is history.

Today, a crew of 27 men has been sent on an extraordinary mission. This time, the rendezvous is no longer in a distant mountain in Leyte but in a mountain range that spans the entire South American continent. We are toeing the starting line once again with our venture to develop steamfields in Chile and Peru, countries that are also rich in geothermal resources like the Philippines. We dream boldly again, attempting to conquer a greater summit than ours in Mount Apo. The prospects are exciting and for one of our newly minted geochemist, Val Maverick Abecia, joining this new motley crew to the Andes is making a breed of new hero out of him just like his fellow crew members.

Plucked from the fresh BS Geology graduates of the University of the Philippines, Val found himself doing actual exploration work in EDC's new development projects. One time when he was called in by his superior, he was told that he will be joining the exploration team to Chile. No less than Federico R. Lopez, the Chairman of EDC's parent company and a patron of mountaineers, met him and his teammates in a send-off breakfast meeting. The historic



importance of that moment was imprinted on Val's mind. It is his first job and it is his first time to go out of the country. Val is one of the 165 new employees hired by EDC in 2011. Like his fellow new hires, Val went through the company's Onboarding Program.

Onboarding is EDC's latest program that welcomes and introduces new employees to the company's operations complete with a six-month mentoring. The program helps new employees to develop a sense of belongingness, of being part of a family that is also being espoused in the entire Lopez Group of Companies which EDC is a part of. Val met new hires who became his friends. He was soon able to follow the curve of how things are done in his job. Learning about EDC's core value, pursuit for excellence, motivates him to always add value to the tasks assigned to him.

The new employee handbook that Val received became a valuable learning tool for him as he learned more about the company. EDC's mission, vision and core values as well as its new and enhanced Code of Conduct and Policies, existing programs and geothermal

protocols were all integrated in this guide book for all employees. Roadshows and consultations were conducted by our Human Resources Management Sector (HRMS) months prior to its launch and the policies' implementation to get their feedback and make the necessary improvements to the handbook.

The more Val learned about EDC through the Onboarding Program and the employee handbook, the more he realized that he was in it for the long haul. He felt very happy with the prospects of building a flourishing career in EDC where our values perfectly match his.

It is not surprising for a new employee like Val to feel this way about EDC. The average employee age of 42 years old, average tenure of 14 years and low attrition rate of 1.3 percent attest to how a lot of employees enjoy working for the company

Power through people

As someone who has studied about geology, Val felt that fulfillment would come from working in the geothermal industry. He was well aware of the world's growing

VITAL STATISTICS

50%
BASE PAY EQUIVALENT OF
BENEFITS PROVIDED

76%
LOCALLY HIRED EMPLOYEES

54%
EMPLOYEES COVERED
BY CBAS

42
AVE. AGE OF EMPLOYEES

14 years
AVE. TENURE

45
AVE. TRAINING
HOURS/EMPLOYEE

110,425
NO. OF TRAINING HOURS

PERCENTAGE OF EMPLOYEES ELIGIBLE TO RETIRE IN THE NEXT 5 AND 10 YEARS BROKEN DOWN BY JOB CATEGORY AND BY REGION

BY RANK	5 YEARS	10 YEARS
	BY 2016	BY 2021
MPT	0.73%	1.68%
RF	0.59%	1.91%
TOTAL	1.32%	3.59%
BY SITE	2016	2021
HEAD OFFICE	0.18%	0.68%
Bacman	0.23%	0.86%
LEYTE	0.77%	0.91%
MINDANAO	0.05%	0.64%
SOUTHERN NEGROS	0.09%	0.36%
NORTHERN NEGROS	0.00%	0.14%
TOTAL	1.32%	3.59%

Based on total no. of regular employees for EDC only as of Dec. 31, 2011



demand for clean, renewable energy to address global warming. Joining EDC's technical services sector was an opportunity for him to begin his geological journey.

Val's first taste of actual exploration work—from geochemical surveys to structural and geological mapping—took place in some of our Philippine prospects. For someone who just entered the real world after graduation, rewards come from the work itself and all the learning that he gets from the company-provided training courses. All the trainings, local and foreign, are provided to all our employees for their continued professional growth.

Investing on human capital is an important activity in building

our business continuity program. Our training catalogue provides training modules designed to hone the professional and leadership capabilities for the most promising of our employees. The same goes for Val. His expertise in geological and structural mapping is reinforced through trainings in fluid inclusions, hydraulic stimulation and geochemical modeling.

Trainings are conducted both in-house and externally. The training hours devoted to each employee went up from 28 in 2010 to 45 hours per employee in 2011. Aside from short-term training courses, we send our employees to pursue higher studies in support of advancing their skillbase to the best universities and institutes abroad.

TOTAL WORKFORCE AS OF DECEMBER 31, 2011

COMPANY	LOCATION	REGULAR	TEMPORARY
EDC	Fort Bonifacio	608	34
	Leyte	782	19
	Southern Negros	242	6
	Bacman	232	20
	Mindanao	255	9
	Northern Negros	83	3
GCCCI	Palinpinon	126	-
	Tongonan	74	-
BGI	Bacman	72	-
FGHPC	Nueva Ecija	59	-
TOTAL		2533	91

Words remain empty and dreams fall flat without the heart, mind & soul to give them life – people make it work

Our Energy Academy provides a one-year development program on the different disciplines of geothermal operations. The program produced 23 graduates in 2011.

We also provide trainings that cultivate lifelong learning in preparation for our employees' retirement. About 1.32 percent and 3.59 percent of our employees are eligible for retirement in five and 10 years, respectively. Special seminars on understanding financials and family wealth planning were conducted to help employees handle their own financial assets and to teach them how to be financially independent by making the right investments.

Excellence is cultivated through long-term objectives that pave the way for succession planning as well as mentoring of EDC's future leaders. After our full transition into private ownership, we started a new competency profiling for leadership, supervisory, professional and technical positions to complement our human capital development thrust. Each employee's accomplishments and areas for improvement are identified through an annual performance review. This is our basis for identifying their growth potential in EDC.

Understandably, our 27-member contingent in Chile is an all-male team. Eighty-three percent of our workforce are men primarily due to the nature of our business. Our



job qualifications are based on competency unbiased towards sex, religion or ethnicity.

We maintain a 1:1 salary ratio between our male and female employees. Appraisals and merit increases are solely based on one's own performance and not on his gender.

We likewise take pride in our policy for local hiring that gives priority to qualified applicants from areas where we operate. From 74 percent in 2010, our locally-hired employees now comprise 76 percent of our entire manpower, including five vice presidents. Our hiring policy does not allow employment of minors even for our contracted services. Minors in our areas of operation are, instead, encouraged to finish their education in our host schools.

Inspiring pride

You cannot pay employees to be proud and passionate of their work. Both should be innate in the workforce and embedded in the company's culture. Towards attaining our vision, we also redefined our core values to capture the essence of our Six Pillars of Business Excellence. Employees who served as an EDC Spark by exemplifying these core values were cited throughout the year to set as good examples of how pursuing excellence, bias for action, fairness, integrity, entrepreneurial spirit, stewardship and promoting results-driven teamwork lead to higher productivity and fulfillment at work.

OUR BENEFITS PACKAGE which is equivalent to 50 percent of an employee's base pay—serves as a “security blanket” for the employee and his or her family, and shields him/her from the creeping temptations of graft and corruption and the lure of greener pastures. It includes savings and land home ownership plan, retirement plan, hospitalization plan, life and travel insurance, emergency loan facility, rice subsidy, vacation and sick leaves, out-patient benefit, company uniforms, and hardship/hazard pay.

OUR TRAINING PROGRAM has been producing a reservoir of talent and world-class expertise. From about 70 foreign technical consultants in 1977, EDC has absorbed the technology, and is now an all-Filipino enterprise. Currently, EDC exports its capabilities overseas. From among our technical specialist employees, 11 are masters degree holders. In 2011, our training program benefited 1,177 employees who obtained short courses and technical trainings.

OUR LABOR RELATIONS practices are emulated in the industry. We respect employees’ rights to self-organization and a decent living wage. EDC has 13 labor unions distributed in all business sites, each representing a specific collective bargaining unit allowed by law. Our unions enter into regular collective bargaining agreements (CBAs) with EDC as regards to the number of working hours, compensation, employee benefits and other employee entitlements.

Workplace harmony and diversity

We respect and protect human rights in all aspects of our business. As such, we are against all forms of discrimination and harassment and we value the voice of everyone in the company.

All our security personnel are trained to uphold EDC’s human rights policy at all times. Our expanded labor management council and employee council, for non-unionized personnel, both seek to be venues for dynamic discussions on work-related matters with our human resources managers.

Our grievance mechanism provides a balanced approach to resolving other

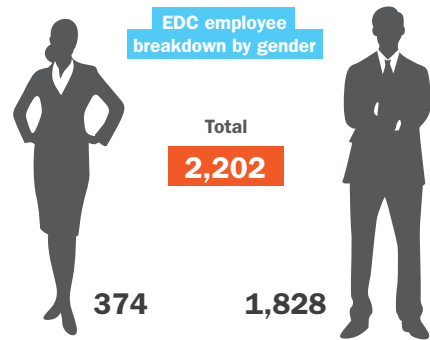
labor concerns or disagreements even outside negotiations for collective bargaining agreements.

Our 13 labor unions comprise 54 percent of our workforce and harmonious management-labor union relations has resulted in zero strikes, lock-outs or work stoppage due to labor disagreements in the last 11 years. To further avoid labor complaints and foster high work motivation, all employees are given equal opportunities to excel.

Work rendered is justly compensated, with overtime and hazard/hardship pay given whenever applicable. No employee is ever forced to work without his consent.

EDC takes great strides to be the employer of choice as we hire and keep the best and the brightest in the industry not only through trainings but through its above average remuneration package. Our minimum entry level wage is 104 percent higher than the regional entry level rate and our benefits for regular employees are equivalent to 50 percent of our base pay.

Abusive use of power resulting in the suppression of worker’s rights is never tolerated in the same way that we abhor all forms of corruption. Our operations are regularly analyzed for risks related to corruption through our Enterprise Risk Management System, with no cases reported in 2011. Anti-corruption policies were discussed with all employees during site roadshows and consultations for the new code of conduct and related policies. Our



human rights policy not only upholds employee welfare but also that of our host communities, including the indigenous peoples that live near our Mindanao facility. We adhere to the policies of the National Commission of Indigenous Peoples and we have regular dialogues with the group during their tribal meetings. The Mount Apo Foundation Incorporated (MAFI) that we have established in 1993 has resulted in their higher educational attainment, with 12 of them working for EDC today.

We have zero incident of human rights violation or monetary fines for non-compliance to any law or regulation.

As Val prepares for his first international flight, he cannot help but feel how delightfully promising his work is going to be. His preparation does not end with completing technical trainings. He and the other 26 employees will undergo high altitude training before they fly to Santiago in early 2012. For him, it does not even feel like it is work. He is already in a different kind of high just by being part of the EDC family.

EMPLOYEE TURNOVER

AGE	NO.
41-50	6
31-40	14
30-below	12
Total	32

GENDER	NO.
Female	12
Male	20
Total	32

LOCATION	NO.
HO	24
LGPF	3
MGPF	2
BGPF	1
NNGP	1
SNGPF	1
Total	32



Employees are given equal opportunities to excel, regardless of gender or religion

16,868,830
SAFE MAN-HOURS

FOR

EMPLOYEES

11,342,505
SAFE MAN-HOURS
FOR CONTRACTORS

25 BARANGAY
EMERGENCY RESPONSE TEAMS

33 **13 BARANGAY** **11,342,505** **447 BARANGAY HEALTH**
HEALTH CENTERS SAFE MAN-HOURS FOR CONTRACTORS AND INCENTIVIZED CENTER WORKERS TRAINED

BARANGAY 16,868,830 SAFE MAN-HOURS FOR EMPLOYEES

HEALTH PHP25 MILLION INVESTED IN HEALTH, SANITATION AND WELLNESS PROGRAMS FOR HOST COMMUNITIES

CENTERS 13 BARANGAY **25 BARANGAY EMERGENCY RESPONSE TEAM**

EQUIPPED ZERO LOST TIME INJURIES SINCE **NOVEMBER 2008**

2,534 PARTICIPATING EMPLOYEES

NINETYSIX
TOPICS ON
OCCUPATIONAL

HEALTH AND SAFETY

11,342,505 **13 BARANGAY**
SAFE MAN-HOURS HEALTH CENTERS
FOR CONTRACTORS

25 BARANGAY
EMERGENCY RESPONSE TEAMS

2,534 PARTICIPATING EMPLOYEES

16,868,830 **33**
SAFE MAN-HOURS BARANGAY

FOR HEALTH CENTERS EQUIPPED
EMPLOYEES

FIT FOR A SAFE ASCENT

We believe that a positive and productive work environment can be achieved if both our employees and business partners practice safety at all times. By cultivating a proactive “safety first” attitude at work, accidents are mitigated and higher productivity is ensured. In the same manner, disaster preparedness among employees and our communities trains them to immediately provide assistance to those in need in times of calamity.

Safe Workplace

Our Project Safety and Health Committee (PROSHCOM) composed of 5.3 percent of employees from all sectors of the company work to further inculcate the value of occupational health and safety in the company, with key contractors included in discussions related to their safety.

From 12,392 million safe man-hours for employees in 2010, we improved our record in 2011 to 16,868 million safe man-hours as a result of our strict adherence to occupational safety standards and our intensified workplace safety campaign across all operating sites.

No incident of non-compliance with regulations and voluntary codes on health and safety have been recorded.

Our safety record earned recognitions from the Safety and Health Association of the Philippines in the Energy Sector (SHAPES) and the Department of Energy, which awarded a Plaque of Achievement to the following facilities for having a “No Lost Time” record from November 1, 2008 to October 31, 2011: Southern Negros and Mount Apo Geothermal Production Fields, Upper Mahiao Power Plant and Mahanagdong Geothermal Power Plants in Leyte, Northern Negros Geothermal Power Plant and Mount Apo Geothermal Power Plant. The award is given to industries that achieved “no lost time” work for a period of three consecutive straight years or an equivalent minimum accumulation of 3 million safe man-hours.

To spearhead the implementation of unified and reinforced safety standards across all sites, we have centralized our safety management under the Strategic Initiatives Office (SIO). Our SIO and all safety officers from the sites analyzed the root cause of all safety incidents and the risks across our entire value chain to determine the best solution and practices that are applicable to all our facilities. In addition, part of

management’s agreements with our labor union is the company’s strict adherence to all applicable laws and regulations on industrial safety and sanitation. These and our 48 safety topics during company-wide safety trainings further instilled a culture of safety among our workforce.

As we continuously improve our workforce’s safety record, we likewise take great strides to boost the safety consciousness of our contractors who work inside our premises. More than 10 percent of our contractors and subcontractor employees have undergone relevant safety trainings. With the new safety initiatives being implemented by our SIO, we target 100 percent by the end of 2012.

In top form

Our employees are active participants in the Lopez Lifelong Wellness Program providing a variety of outlets to develop their whole being. In addition, the monthly Lopez Walk-the-Talk events, our in-house gym and a wide array of sports competitions provide employees with the means to achieve physical fitness

as well as camaraderie.

Our employee health program focuses on health promotion, disease prevention and disease management. There are information drives for employee awareness on good health practices. Tailgate meetings and lectures on 48 health topics including HIV/AIDS, heart problems, and chronic fatigue syndrome and ways to achieve a healthy lifestyle are conducted in all our sites. A proactive approach is taken to prevent diseases through vaccinations (for employees and their immediate family), medical screenings and implementation of programs on weight management, cancer prevention and maintaining a drug-free workplace. The latter is being done in partnership with our labor unions.

Our satellite clinics in all project sites are manned by a medical team of physicians, advanced cardiac life support nurses, nutritionists and first aiders. An emergency response program and a 24/7 standby ambulance per site are also in place to provide immediate medical care to co-employees or members of our communities.



Our Emergency Response Teams are equipped and trained to provide assistance to the company and communities in times of disasters and emergencies

OVERALL OCCUPATIONAL SAFETY STATISTICS

PARTICULARS	EMPLOYEES	CONTRACTORS
SAFE MAN-HOURS	16,868,830	11,342,505
Fatality	0	1
Lost Work Days	2	6,013
Lost Time Injury	1	2
Lost Time Injury Rate or Frequency Rate ¹	0.24	0.22
Total Recordable Injury Rate ²	0.24	0.34
Severity Rate ³	0.47	673.38

¹ No. of lost time incident *1M / total man-hours | ² Total of recordable accidents *1M / total man-hours | ³ No. of lost work days *1M / total man-hours

SEVERITY RATE IN 2011

SITE	MANPOWER	SICK POPULATION	NO. OF SICK LEAVES FILED	DAYS LOST	TOTAL WORKDAYS / YEAR (SICK POP X 251 DAYS)	SEVERITY RATE (DAYS LOST/SL FILED)	% OF DAYS LOST (DAYS LOST VS TOTAL WORKDAYS OF ABSENTEES)
HO	507	359	1647	2070	90109	1.26	2.3
LGPF	866	548	2813	3916	137548	1.39	2.85
SNGPF	229	133	344	669	33383	1.94	2
MGPF	252	191	850	1543.5	47941	1.82	3.22
BGPF	220	113	409	519.5	2863	1.27	1.83
NNGP	79	49	82	104.5	12299	1.27	0.85
TOTAL	2,202	1393	6145	8822.5	349643	1.43	2.52

Case Classification: Respiratory, Musculoskeletal, Gastrointestinal, Eyes, Ears, Nose and Throat (EENT), Dental, Metabolic, Infectious, Cardiac, Skin and Soft Tissues, Endocrine, Reproductive / Genitourinary and Neurological

COMMUNITY OF FIRST RESPONDERS

It was about to turn midnight when Bingbing Morales a resident of our host community in Caidiocan, Valencia, Negros Oriental sent a text message to EDC's Community Partner, Eufemia Y. Lituianas. The cold December night became even colder due to the heavy rains brought by typhoon *Sendong*. The tarpaulin they used as shelter for her mother's wake was stripped and torn apart by gusty winds. Bingbing was among the members of our Barangay Emergency Response Team (BERT) in Negros Oriental who first alerted EDC of the devastation that "Sendong" was causing Valencia.

The following day, another BERT member, Fevis Atoy from Barangay Puhagan, Valencia called for help because the surge of waters prevented them from going out of the church that he was in. No one was also allowed to cross the Ticala spillway as Okoy River continued to rise like a raging four-storey building.

The other BERT members likewise kept on feeding information to EDC's Community Partnerships team on the catastrophe that was being caused by "Sendong" in Valencia as they happened. The town was the super typhoon's worst hit area. And this was the BERT that we formed and trained, working as first responders right in the middle of a real-life disaster.

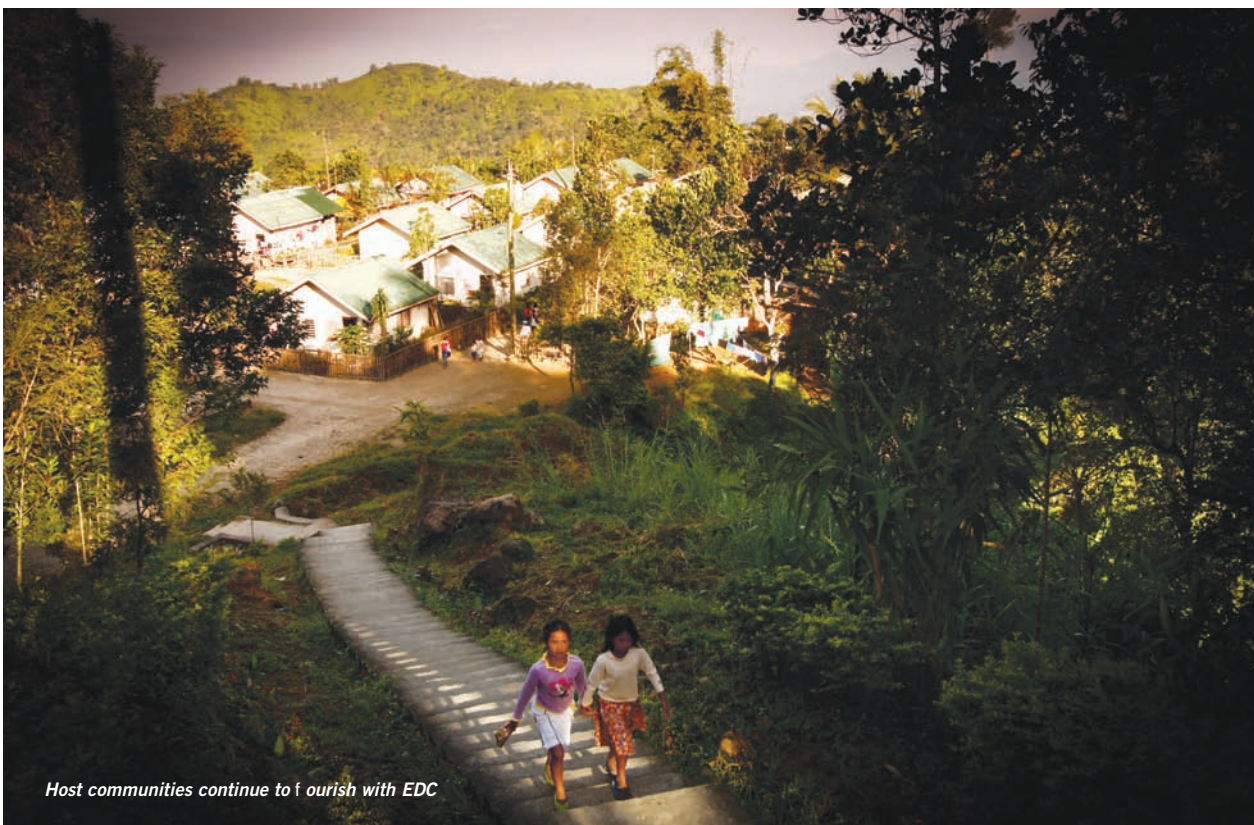
Being able to properly and swiftly extend assistance to those in need during emergencies or disasters is critical in minimizing damage and averting a crisis for the company and the community. To do this, we continued to equip not only our in-house Emergency Response Teams (ERT) but also our host communities with proper training and the latest techniques to immediately respond to emergencies or disasters even beyond our own premises.

We organized and trained 25 BERTs with 366 members across our five geothermal sites. To further train them to become the community's first line of respondents during emergency situations even before local government and the local disaster council arrive at the affected area. Our Community Partnerships Groups and Emergency Response Teams provided first aid training to 104 residents with the help of the Philippine National Red Cross and 505 members of the Rescue Team. We likewise gave trainings on disaster preparedness and risk management and refresher courses on cardio-pulmonary resuscitation and first aid to 163 of our BERT members. Additional orientations on disaster risk reduction were given to 2,398 students, parents, teachers and local government officials in cooperation with the ABS-CBN Foundation Inc., Sagip Kapamilya and the Alitaptap Storytellers Philippines. These trainees from our host communities became our partners as we provided assistance to more than 4,000 families in 12 barangays that were affected by typhoons in Leyte and Negros Oriental. They also helped us transform our host areas into safety-conscious and resilient communities.

From the old "what do I get out of it?" mentality, our BERTs have imbibed a "how can I be of help" attitude as they learned more about safety and disaster-preparedness through EDC.

Community Development

When a community flips its first switch, it sheds light on more than just their homes but on a whole new world of possibilities and a brighter future ahead.



Host communities continue to flourish with EDC



KEITECH is on its 3rd year of honing the world's greatest nation builders



Three years ago, an old airstrip in a poor village became the breaking ground of an alternative education project pioneered by EDC, the local government of Kananga and the Technical Education and Skills Development Authority (TESDA). The project known as Kananga-EDC Institute of Technology or KEITECH played a role that shaped not only the future of unemployed young adults but also the true meaning of public-private partnership. The sheer symbolic power of that role is perhaps greater than what we can imagine. Yet two cycles later, we begin to see what a KEITECH training could do for barrio high school dropouts.

A typical day at KEITECH begins at five o'clock in the morning. The cadets, as KEITECH trainees are called, begin to stir in their bunk beds. Five minutes later, neat rows of female and male cadets line up outside the quadrangle in a battalion-like formation. Calisthenics is the first order of the day. By the time the sun's rays peek behind the mountains surrounding the 3.5-hectare campus, they will be returning to their

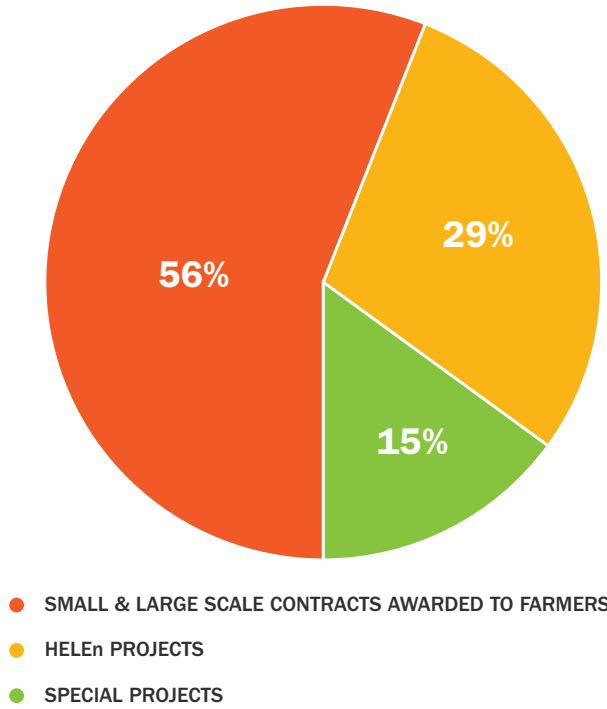
respective quarters to freshen up for breakfast. The rest of the day gets hectic as each cadet goes through hours of rigorous workshops that will make them experts in their chosen competency after a 10-month hands-on training. There are nine competency paths grouped in three sectors: construction, metals and engineering, and tourism, health and social services. What makes KEITECH unique is the embedding of values formation activities. In every aspect, work-enhancing ethics and values are promoted.

After the morning routine, James Rosales, 23, and Domingo "Jun" Jurilla, 24, join their co-cadets Nina Reodique, 19, and Harry Tomada, 21, as they head towards the Oscar M. Lopez Hall to attend a job orientation seminar. All four of them will be dispatched to Cebu and Ormoc for their internship. They come from different backgrounds but the gleam in their eyes speaks of a common aspiration. James' gentle manners belie the heinous troubles that his family just went through. He had been working odd jobs at below minimum wage. When he finally

got an offer to train in KEITECH, he immediately grabbed the opportunity. His black belt in karate landed him a rare duty in KEITECH – teaching self-defense to co-cadets. He is training in pipe fitting and dreams of getting a regular job so his younger sister could go to college. Nina also plans to go to college to pursue a degree in education. But for now, she is focused on becoming a welder so she can get a higher-paying job abroad. Her aim is to save money for her college tuition. Women welders are now highly sought in construction companies because of their better dexterity than men when it comes to detailed metal work. For Jun, being a laborer is not new to him. As a child, he did stevedoring jobs in Manila before his family went back to Kananga a few years ago. He was a cutter in the tailoring house of a local cooperative when he applied in KEITECH. He dreams of owning his own shop in the city. For Harry, his intentions are borne out of a choice different from his father, who is now detained in prison. They all come from different backgrounds but theirs is a story of people who are determined to rise above difficulties.

All four are just faceless statistics in Kananga's unemployment data which stands at around 15 percent. The town's commerce and trade may accommodate incoming labor force, but the high school graduates do not have sufficient skills to satisfy the minimum job requirement. The demographic characteristic of Kananga in the Leyte Province is representative of the country's – a population with a large youth bulge with more people entering the productive ages but who are facing unemployment. Each year, the country produces thousands of college graduates who cannot find jobs that fit their skills. In addition, a greater number of Filipino students fail to enter college as in the case of Kananga where only 25 percent of its high school graduates will have the means to pursue a college degree. The rest who enter the labor force learn the hard truth that they cannot be employed even if jobs are available. The inauguration of KEITECH signals that there is hope yet for Kananga's youth.

2011 CSR INVESTMENTS



Finding employment is the true test that the graduates possess the skills necessary in real-life work standards. In Batch 2011-2012, KEITECH is expected to graduate 143 cadets with high expectations that they will follow the footsteps of the first batch. Nina and Harry are looking forward to that day when they will be signing their first work contract. Being able to secure jobs in industries in big cities both here and abroad inspires them to make good out of the opportunity given them. They share the accolades that their predecessors have achieved, yet they also inherited the responsibility of maintaining the high standards of KEITECH which is now fast becoming its most notable reputation.

KEITECH provides an interesting case study for redesigning technical vocational education programs that will respond to changing global standards by transforming the growing unskilled labor force into a bankable demographic segment that may soon be the economy's boon in times of skills shortage.

KEITECH has trained 238 cadets since it opened in 2010. The pioneering batch has an impressive employment rate of 95 percent with most of them landing gainful employment in various industries in metropolitan cities and even in a shipyard in Singapore where two alumni have been hired to do welding jobs.

In a qualification assessment done by TESDA in the first quarter of 2012, all trainees obtained a 100 percent passing rate in the National Competency II assessments in carpentry, shield metal arc welding and food and beverage. This makes KEITECH one of the most successful training centers in the country

outranking those that are located in urban centers. Recently, KEITECH has been recognized as the first and only institution in Eastern Visayas to be accredited by the Philippine Council for NGO Certification (PCNC), and recognition as a change agent of the surrounding communities.

Moving forward with our stakeholders

KEITECH is one of EDC's CSR projects that focuses on providing education to residents of host communities. We knew that creating self-reliant communities called for more than just corporate altruism. Giving fish will never be enough. They should be taught how to fish and more. A holistic approach should be adopted to provide sustainable solutions and bring more meaningful benefits to our stakeholders. For it is only through this that we can create ripples of progress for our country as a catalyst of change in our host communities. Through KEITECH and the other components of our Community Partnerships Program, we aim to achieve economic viability, environmental sustainability and social acceptability among our stakeholders.

Our KEITECH cadets are part of a number of youth that we target for our CSR program because we know that through them, we can build a community of empowered people. Our special education program, the two Leyte Schools for Excellence (SFE), provides quality basic education to 741 elementary students. Through investments in hardware and software components, the schools have become among the top public schools in Leyte and have performed consistently well in the National Achievement Tests.

In 2011, we constructed four schools, repaired 21 schools, and provided 16 schools with functional equipment to encourage a conducive learning environment. Training programs on various teaching skills enhancement were conducted with 98 teacher participants; financial incentives were provided to 56 teachers; and working paraphernalia

2011 COMMUNITY INVESTMENTS (IN PHP MILLIONS)

INVESTMENT PROGRAM	AMOUNT
REGULAR CSR	80,730,579.01
Health	
Education	
Livelihood	
Community environment & BINHI Tree for the Future	
Emergency response and relief	
Socio-cultural/external relations/promotion	
Project evaluation	
SPECIAL PROJECTS	47,420,588.30
WATERSHED: BINHI TFL/TFF	16,701,433.98
SMALL/LARGE SCALE CONTRACTS	191,329,823.65
MT. APO FOUNDATION, INC.	3,894,953.35
TOTAL COMMUNITY INVESTMENT	340,077,378.29



FEDBAHC is already a self-sustaining group, thanks to EDC'S support and livelihood trainings

were turned over to 265 teachers. We subsidized the miscellaneous fees, provided financial assistance and school supplies for 21,346 elementary students, 975 top-performing high school students, and 313 college students, thus giving them an opportunity to stay in

school for another year. Following our value of wellness and total well-being, we included activities such as values formation, environmental awareness, and entrepreneurship in the annual Energy Camp, which saw the participation of 261 high school students.

We continued implementing the College Admission Review and Readiness (CAREERS) Project. In 2011, where 11 qualifiers enrolled at the University of the Philippines and benefit from the Project's monthly monitoring, mentoring and financial assistance. Also in 2011, a second batch consisting of 158 students underwent a 20-day review class to prepare for entrance tests of premium universities in the country. The CAREERS Project also facilitated their college admission applications in 2011.

Enterprise development

To cultivate entrepreneurial skills through income generating projects in our 43 partner host communities, we supervise livelihood modules that are implemented by 111 farmers and community associations across the five sites. To further enhance the productivity of selected enterprise modules, such as the sweet corn, banana and sugarcane production, financial management and product marketing systems have been installed. Apart from establishing systems for livelihood development, we awarded PhP175.2 million worth of small-and large-scale contracts to local farmers' federations.

As reward for the good fiscal management, our organized community association in Bacman has been awarded a credit facility, which was later increased after a good financial performance. The Federation of Bacman Host Communities, Inc. (FEDBAHC) has

become the latest model of the Land Bank of the Philippines (LBP), which increased the federation's credit facility from PhP5 million to PhP10 million. Likewise, the credit facility of Leyte Geothermal Project's (LGP's) Partners Multi-Purpose Cooperative (PMPC) was increased to PhP3.5 Million for its efficient financial management. On the aspect of capacity-building, we facilitated the skills training of 332 farmers, community association members, and local residents for various income-generating projects.

Health promotion

We respond to the health concerns of our partner communities by conducting regular seminars on specific health topics to equip them with sufficient information for disease prevention and to upgrade the skills and knowledge of community health workers.

The old rural health center of Valencia, Negros Oriental, where the Southern Negros Geothermal Production Field is located, was already in such a dilapidated state, that local residents had to travel several hours to get to the nearest hospital for their healthcare needs. This presented a considerable problem in times of emergencies, and the logistics and expenses involved often discouraged residents from getting regular check-ups.

After extensive consultations with members of the community and the

local government unit, we agreed to provide a new rural health building. In keeping with our commitment to forging sustainable and empowering partnerships with our stakeholders, the local government of Valencia agreed to manage and maintain the operations of the building provided by EDC. In 2011, we started constructing the two-storey health facility. This will allow the 21 healthcare professionals to provide immediate and adequate medical attention to local patients.

To complement the improved facilities and supplies, we also enhanced the skills of 81 community health workers through refresher trainings on primary health care, basic life support, and skills on handling women in crises. Likewise, 2,468 school children were beneficiaries of the nutrition-feeding program implemented in EDC-assisted partner schools.

Creating sustainable solutions

True corporate citizenship should rise above charity and lip service. Not to be mistaken as a mere one time image-enhancing activity, we mapped out ways to create sustainable solutions to the needs of our stakeholders. This includes veering away from the usual dole outs and donations, which do not always guarantee long-term benefits.

More than just giving scholarships and subsidies, we are mentoring future mentors by sowing the seeds of knowledge among the youth and enabling them to pay it forward—by sharing their wisdom and education with their families, neighbors, communities and ultimately being able to contribute to the growth of our country. In KEITECH, the impact of what we are doing today will only be measured many years from now. We are optimistic that it is going to meet the expectations of our stakeholders. Its high passing rate is attributed to the training curriculum's strong emphasis on skills development and values formation. The latter is considered a crucial part of the program because good work ethics and values-



A groundbreaking ceremony was held to commence the construction of EDC's rural health building for Valencia, Negros Oriental residents

oriented work philosophy provide an intrinsic character rarely found in most vocational schools. In a recent assessment, TESDA gave feedback that the venue, trainees and trainers in all qualifications are all excellent. For maintaining the same passing rate for three years in a row, TESDA even commented that KEITECH is unbeatable.

There has been a permanent change in values and work attitude of the students as attested by the parents' testimonials. This not only helps the graduates in landing jobs, but they are also able to influence their parents and other members of the community who now look up to them as inspirations.

Lilia Suazo, mother of trainee Johnnidel Suazo, shared:

"I've seen a lot of changes with Johnnidel since he started his training at KEITECH. Now he is focused on

his studies, rarely goes out with his friends and always helps me in the household chores." A manager of one of the big construction companies that hired KEITECH interns said, *"KEITECH graduates are equipped with several skills, they are well trained, disciplined and can work with less supervision."* DCD Construction for its project with the Aegis People Support hired six masons and seven welders from KEITECH's second batch. Cebu Sky Rise Builders which contracts for a big fast food chain commented, *"When we started hiring KEITECH graduates through the placement linkages, we got interested because they demonstrated exemplary technical and interpersonal skills. Trainees are good team players, multi-skilled and can deliver good performance, especially the female hires. As a matter of fact, we hired female graduates to work on building*

wiring installation." Now, two of them have been promoted as project supervisors: one is supervising our Cebu projects and the other one is based in Manila.

Beyond CSR

We will do our best to maintain our stakeholders' trust as we strive to steer our country towards becoming the largest geothermal producer in the world. True success is best measured not by a company's financial gains but more so by the number of lives it has improved.



We protect the rights and promote the welfare of the Manobo, a group of indigenous people, who are living near our Mindanao geothermal facilities. Through the Mt. Apo Foundation Inc., we continue to provide programs on education, livelihood, infrastructure development and cultural enhancement. For every kilowatt-hour that we generate, one centavo goes to the Foundation's fund.

Through our cultural heritage policy, we recognize and respect cultural differences and harness the power of cultural diversity as a tool for promotion of talent and innovation in all aspects of our operations.

Corporate Governance

The most important factor behind EDC's success is the character of its employees. Not only do they have a common vision and mission, or clarity of purpose, but also a creed to live by.



Our collaborative efforts have created an organization of men and women forging their talents, skills, expertise and devotion that gave EDC employees the reputation of being the *crème de la crème* in the industry. Some sectors assert that the most important factor behind EDC's success is the character of its employees. Not only do they have a common vision and mission, or clarity of purpose, but also a creed to live by. Throughout the company's existence, this creed may have changed words to adapt to the times but the original spirit that kindled it remains bright. EDC was created to pursue nationalistic goals, to make

the country energy self-reliant. It is a goal that remains fervent in our minds until now.

When we transitioned into the private setting, we acquiesced into the culture of our parent company. Fueled by the same passion to excel in business for the common good, we find a new home that nurtures our original credo. Our synergy with the Lopez Group demonstrates that organizational excellence can be pursued not only through technical capability but also through the promotion of a shared system of values and a unique way of life among employees.

The Lopez Credo is a statement of purpose that puts all the Lopez Group businesses in the service of the Filipino and articulates the seven Lopez values to guide corporate decisions and operations as well as its employees.

THE LOPEZ CREDO

"We, as employees of the Lopez group of companies, believe that our primary reason for being is to serve God and the Filipino people.

Thus, we shall always conduct ourselves in a manner that is mindful of the long-term mutual benefit of the Lopez Group, and the various publics we serve. We will be responsible stewards of all our resources, and conscious of our obligation to present and future generations.

Since 1928, and in the years and generations to follow, our commitment to the distinctive Lopez values will not change as we remain committed to serve our stakeholders.

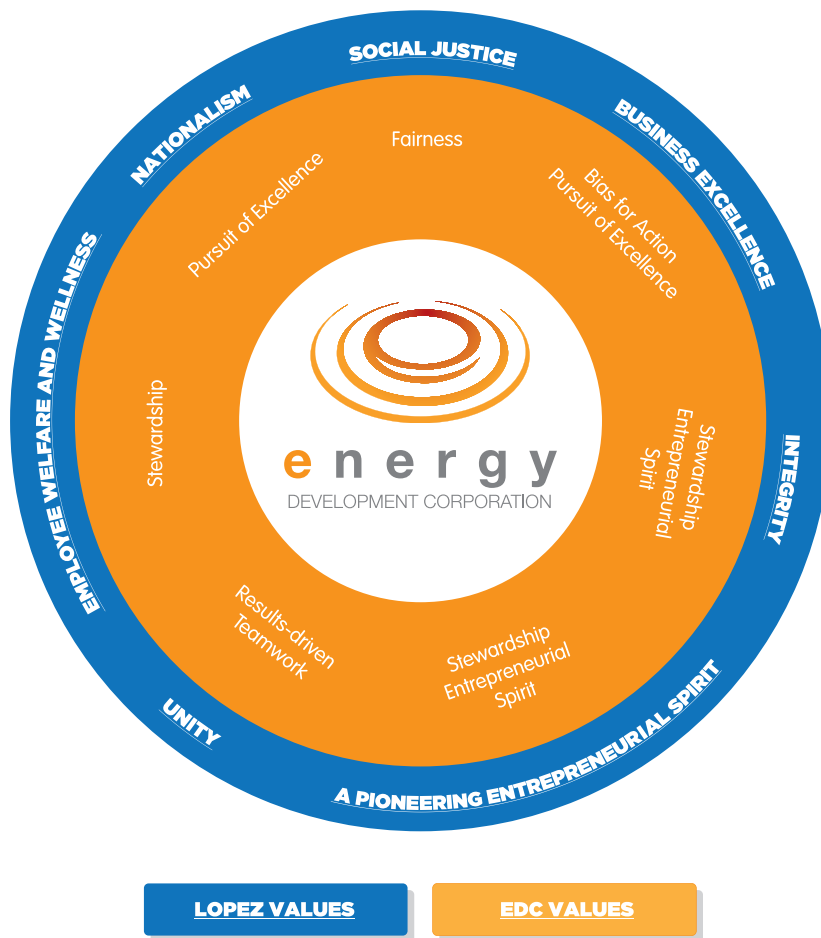
THE LOPEZ VALUES

In our service to the Filipino people, we will be guided by the following distinct Lopez values:

- A pioneering entrepreneurial spirit
- Business excellence
- Unity
- Nationalism
- Social justice
- Integrity
- Employee welfare and wellness

We know from generations of experience that it is by living according to these values that a company can be built to last.

ALIGNMENT OF LOPEZ GROUP AND EDC VALUES



THE CHAIRMAN EMERITUS BLOGS ABOUT THE LOPEZ GROUP VALUES

I have received some emails asking how the Lopez values differ from the existing corporate values. Each firm in the Lopez group of companies has a similar list of corporate values, and some people are now wondering whether their existing corporate values are rendered obsolete by the Lopez values.

Here's the simple answer: the Lopez values are perfectly aligned with your own corporate values! There is no intention to replace them.

The HR heads from the different Lopez companies gathered to share their experiences and best practices in getting employees to remember to follow their respective corporate values. But more importantly, they examined each Lopez value, and they found that they matched very well. In some cases, there is a one-to-one correspondence. For instance, you need "Unity" to achieve "Teamwork"; you support "Social Justice" if "Meritocracy" is observed in the organization; and "Integrity" also includes "Honesty."

I think part of the concern might be due to the perception that there are overlaps and contradictions. Don't worry too much about this. If you follow your corporate values, you are also following the Lopez values. I guarantee it. However, the Lopez values has something more to offer ... it helps fill the gaps. The Lopez values will help you achieve a greater insight to a successful career and healthy personal lifestyle. Lopez values like "Nationalism" and "Concern for Employee Welfare and Wellness" might already be in your own existing corporate culture. But it helps to actually list them down — so we can always remember the values, and never take them for granted.

Treat the Lopez values as a higher guide. These are values that have worked for generations. My father came up with these values through difficult trial-and-error, and they have been the pillars of our success.

Our corporate governance initiatives for 2011

Our corporate governance activities in 2011 showcase several commitments to further develop and improve level of efficiency and excellence by which EDC is managed and operated.

Gold award for exemplary scorecard

For the second consecutive year, EDC received a Gold Award for excellence in corporate governance from the country's Institute of Corporate Directors (ICD) in the 2010 Corporate Governance Scorecard. This award marks the 4th consecutive recognition for excellence of our corporate governance programs and practices in the annual Corporate Governance (CG) Scorecard. Out of 199 publicly listed companies (PLCs), EDC is one

of the 16 PLCs in the Gold Category with 95 percent and higher ratings. Our Scorecard average is 98.51 percent, with 100 percent scores in Disclosure and Transparency, Equitable Treatment of Shareholders, Role of Stakeholders and 97.73 percent in Board Responsibility and 95.84 percent in Rights of Shareholders.

Directors' training on corporate governance

We made sure that the training requirements for new members of the Board of Directors under the Manual on Corporate Governance have been faithfully observed. In 2011, two members of the EDC Board, Atty. Francisco Ed. Lim (Independent Director) and Mr. Arturo T. Valdez (Independent Director) attended corporate governance trainings,

specifically the Professional Directors Program (PDP) of the Institute of Corporate Directors in March and September, respectively. This brings the total number of EDC directors that have undergone CG training to 100 percent.

Amendments to the corporate governance manual

Our Corporate Governance Manual has undergone several amendments throughout the years, both as compliance with regulatory developments and as initiatives of our Board of Directors. In 2011, we amended the charters and enhanced the protocols of the Risk Management and Corporate Social Responsibility Committees. The amendments were made not only to comply with the rule of the Philippine Securities and Exchange Commission but also as part of our initiative to have a well-delineated and streamlined committee protocols.

Our Policies and issuances

The following are the newly issued corporate governance issuances promulgated in 2011:

Code of conduct and discipline

The adoption and launch of the New Code of Conduct and Discipline in 2011 is another step taken by EDC in furthering its corporate governance ideals. The Code of Discipline "prescribes the reasonable norms of conduct and standards of behavior to instill a strong sense of discipline among its employees" which will serve to ensure adherence to EDC's Corporate Values.

Human rights policy

Signed by the President / COO in May 2011, the EDC Human Rights Policy signifies EDC's commitment on the observation of Human Rights. With the policy in place, EDC publicly recognizes, respects and protects human rights and ensures that all policies and procedures conform with and safeguard the

Our existing corporate governance issuances

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 consequences. 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.

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 corporation. The Code encourages the right actions through sometimes difficult choices and to act with unflinching integrity when faced with situations involving ethical issues. 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.

Conflict of interest policy

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

Guidelines on trading rules and restrictions

The Manual on the Guidelines on Disclosure Rules and Trading Restrictions is under review for future implementation in EDC. Beginning 2006 after EDC's Initial Public Offering 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 given emphasis 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.

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.

human rights of employees and other personnel working in the company. The policy lays down specific initiatives showing adherence to human rights, as well as ensures observance by providing human rights training for employees and officers.

Environmental policy

In December 2011, EDC launched its updated Environmental Policy. The Policy documents EDC's already-significant commitment to be a good steward to the environment through the years. EDC has always adopted exemplary environmental practices such as the Zero Discharge System (ZDS) which was in place way back in 1994 and which has been recently formalized via documentation, for the guidance of all. As a renewable energy company, EDC's environmental advocacy is evidenced by its continuing support and protection of the environment and the community where it operates, in partnership with the government, its business partners and stakeholders for the promotion environmental excellence.

The EDC Board

Of the 11 members of the Board, eight are regular directors, comprising of executive and non-executive directors, and three are independent directors. The election of three independent directors is compliance above and beyond the legal and regulatory requirement. For the year 2011-2012, the following were the elected Independent Directors in the EDC Board: Atty. Francisco Ed. Lim, Mr. Edgar O. Chua, and Mr. John A. Prasetio. When Independent Director John A. Prasetio resigned in February 2012 due to the demands of his position as Commissioner in PermataBank in Indonesia, the Board elected Mr. Arturo T. Valdez as the new qualified independent Director to serve the unexpired portion of Mr. Prasetio's term.

DEFINITION OF INDEPENDENT DIRECTORS

For EDC, an independent Director is one who is independent of Management and who is free from any business or other relationships 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.

More importantly, an independent director should provide indispensable independent judgment and objectivity on all issues presented to the Board.

In the Audit and Governance Committee, majority of the independent directors form half 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. In the CSR Committee, two independent directors are among the committee members.

The EDC Board committees

Under existing regulations, there are three basic Board Committees: Audit, Nomination and Risk Management. In addition, EDC's growing operations and concerns warranted the creation of two additional Committees as part of its initiatives in improving Board processes. These are the Corporate Social Responsibility Committee (CSRC) and Operations Committee (OpsCom).

Operations Committee (Opscom)

The Committee deliberated on 86 items, 70 percent of which were high-valued procurement and drilling operations items comprising of PhP9.7 Billion out of the total of PhP10.55 Billion.

Audit and Governance Committee (AGC)

Financial reporting. The Committee reviewed with Management and the external auditors the quarterly and annual financial statements and endorsed them for Board approval. Key accounting issues and the results of the audit examination with the external auditors were discussed.

Internal control environment. The AGC conducted reviews of external audit results, performed functional responsibility over the Internal Audit, discussed reports on key governance, risk management and control practices, guided Management on major control issues and made recommendations to improve policies and processes as well as ways to promote a culture of integrity and ethical values in the company.

External and internal audit.

The AGC reviewed the overall scope of the audit plan of the external auditor, and affirmed the management evaluation on the performance of the external auditor in the previous audited financial statements preparation, and approved the engagement of the external auditor for the 2011 audit. The Internal Audit Plan was also approved and the Committee ensured that independence is maintained and the scope of work and resources are adequate.

Compliance. The AGC took steps to strengthen the governance framework by endorsing the changes to the Company's

Corporate Governance Manual to align it with regulatory requirements, corporate policies and best practices, ensuring that all directors and senior executives comply with the Corporate Governance (CG) Training requirements; endorsing the conduct of the annual CG evaluation on 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 recognition for exemplary governance practices.

Nomination and Compensation Committee (NCC)

The Committee studied the proposed schemes for EDC's Stock Option Plans, and endorsed for Board approval the proposed Executive Stock Option Plan. The Committee also screened the nominees for Independent Director after the resignation of Independent Director John A. Prasetio. The Committee reviewed and evaluated the qualifications and disqualifications of new EDC Vice Presidents (Corporate Finance, Strategic Initiatives Office, Chief Information Officer) prior to their election by the Board.

Risk Management Committee (RMC)

Strategic risk review. The RMC identified and reviewed the strategic risk exposures of EDC, which can affect the achievement of the company's corporate objectives if not managed well. The strategic risks were approved by EDC's Board of Directors and are being managed by assigned senior management members.

Strategy execution process implementation. As part of the annual implementation of the strategy execution process (i.e. Integrated Balanced Scorecard, Enterprise Risk Management, and Budget Management System), operational risks were identified by the business units for the

2012 cycle. Correspondingly, the initiatives that would address the business units' top risks are part of their 2012 Balanced Scorecard commitments. The project site risk assessments were conducted by the different project sites with the aim of having a project level risk assessment. With this, the company now has a project level perspective of each project site's top risks and the level of coordination between the company's steamfield and power plant operations, including the site and head office support activities, has been enhanced.

Risk administration. The RMC monitored the company's exposure to foreign exchange and interest rate risks. The Committee also actively coordinated with the Technical Services and other concerned sectors to proactively manage drilling-related risk exposures. This enhanced the planning process and the level of coordination with the drilling contractor. Lastly, the RMC conducted a process-based risk assessment of the company's procure-to-pay process, which resulted in the identification of improvement areas in the vendor management process.

Business continuity management. The Committee conducted project scoping for the implementation of Business Continuity Management (BCM) in the head office and in all project sites. The planned phased implementation will start in 2012.

Corporate Social Responsibility Committee (CSRC)

Directions on new CSR programs. The Committee deliberated on the strategic directions for present and future projects such as Branding for the BINHI: Greening Program, Corporate Climate Change Program, CSR strategy and 5-year roadmap, and FGHP-EDC Biodiversity program.

Approval of new CSR projects. The Committee approved the following

CSR activities and programs for implementation starting 2011: College Admission Review and Readiness (CAREERS) Project; Rural Health Building Project of the Southern Negros Geothermal Production Field in Valencia, Negros Oriental; Technical-Vocational School for the Mt. Apo Geothermal Production Field in Kidapawan City, North Cotabato; CSR projects for the host LGUs of the Burgos Wind Power Project; and legacy projects for the late UP Botanist Leonard Co.



Assessment of partnerships. The CSR Committee also reviewed the status and strategic directions for partnerships and their impact on EDC such as: Renewal of partnerships with the Department of Education on the Leyte Schools for Excellence Project; membership in the Consultative Corporate Group of the World Resources Institute; assistance of Philippine Business Imperative for Climate Change with EDC as lead in the reforestation cluster of the Business Climate Action Summit on March 29, 2011 and

the Alliance for Mindanao Off-grid Renewable Energy (AMORE) Program, specifically on the component of School Electrification and Education using Knowledge Channel as e-media.

Monitoring activities. The CSR Committee conducted a review of the financial and operational performance of the KEITECH Educational Foundation, Inc. (KEEFI) and the Kananga-EDC Institute of Technology (KEITECH); financial performance and assistance to the Mt. Apo

Foundation Inc. (MAFI); and the biodiversity program in EDC's five sites conducted by the University of the Philippines-Institute of Biology.

Executive Officers: The Chairman of the Board and the Chief Executive Officer

In 2011, the positions of Chairman and Chief Executive Officer (CEO) were vested in one individual. In order to provide the necessary checks and balances for the positions, the Company's By-Laws and the

COMMITTEE ATTENDANCE

BOARD OF DIRECTORS	AGC 5 Meetings	NCC 6 MEETINGS	OPSCOM 32 MEETINGS	RMC 2 MEETINGS	CSRC 5 MEETINGS
OSCAR M. LOPEZ		4/6			
FEDERICO R. LOPEZ	1/5	6/6	4/32	1/2	5/5
RICHARD B. TANTOCO	4/5	6/6	19/32	1/2	5/5
ERNESTO B. PANTANGCO	5/5	5/6	25/32		5/5
PETER D. GARRUCHO, JR.		6/6	15/32	1/2	
FRANCIS GILES B. PUNO	4/5	4/6	14/32	2/2	1/5
ELPIDIO L. IBANEZ	3/5	6/6	27/32	1/2	1/5
JONATHAN C. RUSSELL	2/5	5/6	24/32	2/2	
EDGAR O. CHUA	5/5	4/6		1/2	5/5
FRANCISCO ED. LIM	5/5	4/6		2/2	2/5
JOHN A. PRASETIO	<i>Mr. John A. Prasetio was a member of the Board in 2011 until his resignation on February 1, 2011</i>				
ARTURO T. VALDEZ	1/5	2/2			2/2

Corporate Governance Manual provided the separate and distinct functions of each with a view of delineating the respective duties and responsibilities, thus minimizing the risk of conflict. Further, the EDC Board ensured that the checks and balances necessary for independent views and perspectives in the Board Meetings are observed.

Continuing improvement

We are continually reviewing 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, we continue to strengthen our partnership with regulatory government agencies and SEC-accredited corporate governance institutions.

The company issued a Regulatory Protocol and created a Regulatory Team to ensure compliance with all

BOARD MEETING ATTENDANCE

DIRECTOR	MEETINGS ATTENDED
OSCAR M. LOPEZ	6/7
FEDERICO R. LOPEZ	7/7
RICHARD B. TANTOCO	7/7
ERNESTO B. PANTANGCO	7/7
PETER D. GARRUCHO, JR.	7/7
FRANCIS GILES B. PUNO	7/7
ELPIDIO L. IBANEZ	6/7
JONATHAN C. RUSSELL	7/7
EDGAR O. CHUA	6/7
FRANCISCO ED. LIM	7/7
JOHN A. PRASETIO	1/7
ARTURO T. VALDEZ	3/7

Director Prasetio resigned in February 2011. Director Valdez served his unexpired term.

laws and regulations of the national government as well as the ordinances of the local authorities in the project sites. The staffing of the Policy Advocacy and Government Relations Group was completed to actively participate and contribute in the formulation of rules that will affect the company's operation and growth.

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





Board Of Directors





SEATED (L-R):

Ernesto B. Pantangco, Director; **Francis Giles B. Puno**, Director; **Oscar M.Lopez**, Chairman Emeritus;
Richard B. Tantoco, President and COO

STANDING (L-R):

Peter D. Garrucho, Jr., Director; **Francisco Ed. Lim**, Independent Director; **Edgar O. Chua**, Independent Director;
Elpidio L. Ibanez, Director; **Federico R. Lopez**, Chairman and CEO; **Arturo T. Valdez**, Director;
Jonathan C. Russell, Director

BOARD OF DIRECTORS

OSCAR M. LOPEZ

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, telecom 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. He has been elected as Chairman Emeritus of the different First Holdings group of companies and First Gen and First Gas group 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 endeavours, 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 and Lopez Group Foundation. He has been conferred the Honorary Degree of Humanities, honoris causa by De La Salle University in Oct. 2010 and by the Ateneo de Manila University in Nov. 2010. He was the 2011 Ramon del Rosario, Sr. Awardee for Nation Building.

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

Mr. Lopez, Filipino, is 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 Philippine Holdings Corporation, First Gen Corporation, FG Hydro Corporation, First Gas Power Corporation, FGP Corp., First Gen Energy Solutions, Green Core Geothermal Inc., First Gen Renewable Inc., and FG Bukidnon Power Corp. He is Chairman of First Philippine Industrial Corp., First Philippine Electric Corp., First Philippine Realty Corp., and First Balfour Inc., and is Treasurer of Lopez

Holdings, Inc. He also sits on the board of ABS-CBN Corporation. A staunch environmentalist, he is the Chairman of the Philippine Solar Car Challenge Society and is a member of the Board of Trustees of the Philippine Business for Social Progress and the Philippine Tropical Forest Conservation Foundation. He is also a member of the World Presidents' 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.

Mr. Garrucho, Filipino, has been a Director of EDC since November 2007. Until his retirement in January 2008, he served as Managing Director for Energy of FPHC and as Vice Chairman and CEO of First Gen Corp. where he continues to be a Director. He also sits in subsidiaries of these corporations including the First Gas Holdings Group of companies (First Gas Power, FGP Corp., Unified Holdings and First Gas Pipeline), First Gen Hydro Corp., FG Bukidnon Power Corp., First Gen Energy Solutions, Inc., Red Vulcan Holdings Corp., Prime Terracota Holdings Corp., First Philippine Industrial Corp. and First Balfour Corp. At present, he is also Vice Chairman of Franklin Baker Corp. where he has a significant shareholding.

He served in the government as Secretary of the Department of Tourism and the Department of Trade and 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 II.

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

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

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 a Director and Executive Vice President of First Gen Corp., First Gen Luzon Power Corp., First Gen Hydro Power Corp., First Gen Geothermal Power Corporation, First Gen Visayas Hydro Power Corporation, First Gen Mindanao Hydro Power Corporation, First Gen Energy Solutions, Inc., First Gen Premier Energy Corp., Red Vulcan Holdings Corp., First Gen Visayas Energy Inc., First Gen Prime Energy Corporation, and Executive Vice President of FGRI, First Gen Bukidnon Power Corporation, Unified Holdings Corp., and First Philippine Holdings. He is the Chief Operating Officer and Executive Vice President of First Gen Northern Energy Corp. He is the Director, President and COO of First Gas Holdings Corporation, First Gas Power Corp., FGP Corp., First Gas Pipeline Corp., First NatGas Power Corp., and FGLand Corp. He has been Director of the International Geothermal Association since 2010. 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

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 Corp., and President and CEO of FPPC and BPPC. He also sits in the boards of FG Luzon, GCGI, EWEHI, FG Bukidnon, FGHP, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., and First Gen Mindanao Hydro Power Corp. He is Senior Vice-President of FGHP 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 has been the President of the Philippine Independent Power Producers Association (PIPPA) for the last ten 10 years. He is also Vice Chairman of the National Renewable Energy Board (NREB) and was recently asked to be Chairman of MAP Committee on Energy.

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

Mr. Puno, Filipino, has been a Director of EDC since November 2007. He is the President and Chief Operating Officer (COO) of First Gen Corp., First Gen Renewables Inc, FG Bukidnon Power Corp., First Gen Energy Solutions, Inc., Red Vulcan Holdings Corp., First Gen Luzon Power Corp., First Gen Geothermal Power Corp., First Gen Northern Energy Corp., First Gen Visayas Hydro Power Corp and First Gen Mindanao Hydro Power Corp. He is also the Executive Vice President and Chief Financial Officer (CFO) of First Philippine Holdings Corp., First Gas Holdings Corp., First Gas Power Corp., FGP Corp., Unified Holdings Corp., First Gas Pipeline Corp., First NatGas Power Corp., and FGLand Corp. He sits in the boards of First Gen Hydro Power Corporation, and Bauang Private Power Corp. He worked previously with the Global Power and Environmental Group of The Chase Manhattan Bank in Singapore and Hong Kong where he originated and executed financial advisory and debt arrangement mandates for power and water projects in Asia.

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

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 1,720MW 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 and export management from the City University Business School, London, England (1989) and a bachelor of science degree with honours in chemical & administrative sciences from the City University, London, England (1987).

FRANCISCO ED. LIM

Mr. Lim, Filipino, is an Independent Director of EDC since July 2010. He is the Co-Managing Partner and Senior Partner of Angara Abello Concepcion Regala & Cruz Law Offices (ACCRAALAW) and is the Head of its Corporate and Special Projects Department. He is 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 14th 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

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. 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 Environment and President of Pilipinas Shell Foundation, 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 July 1999 to August 2003, he held various regional positions in Shell Oil Products East including GM for Consumer Lubricants covering all countries East of Suez Canal including Saudi Arabia, China, India, Korea, ASEAN, Australia, New Zealand and the Pacific Islands.

Mr. Chua earned his bachelor of science degree in chemical engineering from De La Salle University (1978) and attended various international seminars and courses including the senior management course in INSEAD in Fontainebleau, France.

ARTURO T. VALDEZ

Mr. Valdez, Filipino, is an Independent Director of EDC since July 2011. He served as Undersecretary at the Department of Transportation and Communication (DOTC) from 1996 to 2004 and was appointed Special Envoy to the Middle East from October 2007 to March 2008. During his stint in government, he was instrumental in reforming the maritime industry and rationalizing the land transport sector. He was past president (1974 to 1986) of the National Mountaineering Federation of the Philippines, Inc., the largest organization of mountaineering clubs in the country. He conceived, organized and led the First Philippine Mt. Everest Expedition which successfully accomplished the "reconnaissance" climb of May 2006 when the Philippine flag was first planted at the peak of Mt. Everest, and the "first and only women traverse" of Mt. Everest by three Pinays in May 2007, a feat unsurpassed in the history of Himalayan mountaineering until today. Coming from the mountain after finishing the highest marathon on earth - the 2008 Mt Everest Marathon - he went directly to the sea and built the "Balangay," an exact replica of a boat similar to the ancient sea craft dug up in Butuan City carbon dated 320 A.D., and sailed it together with an intrepid crew of Filipinos around the Philippines and Southeast Asia for 15 months solely powered by the wind and steered by the stars to highlight the superb seamanship and daringness of our ancestors as they sailed and habited the vast Pacific and Indian Oceans. Mr. Valdez believed that the Mt. Everest and Balangay expeditions may be daunting but their success was symbolic of what Filipinos can achieve if they are united and set their mind on anything.

Mr. Valdez was an American Field Service scholar and graduated with an AB in economics from the University of Santo Tomas (1970). He completed special studies on social market economy (1971), and party building and parliamentary government (1994) at Conrad Adenauer Foundation Institute in Germany. Aside from always having been connected with the Ramos for Peace and Development Foundation and concurrently as consultant/adviser at the Office of the Executive Secretary, Office of the President, his main preoccupation today is getting involved with groups exploring alternative sources of clean and renewable fuel for the transport sector to mitigate climate change.



Our Corporate Officers



From left to right:

Agnes C. de Jesus, SVP for Environment & External Relations & Compliance Officer; **Nestor H. Vasay**, SVP & Chief Financial Officer; **Ernesto B. Pantangco**, Director & EVP; **Federico R. Lopez**, Chairman & CEO



From left to right:

Vincent Martin C. Villegas VP for Business Development, **Wilfredo A. Malonzo** VP for Supply Chain Management
Ernesto G. Espinosa VP for Human Resources Management, **Ferdinand B. Poblete** Chief Information Officer
Erwin O. Avante VP for Corporate Finance, **Ellsworth R. Lucero** VP for Power Plant Operations

Not in photo are:* **Jose R. Delfin, Corporate Secretary; **Ana Maria A. Katigbak-Lim**, Assistant Corporate Secretary; **Ariel Arman V. Lapus**, VP for International Business Development; **Dominic M. Camu**, VP for Power Generation



From left to right:

Richard B. Tantoco, President & COO; **Manuel S. Ogena**, SVP for Technical Services;
Marcelino M. Tongco, SVP for Strategic Contracting; **Danilo C. Catigtig**, SVP for Strategic Initiatives



From left to right:

Manuel C. Paete, VP for Leyte Geothermal Production Field; **Dwight A. Maxino**, VP for Northern and Southern Negros Geothermal Production Fields; **Rico G. Bersamin**, VP for Steamfield Operations; **Liberato S. Virata**, VP for Bacman Geothermal Production Field; **Alejandro V. Catacutan**, AVP for Mindanao Geothermal Production Field; **Richard P. Difuntorum**, AVP for FirstGen Hydroelectric Power Corporation

MEMBERSHIPS IN ASSOCIATIONS

Association of Safety Practitioners of the Philippines, Inc.	North Cotabato Geothermal Airshed Board
Association of Structural Engineers of the Philippines	Pollution Control Association of the Philippines, Inc.
Association of the Filipinos for the Advancement of Geosciences, Inc.	People Management Association of the Philippines
Bicol Grievance Machinery Advocates	Philippine Council for NGO Certification
Bicol Region Power Industry Tripartite Council, Inc.	Philippine Eagle Foundation, Inc.
Boy Scouts of the Philippines, Cotabato Council	Philippine Independent Power Producers Association
Chartered Financial Analysts Society of the Philippines	Philippine Institute of Certified Public Accountants
Cotabato Industrial Peace Advocates	Philippine Institute of Chemical Engineers
Geological Society of the Philippines	Philippine Institute of Civil Engineers, Inc.
Geothermal Resources Council	Philippine Institute of Industrial Engineers
Good Governance Advocates and Practitioners of the Philippines	Philippine Labor Management Cooperation
Information Systems and Control Association	Philippine League of Labor-Management Cooperation Practitioners, Inc.
Institute of Corporate Directors	Philippine Society of Mechanical Engineers
Institute of Integrated Electrical Engineers of the Philippines	Philippine Society of Non-destructive Testing
Institute of Internal Auditors	Philippine Welding Society
Institute of Corporate Directors Companies' Circle	Philippine Society of Mechanical Engineers, Inc.
Integrated Bar of the Philippines	Project Management Institute
Integrated Chemists of the Philippines	Public Relations Society of the Philippines
Integrated Institute of Electrical Engineers	Regional Development Council
International Association of Business Communicators	Regional Tripartite Wages and Productivity Board Region 12
International Association of Hydrogeologists	Renewable Energy Coalition
International Geohazards Society	Renewable Energy Developers' Council
International Geothermal Association	Rotary Club of Metro Kidapawan
Kananga Municipal Development Council - Kananga, Leyte	Rotary Club of Rizal Mideast, Rotary International District 3800
Kapisanan ng mga Kimiko ng Pilipinas	Safety and Health Association of the Philippine Energy Sector, Inc.
Labor and Management Industrial Peace Advocates, Inc.	Small Grants Programme under the United Nations Development Programme
Labor Management Cooperation Practitioners Association - Cotabato	Tax Managers Association of the Philippines
League of Corporate Foundations	Toast Masters Club
Mt. Apo Foundation, Inc.	University of Asia & the Pacific - Business Economic Club
Mt. Apo Natural Park Protected Area Management Board	Wind Energy Developer's Association of the Philippines
Mt. Kanlaon Protected Area Management Board	World Resources Institute
Multi-sectoral Monitoring Team	
National Geothermal Association of the Philippines	





ASSURANCE STATEMENT

Overview

As the largest integrated steam and power producer in the world, the Energy Development Corporation (EDC) has strengthened its trailblazing efforts to communicate to stakeholders its economic, environmental, social and governance performance. Using the Global Reporting Initiative (GRI) Sector Supplement for Electric Utilities, EDC has consistently disclosed and expanded its reporting coverage in 2011 by producing its third GRI-compliant Sustainability Report with a B+ level of application.

The 2011 Sustainability Report was evaluated and reviewed by a team of independent experts composed of Dr. Nanette Dungo of the University of Asia and the Pacific (Society and Product Responsibility), Dr. Rene Ofreneo of the School of Labor and Industrial Relations of the University of the Philippines (Labor and Human Rights), former DENR Undersecretary Ricardo Umali of the Sustainable Ecosystems International Corporation (Environment), and Dr. Winston Padojino of the University of Asia and the Pacific (Economic).

The University of Asia and the Pacific served as the Lead Organizer and Host of the ERC.

Assurance Methodology

The assurance team has agreed to use the GRI principles on Report Content and Quality as the overriding framework for externally reviewing EDC's Sustainability Report for 2011. In the course of its review, the ERC members visited three geothermal projects of EDC in Leyte (February 16-17, 2012), in Bicol (March 1-2, 2012), and in Negros Occidental (March 15-16, 2012). At the time of ERC's visit in NNGPE, the production field was not in operation due to the "resource re-evaluation activities" conducted by EDC on the site.

During the field visits, the ERC team personally inspected and validated key environmental projects as well as conducted discussions and interviews with strategic data owners and a broad range of company stakeholders including senior company managers, key management personnel, trade union officials, service contractors, local government and community leaders, suppliers, members of the cooperatives and other community-based stakeholders.

Likewise, EDC officials presented updated and site specific performance reports in order to assist the ERC in its appreciation of the company's sustainability initiative. The ERC was given access to the database of the company specifically on employment, operations, and sample contracts with service contractors as well as copies of the collective bargaining agreements (CBAs).

The findings and suggestions of ERC members during the field visits were conveyed to EDC through the submission of an "Individual Expert Report".

Our Findings

Materiality. A sustainability-related issue is considered to be material if it is significant from the point of view of both the company and its stakeholders. It was determined that EDC conducted a materiality analysis for the 82 key performance indicators (higher than the 70 KPIs identified in 2010) that is being disclosed for the 2011 Sustainability Report.

Sustainability Context. It was observed that the process of sustainability has been clearly established in the operational design of the company's geothermal power plants, sustainable watershed and biodiversity management, as well as the various social programs that address the basic needs of its beneficiaries. Further, EDC was able to sustain the various sustainability strategies initiated in the previous years and registered further advances in these programs. This is demonstrated in its environmental protection investment and expenditures, which totaled to P243 million in 2011.

A commendable effort has been the establishment of a clonal nursery facility for indigenous tree species in its Northern Negros geothermal site. The facility can produce seedlings from high quality "mother trees" to supplement the company's BINHI project, an innovative reforestation strategy that is aligned with the government's National Greening Program.

Stakeholder Inclusiveness. A critical step in EDC's sustainability reporting is its effective engagement with significant stakeholders throughout its value chain. It has been confirmed that the company conducted extensive consultations with stakeholders, not only as a requirement of the reporting process but, more importantly, as part of a deep-seated culture within EDC of recognizing and responding to the needs and concerns of all its strategic stakeholders.

Completeness. The information presented in the 2011 Sustainability Report have met the test of completeness to include reporting boundaries and entities, the scope and issues discussed, and the time frame covered in the preparation of the report.

The usefulness and credibility of a Sustainability Report also hinges on the quality of the data and information. Quality is essential to demonstrate to stakeholders the company's commitment in managing the sustainability aspects of its triple bottomline activities, including the potential for value creation.

Balance and Accuracy. We believe that balance and accuracy have been achieved because the report reflected both positive and negative aspects of EDC's performance. The data presented have been measured whilst the reported information provided enough details to allow stakeholders to assess the company's performance over time.

In the economic component, the ERC used the 2011 independent audit report prepared by SGV and Co., internal documents and other pertinent documents submitted by EDC to the Philippine Stock Exchange as basis to evaluate and validate the disclosures in the SR 2011. Also, EDC's corporate social programs captured the expansive triple bottomline criteria for the development of the human and material capital of the business in an unbiased way.

Commitment to economic sustainability and pursuing renewable resources are evident during the review of its strategic investments. EDC's commitment to inject new energy capacity in the power grid by tapping renewable resource has been consistent over time. It has added wind and hydro energy projects into its portfolio of renewable energy projects. Likewise, the company is continuing its effort to improve the level of efficiency of its energy generation and the reliability of its supply of power, the commitment to utilize local suppliers and to hire more from the local communities.

For the environmental indicators, the ERC has found that the company has proven itself to be an effective steward of the natural resources and the environment of its geothermal production fields as well as adjoining areas affected by its watershed and forest management activities. In fact, the company has taken voluntary steps towards protecting the ecosystem and watershed areas that extend far beyond the boundaries of the geothermal reservations.

Comparability. We have noted that the report has been referenced on a year-to-year basis while the performance has been compared with appropriate benchmarks. This can be gleaned, for instance, on the expansion of locally hired employees from 74% in 2010 to 76% in 2011, including the global standard pertaining to the annual average cumulative training hours per employee. The baselining of natural resources and environmental conditions are also being updated and monitored with comparable results through digital mapping and geographic information system.

Timeliness and Clarity. Since this is EDC's third reporting year, we have noted a much faster delivery of data for evaluation, owing in part to the company's familiarity with the various key performance indicators. Subsequently, the company has formulated a goal-oriented roadmap that is anchored on strategic measures to mitigate the gaps in the various performance indicators.

Beyond Reporting: Shaping a Sustainable Future

In its pursuit to reach its business goal sustainably and responsibly, EDC has implemented key operational interventions such as new livelihood projects, climate change and environmental services as well as social programs. But in order to ensure that these interventions can create positive relationships and impacts, the ERC would like to recommend the following:

1. The presence of an increasingly stable private-public partnership with the LGU, barangay and their units are crucial to the enhancement of social programs and has been rightfully observed in the company's health and safety program, environment, and education, specifically, in the enhancement of the high school education with DEP-ED. This partnership is representative of the company's commitment to inclusiveness but it has to be closely monitored and evaluated with the end of strengthening and refining the basis for partnerships;
2. We have noted the strong prevalence of a patronage culture among CSR program partners in the community. In this regard, it is imperative for EDC to conduct regular and consistent value formation seminars to nurture self-reliance with partner organizations and beneficiaries. Likewise, there is a need to define, in concrete terms, the parameters for beneficiaries to become self-reliant as well as their commitment to self-sufficiency;
3. EDC should consider developing the local capabilities of community-based organizations (CBOs) to also serve external or non-EDC contracts. While the review has shown that the CBOs are well on their way to financial viability, majority is still dependent on EDC contracts for their sustainability. Perhaps, future CSR efforts must focus on how best to gradually wean out these CBOs from being overly dependent on EDC contracts;
4. The company has an existing policy towards zero tolerance to any form of labor violation or abuse. One strategy that the ERC recommends towards attaining this goal is to implement a more stringent screening of contractors and a closer scrutiny of their operations and suppliers. Specifically, it is recommended to broaden EDC's policy on the preferential hiring of "locals" to include local contracting and strengthen the procurement practices of contractors, their suppliers and employees;
5. On strengthening environmental initiatives, payment for environmental services (PES) such as watershed management; soil, water and biodiversity conservation; and ecotourism are already inherent in EDC's operations and should be further enhanced. A sound climate change program has been drafted for immediate implementation. Baseline emissions are being established from all sources as well as the total potential sinks. The program can address the vulnerabilities and risks from extreme weather events brought about by climate change. Partnerships with host communities should likewise be sustained using the Community-Based Forest Management approach by duplicating the model partnerships established between EDC and farmer associations in Negros Occidental and other production field areas. Geothermal energy efficiency and conservation should be continuously met by controlling greenhouse gas and hazardous substances emissions to minimum level;
6. While EDC has shown transparency in divulging detailed operational activities, the company should consider disclosing the challenges, either internal or external of operational and financial aspects, affecting it directly or indirectly; and

7. Finally, we would like to encourage EDC to implement a robust cascading program that aims to internalize the culture of sustainability among its employees and value chain. Although steps have been taken along this line, we suggest that the cascading initiative should become part of a regular training program that can be linked to human resource training or productivity enhancement strategies.

We congratulate EDC for taking another great stride towards sustainability. We wish the company success in its sustainability journey.



NANETTE G. DUNGO, Ph.D.

Professor and former Chairperson, Sociology Department
University of the Philippines in Diliman



WINSTON CONRAD B. PADOJINOG, Ph.D.

Dean, School of Management
University of Asia and the Pacific



RENE E. OFRENEO, Ph.D.

Professor and former Dean, School of Labor and Industrial
Relations, University of the Philippines in Diliman
Former Undersecretary, Department of Labor and Employment



RICARDO M. UMALI

President, Sustainable Ecosystems International Corporation
Former Undersecretary, Department of Environment and
Natural Resources



NANETTE G. DUNGO, Ph.D.

Sociology Professor Nanette G. Dungo, served as chair of the Department of Sociology of the University of the Philippines in Diliman. As faculty of the University, she worked with the Chancellor on researches on development studies, conducted training seminars for social science teachers and wrote papers for international conferences. She was with the UN Women 2010-2011 in Bangkok, Thailand for a research on *The Social Costs of Migration Across Four Countries (Philippines, Indonesia, Thailand and Vietnam)*. She also served as a research consultant for the Food and Nutrition Institute of the Department of Science and Technology (DOST). Today, she is actively involved in the Gawad Kalinga Foundation evaluating community projects.

A true-blooded professor, she continued teaching at the Institute of Political Economy of the University of Asia & the Pacific (UA&P) while conducting research work for the Center for Social Responsibility and Corporate Research Communications Office. Her current research interests include Migration and Gender Studies, and in the Political Economy of Development. Her recent publications include, *Violence Against Women Is Not Inevitable: A Comprehensive Study on Gender-Based Violence in CARAGA Region (2009)* with co-authors Aurora J. De Dios and Miraluna Herrera, *Negotiating From the Margins: Dynamics of Women's Work in a Globalized Agricultural Economy*, *Organizational Culture & Symbolism in the Philippines*, with co-author Dr. Normita G. Recto.



WINSTON CONRAD B. PADOJINOG, DBA

Winston or Stan, a senior economist, is currently Dean of School of Management and Chairman of the Operations Committee of the School of Management of the University of Asia and the Pacific (UA&P). He is also senior research fellow of the Center for Research and Communication Foundation, Inc.

Stan teaches economics and strategic management in the multicultural class of the Graduate School of Management, University of Western Australia. He forms part of the faculty in microeconomics of the Management Associates Program of the Development Bank of the Philippines.

Stan is currently a strategy consultant and mentor of medium to large scale companies of various industries like mining, hotel, real estate and construction, port logistics, franchising, financial and food services. He also serves as policy advisor to a number of industry associations like the SEIPI, Philippine Franchise Association and to over 20 local government units. Stan is frequently invited to speak in international and local forums to discuss issues on strategy, policy and industry prospects.

He obtained his bachelor of arts degree double major in economics and management from the University of the Philippines, Visayas as a student scholar. He obtained his master's degree in industrial economics in the Center for Research and Communication also as a scholar of the Hanns Siedel Stiftung Foundation of Germany. In September 2009, he obtained his doctor of business administration degree at the De La Salle University's Graduate School of Business. In the same year, he also attended the international faculty program of the IESE Business School in Barcelona, Spain. Last 2011, he revisited IESE to attend a module on Advanced Management Program.



RICARDO M. UMALI

Ric Umali is the President and CEO of Sustainable Ecosystems International Corporation and Senior Adviser in the Climate Change Commission and Board Director of PICOP Resources Inc. He is a licensed forester and an alumnus of the University of the Philippines Los Baños. He obtained his Master's degree from Yale University's School of Forestry and Environmental Studies. He also studied in Japan for his Certificate in Environmental Administration and in the USA for Satellite Remote Sensing Applications.

His 36 years of experience in environmental management and climate change involved managing 90 sustainable development projects in the countries of the Asia-Pacific region and some countries in Africa and 49 environment and natural resources-related projects funded by the World Bank, Asian Development Bank, United Nations Development Programme, United Nations ESCAP, Food and Agriculture Organization, Canada International Development Agency and Finland International Development Agency, among others.

He was a career executive serving as Assistant Secretary, Undersecretary and later, as Acting Secretary of the Department of Environment and Natural Resources (DENR) in 1992. He also served as the Director General of the Natural Resources Management Center of the DENR.

His expertise in international development cooperation is exemplified in his stint in the UN International Tropical Timber Organization and formulated the organization's new action plan as approved by the Governing Council with 60 member countries. He also served as Chairman of the agency's 12-member Expert Panel for the Technical Review of Project Proposals from 2003 to 2006. He was the International Team Leader of the ITTO-DENR project on criteria and indicators for SFM and prepared the Philippine system of appropriate criteria and indicators and manual for auditing and prepared the first 2 national reports on SFM using the systems he developed. He managed for the agency 2 Philippine projects on biodiversity and collaborative forest management for 8 years. He conducted ex-post evaluation of foreign-funded projects in Indonesia and Malaysia.

He was awarded the Ten Outstanding Young Men (TOYM) in 1987, Most Distinguished Alumnus of the University of the Philippines, Los Baños Campus, PRC Outstanding Professional Award in Forestry, Professional Excellence Award from Association of Professional Organizations, and Almaciga, Molave, Likas Yaman. He has 49 published works and researches on environment and natural resources and allied fields.

He is proficient in most computer programs including data bases and GIS, website design and management, and the use of Internet communications and networking.



RENE E. OFRENEO, PH.D.

Rene Ofreneo is the Former Dean of the School of Labor and Industrial Relations (SOLAIR), University of the Philippines and is one of the country's leading scholars in labor relations and labor market studies. In 2010, Dr. Ofreneo produced *Green Jobs and Green Skills in a Brown Philippine Economy*, a research contribution to a multi-country global study on green jobs organized by the International Labor Organization (ILO) and the UN Environmental Programme (UNEP). He has documented the green/greening initiatives of Energy Development Corporation, Jollibee, Toyota, San Carlos Bioethanol, Halzzang, Nisard, Haribon, PASAR and Metal Wealth.

He had a brief but meaningful stint as Undersecretary of the Department of Labor and Employment from 1997-98, at the height of the Asian financial crisis. He helped settle big national strikes (PLDT, URC, Honda, Mitsubishi, and Babcock Hitachi) and facilitate the registration of around a hundred unions in so short a time. He has been involved in several Labor Code reviews spearheaded by DOLE and Congress. He was President of the National Academy on Voluntary Arbitration from 1999 to 2008. He also edited the centenary book of the Department of Labor, *Balik-Tanaw, Bagong Pananaw*. He sits in the board of the Sydney-based *The Journal of Industrial Relations* and the London-based *Asia-Pacific Business Review*. He produced a booklet, *A Toolkit for Labour Law Reform Advocacy*, for the Asia-Pacific Regional Organization of the International Trade Union Confederation.

Dr. Ofreneo also served as Executive Director of the Fair Trade Alliance organizing two major policy consultation-workshops green and value-adding mining. He is also a founding Trustee of the Philippine Employer-Labor Social Partnership, Inc. He is a founding Trustee of the Climate Change Congress of the Philippines (CCCP), which has engaged the government on the importance of an integrated watershed management nationwide, a green shift in economic development and a grassroots-oriented adaptation-mitigation-anticipation program. As a research consultant of the Employers' Confederation of the Philippines (ECOP), he has been urging industries to embrace global standards such as ISO 14001 (environmental certification), OSHAS 180001 (health and safety), SA 8000 (social accountability) and the UNDP's Global Compact Initiative (respect for human, labor, community and environmental rights).

He is a UP Centennial Professor awardee (2009 and 2011), and a seven-time recipient of the UP International Publication Award. Today, his advocacy is primarily focused on the promotion of green jobs in a greener economy and the strengthening of the social security system in the Philippines and Asia.

EUSS Indicator	Reference	IFC Performance Standards (PS)	
1. STRATEGY AND ANALYSIS			
1.1	Statement from senior decision-makers	9	
1.2	Description of key impacts, risks, and opportunities	9-15	
2. ORGANIZATIONAL PROFILE			
2.1	Name of organization	Front Cover	
2.2	Primary brands, products, and / or services	21	
2.3	Operational structure of the organization	2-4	
2.4	Location of organization's headquarters	207	
2.5	Countries of operation	5	
2.6	Nature of ownership and legal form	4, 111-112	
2.7	Markets served including geographic breakdown, sectors served, and types of customers / beneficiaries	5	
2.8	Scale of organization	31	
2.9	Significant changes during the reporting period regarding size, structure, or ownership	5, 21	
2.10	Awards received in the reporting period	24	
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	5	
EU2	Net energy output broken down by primary energy source and by regulatory regime	5	
EU3	Number of residential, industrial, institutional, and commercial customer accounts	5	
3. REPORT PARAMETERS			
Report Profile			
3.1	Reporting period for information provided	1	
3.2	Date of most recent previous report	1	
3.3	Reporting cycle	1	
3.4	Contact point for questions regarding the report or its contents	1	
Report Scope and Boundary			
3.5	Process for defining report content	1	PS1
3.6	Boundary of the report	1	PS1, PS2
3.7	Limitations on the scope or boundary of the report	1	PS1, PS2
3.8	Basis for reporting on joint ventures	24	PS1
3.9	Data measurement techniques and the bases of calculations	1	PS1
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	43-44	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	1, 43-44	
GRI Content Index			
3.12	Table identifying the location of the Standard Disclosures in the report	92	
Assurance			
3.13	Policy and current practice with regard to seeking external assurance for the report	1, 88-91	
4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT			
Governance			
4.1	Governance structure of the organization	71-76	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	75	

EUSS Indicator		Reference	IFC Performance Standards (PS)
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and / or non-executive members	73	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	58	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives	74	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	73, 75	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics	74-75	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	2, 71	
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance	30-31, 75	
4.10	Processes for evaluating the highest governance body's own performance	74	
Commitments to External Initiatives			
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	74-75, 177	PS1, PS4
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	24	
4.13	Memberships in associations	86	
Stakeholder Engagement			
4.14	List of stakeholder groups engaged by the organization	32	PS1, PS5, PS7
4.15	Basis for identification and selection of stakeholders with whom to engage	32	PS1, PS5, PS7
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	32	PS1, PS5, PS7
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	32	
A. ECONOMIC RESPONSIBILITY			
EC1	Direct economic value generated and distributed including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments CORE	35-37	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change CORE	49	
EC3	Coverage of the organization's defined benefit plan obligations CORE	118	
EC4	Significant financial assistance received from government CORE	36	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation CORE	58	
EC6	Policy, practices, and proportion of spending on locally based suppliers at significant locations of operation CORE	36-37	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation CORE	57	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro-bono engagement CORE	36, 64	PS1
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts ADD	62-65	PS1
EU6	Management approach to ensure short- and long-term electricity availability and reliability CORE	14, 38	
EU8	R&D activity and expenditure aimed at providing reliable electricity and promoting sustainable development CORE	38, 42	
EU10	Planned capacity against projected electricity demand over long term, broken down by energy source and regulatory regime CORE	38	

EUSS Indicator		Reference	IFC Performance Standards (PS)
B. ENVIRONMENTAL RESPONSIBILITY			
EN1	Materials used by weight or volume CORE	43	
EN3	Direct energy consumption by primary energy source CORE	43	PS3
EN4	Indirect energy consumption by primary energy source CORE	43	PS3
EN5	Energy saved due to conservation and efficiency improvements ADD	44	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives ADD	42, 44	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved ADD	44	
EN8	Total water withdrawal by source CORE	44	PS3
EN11	Location and size of land owned, leased, managed in, or adjacent to protected areas and areas of high biodiversity value outside protected areas CORE	46-47	PS3, PS6
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas CORE	49	PS3, PS6
EN13	Habitats protected or restored ADD	48, 50-51	PS3, PS6
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity ADD	46, 51	PS1, PS3, PS6
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk ADD	50-51	PS3, PS6
EN16	Total direct and indirect greenhouse gas emissions by weight CORE	45	PS3
EN19	Emissions of ozone-depleting substances by weight CORE	45	PS3
EN20	Nox, Sox, and other significant air emissions by type and weight CORE	45	PS3
EN22	Total weight of waste by type and disposal method CORE	46	PS3
EN23	Total number and volume of significant spills CORE	46	PS3
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation CORE	42, 44	PS3
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations CORE	44	
EN30	Total environmental protection expenditures and investments by type ADD	43	
EU13	Biodiversity of offset habitats compared to the biodiversity of the affected areas CORE	46-51	
C. LABOR PRACTICES			
LA1	Total workforce by employment type, employment contract, and region CORE	55	PS2
LA2	Total number and rate of employee turnover, by age group, gender, region CORE		PS2
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations ADD	58	PS2
LA4	Percentage of employees covered by collective bargaining agreements CORE	58	PS2
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements CORE	55	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs ADD	62	PS2
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities by region CORE	63	PS2
LA8	Education, training, counseling, prevention, and risk control program in place to assist workforce members, their families, or community members regarding serious diseases CORE	62	PS2
LA9	Health and safety topics covered in formal agreements with trade unions ADD	62	PS2
LA10	Average hours of training per year per employee by employee category CORE	56	PS2
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings ADD	57	PS2
LA12	Percentage of employees receiving regular performance and career development reviews ADD	57	PS2

EUSS Indicator		Reference	IFC Performance Standards (PS)
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators or diversity CORE	57-58, 74-75	
LA14	Ratio of basic salary of men to women by employee category CORE	57	PS2
EU14	Programs and processes to ensure the availability of a skilled workforce CORE	55-58	
EU15	Percentage of employees eligible to retire in the next five and 10 years broken down by job category and by region CORE	56	
EU16	Policies and requirements regarding health and safety of employees and employees of contractors and sub-contractors CORE	61-62	
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training CORE	62	
D. HUMAN RIGHTS			
HR4	Total number of incidents of discriminations and actions taken CORE	58	
HR5	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights CORE	58	PS2
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor CORE	57	PS2
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor CORE	58	PS2
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations ADD	58	PS4
HR9	Total number of incidence of violations involving rights of indigenous people and actions taken ADD	58, 69	PS7, PS9
E. SOCIETY			
S01	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities including entering, operating and exiting CORE	38, 63-69	PS1, PS4, PS5, PS7, PS8, PS9
EU19	Stakeholder participation in the decision making process related to energy planning and infrastructure development CORE	31-32, 43	
S02	Percentage and total number of business units analysed for risks related to corruption CORE	58	
S03	Percentage of employees trained in organization's anti-corruption policies and procedures CORE	58	
S04	Actions taken in response to incidents of corruption CORE	58	
S05	Public policy positions and participation in public policy development and lobbying CORE	30	
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country ADD	36	
S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes ADD	58	
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations CORE	58	
EU20	Approach to managing the impacts of displacement CORE	36, 38	
EU21	Contingency planning measures, disasters / emergency development plans and training programs, and recovery restoration plans CORE	62-63, 75	
EU22	Number of people physically or economically displaced and compensation, broken down by type of project CORE	36, 38	
F. PRODUCT RESPONSIBILITY			
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes ADD	68	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes ADD	58	

EUSS Indicator		Reference	IFC Performance Standards (PS)
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship CORE	32	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes ADD	32	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data ADD	58	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services CORE	58	
EU24	Practices to address language, cultural, low literacy, and disability related barriers to access and safely use electricity and customer support services CORE	1, 32	
EU25	Number of injuries and fatalities to the public involving company assets including legal judgments, settlements, and pending legal cases of diseases CORE	58, 68	
EU30	Average plant availability factor by energy source and by regulatory regime CORE	38	

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosure	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report Externally Approved	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report Externally Approved	Same as requirement for Level B	Report Externally Approved
	G3 Management Approach Disclosures	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach disclosed for each Indicator Category	
	G3 and Electric Utilities Sector Supplement Performance Indicators	Report on a minimum of 10 Performance Indicators & Sector Supplement Performance Indicators		Report on a minimum of 20 Performance Indicators, at least from each of: economic, environment, human rights, labor, society, product responsibility		Report on each core G3 and Sector Supplement* indicator with due regard to the materiality principle by either: a) reporting on the indicator or b) explaining the reason for its omission	

* Sector Supplement in final version

KEY DESCRIPTION: INTERNATIONAL FINANCE CORPORATION PERFORMANCE STANDARDS

Description	
PS1	Social and Environmental Assessment and Management Systems
PS2	Labor and Working Conditions
PS3	Pollution Prevention and Abatement
PS4	Community Health, Safety, and Security
PS5	Land Acquisition and Involuntary Resettlement
PS6	Biodiversity Conservation and Sustainable Natural Resource Management
PS7	Indigenous Peoples
PS8	Cultural Heritage
PS9	Social and Environmental Management System



2011 SUSTAINABILITY: THE WORK OF A TEAM

Sustainability Champions

Federico R. Lopez
Chairman & CEO

Richard B. Tantoco
President & COO

Sustainability Council

Chair

Agnes C. de Jesus
Compliance Officer /
SVP, Environment & External Relations

Marcelino M. Tongco
SVP, Strategic Contracting

Maribel A. Manlapaz
Comptroller

Members

Ernesto G. Espinosa
VP, Human Resources Management

Liberato S. Virata
VP, BacMan Geothermal Production Field

Dwight A. Maxino
VP, Southern and Northern Negros
Geothermal Production Fields

Alejandro V. Catacutan
AVP, Mindanao Geothermal Production
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Manager, Strategy Management Division

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Manager, Public Relations Department

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Allan V. Barcena
Manager, Watershed Management
Department

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Manager, Supply Chain Management

Rene G. Astorga
Manager, Power Generation Sector

Milo V. Alejo
Manager, Risk Management Department

Reinero S. Medrano
Manager, Corporate Social Responsibility
Department

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Deputy Manager, Steamfield Operations

Technical Working Group

Public Relations (Secretariat)

Dave Jesus T. Devilles
Sustainability Communications Specialist

Frances L. Ariola
Lead Sustainability Convenor

Power Generation

Anaf or L. Candelaria
Michael Dan. V. Balan
Rodante S. Daludado (FGHPC)

Steamfield Operations

Clarissa Therese J. Soco (Leyte)
Edbert A. Zenit (BacMan)
Romeo Rex B. Radaza (Leyte)
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Garrick Gregory A. Mina
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Corporate Social Responsibility

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Cristeta L. Cala

Supply Chain Management

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Arrence Art I. Cuevas

Human Resources Management

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Ruth Ann R. Dungca

Finance

Jhunnar B. Abbot
Cirila V. Romblon
Donna Z. Maputi

Safety

Augusto Luis P. Tan
Nestor S. Evaristo

Compliance

Maria Jasmine M. Almogino

Strategy and Risk Management

Vilma P. del Rosario
Larissa N. Jason

Policy, Advocacy and Government Relations

Ann Christine T. Rojo

Information Services

Francis Gilbert A. Alvir

GRI Adviser

Colin L. Hubo, *University of Asia and the Pacific*
Elected GRI Stakeholder Council Member



Energy Development Corporation
(A Subsidiary of Red Vulcan Holdings Corporation)
and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010
and Years Ended December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
 **ERNST & YOUNG**

2011 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 and external auditor the quarterly 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 governance, risk management and 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 2010 financial statements audit) and approved the reengagement of SGV & Co. for another year (2011 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: endorsing changes to the Corporate Governance Manual to align it with regulatory requirements, corporate, policies and best practices; 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 second 'Gold Award' as recognized by Institute of Corporate Directors in May 2011.

Committee Meetings

- We conducted five meetings in 2011. All the Committee members were able to attend at least a majority of the meetings.

February 17, 2012



Edgar O. Chua
Chairman



Francis Ed. Lim
Member



Francis Giles B. Puno
Member



Ernesto B. Pantangco
Member

Management's Responsibility for Financial Statements



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


February 24, 2012

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

The management of Energy Development Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 & 2010, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders or members.

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company in accordance with the Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.



Federico R. Lopez
Chairman/CEO



Richard B. Tantoco
President/COO



Nestor H. Vasay
Senior Vice President/CFO

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Energy Development Corporation
One Corporate Centre Building, Julia Vargas corner Meralco Avenue
Ortigas Center, Pasig City

We have audited the accompanying consolidated financial statements of Energy Development Corporation (a subsidiary of Red Vulcan Holdings Corporation) and its Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 about whether the consolidated financial statements are free from material misstatement.

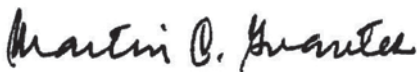
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated 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 consolidated 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 present fairly, in all material respects, the financial position of Energy Development Corporation and its Subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 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 (Group A),
March 30, 2009, valid until March 29, 2012
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174599, January 2, 2012, Makati City

February 24, 2012



A member firm of Ernst & Young Global Limited

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010 (Restated, Note 5)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 34)	₱12,493,406,963	₱6,157,925,132
Trade and other receivables (Notes 3, 8, 25 and 34)	3,411,309,528	4,602,047,375
Available-for-sale (AFS) investments (Notes 3, 9, 29 and 34)	673,853,680	707,524,992
Parts and supplies inventories (Notes 2, 3, 5, 10, 23, 24 and 25)	3,355,767,653	2,653,467,757
Due from related parties (Notes 22 and 34)	7,812	–
Other current assets (Notes 11, 15 and 29)	741,911,257	733,797,284
Total Current Assets	20,676,256,893	14,854,762,540
Noncurrent Assets		
Property, plant and equipment (Notes 3, 5 and 12)	57,676,929,006	56,603,137,672
Intangible assets (Notes 3, 5 and 13)	4,705,245,708	4,543,041,926
Deferred tax assets - net (Notes 2, 5 and 31)	1,420,656,657	893,702,182
Exploration and evaluation assets (Notes 3, 14 and 29)	1,087,079,413	1,170,407,115
Other noncurrent assets (Notes 3, 8, 9, 15, 25, 29 and 34)	4,451,649,107	3,238,541,427
Total Noncurrent Assets	69,341,559,891	66,448,830,322
TOTAL ASSETS	₱90,017,816,784	₱81,303,592,862
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 3, 17 and 34)	₱6,704,075,261	₱5,186,544,100
Income tax payable	18,736,456	71,247,509
Due to related parties (Notes 22 and 34)	60,090,825	272,598,070
Loan payable (Notes 16 and 34)	–	175,000,000
Current portion of:		
Long-term debts (Notes 19, 22, 27 and 34)	2,249,517,382	1,527,248,370
Royalty fee payable (Notes 18, 27, 34 and 37)	287,626,313	254,155,199
Total Current Liabilities	9,320,046,237	7,486,793,248
Noncurrent Liabilities		
Long-term debts - net of current portion (Notes 19, 22, 27 and 34)	49,240,054,073	39,678,699,478
Royalty fee payable - net of current portion (Notes 18, 27, 34 and 37)	–	300,628,373
Net retirement and other post-employment benefits (Notes 3 and 30)	1,054,237,256	1,307,137,045
Provisions and other long-term liabilities (Notes 3, 12 and 20)	756,877,725	291,353,661
Total Noncurrent Liabilities	51,051,169,054	41,577,818,557
Total Liabilities	60,371,215,291	49,064,611,805

(Forward)

	December 31	
	2011	2010 (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 33)	(372,272,723)	(379,219,785)
Additional paid-in capital (Note 33)	6,266,966,828	6,266,099,283
Equity reserve	(3,706,430,769)	(3,706,430,769)
Net accumulated unrealized gain on AFS investments (Notes 9 and 29)	91,758,915	119,718,797
Cumulative translation adjustment	592,534	1,370,000
Retained earnings (Note 21)	6,304,695,114	9,524,603,810
	27,429,059,899	30,669,891,336
Non-controlling interest (Note 21)	2,217,541,594	1,569,089,721
Total Equity	29,646,601,493	32,238,981,057
TOTAL LIABILITIES AND EQUITY	₱90,017,816,784	₱81,303,592,862

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2011	2010	2009
REVENUES (Note 6)			
Sale of electricity (Notes 3, 39, 40, 41 and 47)	₱24,550,683,013	₱22,944,227,877	₱15,245,966,218
Revenue from drilling services	712,789,795	748,691,558	847,879,359
Sale of steam (Notes 3 and 38)	–	1,208,696,413	3,781,367,064
Interest income on service concessions (Note 34)	–	–	1,650,208,827
Construction revenue (Notes 3 and 36)	–	–	541,458,209
	25,263,472,808	24,901,615,848	22,066,879,677
COSTS OF SALES AND SERVICES			
Costs of sales of electricity and steam (Notes 10, 18, 23, 26, 30 and 47)	(10,575,335,610)	(9,465,844,724)	(8,267,680,387)
Cost of drilling services (Note 24)	(772,193,766)	(456,086,689)	(411,935,981)
Construction costs (Notes 3 and 36)	–	–	(467,262,081)
	(11,347,529,376)	(9,921,931,413)	(9,146,878,449)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 10, 15, 25, 26, 30 and 47)			
	(4,697,842,417)	(4,736,999,617)	(3,547,552,005)
FINANCIAL INCOME (EXPENSE)			
Interest income (Notes 7 and 34)	390,212,719	347,695,016	402,950,235
Interest expense (Notes 12, 16, 17, 18, 19, 27 and 34)	(4,106,760,462)	(3,708,457,266)	(2,887,155,929)
	(3,716,547,743)	(3,360,762,250)	(2,484,205,694)
OTHER INCOME (CHARGES)			
Loss on impairment of property, plant and equipment (Note 12)	(4,998,608,008)	(3,390,000,000)	(349,000,000)
Foreign exchange gains (losses) - net (Note 28)	(108,728,379)	(13,871,472)	1,291,239,839
Derivative gains (losses) - net (Note 34)	108,319,377	436,998,854	(198,809,759)
Miscellaneous - net (Notes 9, 11, 12, 14, 15, 18 and 29)	(11,357,903)	1,257,210,630	(364,235,909)
	(5,010,374,913)	(1,709,661,988)	379,194,171
INCOME BEFORE INCOME TAX	491,178,359	5,172,260,580	7,267,437,700
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 31)			
Current	(421,569,578)	(477,801,870)	(1,454,387,054)
Deferred:			
Effect of Renewable Energy Law (Note 46)	–	–	(2,959,213,001)
Others	545,177,033	(299,382,845)	503,126,079
	123,607,455	(777,184,715)	(3,910,473,976)
NET INCOME	₱614,785,814	₱4,395,075,865	₱3,356,963,724
Net income (loss) attributable to:			
Equity holders of the Parent Company (Note 32)	(₱167,192,156)	₱4,115,747,261	₱3,311,335,906
Non-controlling interest	781,977,970	279,328,604	45,627,818
	₱614,785,814	₱4,395,075,865	₱3,356,963,724
Basic/Diluted Earnings (Loss) Per Share for Net Income (Loss) Attributable to Equity Holders of the Parent Company (Note 32)			
	(₱0.009)	₱0.219	₱0.176

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
NET INCOME	₱614,785,814	₱4,395,075,865	₱3,356,963,724
OTHER COMPREHENSIVE INCOME			
(LOSS)			
Changes in fair value of AFS investments recognized in equity (Notes 9 and 34)	(27,724,193)	6,541,474	79,022,336
Cumulative translation adjustment	(777,466)	1,370,000	–
Net unrealized gain removed from equity and recognized in profit or loss (Notes 9 and 34)	(235,689)	–	–
Impairment loss on AFS investment removed from equity and recognized in profit or loss (Notes 3, 9, 29 and 34)	–	–	3,328,633
	(28,737,348)	7,911,474	82,350,969
TOTAL COMPREHENSIVE INCOME	₱586,048,466	₱4,402,987,339	₱3,439,314,693
Total comprehensive income (loss)			
attributable to:			
Equity holders of the Parent Company	(₱195,929,504)	₱4,123,658,735	₱3,393,686,875
Non-controlling interest	781,977,970	279,328,604	45,627,818
	₱586,048,466	₱4,402,987,339	₱3,439,314,693

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	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	Accumulated Unrealized Gain on AFS Investments	Cumulative Translation Adjustment	Retained Earnings	Cost of Treasury Stock Held	Subtotal	Non-controlling Interest	Total Equity
Balances, December 31, 2008	P75,000,000	P15,000,000,000	P-	P6,278,075,648	(P3,706,430,769)	P30,826,354	P-	P9,977,933,235	(P404,219,068)	P27,251,185,400	P1,484,133,299	P28,735,318,699
Total comprehensive income:	-	-	-	-	-	-	-	3,311,335,906	-	3,311,335,906	45,627,818	3,356,963,724
Net income	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of AFS investments recognized in equity (Notes 9 and 34)	-	-	-	-	-	79,022,336	-	-	-	79,022,336	-	79,022,336
Impairment loss on AFS investments removed from equity and recognized in profit or loss (Notes 3, 9, 29 and 34)	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	3,328,633	-	-	-	3,328,633	-	3,328,633
						82,350,969		82,350,969		82,350,969		82,350,969
Stock dividend (Note 21)	-	3,750,000,000	-	-	-	-	-	3,311,335,906	-	3,393,686,875	45,627,818	3,439,314,693
Cash dividends (Note 21)	-	-	-	-	-	-	-	(3,750,000,000)	-	(1,869,375,000)	-	(1,869,375,000)
Assignment of treasury shares to employee trust account (Note 21)	-	-	(404,219,068)	-	-	-	-	-	404,219,068	(1,869,375,000)	-	(1,869,375,000)
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)
Preferred shares subscription	-	-	-	(93,725)	-	-	-	-	-	(93,725)	-	(93,725)
Share-based payment (Notes 22 and 33)	-	-	12,575,704	2,614,296	-	-	-	-	-	15,190,000	-	15,190,000
Deferred tax effect of share-based payment (Notes 31 and 33)	-	-	-	180,833	-	-	-	-	-	180,833	-	180,833
Balances, December 31, 2009	P93,750,000	P18,750,000,000	(P391,643,364)	P6,262,027,052	(P3,706,430,769)	P113,177,333	P-	P7,669,894,141	P-	P28,790,774,383	P1,529,761,117	P30,320,535,500

(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	Accumulated Unrealized Gain on AFS Investments	Cumulative Translation Adjustment	Retained Earnings	Cost of Treasury Stock Held	Subtotal	Non-controlling Interest	Total Equity
Total comprehensive income:	P-	P-	P-	P-	P-	P-	P-	P-	P-	P4,115,747,261	P279,328,604	P4,395,075,865
Changes in fair value of AFS investments recognized in equity (Notes 9 and 34)	-	-	-	-	-	6,541,474	-	-	-	6,541,474	-	6,541,474
Cumulative translation adjustment	-	-	-	-	-	6,541,474	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
Cash dividends (Note 21)	-	-	-	-	-	-	-	4,115,747,261	-	4,123,658,735	279,328,604	4,402,987,339
Cash dividends to non-controlling interest (Note 21)	-	-	-	-	-	-	-	(2,256,333,333)	-	(2,256,333,333)	-	(2,256,333,333)
Share-based payment (Notes 22 and 33)	-	-	12,423,579	3,260,796	-	-	-	-	-	15,684,375	(240,000,000)	(240,000,000)
Deferred tax effect of share-based payment (Notes 31 and 33)	-	-	-	811,435	-	-	-	-	-	811,435	-	15,684,375
Documentary stamp tax on: <ul style="list-style-type: none"> Preferred shares subscription Common shares subscription 	-	-	-	-	-	-	-	(131,250)	-	(131,250)	-	(131,250)
Balances, December 31, 2010	P93,750,000	P18,750,000,000	(P379,219,785)	P6,266,099,283	(P3,706,430,769)	P119,718,797	P1,370,000	P9,524,603,810	(4,573,009)	P30,669,891,336	P1,569,089,721	P32,238,981,057
Balances, January 1, 2011, as previously reported	P93,750,000	P18,750,000,000	(P379,219,785)	P6,266,099,283	(P3,706,430,769)	P119,718,797	P1,370,000	P9,524,603,810	(4,573,009)	P30,669,891,336	P1,569,089,721	P32,238,981,057
Effect of voluntary change in accounting policy (Note 2)	-	-	-	-	-	-	-	155,072,607	-	155,072,607	-	155,072,607
Balances, January 1, 2011, as restated	93,750,000	18,750,000,000	(379,219,785)	6,266,099,283	(3,706,430,769)	119,718,797	1,370,000	9,679,676,417	-	30,824,963,943	1,569,089,721	32,394,053,664
Total comprehensive income:	-	-	-	-	-	-	-	(167,192,156)	-	(167,192,156)	781,977,970	614,785,814
Changes in fair value of AFS investments recognized in equity (Notes 9 and 34)	-	-	-	-	-	(27,724,193)	-	-	-	(27,724,193)	-	(27,724,193)
Cumulative translation adjustment	-	-	-	-	-	-	(777,466)	-	-	(777,466)	-	(777,466)
Net unrealized gain removed from equity and recognized in profit or loss (Notes 9 and 34)	-	-	-	-	-	-	-	(235,689)	-	(235,689)	-	(235,689)
Total other comprehensive income	-	-	-	-	-	(27,959,882)	(777,466)	(27,959,882)	(28,737,348)	(28,737,348)	781,977,970	586,048,466
Cash dividends (Note 21)	-	-	-	-	-	-	-	(3,007,500,000)	-	(3,007,500,000)	-	(3,007,500,000)
Cash dividends to non-controlling interest (Note 21)	-	-	-	-	-	-	-	-	-	-	(333,815,244)	(333,815,244)
Effect of subsidiary's issuance of and declaration of dividends on preferred shares to NCI (Note 21)	-	-	-	-	-	-	-	(200,289,147)	-	(200,289,147)	200,289,147	-
Share-based payment (Notes 22 and 33)	-	-	6,947,062	1,859,813	-	-	-	-	-	8,806,875	-	8,806,875
Deferred tax effect of share-based payment (Notes 31 and 33)	-	-	-	(992,268)	-	-	-	-	-	(992,268)	-	(992,268)
Balances, December 31, 2011	P93,750,000	P18,750,000,000	(P372,272,723)	P6,266,966,828	(P3,706,430,769)	P91,758,915	P92,534	P6,304,695,114	P-	P27,429,059,899	P2,217,541,594	P29,646,601,493

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱491,178,359	₱5,172,260,580	₱7,267,437,700
Adjustments for:			
Interest expense (Note 27)	4,106,760,462	3,708,457,266	2,887,155,929
Depreciation and amortization (Notes 12 and 13)	3,441,874,497	3,445,004,630	1,211,412,390
Impairment loss on:			
Property, plant and equipment of Northern Negros Geothermal Project (Notes 3 and 12)	4,998,608,008	3,390,000,000	349,000,000
Impairment loss on AFS investment removed from equity and recognized in profit or loss (Notes 3, 9, 29 and 34)	–	–	3,328,633
Loss (gain) on:			
Debt extinguishment (Notes 19 and 29)	197,898,124	–	–
Disposals and retirements of property, plant and equipment (Note 29)	19,962,107	401,388,002	273,667,334
Early redemption of AFS investment (Notes 9 and 29)	(271,292)	–	–
Sale of noncurrent assets held for sale (Note 29)	–	–	129,867,348
Unused tax credit certificates (Note 29)	–	–	12,207,982
Interest income (Note 7)	(390,212,719)	(347,695,016)	(402,950,235)
Provision for:			
Doubtful accounts (Notes 15 and 25)	308,945,159	56,993,821	–
Retirement and other post-employment benefits (Notes 26 and 30)	50,797,100	386,578,060	396,716,593
Share-based benefit cost (Note 33)	8,806,875	15,601,571	15,190,000
Unrealized foreign exchange gains - net (Note 28)	(161,645,620)	(168,978,452)	(815,455,990)
“Day 1” loss on security deposits (Note 29)	7,552,372	–	–
Unwinding of discount on Northern Negros Geothermal Project’s provision for rehabilitation and restoration costs (Note 12)	1,484,139	–	–
Recovery of impairment loss on input value-added tax (VAT) claims for refund (Notes 11, 15 and 29)	–	(1,638,884,447)	–
Unrealized derivative losses - net (Note 34)	–	9,598,487	23,161,134
Interest income on service concessions (Note 34)	–	–	(1,650,208,827)
Additions to intangible assets arising from service concessions (Note 36)	–	–	(541,458,209)
Write-off of input VAT claims for refund (Note 29)	–	–	178,639,119
“Day 1” gain on deferred royalty fee payable (Notes 18, 29 and 34)	–	–	(168,284,986)
Write-off of exploration and evaluation assets (Notes 3 and 29)	–	–	83,531,992
Income from receipt of parts and supplies inventories from power plant contractor (Note 29)	–	–	(53,992,600)
Operating income before working capital changes	13,081,737,571	14,430,324,502	9,198,965,307
Decrease (increase) in:			
Trade and other receivables	1,212,951,046	280,053,478	(403,482,749)
Amounts due from related parties	(7,812)	–	–
Parts and supplies inventories	(529,996,999)	(605,220,377)	63,473,496
Other current assets	(37,849,179)	(142,186,723)	93,241,853
Service concession receivables	–	–	3,356,946,305
Increase (decrease) in:			
Trade and other payables	1,507,522,135	1,645,853,895	1,317,258,253
Royalty fee payable	(298,490,087)	(312,323,998)	(842,909,314)
Amounts due to related parties	(275,559,659)	(172,553,945)	(14,943,535)
Retirement and other post-employment benefits contributions (Note 30)	(303,696,889)	(327,566,659)	(174,169,047)
Cash generated from operations	14,356,610,127	14,796,380,173	12,594,480,569
Interest and other financing charges paid	(4,128,372,948)	(3,592,715,769)	(2,700,414,973)
Income tax paid	(444,345,425)	(199,551,244)	(701,657,001)
Net cash flows from operating activities	9,783,891,754	11,004,113,160	9,192,308,595

(Forward)

Years Ended December 31

	2011	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment (Note 12)	(₱9,192,323,524)	(₱5,815,310,918)	(₱3,221,380,750)
Decrease (increase) in:			
Exploration and evaluation assets	(187,531,880)	(132,354,844)	29,963,765
Other noncurrent assets	(1,526,225,270)	(608,743,701)	(97,999,704)
Amounts due from related parties	-	-	(648,237,396)
Interest received	381,250,687	346,163,528	330,024,062
Proceeds from the early redemption of AFS investment (Note 9)	4,747,050	-	-
Payments for acquisition of:			
Bacon-Manito Geothermal Power Plants (Notes 5 and 12)	-	(1,279,725,000)	-
Palinpinon-Tongonan Geothermal Power Plants (Note 5)	-	-	(10,165,337,657)
Proceeds from sale of noncurrent assets held for sale	-	-	1,402,330,152
Net cash flows used in investing activities	(10,520,082,937)	(7,489,970,935)	(12,370,637,528)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Long-term debts (Note 19)	(6,108,335,704)	(19,255,755,199)	(8,806,243,829)
Loan payable (Note 16)	(175,000,000)	(452,950,000)	(4,030,376,500)
Cash dividends (Note 21)	(3,341,315,244)	(2,496,333,333)	(1,869,375,000)
Documentary stamp tax	-	(4,704,259)	(18,843,725)
Obligations to a power plant contractor	-	-	(112,187,446)
Proceeds from:			
Long-term debts (Note 19)	16,612,500,000	13,058,750,000	25,100,000,000
Loan payable (Note 16)	-	638,840,000	2,033,113,100
Subscription to preferred shares of stock (Note 21)	-	-	18,750,000
Increase (decrease) in:			
Other long-term liabilities	58,744,924	(33,308,076)	-
Amounts due to related parties	-	-	1,134,854,786
Net cash flows from (used in) financing activities	7,046,593,976	(8,545,460,867)	13,449,691,386
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,310,402,793	(5,031,318,642)	10,271,362,453
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	25,079,038	(31,653,383)	(7,553,556)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,157,925,132	11,220,897,157	957,088,260
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱12,493,406,963	₱6,157,925,132	₱11,220,897,157

See accompanying Notes to Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of the Consolidated Financial Statements

Corporate Structure

Energy Development 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), EDC Holdings International Limited (EHIL) and Energy Development Corporation Hong Kong Limited (EDC HKL), which were incorporated in Chile, British Virgin Islands and Hong Kong, respectively. Below are the Parent Company’s ownership interests in its subsidiaries:

	Percentage of Ownership			
	2011		2010	
	Direct	Indirect	Direct	Indirect
EDC Geothermal Corp. [Formerly First Luzon Geothermal Energy Corporation] (EGC)	100.00%	–	100.00%	–
Green Core Geothermal Inc. (GCGI)	–	100.00%	–	100.00%
Bac-Man Geothermal Inc. (BGI)**	–	100.00%	–	100.00%
Unified Leyte Geothermal Energy Inc. (ULGEI)**	–	100.00%	–	100.00%
Southern Negros Geothermal, Inc. (SNGI)*	–	100.00%	–	–
EDC Mindanao Geothermal Inc. (EMGI)*	–	100.00%	–	–
Bac-Man Energy Development Corporation (BEDC)*	–	100.00%	–	–
Kayabon Geothermal, Inc. (KGI)*	–	100.00%	–	–
EDC Chile Limitada**	99.99%	0.01%	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%	–	100.00%	–
EDC Burgos Wind Power Corporation (EBWPC)**	33.33%	66.67%	33.33%	66.67%
EHIL*	100.00%	–	–	–
EDC HKL*	–	100.00%	–	–

* Incorporated in 2011 and has not yet started commercial operations.

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

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

History of Ownership

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.

Nature of Operations

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 (MGP) and Northern Negros Geothermal Project (NNGP) under the Geothermal Service Contracts (GSCs) entered into with the Department of Energy (DOE) pursuant to the provisions of Presidential Decree (P.D.) 1442. These GSCs were replaced by Geothermal Renewable Energy Service Contracts (GRES-Cs) on October 23, 2009.

Geothermal steam produced is delivered to the company-owned power plants to produce electricity. EDC sells power to National Power Corporation (NPC), privately-owned distribution utilities (DUs) and large industrial customers, pursuant to Power Purchase Agreements (PPAs) and Power Supply Agreements (PSAs). Separately, it also has drilling activities in Papua New Guinea.

Change in Corporate Name

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 Philippine SEC approved the change of the Parent Company's name on November 5, 2010.

Subsidiaries

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 DUs under the PSAs.

EGC 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 EGC is concerned other than being the investment holding company of its wholly owned subsidiaries, namely GCGI, BGI, ULGEI, SNGI, EMGI, BEDC and KGI. EGC also has a 0.01% stake in EDC Chile Limitada.

On March 8, 2011, the Philippine SEC approved the change of First Luzon Geothermal Energy Corporation's corporate name to EGC.

GCGI was incorporated on June 22, 2009 with primary activities on power generation, transmission, distribution, and other energy related businesses. GCGI is currently operating the 192.5 MW Palinpinon and 112.5 MW Tongonan 1 geothermal power plants in Negros Oriental

and Leyte, respectively, following its successful acquisition from the Power Sector Assets and Liabilities Management Corporation (PSALM) in 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 was incorporated on April 7, 2010 primarily to carry on the general business of generating, transmitting, and/or distributing energy. BGI has successfully acquired the 150 MW Bac-Man Geothermal Power Plants (BMGPP) from PSALM in 2010. BMGPP is currently under rehabilitation to restore its capacity and reliability.

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. On January 10, 2012, the Chilean Ministry of Energy awarded to EDC Chile Limitada the geothermal exploration concession of Newen, while San Rafael and Batea geothermal exploration concessions were awarded on January 19, 2012 (see Note 44).

On February 4, 2011, the Philippine SEC approved the incorporation of SNGI and EMGI, wholly owned subsidiaries of EGC, to carry on the general business of generating, transmitting, and/or distributing energy derived from any and all forms, types and kinds of energy sources for lighting and power purposes and whole-selling the electric power to power corporations, public electric utilities and electric cooperatives.

EHIL is an investment holding company of international subsidiaries incorporated on August 17, 2011 in British Virgin Islands. EDC HKL, a wholly owned subsidiary of EHIL, was incorporated on November 22, 2011 in Hong Kong and will serve as a holding company.

On September 22 and 28, 2011, the Philippine SEC approved the incorporation of BEDC and KGI, wholly owned subsidiaries of EGC, to carry on the general business of generating, transmitting, and/or distributing energy derived from any and all forms, types and kinds of energy sources for lighting and power purposes and whole-selling the electric power to power corporations, public electric utilities and electric cooperatives.

Corporate Address

In November 2011, the Parent Company changed its address to One Corporate Centre, Julia Vargas Avenue corner Meralco Avenue, Ortigas Centre, Pasig City from Merritt Road, Fort Bonifacio, Taguig City.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements were reviewed and recommended for approval by the Audit and Governance Committee to the Board of Directors (BOD) on February 17, 2012. The same consolidated financial statements were also approved and authorized for issuance by the BOD on February 24, 2012.

2. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for 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 following:

Voluntary Change in Accounting Policy

Prior to 2011, the Company accounted for rig consumables as direct expense upon purchase since these are primarily intended for immediate use. Over the years, the Company has accumulated a large stock of unused rig consumables. As a result, starting January 1, 2011, the Company adopted the policy of recognizing rig consumables as inventories.

Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, requires retrospective application for a change in accounting policy, except when it is impracticable to determine period-specific effects. If retrospective application is impracticable, the entity shall apply the new accounting policy at the beginning of the earliest period for which retrospective application is practicable. Because prior to January 1, 2011, the Company does not monitor the unused portion of rig consumable, management determined that it is impracticable to establish the balance of rig consumables in prior years. Accordingly, the effect of the voluntary change in accounting policy was presented as an adjustment to the opening balance of 2011 retained earnings.

As at January 1, 2011, the voluntary change in accounting policy resulted to an increase in parts and supplies inventories, retained earnings and deferred tax liability amounting to ₱172.3 million, ₱155.1 million and ₱17.2 million, respectively (see Notes 10 and 31). The current year effect of the voluntary change in accounting policy resulted to an increase in parts and supplies inventories and net income amounting to ₱19.66 million and ₱17.69 million, respectively, and decrease in loss per share by ₱0.001 per share for the year ended December 31, 2011.

New and amended accounting standards and Philippine interpretations based on International Financial Reporting Interpretations Committee (IFRIC) that became effective beginning January 1, 2011

- PAS 24, *Related Party Disclosures (Amendment)*

PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

- PAS 32, *Financial Instruments: Presentation (Amendment)*

The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company because the Company does not have these type of instruments.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Company is not subject to minimum funding requirements in the Philippines, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Company.

Adoption of the following changes in Philippine Interpretation based on IFRIC interpretations did not have any significant impact on the Company's consolidated financial statements.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Improvements to PFRS (issued in 2010)

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 3, *Business Combinations*, amends the measurement options available for non-controlling interest (NCI). Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value (see Note 5).

The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2011. The Company, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments - Disclosures*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements in Note 34.

- PAS 1, *Presentation of Financial Statements*, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from the 2010 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Company.

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

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 financial 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 judgments, apart from those involving estimates, which have 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 Peso, which is the currency that most faithfully represents the economic substance of its underlying transactions, events and conditions.

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 43 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 34.

Operating Leases

The PPAs and Steam Sales Agreements (SSAs) of the Parent 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 arrangement is determined to be an operating lease where a significant portion of the risks and rewards 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 43).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at financial 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. 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 and past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. The specific allowance is re-evaluated and adjusted as additional information received affects the amount estimated.

In addition to specific allowance against individually significant receivables, the Company also provides 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 ₱3,431.81 million and ₱4,603.05 million as of December 31, 2011 and 2010. The total amount of impairment losses recognized in 2011, 2010 and 2009 amounted to ₱126.31 million, ₱23.41 million and ₱0.19 million, respectively (see Notes 8, 15 and 25).

Estimating Useful Lives of Property, Plant and Equipment and Water Rights

The Company estimates the useful lives of 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.

The estimated useful life is revisited at the end of each financial reporting period and updated if expectations differ materially from previous estimates.

The carrying amount of the property, plant and equipment amounted to ₱57,676.93 million and ₱56,603.14 million as of December 31, 2011 and 2010, respectively (see Note 12). The carrying amount of water rights amounted to ₱1,911.80 million and ₱2,007.99 million as of December 31, 2011 and 2010, respectively (see Note 13).

Estimating Net Realizable Value of Parts and Supplies Inventories

The Company measures 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, 2011 and 2010 amounted to ₱3,355.77 million and ₱2,653.47 million, respectively (see Note 10). Parts and supplies inventories for disposal amounting to ₱130.84 million, nil and ₱106.21 million were written down to zero net realizable value in 2011, 2010 and 2009, respectively (see Note 25). Provision for allowance for inventory obsolescence amounted to ₱38.12 million in 2011 and nil in 2010 and 2009 (see Note 25).

Impairment of 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, 2011 and 2010, the carrying amount of capitalized exploration and evaluation costs amounted to ₱1,087.08 million and ₱1,170.41 million, respectively (see Note 14). The Company has written off ₱83.53 million exploration and evaluation assets in 2009 (see Note 29).

Acquisition of Power Plants and Estimation of Fair Value of Identifiable Net Assets of an Acquiree in a Business Combination

On May 5, 2010, BGI acquired the BMGPP, 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.

Share-based Payments Expense

The cumulative expense recognized for share-based transactions at each financial reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of stock grants that will ultimately vest. Share-based payments expense amounting to ₱8.81 million, ₱15.68 million and ₱15.19 million were recognized in 2011, 2010 and 2009, respectively, in relation to the Parent Company's stock grant plan (see Notes 22 and 33).

Retirement and Other Post-employment Benefits

The cost of defined benefits 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, 2011 and 2010 amounted to ₱1,054.24 million and ₱1,307.14 million, respectively. The detailed information with respect to the Company's net retirement and other post-employment benefits is presented in Note 30 to the consolidated financial statements.

Provision for Rehabilitation 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 restoration costs. In determining the amount of provisions for rehabilitation and restoration costs, assumptions and estimates are required in relation to the expected cost to rehabilitate and restore sites and infrastructure when such obligation exists. As of December 31, 2011, the Company recognized provision for rehabilitation and restoration costs amounting to ₱406.78 million presented under "Provisions and other long-term liabilities" account in the 2011 consolidated statement of financial position (see Note 20).

Provision for Liabilities on Regulatory Assessments and Other Contingencies

The Company has pending assessments from various regulatory agencies and pending 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, 2011 and 2010, provision for these liabilities, included in "Trade and other payables" specifically under "Other payables" account, amounted to ₱448.02 million and ₱805.11 million, respectively (see Notes 17 and 43). Interest on liability from litigation amounted to ₱7.81 million, ₱8.19 million and ₱111.95 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 27).

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 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 2011 and 2010 (see Notes 9, 29 and 34). The total carrying amount of current and noncurrent AFS investments was ₱694.30 million and ₱725.69 million as of December 31, 2011 and 2010, respectively (see Notes 9, 15 and 34).

Impairment of Non-financial Assets other than Goodwill and Intangible Asset not yet Available for Use

The Company assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill and intangible asset not yet available for use, at each financial reporting date. These non-financial assets (property, plant and equipment, water rights and input VAT) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Where the collection of tax claims is uncertain based on the assessment of management and Company's legal counsel, the Company provides an allowance for impairment. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the

asset or cash-generating unit (CGU) and discounts such cash flows using the sensitivity analysis of key assumptions to calculate the present value as of the financial 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 was 4% in 2011 and 2010, which do not exceed the average annual demand growth of 6% and 5% in 2011 and 2010, respectively, for the Visayas power industry market where the unit operates. The pre-tax discount rates used were 10.13% in 2011 and 10.24% in 2010 computed based on the CGU's weighted average cost of capital.

Based on the foregoing, the Company recorded an impairment loss of ₱4,998.6 million in 2011, ₱3,390.0 million in 2010 and ₱349.0 million in 2009 for NNGP's property, plant and equipment (see Note 12).

The Company also recorded a provision for impairment of input VAT of ₱282.87 million, ₱54.60 million and ₱24.19 million in 2011, 2010 and 2009, respectively (see Note 15).

The carrying amount of property, plant and equipment as of December 31, 2011 and 2010 amounted to ₱57,676.93 million and ₱56,603.14 million, respectively (see Note 12). The carrying amount of water rights as of December 31, 2011 and 2010 amounted ₱1,911.80 million and ₱2,007.99 million, respectively (see Note 13). The carrying amount of input VAT as of December 31, 2011 and 2010 amounted to ₱2,908.63 million and ₱1,708.79 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 9.21% in 2011 and 10.65% in 2010 for FG Hydro and 11.42% in 2011 and 10.79% in 2010 for GCGI. The cash flows beyond the remaining term of the existing agreements are extrapolated using growth rates of 3.74% and 4.20% for the years ended December 31, 2011 and 2010, respectively, for FG Hydro and 4% for GCGI for the years ended December 31, 2011 and 2010.

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 2011, 2010 and 2009. The carrying value of goodwill as of December 31, 2011 and 2010 amounted to ₱2,535.05 million (see Note 13).

Impairment of Intangible Asset not yet Available for Use

The Company performs impairment review on its intangible asset not yet available for use annually irrespective of whether there is any indication of impairment by comparing its carrying amount with its recoverable amount. This requires an estimation of the value-in-use of the CGUs to which the intangible asset would provide future cash flow. 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 projections by the Business Development Group of EDC covering a 20-year period, which is based on the lower of the expected useful life of the turbines of 20 years and the existing 25-year service contract of the project (see Note 35). The pre-tax discount rate applied to cash flow projections is 11.29% in 2011.

Following are the key assumptions used:

- Feed-in Tariff (FIT) Rate

The Company used the FIT rate of ₱10.37 per kilowatt-hour (KWh) in its impairment testing. This is equivalent to the amount of proposed FIT rate for wind energy by the National Renewable Energy Board (NREB) to the Energy Regulatory Commission (ERC) for approval. FIT rates are the guaranteed price at which the Renewable Energy (RE) developers will be paid, through a universal charge imposed on consumers, for the power that they will produce and inject into the transmission or distribution system. The rates will serve as the basis for the FIT allowance which is the uniform charge per KWh to be paid by consumers to subsidize renewable energy.

- 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.

- Growth Rate

The Company used a 40% growth rate based on the Philippine Consumer Price Index and 60% growth rate based on the change in dollar to Peso exchange rate. This is consistent with the NREB's proposed annual FIT escalation rate. The Company assumed an annual 4% increase of CPI based on Philippine average inflation factor as of 2011 and a steady dollar to Peso exchange rate for conservatism.

No impairment loss on intangible asset not yet available for use was recognized in the consolidated financial statements in 2011. The carrying value of the intangible asset not yet available for use amounted to ₱258.39 million as of December 31, 2011 (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 ₱2,506.24 million and ₱2,032.53 million as of December 31, 2011 and 2010, respectively (see Note 31).

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 expense.

The Company's construction revenue amounted to nil in 2011 and 2010 and ₱541.46 million in 2009 (see Note 36).

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 34).

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 financial reporting year as the Parent Company using consistent accounting policies. All intercompany balances, transactions, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Losses within a subsidiary are attributed to the NCI 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 NCI (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 NCI until the balance was reduced to nil. Any further excess losses were attributed to the Parent Company, unless the NCI had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between NCI 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).

NCI 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, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separate from equity attributable to equity holders of the Parent Company. The acquisition of NCI is 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 NCI in the acquiree. For each business combination, the acquirer measures the NCI 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, *Financial Instruments: Recognition and Measurement*, 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 NCI 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 NCI 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 Peso, which is the Parent Company's functional currency. Each entity or subsidiary in the Company determines its own functional currency and measures items included in their financial statements using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency prevailing at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies are translated at the closing rate of exchange prevailing at financial 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 financial reporting date are recognized in the consolidated statement of income.

The functional currencies of the Company's subsidiaries are Peso except for EDC Chile Limitada, EHIL and EDC HKL which are in Chilean peso, United States dollar and Hong Kong dollar, respectively. 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 financial reporting date, the assets and liabilities presented (including comparatives) are translated into the presentation currency at the closing rate of exchange prevailing at the financial 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 monetary 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 financial 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. The initial cost of property, plant and equipment, consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Company had recognized the obligation to that cost. Such cost includes the cost of replacing part

of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation. 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:

	<u>Number of years</u>
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
Leasehold improvements	3

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, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized. Leasehold improvements are amortized over the lease term or the economic life of the related asset, whichever is lower.

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 reporting date.

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.

Property, plant and equipment also include the estimated rehabilitation and restoration costs of the Company's steam fields and power plants contract areas for which the Company is constructively liable. These costs are included under "FCRS and production wells account" (see Note 12).

Construction in progress and major spares and surplus assets available for use 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, *Construction Contracts*, 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 financial reporting date.

On October 23, 2009, the Parent Company has made a judgment that its service concession contracts are no longer within the scope of IFRIC 12 due to changes in the service concession arrangements (see Note 36).

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss, if any. Internally-generated intangible assets, if any, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in which 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 useful economic life and assessed for impairment

whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. 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 treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually at the CGU level and are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite useful life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

As of December 31, 2011, the Company has an intangible asset not yet available for use amounting to ₱258.39 million (see Note 13). The Company has no intangible assets with indefinite useful lives aside from goodwill amounting to ₱2,535.05 million as of December 31, 2011 and 2010 (see Note 13).

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.

Water Rights

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 of the water rights, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses, if any. 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).

Wind Energy Project Development Cost

The Company expenses all project development costs until management deems a project is probable of being technically, commercially and financially viable. The Company capitalizes project development costs generally once management deems a project probable of being technically, commercially and financially viable. This generally occurs in tandem with management's determination that a project should be classified as advanced project, such as when favorable results of a system impact study are received, interconnect agreements obtained and project financing is in place.

Costs not qualifying for capitalization are expensed as incurred.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when the development of wind farm assets are complete and available for use. It is amortized using the straight-line method over the estimated useful life of the wind farm assets. During the period in which the asset is not yet available for use, the wind energy development cost is tested for impairment annually, irrespective of whether there is any indication of impairment.

Project Development Rights Acquisition Cost

Costs incurred for the acquisition of project development rights are capitalized and amortized over the period from which future economic benefits are expected to flow to the entity. Upon start of

the commercial operations of the wind farms to which these costs are attributable, the capitalized costs are amortized on a straight-line basis over the estimated useful life of the related wind farm assets.

Project development rights acquisition costs are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in the consolidated statement of income in the year the item is derecognized.

Exploration and Evaluation Assets

The Company follows the full cost method of accounting for its exploration costs determined on the basis of each service contract area. Under this method, all exploration costs relating to each service contract are accumulated and deferred under the “Exploration and evaluation assets” account in the consolidated statement of financial position pending the determination of whether the wells can produce proved reserves. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of income when incurred.

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.

Impairment of Non-financial Assets

For non-financial assets such as property, plant and equipment, exploration and evaluation assets, water rights and input VAT claims for refund, the Company assesses at each financial reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. Also, irrespective of whether there is any indication of impairment, the Company tests an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its 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 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 financial 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.

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 financial 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 financial 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 those held for trading and those designated upon initial recognition as at FVPL.

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

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.

The Company has no derivative financial assets and liabilities as of December 31, 2011 and 2010.

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, 2011 and 2010.

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 financial reporting date. Otherwise, these are classified as noncurrent assets.

Classified under loans and receivables are cash and cash equivalents, trade and other receivables, amounts due from related parties and long-term receivables (see Notes 7, 8, 15, 22 and 34).

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 method. Dividends earned on investment are recognized in the consolidated statement of income when the right to receive payment has been established.

AFS investments are classified as current if these are expected to be realized within 12 months from the financial 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 34).

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, amounts due to related parties, long-term debts and royalty fee payable (see Notes 16, 17, 18, 19, 22 and 34) are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

Derivative Financial Instruments

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

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company first becomes party to the contract. An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met:

- (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid instrument is not recognized at FVPL.

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

Impairment of Financial Assets

The Company assesses at each financial 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 recognized in 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 financial 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 Assets

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 and the net amount is 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 benefits retirement plan. The Company also provides post-employment medical and life insurance benefits which are unfunded. The cost of providing benefits under the defined benefits 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 financial 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 benefits asset or liability comprises the present value of the defined benefits 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

Provision for Rehabilitation and Restoration Costs

The Company records the present value of estimated costs of legal and constructive obligation required to restore the sites upon termination of the cooperation period. The nature of these activities includes plugging of drilled wells and restoration of pads and road networks. When the liability is initially recognized, the present value of the estimated costs is capitalized as part of the carrying amount of the related “FCRS and production wells” account.

The amount of provision for rehabilitation and restoration costs in the consolidated statement of financial position is increased by the accretion expense recognized in the consolidated statement of income using the effective interest method. The periodic unwinding of the discount is recognized in the consolidated statement of income as “interest expense”. Additional costs or changes in rehabilitation and restoration costs are recognized as additions or charges to the corresponding assets and provision for rehabilitation and restoration costs when they occur.

For closed sites or areas, changes to estimated costs are recognized immediately in the consolidated statement of income. Decrease in rehabilitation and restoration costs that exceeds the carrying amount of the corresponding rehabilitation asset is recognized immediately in the consolidated statement of income.

Other 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 Parent Company’s proportionate share in the paid-in capital of the entity acquired as a result of a business combination accounted for using the pooling-of-interests method. Equity reserve is derecognized when the subsidiary is deconsolidated, which is the date on which control ceases.

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.

Cash and property dividends are recognized as a liability and deducted from retained earnings when formally approved by the BOD. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

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:

Sales 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.

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

Drilling Services

Revenue is recognized as drilling services are rendered.

Construction Revenue

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

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.

Costs of Sales of Electricity and Steam, and Cost of Drilling Services

These include expenses incurred by the departments directly responsible for the generation of revenues from steam, electricity and performance of drilling services (i.e., Plant Operations, Production, Maintenance, Transmission and Dispatch, Wells Drilling and Maintenance Department) at operating project locations. Costs of sales of electricity and steam and cost of drilling services are expensed when 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 when 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 are directly related 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 financial reporting date.

Deferred Tax

Deferred tax is provided using the balance sheet liability method on temporary differences at the financial 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 financial 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 financial 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 financial reporting date.

Deferred tax relating to items recognized directly in other comprehensive income is recognized in consolidated statement of comprehensive 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 taxation authority.

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 taxation authority is included as part of “Other noncurrent assets” account in the consolidated statement of financial position.

Earnings (Loss) Per Share (EPS)

Basic earnings (loss) per share is computed by dividing net income (loss) for the year attributable to common shareholders of the Parent Company with 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 (loss) per share is computed in the same manner, with the net income (loss) for the year attributable to common shareholders 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, 2011 and 2010, 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 Date

Events after the financial reporting date that provide additional information about the Company’s financial 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 consolidated financial statements.

Effective in 2012

- *PAS 12, Income Taxes – Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.
- *PFRS 7, Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company’s financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Company’s financial position or performance.

Effective in 2013

- *PAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company’s financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.
- *PAS 19, Employee Benefits (Amendment)*
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The Company is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *PAS 27, Separate Financial Statements (as revised in 2011)*
As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 7, *Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the financial reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Company’s financial position or performance.

- PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation – Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Company. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests with Other Entities*

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- *PFRS 13, Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”) and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

Effective in 2014

- *PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Company is currently assessing impact of the amendments to PAS 32.

Effective in 2015

- *PFRS 9, Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase 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, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Deferred Effectivity

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This interpretation 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. The Philippine SEC and the Financial

Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

5. Business Combinations

Acquisition of BMGPP in 2010

On May 5, 2010, BGI acquired the 150 MW BMGPP in an auction conducted by PSALM where BGI submitted the highest offer price of US\$28.25 million. This acquisition was accounted for using PFRS 3 (Revised).

Located in Bacon, Sorsogon City and Manito, Albay in the Bicol region, the BMGPP 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.

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 (Note 12)	₱1,279,725,000	₱1,203,700,070
Parts and supplies inventories (Note 10)	–	76,024,930
Deferred tax asset (Note 31)	–	7,602,493
Deferred tax liability (Note 31)	–	(7,602,493)
Liabilities	–	–
Net assets	1,279,725,000	1,279,725,000
Percentage of ownership acquired	100%	100%
Share in net assets acquired	1,279,725,000	1,279,725,000
Goodwill arising from acquisition	–	–
Total acquisition cost	₱1,279,725,000	₱1,279,725,000

The valuation of the BMGPP including the identification and valuation of any other identifiable assets was finalized in September 2011. Thus, consolidated financial statements as of and for the year ended December 31, 2010 were restated to reflect the final fair values of the net assets acquired based on the purchase price allocation.

The BMGPP is currently under rehabilitation to restore capacity and reliability. Accordingly, no depreciation expense and related deferred income tax were recognized for its assets and thus, no corresponding adjustment in the retained earnings was necessary as of and for the years ended December 31, 2011 and 2010.

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 BMGPP 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 cash outflow related to the acquisition amounted to ₱1,304.52 million which consists of the ₱1,279.73 million acquisition cost and ₱24.79 million transfer and documentary stamp taxes.

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\$220.00 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\$6.90 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 reduced the financial bid of US\$220.00 million by US\$6.70 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 ratified the waiver of the 20-day prepayment notification period and accepted GCGI's request to settle the deferred payments in Peso. GCGI remitted to PSALM the total amount of ₱5.82 billion representing the Peso equivalent of the outstanding principal and accrued interest of the loan.

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

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

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 consists of the ₱9.99 billion acquisition cost and ₱0.18 billion transfer and documentary stamp taxes.

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: (1) long-term PPAs with NPC; (2) FG Hydro's spot sales to and buying from the WESM and with various DUs covered by PSAs; and (3) GCGI's sales to various NPC-assigned and new customers covered by Power Supply Contracts (PSCs) and PSAs, respectively.
- 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 excluding 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 among others.

NPC is the main customer for the electricity segment which comprised 55.48% and 59.78% of the total electricity revenue in 2011 and 2010, respectively, and the only external customer for the steam segment, particularly for the BMGPP in 2010. Following the acquisition by BGI of these power plants in September 2010, the billings and collections by EDC were temporarily waived until June 30, 2011. In 2011, PSALM approved the request of EDC to extend the waiver of billings and collections under Bacman steam contracts from July 1, 2011 until: (a) the execution of the deed of assignment from NPC/PSALM to BGI; or (b) such time that the BMGPP resumes operations (see Notes 5 and 38).

Second to NPC, Visayan Electric Company (VECO) is also an external customer for the Company's electricity segment which comprised 9.47% of the total electricity revenue in 2011.

Financial information on the operating segments are summarized as follows:

	Electricity	Steam	All Others	Eliminations	Total
Year Ended December 31, 2011					
Segment revenue from external customers	₱24,550,683,013	₱-	₱712,789,795	₱-	₱25,263,472,808
Intersegment revenue	217,305,612	6,396,696,182	-	(6,614,001,794)	-
Total segment revenue	24,767,988,625	6,396,696,182	712,789,795	(6,614,001,794)	25,263,472,808
Segment expenses	(22,463,605,298)	(4,374,623,221)	(807,564,488)	6,614,001,794	(21,031,791,213)
Segment results	₱2,304,383,327	₱2,022,072,961	(₱94,774,693)	₱-	4,231,681,595
Unallocated expenses					(41,159,062)
Unallocated interest income					390,212,719
Unallocated interest expense					(4,106,760,462)
Unallocated other income - net					17,203,569
Unallocated benefit from income taxes					123,607,455
Net income					₱614,785,814
EBITDA	₱10,591,745,683	₱2,762,529,802	(₱75,801,534)	₱-	₱13,278,473,951
Unallocated expenses					(40,940,859)
					₱13,237,533,092
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 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 provision for 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
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)	(3,711,395,045)	(931,986,823)	800,393,768	(13,303,004,540)
Segment results	₱7,275,354,852	₱1,031,169,540	₱457,350,745	₱-	8,763,875,137
Unallocated 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 provision for 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

*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, 2011					
Segment assets	₱59,324,793,038	₱12,376,428,799	₱4,066,696,844	₱-	₱75,767,918,681
Unallocated corporate assets					14,249,898,103
Total assets					₱90,017,816,784
Segment liabilities	₱36,727,310,548	₱20,589,217,647	₱1,774,574,665	₱-	₱59,091,102,860
Unallocated corporate liabilities					1,280,112,431
Total liabilities					₱60,371,215,291
Capital expenditure	₱4,674,950,095	₱4,106,780,031	₱158,656,411	₱-	₱8,940,386,537
Unallocated capital expenditure					596,087,897
Total capital expenditure					₱9,536,474,434
Depreciation and amortization	(₱3,035,691,787)	(₱386,991,348)	(₱18,973,159)	₱-	(₱3,441,656,294)
Unallocated depreciation and amortization					(218,203)
Total depreciation and amortization					(₱3,441,874,497)
Impairment loss	₱4,998,608,008	₱-	₱-	₱-	₱4,998,608,008
Other non-cash items	(₱305,215,436)	(₱340,416,065)	(₱198,180)	₱-	(₱645,829,681)
Unallocated non-cash items					23,722,640
Total other non-cash items					(₱622,107,041)
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	₱4,884,886,183	₱1,917,738,641	₱125,180,894	₱-	₱6,927,805,718
Unallocated capital expenditure					91,205,270
Total capital expenditure					₱7,019,010,988
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)

The following table shows the Company's reconciliation of EBITDA to the consolidated net income for the years ended December 31, 2011, 2010 and 2009.

	2011	2010	2009
EBITDA	₱13,237,533,092	₱13,747,907,979	₱10,711,850,765
Add (Deduct):			
Impairment loss on property, plant and equipment of NNGP (Notes 3, 12 and 23)	(4,998,608,008)	(3,390,000,000)	(349,000,000)
Interest expense (Note 27)	(4,106,760,462)	(3,708,457,266)	(2,887,155,929)
Depreciation and amortization (Notes 12, 13, 23, 24 and 25)	(3,441,874,497)	(3,445,004,630)	(1,211,412,390)
Provision for doubtful accounts (Notes 8, 15 and 25)	(408,598,578)	(75,257,592)	(21,782,506)
Interest income	390,212,719	347,695,016	402,950,235
Provision for (reversal of) impairment of parts and supplies inventories (Notes 3, 10 and 25)	(168,959,002)	15,039,061	(106,206,646)
(Forward)			

	2011	2010	2009
Provision for (benefit from) income tax (Note 31)	₱123,607,455	(₱777,184,715)	(₱3,910,473,976)
Foreign exchange gains (losses) - net (Note 28)	(108,728,379)	(13,871,472)	1,291,239,839
Derivative gains (losses) - net (Note 34)	108,319,377	436,998,854	(198,809,759)
Miscellaneous - net (Note 29)	(11,357,903)	1,257,210,630	(364,235,909)
Consolidated net income	₱614,785,814	₱4,395,075,865	₱3,356,963,724

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, 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

	2011	2010
Cash on hand and in banks	₱692,764,092	₱425,895,226
Cash equivalents	11,800,642,871	5,732,029,906
	₱12,493,406,963	₱6,157,925,132

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 ₱376.12 million in 2011, ₱318.28 million in 2010 and ₱324.39 million in 2009 (see Note 34).

8. Trade and Other Receivables

	2011	2010
Trade	₱3,336,433,682	₱4,449,033,196
Others:		
Non-trade accounts receivable	99,398,810	73,070,811
Loans and notes receivables	59,331,933	61,297,851
Advances to employees	37,934,595	30,389,460
Employee receivables	8,896,656	18,728,878
Claims receivables	153,322	133,971
	205,715,316	183,620,971
	3,542,148,998	4,632,654,167
Less allowance for doubtful accounts	130,839,470	30,606,792
	₱3,411,309,528	₱4,602,047,375

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.

	2011	2010
Balance at beginning of year	₱30,606,792	₱9,597,882
Provision for doubtful accounts (Note 25)	100,232,678	21,008,910
Balance at end of year	₱130,839,470	₱30,606,792

9. AFS Investments

	2011	2010
Current – Quoted government debt securities (Note 34)	₱673,853,680	₱707,524,992
Noncurrent (Notes 15 and 34):		
Quoted equity securities	20,369,374	18,091,803
Unquoted equity securities	74,550	74,550
	20,443,924	18,166,353
Total	₱694,297,604	₱725,691,345

The current AFS investments as of December 31, 2011 and 2010 consist of government debt securities, specifically Republic of the Philippines (ROP) bonds with maturities between 2013 to 2016. Such bonds were acquired at a discount and bear interest between 8% to 9% in 2011 and 7.25% to 9% in 2010.

The noncurrent AFS investments amounting to ₱20.44 million and ₱18.17 million as of December 31, 2011 and 2010, respectively, are included under the “Other noncurrent assets” account in the consolidated statements of financial position (see Note 15).

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

	2011	2010	2009
Net accumulated unrealized gain on AFS investments at beginning of year	₱119,718,797	₱113,177,323	₱30,826,354
Changes in fair value recognized in equity (Note 34)	(27,724,193)	6,541,474	79,022,336
Net unrealized gain removed from equity and recognized in profit or loss (Note 34)	(235,689)	–	–
Impairment loss on AFS investments removed from equity and recognized in profit or loss (Notes 29 and 34)	–	–	3,328,633
	(27,959,882)	6,541,474	82,350,969
Net accumulated unrealized gain on AFS investments at end of year	₱91,758,915	₱119,718,797	₱113,177,323

Changes in fair value recognized in the consolidated statements 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 gains or losses previously recognized in equity are transferred to the consolidated statement of income.

In 2011, the issuer early redeemed the US\$110,000 ROP global bond with proceeds amounting to ₱4.75 million (Note 29).

10. Parts and Supplies Inventories

	2011	2010 (Restated, Note 5)
On hand:		
Drilling tubular products and equipment spares	₱1,648,876,310	₱784,091,559
Power plant spares	718,777,618	510,566,751
Pump, production/steam gathering system, steam turbine, valves and valve spares	305,461,738	378,024,500
Chemical, chemical products, gases and catalyst	113,397,104	378,798,354
Heavy equipment spares	90,293,956	51,758,570
Electrical, cable, wire product and compressor spares	83,543,105	102,394,673
Automotive, mechanical, bearing, seals, v-belt, gasket, tires and batteries	39,385,963	92,344,107
Measuring instruments, indicators and tools, safety equipment and supplies	28,640,098	50,870,815
Construction and hardware supplies, stationeries and office supplies, hoses, communication and other spares and supplies	20,268,296	29,463,704
	3,048,644,188	2,378,313,033
In transit	307,123,465	275,154,724
	₱3,355,767,653	₱2,653,467,757

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

Parts and supplies inventories which are carried at net realizable value amounting to ₱260.83 million and nil as of December 31, 2011 and 2010, respectively, have a cost amounting to ₱520.8 million and ₱91.01 million, respectively. Provision for impairment of parts and supplies inventories amounted to ₱168.96 million in 2011, nil in 2010 and ₱106.21 million in 2009 (see Note 25). Impairment of parts and supplies inventories amounting to ₱15.00 million was reversed by the Company in 2010 (see Note 25). The amount of inventory charged to expense amounted to ₱1,180.16 million in 2011, ₱894.75 million in 2010 and ₱1,327.01 million in 2009 (see Notes 23, 24 and 25).

11. Other Current Assets

	2011	2010
Tax credit certificates (Notes 15 and 29)	₱300,000,000	₱300,000,000
Withholding tax certificates	225,008,549	254,743,755
Prepaid expenses	141,483,327	122,179,796
Advances to contractors	74,966,065	33,178,432
Others	453,316	23,695,301
	₱741,911,257	₱733,797,284

Impairment Assessment of NNGP

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 NNGP's steam field. On November 22, 2010, the Parent Company temporarily shut down the power plant and steam field of NNGP while technical studies are being conducted as the survey will need zero disturbance of the reservoir.

After the five-month shutdown since November 22, 2010, the NNGP operated from April to June 2011 to complete its geothermal resource testing. Based on the subsequent technical assessment, the Company concluded that the sustainable operation of NNGP is at 5 to 10 MW only.

The Parent Company evaluates the assets on a CGU basis for any indication of impairment at each financial 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 impairment loss of ₱4,998.6 million in 2011, ₱3,390.0 million in 2010 and ₱349.0 million in 2009 (see Note 3). The impairment loss is included under the electricity segment (see Note 6) and presented under "Other income (charges)" in the consolidated statements of income.

Estimated Rehabilitation and Restoration Costs

FCRS and production wells include the estimated rehabilitation and restoration costs of the Company's steam fields and power plants' contract areas at the end of the contract period. These costs, net of accumulated amortization of ₱28.72 million, amounted to ₱315.44 million as of December 31, 2011. These were based on technical estimates of probable costs, which may be incurred by the Company in the rehabilitation and restoration of the said steam fields and power plants' contract areas from 2031 up to 2044, discounted using the Company's risk-adjusted rate. The corresponding provision for rehabilitation and restoration costs amounting to ₱406.78 million is recorded under "Provisions and other long-term liabilities" account in the 2011 consolidated statement of financial position (see Note 20). Accretion expense amounted to ₱61.14 million for the year ended December 31, 2011 (see Note 27). Subsequent to its full impairment, the unwinding of discount on NNGP provision for rehabilitation and restoration costs amounting to ₱1.48 million was recognized in the 2011 consolidated statement of income.

Pantabangan Refurbishment and Upgrade Project Contract (PRUP)

In accordance with the PRUP, FG Hydro completed the refurbishment and upgrade of Unit 1 of PAHEP in 2009 and Unit 2 in 2010 (see Note 47). The PRUP provides for the replacement and upgrade of significant parts and equipment of PAHEP. For the years ended December 31, 2011, 2010 and 2009, the cost and related accumulated depreciation of the property, plant and equipment that were replaced amounting to ₱28.97 million, ₱398.93 million, and ₱273.58 million, respectively, were derecognized and the corresponding net book values were included in the "Miscellaneous - net" account in the consolidated statements of income (see Note 29).

Collaterals

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

Depreciation and Amortization

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

	2011	2010	2009
Property, plant and equipment	₱3,345,683,340	₱3,348,813,473	₱880,306,264
Intangible assets (Note 13)	96,191,157	96,191,157	331,106,126
	₱3,441,874,497	₱3,445,004,630	₱1,211,412,390

	2011	2010	2009
Costs of sales of electricity and steam (Note 23)	₱3,173,306,732	₱3,233,623,822	₱1,160,222,656
Cost of drilling services (Note 24)	1,110,041	3,314,593	1,857,308
General and administrative (Note 25)	267,457,724	208,066,215	49,332,426
	₱3,441,874,497	₱3,445,004,630	₱1,211,412,390

The reclassifications in the accumulated depreciation and amortization include the capitalized depreciation charges amounting to ₱86.42 million and ₱146.69 million under construction in progress which relates to ongoing drilling of wells as of December 31, 2011 and 2010, respectively.

13. Intangible Assets

	2011			
	Goodwill	Water Rights	Other Intangible Asset	Total
Cost				
Balances at January 1	₱2,535,051,530	₱2,404,778,918	₱–	₱4,939,830,448
Additions	–	–	258,394,939	258,394,939
Balances at December 31	2,535,051,530	2,404,778,918	258,394,939	5,198,225,387
Accumulated Amortization				
Balances at January 1	–	396,788,522	–	396,788,522
Amortization (Notes 12, 23, 24 and 25)	–	96,191,157	–	96,191,157
Balances at December 31	–	492,979,679	–	492,979,679
Net Book Value	₱2,535,051,530	₱1,911,799,239	₱258,394,939	₱4,705,245,708

	2010		
	Goodwill	Water Rights	Total
Cost			
Balances at January 1 and December 31	₱2,535,051,530	₱2,404,778,918	₱4,939,830,448
Accumulated Amortization			
Balances at January 1	–	300,597,365	300,597,365
Amortization (Note 12, 23, 24 and 25)	–	96,191,157	96,191,157
Balances at December 31	–	396,788,522	396,788,522
Net Book Value	₱2,535,051,530	₱2,007,990,396	₱4,543,041,926

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 19.9 years as of December 31, 2011.

Other intangible asset pertains to the Company's wind energy project development costs.

Management believes that the goodwill, water rights and other intangible asset are not impaired as of December 31, 2011 and 2010 based on the assessments performed.

14. Exploration and Evaluation Assets

	2011	2010
Balances at January 1	₱1,170,407,115	₱1,038,052,272
Additions	187,939,410	132,354,843
Transfers	(271,267,112)	–
Balances at December 31	₱1,087,079,413	₱1,170,407,115

15. Other Noncurrent Assets

	2011	2010
Input VAT	₱3,270,286,773	₱1,787,583,136
Tax credit certificates (Note 29)	1,338,884,447	1,338,884,447
Special deposits and funds (Note 43)	123,278,392	112,373,475
Long-term receivables	81,561,056	36,567,506
Prepaid expenses	12,246,824	15,532,903
AFS investments (Note 9)	20,443,924	18,166,353
Others	27,670,094	43,790,110
	4,874,371,510	3,352,897,930
Less allowance for doubtful accounts	422,722,403	114,356,503
	₱4,451,649,107	₱3,238,541,427

Tax credit certificates

The tax credit certificates (TCC) amounting to ₱1,638.88 million issued by the Bureau of Internal Revenue (BIR) from May to June 2010 pertains to the Parent 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 five years starting in 2011 to 2015 with a cap of ₱300.0 million per year, except in 2015 where the remaining balance will be fully applied. The remaining balance of input VAT claims of ₱255.84 million, which was disallowed by the BIR, was written off in 2010. Unused TCC in 2011 amounting to ₱300.0 million is expected to be applied in 2016.

Input VAT

Input VAT includes the outstanding input VAT claims of ₱1,246.12 million and ₱681.8 million as of December 31, 2011 and 2010, respectively. Input VAT claims for 2010 (₱583.17 million), 2009 (₱149.17 million), 2008 (₱131.62 million), 2007 (₱89.10 million) and 2006 (₱293.06 million) are still pending with the BIR/Court of Tax Appeals as of December 31, 2011.

Special deposits and funds

The special deposits and funds mainly consist of escrow account in favor of terminated employees and security deposit for the Company's new office in Ortigas Center, Pasig City (see Note 43).

Allowance for doubtful accounts

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

	2011			
	Input VAT	NPC	Others	Total
Balances at January 1	₱78,788,997	₱3,087,482	₱32,480,024	₱114,356,503
Provision for doubtful accounts (Note 25)	282,871,281	–	26,073,878	308,945,159
Reversal (Note 25)	–	–	(579,259)	(579,259)
Balances at December 31	₱361,660,278	₱3,087,482	₱57,974,643	₱422,722,403
Specific impairment	₱361,660,278	₱3,087,482	₱–	₱364,747,760
Collective impairment	–	–	57,974,643	57,974,643
Total	₱361,660,278	₱3,087,482	₱57,974,643	₱422,722,403

	2010			
	Input VAT	NPC	Others	Total
Balances at January 1	₱1,918,911,920	₱3,087,482	₱32,489,137	₱1,954,488,539
Recoveries (Note 29)	(1,638,884,447)	–	–	(1,638,884,447)
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
Reversal (Note 25)	–	–	(2,405,862)	(2,405,862)
Balances at December 31	₱78,788,997	₱3,087,482	₱32,480,024	₱114,356,503
Specific impairment	₱78,788,997	₱3,087,482	₱–	₱81,876,479
Collective impairment	–	–	32,480,024	32,480,024
Total	₱78,788,997	₱3,087,482	₱32,480,024	₱114,356,503

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, 2011 and 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. The loan was fully settled on March 21, 2011.

17. Trade and Other Payables

	2011	2010
Accounts payable:		
Third parties	₱4,653,828,081	₱3,125,958,557
Related parties (Note 22)	145,143,240	63,052,414
(Forward)		

	2011	2010
Accrued interest and guarantee fees (Note 19)	₱1,047,605,943	₱889,806,777
Withholding and other taxes payable	328,466,441	257,346,704
Deferred credits	22,095,129	6,446,576
SSS and other contributions payable	1,893,569	2,722,658
Other payables	505,042,858	841,210,414
	₱6,704,075,261	₱5,186,544,100

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. Guarantee fees are accruals of amounts due to the Philippine Government. Details of the guarantee fees are discussed in Note 19 to the consolidated financial statements.

As of December 31, 2011 and 2010, the Company has ₱9.57 billion and ₱6.00 billion of unused credit facilities from various local banks, respectively, which may be available for future operating activities.

18. Royalty Fee Payable

	2011	2010
Due to DOE and Local Government Units (LGUs) (Note 37)	₱287,626,313	₱554,783,572
Less current portion	287,626,313	254,155,199
Noncurrent portion	₱-	₱300,628,373

As discussed in Note 37, 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 amounting to ₱168.28 million was recognized for the difference between the nominal/maturity value and present value of the royalty fee payable, which ranged from 6.19% to 6.24% in 2011 and 6.08% to 6.17% in 2010 (see Note 29). Subsequent to initial recognition, royalty fee payable is accreted to its maturity value based on the effective interest rate determined on Day 1.

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

	2011	2010
Balance at January 1	₱42,277,858	₱98,380,719
Accretion (Notes 27 and 34)	(31,332,828)	(56,102,861)
Balance at December 31	₱10,945,030	₱42,277,858

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 pertaining to the royalty fee recognized from 1989 to 2008 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 expense recognized under the “Interest expense” account in the consolidated statements of income for the years ended December 31, 2011, 2010 and 2009 amounted to ₱31.33 million, ₱56.10 million and ₱69.90 million, respectively (see Notes 27 and 34). 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.

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. Royalty fee expense amounted to ₱193.86 million, ₱222.83 million and ₱214.37 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 23).

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¥77.912; US\$1=₱43.840 as of December 31, 2011) and (US\$1=JP¥81.659; US\$1=₱43.840 as of December 31, 2010).

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

Creditor/Project	Maturities	Interest Rate	2011	2010
Overseas Economic Cooperation Fund (OECF)				
<i>8th Yen Tongonan I Geothermal Power Plant (share in OECF-NPC loan)</i>				
▪ JP¥1.5 billion (Restructured)	2002 to 2012	3.2%	₱20,252,444	₱57,968,291
<i>9th Yen Palimpinon I Geothermal Power Plant</i>				
▪ JP¥8.5 billion	1991 to 2011	3.0%	–	111,514,839
<i>18th Yen Palimpinon II Geothermal Power Plant</i>				
▪ JP¥77.4 million	2003 to 2023	5.5%	–	25,329,677
<i>19th Yen Mt. Labo Geothermal Project</i>				
▪ JP¥320 million	2004 to 2024	4.9%	–	117,356,463
<i>21st Yen NNGP</i>				
▪ 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
US\$ 300.0 Million Notes	January 20, 2021	6.5%	13,003,311,706	–
International Finance Corporation (IFC)				
▪ IFC 1 - ₱4.1 billion		7.4% per annum for the first five years subject to repricing for another five		
	2012-2033	to 10 years	3,871,272,055	4,034,266,907
▪ IFC 2 - ₱3.3 billion	2013-2025	6.6570%	3,196,114,630	–
Fixed Rate Corporate Note (FRCN)				
▪ ₱2.6 billion	2010-2014	8.3729%	1,969,790,128	2,357,049,582
▪ ₱4.9 billion	2010-2016	9.4042%	4,334,027,481	4,563,263,831
▪ ₱1.5 billion	2010-2014	8.4321%	1,116,752,741	1,336,158,514
Peso Public Bond				
▪ ₱8.5 billion	June 4, 2015	8.6418%	8,416,912,815	8,397,293,756
▪ ₱3.5 billion	December 4, 2016	9.3327%	3,461,264,190	3,455,439,211

(Forward)

Creditor/Project	Maturities	Interest Rate	2011	2010
Refinanced Syndicated Term Loan		LIBOR plus a margin		
▪ US\$175.0 million	June 27, 2017	of 175 basis points	₱7,540,144,527	₱-
Syndicated Term Loan*		LIBOR plus a margin		
▪ US\$175.0 million	June 30, 2013	of 325 basis points	-	7,427,718,353
Philippine National Bank (PNB) Peso Loan	May 7, 2020	9.025%	3,191,810,117	3,372,228,254
Allied Bank Peso Loan	May 7, 2020	9.025%	1,367,918,621	1,445,240,680
Total			51,489,571,455	41,205,947,848
Less current portion			2,249,517,382	1,527,248,370
Noncurrent portion			₱49,240,054,073	₱39,678,699,478

*The loan was refinanced and was extinguished on June 17, 2011.

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

	2011	2010
Balance at January 1	₱626,140,912	₱436,414,307
Additions	382,328,678	406,519,971
Acceleration of amortization due to extinguishment of debt	(197,898,124)	-
Amortization (Notes 27 and 34)	(158,790,979)	(203,086,285)
Foreign exchange gains - net	(2,169,498)	(13,707,081)
Balance at December 31	₱649,610,989	₱626,140,912

Amortization of transaction costs 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 Parent 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 increased by 0.25% per annum up to a maximum of 3.00% per annum.

The Parent Company entered into a loan agreement with IFC, a shareholder of the Parent Company, on November 27, 2008 for US\$100.0 million or its Peso equivalent of ₱4.10 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 (see Note 22). 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.

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).

On January 20, 2011, the Parent Company issued a 10-year US\$300.0 million Notes (₱13,350.0 million) at 6.50% interest per annum which will mature on January 2021. The notes are intended to be used by the Company to support the business expansion plans, finance capital expenditures, service debt obligations and for general corporate purposes.

On April 8, 2011, the Parent Company prepaid the JP¥8.1 billion (₱4,260.6 million) 21st Yen loan with Japan International Cooperation Agency (JICA), a successor institution of the OECF (Japan). The 21st Yen loan is originally scheduled to mature in March 2027.

On May 20, 2011, the Parent Company signed a 15-year US\$75.0 million loan facility with the IFC to fund its medium-term capital expenditures program. The loan was drawn in Peso on September 30, 2011, amounting to ₱3,262.5 million. The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 6.657% per annum (see Note 22). The loan includes prepayment option which allows the Company to prepay all or part of the loan anytime starting from the date of the loan agreement until maturity. The prepayment amount is equivalent to the sum of the principal amount of the loan to be prepaid, redeployment cost and prepayment premium.

On June 10, 2011, the Parent Company prepaid the OECF 19th Yen loan balance of JP¥218.6 million (₱117.4 million) originally scheduled to mature in December 2024. On June 17, 2011, the Company has fully settled its OECF 9th Yen loan of JP¥207.7 million (₱111.5 million).

On June 17, 2011, the Parent Company has entered into a credit agreement for the US\$175.0 million (₱7,630.0 million) transferable syndicated term loan facility with Australia New Zealand Banking Group Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Chinatrust (Philippines) Commercial Banking Corporation, ING Bank N.V., Manila Branch, Maybank Group, Mizuho Corporate Bank, Ltd. and Standard Chartered Bank as Mandated Lead Arrangers and Bookrunners. The purpose of the new loan is to refinance the old US\$175.0 million syndicated term loan availed on June 30, 2010 with scheduled maturity of June 30, 2013. The new loan carries an interest of LIBOR plus a margin of 175 basis points and has installment repayment scheme to commence on June 27, 2013 until June 27, 2017. The extinguished bullet loan had an interest rate of LIBOR plus a margin of 325 basis points. Loss on debt extinguishment amounting to ₱197.9 million recognized as a result of the loan extinguishment is presented under “Miscellaneous - net” in the consolidated statements of income (see Note 29).

On July 20, 2011, the Parent Company prepaid the OECF 18th Yen loan balance of JP¥45.3 million (₱24.3 million) originally scheduled to mature in January 2023.

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, 2011 and 2010, the Parent Company is in compliance with the loan covenants of all its outstanding debts.

FG Hydro Loan

On May 7, 2010, FG Hydro signed a loan agreement for a 10-year ₱5,000.0 million loan with PNB and Allied Bank, maturing on May 7, 2020. 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, 2011 and 2010.

20. Provisions and Other Long-term Liabilities

	2011	2010
Provision for rehabilitation and restoration costs (Notes 3 and 12)	₱406,779,140	₱–
Accrued sick leave	212,808,197	197,996,628
Accrued vacation leave	135,507,434	92,359,638
Others	1,782,954	997,395
	₱756,877,725	₱291,353,661

The accruals pertain to the unused vacation and sick leaves of active employees 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.

Provision for rehabilitation and restoration costs pertains to the present value of estimated costs of legal and constructive obligations required to restore all the existing sites upon termination of the cooperation period. The nature of these restoration activities includes dismantling and removing structures, rehabilitating wells, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment at the site is disturbed. When the liability is initially recognized, the present value of the estimated costs is capitalized as part of the carrying amount of the related FCRS and production wells.

21. Equity

Capital Stock

As required under the Philippine Constitution, the Parent Company is subject to the nationality requirement that at least 60% of its capital stock must be owned by Filipino citizens since the Parent Company is engaged in the exploration and exploitation of the country's energy resources. The Parent Company is compliant with the said nationality requirement.

Beginning December 13, 2006, the 15.0 billion common shares of the EDC were listed and traded on the Philippine Stock Exchange (PSE) at an Initial Public Offering (IPO) price of ₱3.20 per share. After the initial IPO, there are no subsequent listings of shares by the Parent Company.

The common shares are majority held by Filipino citizens, 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 number of stockholders of the Parent Company as of December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Preferred shares	1	1	1
Common shares	702	715	662

The movements of common and preferred shares are as follows:

	Number of Shares		
	2011	2010	2009
Preferred stock - ₱0.01 par value per share			
Authorized	15,000,000,000	15,000,000,000	15,000,000,000
Issued and outstanding:			
Balance at January 1	9,375,000,000	9,375,000,000	7,500,000,000
Additional subscriptions	–	–	1,875,000,000
Balance at December 31	9,375,000,000	9,375,000,000	9,375,000,000
Common stock - ₱1 par value per share			
Authorized	30,000,000,000	30,000,000,000	30,000,000,000
Issued:			
Balance at January 1	18,750,000,000	18,750,000,000	15,000,000,000
Stock dividends - 25%	–	–	3,750,000,000
Balance at December 31	18,750,000,000	18,750,000,000	18,750,000,000
Outstanding:			
Balance at January 1	18,750,000,000	18,750,000,000	14,907,000,000
Stock dividends - 25%	–	–	3,750,000,000
Issuances	–	–	93,000,000
Balance at December 31	18,750,000,000	18,750,000,000	18,750,000,000

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 4% of the Parent Company's market capitalization as of the date of the approval. The buyback program was carried out within a two-year period which commenced on March 26, 2008 and ended on March 25, 2010. The Parent Company intends 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 33).

Retained Earnings

Dividend declarations

a. 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 divided into 15.0 billion common shares with a par value of ₱1.00 and 7.5 billion preferred shares with a par value of ₱0.01 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 stockholder to ₱18.75 million, representing 25% of the increase in the preferred shares.

On October 12, 2009, the Philippine SEC approved the increase in the Parent Company's authorized capital stock from ₱15.075 billion divided into 15.0 billion common shares with a par value of ₱1.00 and 7.5 billion preferred shares with a par value of ₱0.01 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.

b. Cash dividends

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, which were paid on April 20, 2011:

- cash dividend of ₱0.0008 per share on the preferred shares totaling ₱6.0 million
- cash dividend of ₱0.16 per share on the common shares totaling ₱3,001.50 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 totaling ₱6.0 million
- regular cash dividend of ₱0.12 per share on the common shares totaling ₱2,250.33 million

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

NCI

a. Preferred Shares issued to NCI

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.

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.

On May 9, 2011, the Philippine SEC approved the amendment of the articles of incorporation of FG Hydro reclassifying the unissued redeemable preferred shares into redeemable preferred “A” and “B” shares. Included in the features of the preferred shares Series B is that it shall earn cumulative dividends for each year during the period commencing January 1, 2009 and ending on December 31, 2013, as may be declared and paid from time to time in amounts and on such dates as may be declared by FG Hydro’s BOD, subject to the availability of FG Hydro’s retained earnings. As a result of the issuance of the preferred shares Series B, ₱200.3 million was reallocated from retained earnings attributable to the equity holders of the Parent Company to NCI which amount pertains to the portion of FG Hydro net income allocable to First Gen’s preferred shares Series B for the period January 1, 2010 to December 31, 2010.

b. Cash Dividends

In June 2011 and May 2010, FG Hydro declared and paid cash dividends to its preferred shares under the SPIA and common shares amounting to ₱333.8 million and ₱240.0 million, respectively.

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 2011 and 2010:

a. 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. The consultancy agreement was subsequently extended for another 16 months,

from September 1, 2011 to December 31, 2012. Total consultancy services amounted to ₱161.59 million, ₱170.75 million and ₱130.66 million in 2011, 2010 and 2009, respectively, and were included in the “Costs of sales of electricity and steam” under “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 2011 and 2009.

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 in July 2010.

b. IFC

On May 20, 2011, the Parent Company signed a 15-year US\$75.0 million loan facility with IFC. The loan was drawn in Peso on September 30, 2011, amounting to ₱3,262.5 million. As of December 31, 2011, the outstanding balance of the loan amounting to ₱3,196.11 million is included under the “Long-term debts” account in the consolidated statements of financial position (see Note 19).

On November 27, 2008, the Parent Company entered into a loan agreement with IFC, a shareholder of the Parent Company, for US\$100.0 million or its Peso equivalent of ₱4.10 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, 2011 and 2010, the outstanding loan amounted to ₱3,871.27 million and ₱4,034.27 million, respectively, net of unamortized transaction costs of ₱57.76 million and ₱65.73 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.

c. 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, 2011 and 2010, the outstanding balance amounted to ₱38.99 million and ₱59.88 million, respectively, recorded under “Trade and other payables” account in the consolidated financial statements (see Note 17).

First Balfour is a wholly owned subsidiary of First Holdings.

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.

Thermaprime Well Services, Inc. (Thermaprime) is a subsidiary of First Balfour, a wholly owned subsidiary of First Holdings. Thermaprime provides drilling services such as, but not limited to, rig operations, rig maintenance, well design and engineering.

First Gen Energy Solutions (First GES) is a wholly owned subsidiary of First Gen.

e. Following are the amounts of transactions and outstanding balances as of and for the years ended December 31, 2011 and 2010:

Related Party	Nature of Transaction	Transactions for the years ended December 31		Net amounts due from/to related parties as at December 31	
		2011	2010	2011	2010
Due from related parties					
First Gen	Interest-free advances	₱3,437	₱-	₱3,437	₱-
First Gen Northern Energy Corp.	Interest-free advances	2,511	-	2,511	-
First GES	Interest-free advances	1,864	-	1,864	-
		₱7,812	₱-	₱7,812	₱-
Due to related parties					
First Gen	Consultancy fee	₱161,590,588	₱170,752,941	₱53,863,530	₱23,600,000
	Interest-free advances	62,587,201	254,398,672	6,061,620	247,744,841
	Payment of interest-bearing advances	-	(504,141,759)	-	-
Eugenio Lopez Foundation, Inc.	Donation to Lopez Museum	2,400,000	2,403,000	-	-
Lopez Group Foundation, Inc.	Donation to support Group's Corporate Social Responsibility efforts	838,400	-	-	-
First Gas Power Corporation	Interest-free advances	626,755	4,461	165,675	45,385
Bauang Private Power Corporation	Acquisition of one unit MVA transformer	-	37,641,428	-	-
Lopez Holdings Corporation	Budget expense allocation	-	10,322,515	-	-
(Forward)					

Related Party	Nature of Transaction	Transactions for the years ended December 31		Net amounts due from/to related parties as at December 31	
		2011	2010	2011	2010
First Private Power Corporation	Acquisition of one unit 1980 CESSNA 340A	₱-	₱8,000,000	₱-	₱-
First Gas Holdings Corporation	Interest-free advances	-	625,750	-	1,199,850
Red Vulcan	Interest-free advances	-	7,994	-	7,994
		228,042,944	(19,984,998)	60,090,825	272,598,070
Trade and other payables (Note 17)					
Thermaprime	Work fees	994,573,343	-	101,171,006	-
First Balfour	Steam augmentation and other contracts	158,696,338	141,279,058	38,989,273	59,883,402
FPRC	Purchase of services and utilities	2,435,646	5,161,713	458,150	-
Bayantel	Purchase of services and utilities	1,090,465	5,728,590	4,524,811	3,169,012
Sky Cable	Purchase of services and utilities	12,100	59,400	-	-
		1,156,807,892	152,228,761	145,143,240	63,052,414
Long-term debt (Note 19)					
IFC (Note 19)	Interest-bearing loans	4,223,815,201	7,386,328	7,067,386,686	4,034,266,907
Total		₱5,608,666,037	₱139,630,091	₱7,272,620,751	₱4,369,917,391

The purchases from related parties are made at normal commercial terms and conditions. The amounts outstanding are unsecured and will be settled in cash. The Company has not recognized any impairment losses on receivables from related parties as of December 31, 2011 and 2010.

f. Intercompany Guarantees

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.

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 2011 and 2010.

g. Remuneration of Key Management Personnel

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

	2011	2010	2009
Short-term employee benefits	₱94,076,334	₱126,184,215	₱75,170,646
Post-employment benefits (Note 30)	239,439,200	192,690,000	90,670,000
Share-based payments (Note 33)	8,806,875	15,684,375	15,190,000
	₱342,322,409	₱334,558,590	₱181,030,646

23. Costs of Sales of Electricity and Steam

	2011	2010	2009
Depreciation and amortization (Notes 12 and 13)	₱3,173,306,732	₱3,233,623,822	₱1,160,222,656
Purchased services and utilities (Note 22)	2,005,310,152	1,274,882,583	1,857,195,236
Repairs and maintenance (Note 47)	1,652,594,246	1,486,178,615	1,243,569,866
Personnel costs (Notes 26, 30 and 33)	1,454,616,847	1,728,719,810	1,737,733,011
Rental, insurance and taxes	1,033,018,600	899,085,485	870,224,239
Parts and supplies issued (Note 10)	915,447,365	692,061,138	1,124,540,260
Royalty fees (Note 18)	193,856,068	222,831,401	214,373,965
Business and related expenses	147,185,600	57,467,333	149,080,884
Proceeds from insurance claims	–	(129,005,463)	(89,259,730)
	₱10,575,335,610	₱9,465,844,724	₱8,267,680,387

Purchased services and utilities includes professional and technical services, purchased services, purchased utilities, hauling and handling costs, rig mobilization charges, contractual personnel costs and other services and utilities expense.

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.

Proceeds from insurance claims are shown as a separate line item under the costs of sales of electricity and steam. The Parent Company charges to expense outright any costs 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.

24. Cost of Drilling Services

	2011	2010	2009
Purchased services and utilities	₱369,188,442	₱235,337,900	₱215,928,221
Rental, insurance and taxes	226,729,448	23,632,853	63,954,598
Parts and supplies issued (Note 10)	65,910,688	29,104,021	41,857,339
Repairs and maintenance	54,784,118	71,808,060	29,632,146
Business and related expenses	36,947,353	39,200,965	9,876,340
Personnel costs (Notes 26, 30 and 33)	17,523,676	53,688,297	48,830,029
Depreciation and amortization (Notes 12 and 13)	1,110,041	3,314,593	1,857,308
	₱772,193,766	₱456,086,689	₱411,935,981

25. General and Administrative Expenses

	2011	2010	2009
Personnel costs (Notes 26, 30 and 33)	₱1,493,840,805	₱1,790,137,643	₱1,110,060,984
Purchased services and utilities (Forward)	1,068,709,951	1,095,072,764	858,569,171

	2011	2010	2009
Rental, insurance and taxes	₱652,441,897	₱776,907,951	₱808,686,176
Provision for doubtful accounts (Notes 8 and 15)	409,177,837	77,575,943	24,377,257
Business and related expenses (Note 22)	372,008,393	552,613,600	313,712,652
Depreciation and amortization (Notes 12 and 13)	267,457,724	208,066,215	49,332,426
Parts and supplies issued (Note 10)	198,806,573	173,585,849	160,616,956
Provision for (reversal of) impairment of parts and supplies (Notes 3 and 10)	168,959,002	(14,999,238)	106,206,646
Repairs and maintenance	67,019,494	80,444,752	118,584,488
Reversal of provision for doubtful accounts (Note 15)	(579,259)	(2,405,862)	(2,594,751)
	₱4,697,842,417	₱4,736,999,617	₱3,547,552,005

26. Personnel Costs

	2011	2010	2009
Salaries and other benefits (Note 33)	₱3,014,227,692	₱3,322,197,742	₱2,596,430,527
Retirement benefit costs (Note 30)	50,797,100	397,606,557	384,871,712
Social security costs	36,701,697	38,791,600	44,623,404
	₱3,101,726,489	₱3,758,595,899	₱3,025,925,643

Personnel costs amounting to ₱135.75 million, ₱186.05 million and ₱129.30 million were capitalized under property, plant and equipment, and intangible assets in 2011, 2010 and 2009, respectively (see Notes 12 and 13).

27. Interest Expense

	2011	2010	2009
Interest on long-term debts including amortization of transaction costs (Notes 19 and 34)	₱4,005,331,916	₱3,643,864,967	₱2,541,047,618
Interest accretion on provision for rehabilitation and restoration costs (Notes 3, 12 and 20)	61,144,090	–	–
Interest accretion of “Day 1” gain (Notes 18 and 34)	31,332,828	56,102,861	69,904,267
Interest on liability from litigation (Note 3)	7,811,107	8,185,077	111,948,408
Interest on loan payable and others (Note 34)	1,140,521	304,361	164,255,636
	₱4,106,760,462	₱3,708,457,266	₱2,887,155,929

Interest accretion of “Day 1” gain pertains to deferred royalty fee payable (see Note 18) while interest on liability from litigation pertains to expropriation cases (see Note 3).

28. Foreign Exchange Gains (Losses)

	2011	2010	2009
Long-term debts:			
Realized foreign exchange gains (losses) - net	₱295,133,030	(₱112,772,261)	₱505,395,233
Unrealized foreign exchange gains - net	146,550,242	174,288,597	833,385,097
	441,683,272	61,516,336	1,338,780,330
Other accounts:			
Realized foreign exchange losses - net	(565,507,029)	(70,077,663)	(29,611,384)
Unrealized foreign exchange gains (losses) - net	15,095,378	(5,310,145)	(17,929,107)
	(550,411,651)	(75,387,808)	(47,540,491)
Net foreign exchange gains (losses)	(₱108,728,379)	(₱13,871,472)	₱1,291,239,839

This account pertains to foreign exchange adjustments realized on repayment of loans and unrealized on restatement of outstanding balances of foreign currency-denominated loans, trade and other payables, short-term placements and cash in banks. Following are the exchange rates used to restate outstanding balances at financial reporting date:

Currency	Equivalent to US\$1.00		
	2011	2010	2009
Japanese Yen	¥77.91	¥81.66	¥91.63
Philippine Peso	₱43.84	₱43.84	₱46.20
Sweden Kroner	SEK6.363	SEK6.865	—

29. Miscellaneous - net

	2011	2010	2009
Loss on debt extinguishment (Notes 19 and 34)	(₱197,898,124)	₱—	₱—
Reversals of long-outstanding payables	189,613,624	1,946,165	597,863
Loss on disposal of property, plant and equipment (Note 12)	(28,970,474)	(398,927,321)	(273,575,293)
Gain on retirement of property, plant and equipment	9,008,325	—	—
“Day 1” loss on security deposits	(7,552,372)	—	—
Gain on early redemption of AFS investment	(271,292)	—	—
Recovery of impairment loss on input VAT claims for refund (Notes 11 and 15)	—	1,638,884,447	—
Write-off of input VAT claims for refund	—	—	(178,639,119)
“Day 1” gain on royalty fee payable (Notes 18 and 34)	—	—	168,284,986
Loss on sale of noncurrent assets held for sale	—	—	(129,867,348)
(Forward)			

	2011	2010	2009
Write-off of exploration and evaluation assets (Note 3)	₱-	₱-	(₱83,531,992)
Income from receipt of parts and supplies inventories from power plant contractor	-	-	53,992,600
Waste disposal fees	-	-	17,836,715
Loss on unused TCCs	-	-	12,207,982
Impairment loss on AFS investment removed from equity and recognized in profit or loss (Notes 3, 9 and 34)	-	-	(3,328,633)
Others - net	24,712,410	15,307,339	51,786,330
	(₱11,357,903)	₱1,257,210,630	(₱364,235,909)

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 claims for refund 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 claims for 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.

30. 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 2011, GCGI has set up a funded, non-contributory, defined benefit retirement plan which was included in the consolidated financial statements.

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:

	2011	2010	2009
Current service cost	₱213,069,058	₱187,139,907	₱196,844,916
Interest cost on benefit obligation	215,470,088	273,393,511	310,284,773
Expected return on plan assets	(112,728,687)	(142,453,424)	(125,493,939)
Net actuarial loss recognized	520,800	86,988,383	3,235,962
Curtailment gain	(265,534,159)	(14,676,220)	-
Past service cost	-	7,214,400	-
Net retirement expense (Note 26)	₱50,797,100	₱397,606,557	₱384,871,712
Actual return on plan assets	₱165,125,261	₱324,216,027	₱215,043,596

	2011	2010
Present value of defined benefits obligations	₱3,759,487,214	₱3,434,199,212
Fair value of plan assets	(2,001,855,915)	(1,877,950,146)
	1,757,631,299	1,556,249,066
Net unrecognized actuarial losses	(703,394,043)	(249,112,021)
Net retirement and other post-employment benefits	₱1,054,237,256	₱1,307,137,045

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

	2011	2010
Defined benefits obligation at January 1	₱3,434,199,212	₱3,265,217,548
Current service cost	213,069,058	187,139,907
Interest cost on benefit obligation	215,470,088	273,393,511
Benefits paid	(344,916,381)	(808,881,457)
Actuarial losses on obligation	507,199,396	524,791,523
Curtailement gain	(265,534,159)	(14,676,220)
Past service cost	–	7,214,400
Defined benefits obligation at December 31	₱3,759,487,214	₱3,434,199,212

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

	2011	2010
Fair value of plan assets at January 1	₱1,877,950,146	₱2,035,048,917
Expected return on plan assets	112,728,687	142,453,424
Contributions by employer	303,696,889	327,566,659
Benefits paid	(344,916,381)	(808,881,457)
Actuarial gains on plan assets	52,396,574	181,762,603
Fair value of plan assets at December 31	₱2,001,855,915	₱1,877,950,146

The Company expects to contribute ₱458.44 million to its defined benefit retirement plan in 2012.

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

	2011	2010
Fixed income	89.52%	88.62%
Equities	8.50%	8.62%
Real properties	0.00%	1.12%
Others	1.98%	1.64%
	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:

	2011			2010		
	EDC	GCGI	FG Hydro	EDC	GCGI	FG Hydro
Discount rate	5.65%	5.65%	8.61%	6.25%	–	8.61%
Expected rate of return on assets	6.00%	5.00%	7.00%	7.00%	–	7.00%
Future salary increase rate	6.00%	6.00%	12.00%	6.00%	–	12.00%
Medical trend rate	7.00%	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% to 4.00% more than the long-term inflation rate of about 5.00% to 7.00% for the Parent Company, while the expected rate of salary increases is around 12% to 14% for FG Hydro.

Plan deficit and experience adjustments on plan assets and liabilities for the current year and previous four years are as follows:

	2011	2010	2009	2008	2007
Defined benefit obligation	₱3,759,487,214	₱3,434,199,212	₱3,265,217,548	₱3,179,147,273	₱2,692,826,116
Plan assets	(2,001,855,915)	(1,877,950,146)	(2,035,048,917)	(1,792,770,559)	(1,626,128,399)
Deficit	1,757,631,299	1,556,249,066	1,230,168,631	1,386,376,714	1,066,697,717
Experience adjustment on plan assets	52,396,574	181,762,603	89,549,657	(48,570,370)	(56,870,788)
Experience adjustment on plan liabilities	279,779,927	293,915,499	10,310,861	62,109,785	143,635,777

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

	2011		2010	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest cost	6.00% - 14.00%	6.00% - 12.00%	13.90%	11.90%
Effect on the defined benefits obligation	5.00% - 12.00%	5.00% - 11.00%	12.50%	10.90%

31. Income Tax

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

Deferred Tax Assets

	Unrealized Foreign Exchange Losses - BOT Power Plants	Unrealized Foreign Exchange Losses	Allowance For Doubtful Accounts	Impairment Loss on Property, Plant and Equipment	Others	Total
At January 1, 2011	₱1,124,107,987	₱46,084,158	₱16,655,667	₱373,900,000	₱471,780,484	₱2,032,528,296
Charged to income for the year	(105,320,740)	(44,308,879)	39,261,631	499,860,801	85,207,264	474,700,077
Charged to equity	-	-	-	-	(992,268)	(992,268)
At December 31, 2011	₱1,018,787,247	₱1,775,279	₱55,917,298	₱873,760,801	₱555,995,480	₱2,506,236,105

	Unrealized Foreign Exchange Losses - BOT Power Plants	Unrealized Foreign Exchange Losses	Allowance For Doubtful Accounts	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	₱460,189,934	₱2,400,499,926
Purchase price allocation adjustment (Note 5)	-	-	-	-	7,602,493	7,602,493
At January 1, 2010, as restated	1,229,428,727	477,420,442	198,560,823	34,900,000	467,792,427	2,408,102,419
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	₱471,780,484	₱2,032,528,296

As of December 31, 2011 and 2010, "Others" pertain to the difference in the acquisition cost and fair value of Palinpipinon 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

	Unrealized Foreign Exchange Gains	Differences in Fair Value versus Cost of Property, Plant and Equipment	Others	Total
At January 1, 2011, as previously reported	₱-	(₱1,070,440,486)	(₱68,385,628)	(₱1,138,826,114)
Effect of voluntary change in accounting policy (Note 2)	-	-	(17,230,290)	(17,230,290)
At January 1, 2011, as restated	-	(1,070,440,486)	(85,615,918)	(1,156,056,404)
Charged to income for the year	(15,073,462)	96,994,995	(11,444,577)	70,476,956
At December 31, 2011	(₱15,073,462)	(₱973,445,491)	(₱97,060,495)	(₱1,085,579,448)

	Differences in Fair Value versus Cost of Property, Plant and Equipment	Others	Total
At January 1, 2010, as previously reported	(₱1,152,912,850)	(₱55,313,484)	(₱1,208,226,334)
Purchase price allocation adjustment (Note 5)	-	(7,602,493)	(7,602,493)
At January 1, 2010, as restated	(1,152,912,850)	(62,915,977)	(1,215,828,827)
Charged to income for the year	82,472,364	(5,469,651)	77,002,713
At December 31, 2010	(₱1,070,440,486)	(₱68,385,628)	(₱1,138,826,114)

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

	Deferred Tax Assets	Deferred Tax Liabilities	Net
At January 1, 2011, as previously reported	₱2,032,528,296	(₱1,138,826,114)	₱893,702,182
Effect of voluntary change in accounting policy (Note 2)	-	(17,230,290)	(17,230,290)
At January 1, 2011, as restated	2,032,528,296	(1,156,056,404)	876,471,892
Charged to income for the year	474,700,077	70,476,956	545,177,033
Charged to equity	(992,268)	-	(992,268)
At December 31, 2011	₱2,506,236,105	(₱1,085,579,448)	₱1,420,656,657

	Deferred Tax Assets	Deferred Tax Liabilities	Net
At January 1, 2010, as previously reported	₱2,400,499,926	(₱1,208,226,334)	₱1,192,273,592
Purchase price allocation adjustment (Note 5)	7,602,493	(7,602,493)	-
At January 1, 2010, as restated	2,408,102,419	(1,215,828,827)	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	₱2,032,528,296	(₱1,138,826,114)	₱893,702,182

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

	2011	2010	2009
Accounting income	₱491,178,359	₱5,172,260,580	₱7,267,437,700
Income tax at statutory tax rate	₱192,498,041	₱614,035,636	₱702,539,342
Income tax holiday incentives	(358,607,011)	(281,870,518)	(19,562,230)
Effect of RE Law and effect of change in tax rate	97,013,916	109,954,650	2,961,729,957
Interest income - net of final tax	(45,442,819)	(95,440,903)	(104,149,985)
Non-deductible provisions/(others) - net	(22,681,174)	342,902,265	260,464,301
Tax effect of non-deductible interest expense	18,099,925	15,477,353	41,576,237
Excess amortization of debt issuance costs under effective interest method over straight-line method	2,331,289	1,809,430	-
Difference of regular corporate income tax (RCIT) and optional standard deduction (OSD) computation	(486,932)	-	-
Non-taxable foreign exchange loss (gains)/discount amortization in ROP bonds	(104,190)	9,635,830	-
Non-deductible temporary differences	36,237	77,949,479	-
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
Non-deductible losses on ROP bonds	-	-	3,024,741
Others	(6,264,737)	(17,268,507)	(6,045,008)
Provision for (benefit from) income tax	(₱123,607,455)	₱777,184,715	₱3,910,473,976

- c. Under Republic Act No. 9337, which amended certain provisions of the Tax Code, the new 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 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 (ITR). Otherwise, it shall be considered as having availed of the itemized deductions allowed under Section 34 of the National Internal Revenue Code. Pursuant to Section 3 of RR No. 02-2010 dated February 18, 2010, the election to claim the OSD or the itemized deduction for the taxable year must be signified by checking the appropriate box in the ITR filed for the first quarter of the taxable year adopted by the taxpayer. Once the election is made, the same type of deduction must be consistently applied for all succeeding quarter returns and in the final ITR for the taxable year. Any taxpayer who is required but fails to file the quarterly ITR for the first quarter shall be considered as having availed of the itemized deductions option for the taxable year.

For 2011, 2010 and 2009, the Company computed its income tax based on itemized deductions for its income subject to either 10% or 30% income tax rate (see Note 46).

32. Basic/Diluted Earnings (Loss) Per Share

The basic/diluted earnings (loss) per share amounts were computed as follows:

	2011	2010	2009
(a) Net income (loss) attributable to equity holders of the Parent Company	(₱167,192,156)	₱4,115,747,261	₱3,311,335,906
Less dividends on preferred shares (Note 21)	7,500,000	7,500,000	7,500,000
(b) Net income (loss) attributable to common shareholders of the Parent Company	(₱174,692,156)	₱4,108,247,261	₱3,303,835,906
(c) Weighted average number of common shares outstanding	18,750,000,000	18,750,000,000	18,750,000,000
Basic/Diluted Earnings (Loss) Per Share (b/c)	(₱0.009)	₱0.219	₱0.176

The Parent Company does not have dilutive common share equivalents.

33. 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 on 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 officers and 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, 2,216,667 and 1,166,666 shares vested on January 1, 2010, 2011 and 2012, respectively. Out of the 2,625,000 shares granted on June 18, 2010, 1,356,250 and 831,250 shares vested on January 1, 2011 and 2012. There were no stock awards cancelled in 2011, 2010 and 2009.

Total compensation expense recognized on the vesting of the fair value of stock awards in 2011, 2010 and 2009 amounted to ₱8.81 million, ₱15.68 million and ₱15.19 million, respectively (see Note 22). A corresponding decrease in the “Common shares in employee trust account” amounting to ₱6.95 million and ₱12.42 million and increase in “Additional paid-in capital” account amounting to ₱1.86 million and ₱3.26 million was recorded for the years ended December 31, 2011 and 2010, respectively.

34. 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) Protects the Company from 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 are 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, amounts due from related parties and AFS investments, 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.

The following tables show the Company's aging analysis of past due but not impaired financial assets as of December 31, 2011 and 2010:

	2011						Total
	Neither Past Due nor Impaired	Past Due but Not Impaired					
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years	Past Due and Impaired	
<i>(In Thousand Pesos)</i>							
Loans and receivables:							
Cash and cash equivalents (excluding cash on hand)	₱12,486,732	₱-	₱-	₱-	₱-	₱-	₱12,486,732
Trade receivables	2,942,461	75,181	150,377	37,576	-	130,839	3,336,434
Non-trade receivables	54,130	6,792	38,477	-	-	-	99,399
Loans and notes receivables	59,332	-	-	-	-	-	59,332

(Forward)

2011							
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	Total
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
<i>(In Thousand Pesos)</i>							
Advances to employees	₱26,025	₱1,416	₱7,727	₱2,767	₱–	₱–	₱37,935
Employee receivables*	19,949	–	–	–	–	–	19,949
Long-term receivables	–	–	–	–	–	61,062	61,062
Due from related parties	8	–	–	–	–	–	8
AFS investments:							
Debt investments	673,854	–	–	–	–	–	673,854
Equity investments	20,444	–	–	–	–	–	20,444
Total	₱16,282,935	₱83,389	₱196,581	₱40,343	₱–	₱191,901	₱16,795,149

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

2010							
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	Total
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
<i>(In Thousand Pesos)</i>							
Loans and receivables:							
Cash and cash equivalents (excluding cash on hand)	₱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
Advances to employees	–	–	10,219	19,910	260	–	30,389
Employee receivables*	37,757	–	–	–	–	–	37,757
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

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

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, 2011 and 2010, 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 GSCs), SSAs and PPAs. The service contracts allow full cost recovery while the sales contracts include billing adjustments covering the movements in Philippine peso and the 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.

The Company's foreign currency-denominated financial assets and liabilities (translated into Peso) as of December 31, 2011 and 2010 are as follows:

	2011			
	Original Currency			Peso Equivalent ¹
	Yen	US Dollar	SEK	
Financial Assets				
Loans and receivables:				
Cash equivalents	–	99,562,576	–	4,364,823,332
Cash on hand and in banks	125,208	1,909,007	–	83,761,320
Trade receivables	–	1,802,580	–	79,025,107
AFS investments:				
Government debt securities	–	15,370,750	–	673,853,680
Total financial assets	125,208	118,644,913	–	5,201,463,439
Current Financial Liabilities				
Liabilities at amortized cost:				
Accounts payable	53,561,520	69,067,270	10,776,022	3,126,615,268
Current portion of long-term debt	35,992,417	–	–	20,252,433
Accrued interest on long-term debts	52,256,670	10,214,835	–	477,222,468
Total current financial liabilities	141,810,607	79,282,105	10,776,022	3,624,090,169
Noncurrent Financial Liabilities				
Liabilities at amortized cost:				
Long-term debts - net of current portion	–	468,600,735	–	20,543,456,222
Total financial liabilities	141,810,607	547,882,840	10,776,022	24,167,546,391

¹US\$1=JP¥77.912, US\$1= P43.840 and SEK1=P6.363 as of December 31, 2011.

	2010			
	Original Currency			Peso Equivalent ²
	Yen	US Dollar	SEK	
Financial Assets				
Loans and receivables:				
Cash equivalents	–	3,340,000	–	146,425,600
Cash on hand and in banks	–	3,644,584	–	159,778,563
Trade receivables	–	4,279,825	–	187,627,528
AFS investments:				
Government debt securities	–	16,138,800	–	707,524,992
Total financial assets	–	27,403,209	–	1,201,356,683
Current Financial Liabilities				
Liabilities at amortized cost:				
Accounts payable	11,589,841	12,443,772	3,976,330	579,054,670
Current portion of long-term debts	807,664,660	–	–	433,608,282
Due to related Parties	–	–	–	–
Accrued interest on long-term debts	457,836,928	1,559,537	–	314,167,515
Total current financial liabilities	1,277,091,429	14,003,309	3,976,330	1,326,830,467
Noncurrent Financial Liabilities				
Liabilities at amortized cost:				
Long-term debts - net of current portion	8,165,339,709	169,427,882	–	11,811,417,545
Total financial liabilities	9,442,431,138	183,431,191	3,976,330	13,138,248,012

²US\$1=JP¥81.659, US\$1= P43.840 and SEK1=P6.865 as of December 31, 2010.

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar, Japanese yen and Sweden kroner exchange rates, with all other variables held constant, of the Company's income before income tax for the years ended December 31, 2011 and 2010 (arising from revaluation of monetary assets and monetary liabilities).

2011		
	Foreign Currency Appreciates (Depreciates) By	Effect on Income Before Income Tax
USD	10% or ₱4.38 (10% or ₱4.38)	(₱1,880,062,120) 1,880,062,120
JPY	10% or ₱0.06252 (10% or ₱0.05115)	(8,858,171) 7,247,208
SEK	10% or ₱0.6363 (10% or ₱0.6363)	(6,856,783) 6,856,783
2010		
	Foreign Currency Appreciates (Depreciates) By	Effect on Income Before Income Tax
USD	10% or ₱4.38 (10% or ₱4.38)	(₱796,663,382) 796,663,382
JPY	10% or ₱0.05965 (10% or ₱0.04881)	(566,012,566) 463,101,190
SEK	10% or ₱0.70957 (10% or ₱0.58055)	(2,821,471) 2,308,476

Interest Rate Risk

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

2011						
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	45 Years	More than 5 Years	Total
Fixed Rate						
OEFC	3.20%	₱327	₱–	₱–	₱–	₱327
PNB and Allied Bank	9.03%	416,291	1,014,291	246,520	423,956	2,101,058
IFC 1	7.40%	289,163	711,135	186,262	582,174	1,768,734
IFC 2	6.66%	273,799	608,541	165,548	723,131	1,771,019
FRCN						
Series 1	8.37%	180,117	207,851	–	–	387,968
Series 2	9.40%	423,750	816,579	92,983	–	1,333,312
Series 3	8.43%	102,907	118,752	–	–	221,659
US\$ 300M Notes	6.50%	854,880	2,564,640	854,880	3,846,960	8,121,360

(Forward)

2011						
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	45 Years	More than 5 Years	Total
Peso Public Bonds						
Series 1	8.64%	₱734,553	₱1,836,383	₱–	₱–	₱2,570,936
Series 2	9.33%	326,645	979,934	326,645	–	1,633,224
Floating Rate						
US\$ 175.0M						
Refinanced Syndicated Term Loan	1.75% + LIBOR	155,724	372,675	89,541	38,506	656,446
2010						
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	4–5 Years	More than 5 Years	Total
Fixed Rate						
OEFC	3%-5.7%	₱10,372	₱18,489	₱4,993	₱21,213	₱55,067
JBIC 21 st yen	2.3% and 2.7%	119,136	313,725	89,807	506,205	1,028,873
PNB and Allied Bank	9.03%	442,551	1,135,577	295,005	670,476	2,543,609
IFC 1	7.40%	328,399	875,165	224,284	872,275	2,300,123
FRCN						
Series 1	8.37%	196,444	320,570	–	–	517,014
Series 2	9.40%	434,120	985,420	162,244	69,769	1,651,553
Series 3	8.43%	112,235	183,152	–	–	295,387
Peso Public Bonds						
Series 1	8.64%	734,553	2,570,936	–	–	3,305,489
Series 2	9.33%	326,645	1,143,256	326,645	163,322	1,959,868
Floating Rate						
US\$ 175.0M						
Syndicated Term Loan	3.25% + LIBOR	306,846	460,269	–	–	767,115

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax in 2011 and 2010 and equity as of December 31, 2011 and 2010.

2011			
	Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Equity Excluding Income
USD	+100	(₱76,720,000)	(₱8,929,578)
	-100	76,720,000	19,217,468
2010			
	Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Equity Excluding Income
USD	+100	(₱76,720,000)	(₱19,227,873)
	-100	76,720,000	22,130,588

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 and 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, 2011 and 2010.

December 31, 2011							
On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total	
<i>(In Thousand Pesos)</i>							
AFS investments -							
Debt investments	₱673,854	₱-	₱-	₱-	₱-	₱-	₱673,854
Loans and receivables -							
Cash equivalents	-	9,574,010	2,226,633	-	-	-	11,800,643
	₱673,854	₱9,574,010	₱2,226,633	₱-	₱-	₱-	₱12,474,497

December 31, 2010							
On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total	
<i>(In Thousand Pesos)</i>							
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

The tables below summarize the maturity analysis of the Company's financial liabilities as of December 31, 2011 and 2010 based on contractual undiscounted payments:

2011							
On Demand	Less than 3 Months	3 to 6 Months	>6 to 12 Months	>1 to 5 Years	More than 5 Years	Total	
<i>(In Thousand Pesos)</i>							
Liabilities at amortized cost:							
Accounts payable*	₱-	₱4,731,730	₱-	₱-	₱-	₱-	₱4,731,730
Accrued interest and guarantee fees	90,769	713,620	243,217	-	-	-	1,047,606
Other payables	-	3,518	-	81,092	-	-	84,610
Due to related parties	60,091	-	-	-	-	-	60,091
Royalty fee payable	-	133,228	87,500	136,573	-	-	357,301
Long-term debts	-	924,581	1,140,510	3,030,619	37,322,968	29,329,707	71,748,385
Total	₱150,860	₱6,506,677	₱1,471,227	₱3,248,284	₱37,322,968	₱29,329,707	₱78,029,723

*Excluding other liabilities which pertain to liabilities to the Government.

	2010						Total
	On Demand	Less than 3 Months	3 to 6 Months	>6 to 12 Months	>1 to 5 Years	More than 5 Years	
	(In Thousand Pesos)						
Liabilities at amortized cost:							
Accounts payable*	₱-	₱2,652,435	₱-	₱-	₱-	₱-	₱2,652,435
Accrued interest and guarantee fees	271,584	476,394	141,829	-	-	-	889,807
Other payables	-	853	-	394,301	-	-	395,154
Loan payable	-	175,000	-	-	-	-	175,000
Due to related parties	272,598	-	-	-	-	-	272,598
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	₱544,182	₱3,908,454	₱1,314,115	₱2,934,327	₱36,256,762	₱15,726,688	₱60,684,528

*Excluding other liabilities which pertain to liabilities to the Government.

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, 2011 and 2010.

	2011		2010	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱12,493,406,963	₱12,493,406,963	₱6,157,925,132	₱6,157,925,132
Trade receivables	3,205,594,212	3,205,594,212	4,418,426,404	4,418,426,404
Non-trade receivables	99,398,810	99,398,810	73,070,811	73,070,811
Loans and notes receivables	59,331,933	59,331,933	61,297,851	61,297,851
Advances to employees	37,934,595	37,934,595	30,389,460	30,389,460
Employee receivables	19,948,544	19,948,544	37,757,241	37,757,241
Due from related parties	7,812	7,812	-	-
Long-term receivables	-	-	1,000,000	942,912
AFS investments:				
Debt investments	673,853,680	673,853,680	707,524,992	707,524,992
Equity investments	20,443,924	20,443,924	18,166,353	18,166,353
	₱16,609,920,473	₱16,609,920,473	₱11,505,558,244	₱11,505,501,156
Financial Liabilities				
Financial liabilities at amortized cost:				
Accounts payable	₱4,731,729,893	₱4,731,729,893	₱2,652,434,591	₱2,652,434,591
Accrued interest and guarantee fees	1,047,605,943	1,047,605,943	889,806,777	889,806,777
Other payables	84,610,045	84,610,045	395,153,958	395,153,958
Loan payable	-	-	175,000,000	175,000,000
Due to related parties	60,090,825	60,090,825	272,598,070	272,598,070
Royalty fee payable	287,626,313	290,907,188	554,783,572	568,334,506
Long-term debts	51,489,571,455	59,055,715,275	41,205,947,848	45,500,550,049
	₱57,701,234,474	₱65,270,659,169	₱46,145,724,816	₱50,453,877,951

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

Cash and Cash Equivalents

Carrying amounts approximate fair values due to their short-term nature.

Trade and Other Receivables, Amounts Due from and to Related Parties, Trade and Other Payables and Loan Payable

These are instruments with relatively short maturity ranging from one to three months. Carrying amounts approximate their 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.

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.

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 1.91% to 10.88% in 2011 and 2.18% to 9.73% in 2010.

Fair values of royalty fee payable are determined using discount rates ranging from 5.32% to 6.43% in 2011 and 3.05% to 4.94% in 2010.

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).

2011					
	Total	Level 1	Level 2	Level 3	At Cost
AFS investments:					
Debt investments	₱673,853,680	₱673,853,680	₱-	₱-	₱-
Equity investments	20,443,924	20,369,374	-	-	74,550

2010					
	Total	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

During 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The Company classifies its financial instruments in the following categories:

2011				
	Loans and Receivables	AFS Investments	Liabilities at Amortized Cost	Total
<i>(In Thousand Pesos)</i>				
Financial Assets				
Cash and cash equivalents	₱12,493,407	₱-	₱-	₱12,493,407
Trade receivables	3,205,594	-	-	3,205,594
Non-trade receivables	99,399	-	-	99,399
Loans and notes receivables	59,332	-	-	59,332

(Forward)

	2011		2010		2009	
	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)
Trade receivables	₱2,983,715	₱-	₱6,007,914	₱-	₱75,669,519	₱-
Employee receivables	8,909,082	-	1,063,286	-	1,104,060	-
Concession receivables	-	-	-	-	1,650,208,827	-
Other receivables	-	-	21,265,870	-	723,946	-
	₱388,010,974	₱-	₱346,621,324	₱-	₱2,052,101,231	₱-
AFS investments						
Equity investments:						
Net gain recognized in equity	₱-	₱2,277,570	₱-	₱2,777,926	₱-	₱1,791,190
Impairment loss on AFS investments	-	-	-	-	(3,328,633)	-
Provision for impairment loss removed from equity	-	-	-	-	-	3,328,633
Debt investments:						
Net gain (loss) recognized in equity	-	(30,001,763)	-	3,763,548	-	77,231,146
Interest income on ROP Bonds	1,099,376	-	1,073,692	-	1,057,831	-
Net unrealized gain removed from equity and recognized in profit or loss (Note 9)	235,689	-	-	-	-	-
Gain on early redemption of AFS investment (Note 9)	271,292	-	-	-	-	-
	₱1,606,357	(₱27,724,193)	₱1,073,692	₱6,541,474	(₱2,270,802)	₱82,350,969
Derivative financial instruments at FVPL						
Net fair value changes of forward contracts						
	₱108,319,377	₱-	₱446,597,342	₱-	(₱175,648,625)	₱-
Unrealized loss on fair value on changes of embedded currency options						
	-	-	(9,598,487)	-	(23,161,134)	-
	₱108,319,377	₱-	₱436,998,855	₱-	(₱198,809,759)	₱-
Financial liabilities at amortized cost						
Interest expense on (Note 27):						
Long-term debts including amortization of transaction costs	(₱4,005,331,916)	₱-	(₱3,643,864,967)	₱-	(₱2,541,047,618)	₱-
Royalty fee payable	(31,332,828)	-	(56,102,861)	-	(69,904,267)	-
Loan payable and others	(1,140,521)	-	(304,361)	-	(164,255,636)	-
“Day 1” gain on royalty fee payable	-	-	-	-	168,284,986	-
Loss on extinguishment of debt (Note 29)	(197,898,124)	-	-	-	-	-
	(₱4,235,703,389)	₱-	(₱3,700,272,189)	₱-	(₱2,606,922,535)	₱-

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. No significant changes have been made in the objectives, policies and processes of the Company from the previous years.

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 all items presented in the equity section of the consolidated statement of financial position.

Table below shows the total capital considered by the Company and its debt ratio as of December 31, 2011 and 2010.

	2011	2010
Long-term liabilities	₱51,489,571,455	₱41,205,947,848
Equity	29,646,601,493	32,238,981,057
Total	₱81,136,172,948	₱73,444,928,905
Debt ratio	63.5%	56.1%

Derivative Financial Instruments

Freestanding Derivatives

The Company enters into derivative transactions to hedge its foreign currency exposures. These derivatives are accounted for as financial instruments at FVPL. In 2011 and 2010, the Company had positions in the following types of freestanding derivatives:

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. As of December 31, 2011 and 2010, there are no outstanding foreign currency forward contracts as they matured on various dates during the year.

In 2011, the Company entered into a total of 38 currency forward contracts with various counterparty banks. These contracts include six deliverable and 32 non-deliverable forward contracts. The deliverable buy JPY - sell US\$ forward contracts have aggregate notional amount and average forward rate of JP¥2,441.0 million and JP¥83.0, respectively. As for the non-deliverable forward contracts, the Company entered into sell US\$ - buy PHP transactions with onshore banks and simultaneously entered into buy US\$ - sell PHP transactions with offshore banks as an offsetting position. The aggregate notional amount and average forward rate of the sell PHP - buy US\$ forward contracts are US\$274.6 million and ₱43.15, respectively. On the other hand, the Company entered into sell US\$-buy PHP forward contracts with aggregate notional amount of US\$255.0 million and ₱43.35, respectively, as an offset to the extent of its notional amount to the buy US\$ - sell PHP position. The total net mark-to-market gain recognized in the 2011 statement of comprehensive income relative to these deliverable and non-deliverable forward contracts is ₱68.25 million.

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 JP¥ - sell US\$, 13 deliverable buy JP¥ - sell US\$ and one deliverable buy US\$ - sell PHP forward contracts, have notional amounts and average forward rates of JP¥3,107.0 million and JP¥93.5, JP¥22,261.0 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 ₱446.6 million.

Foreign Currency Swap Contracts

These are contractual agreements between two parties that involve selling of US dollars and buying of Pesos at spot rate at trade date and simultaneously agreeing to buying back US dollars and selling Peso at an agreed rate at a certain time in the future.

In 2011, the Company has entered into a total of 36 foreign currency swap contracts with various counter-party banks. These contracts include seven buy JP¥ - sell PHP and 29 buy US\$ - sell PHP on trade date which have aggregate notional amounts and average forward rates of

JP¥14,525.0 million and US\$701.0 million and ₱0.529 and ₱43.34, respectively. The Company recognized a net mark-to-market gain of ₱40.07 million for the year ended December 31, 2011. There are no outstanding foreign currency swap contracts as of December 31, 2011 as they matured on various dates during the year.

Embedded Currency Options

The Company had embedded currency options in its PRUP 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. The net mark-to-market loss recognized in the 2010 consolidated statement of comprehensive income amounted to ₱9.6 million.

Fair Value Changes of Derivatives

The table below summarizes the net movement in the fair values of the Company's derivatives as of December 31, 2011 and 2010.

Freestanding Derivatives

	2011		2010	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Balance at January 1	₱-	₱-	₱-	₱-
Net changes in fair value	381,813,015	(273,493,638)	449,477,342	(2,880,000)
Settlement	(381,813,015)	273,493,638	(449,477,342)	2,880,000
Balance at December 31	₱-	₱-	₱-	₱-

Embedded Derivatives

	2010
Derivative Asset	
Balance at January 1	₱9,611,022
Net changes in fair value	(9,598,488)
Foreign exchange difference	(12,534)
Balance at December 31	₱-

The net changes in fair value of the Company's derivatives for the years ended December 31, 2011, 2010 and 2009 amounting to ₱108.32 million gain, ₱437.00 million gain and ₱198.81 million loss, respectively, were taken to the "Derivative gain (loss) - net" account in the consolidated statements of income.

35. 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 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)

On May 26, 2010, the BOD of EDC approved the assignment and transfer to EBWPC of all the contracts, assets, permits and licenses relating to the establishment and operation of the Burgos Wind Power Project under DOE Certificate of Registration No. WESC 2009-09-004. As of December 31, 2011, the filing for the declaration of commerciality of the Burgos Wind Power Project is still under review by the DOE.

On December 19, 2011, the Parent Company has submitted a letter of surrender for the Taytay, Dinagat and Siargao contract areas and thus, will not pursue these project areas further. Per Section 4.2 of the WESC, the surrender will take effect 30 days upon the RE Developer's submission of a written notice to the DOE.

36. 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 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 DUs, electric cooperatives and other third party buyers of electricity for the sale of the electrical energy generated from the service contract area.

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

Revenue and profits recognized in 2009 on exchanging construction services for a financial or an intangible asset amounted to ₱541.46 million and ₱74.20 million, respectively. No revenue and profits were recognized in 2011 and 2010 related to the discussion below.

On October 23, 2009, the GSCs for the following contract areas were replaced by GRESCs pursuant to R.A. 9513 as discussed in Note 37: Leyte, Southern Negros, Bac-Man, Mindanao, and Northern Negros. Aside from the tax incentives arising from the conversion to GRESCs as discussed in Notes 37 and 46 to the consolidated financial statements, the significant terms of the service concessions under the GRESCs are similar to the GSCs except that 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.

On February 19, 2010, the Certificate of Registration as an RE Developer for the contract area in Mt. Labo in Camarines Norte and Sur was granted by the DOE. The remaining service contract of the Parent Company covered by P.D. 1442 as of December 31, 2011 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.

37. Geothermal Service Contracts/Renewable Energy Service Contracts

As discussed in Note 36, 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 amounting to ₱1.4 billion pertaining to the royalty fee recognized from January 1, 1989 to December 31, 1992 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 (see Note 18).

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 - Palimpinon, 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 DOE Certificate of Registration as an RE Developer for the following geothermal projects was granted to the Parent Company 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

On February 19, 2010, the Parent Company's GSC in Mt. Labo in 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 the Parent Company, 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, and the related expense are shown in Notes 18 and 23, respectively, of the consolidated financial statements.

38. 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 US 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. The agreement was binding 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 US 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 US 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.

In May 2010, BGI acquired the BMGPP which started to undergo rehabilitation in September 2010. EDC secured a temporary waiver of billings and collections from PSALM effective until (a) the execution of the deed of assignment of SSA from NPC/PSALM to BGI; or (b) such time that the Bac-Man power plants resumes operations (see Note 6).

The Company's revenue from SSAs amounted to nil, ₱1,208.70 million and ₱3,781.37 million for the years ended December 31, 2011, 2010 and 2009, respectively.

39. 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 gigawatt-hours (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. 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 energy offtake 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 PPAs amounted to ₱13,621.66 million, ₱13,715.33 million and ₱14,182.74 million for the years ended December 31, 2011, 2010 and 2009, respectively.

40. Electricity Sales Agreement

In October 2006, the Parent Company entered into an ESA with Iloilo I Electric Cooperative, Inc. (ILECO I). 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 NNGP 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. In August 2011, the Parent Company assigned its ESA to GCGI.

Revenue from sale of electricity covered by ESA amounted to ₱470.0 million, ₱533.96 million and ₱238.38 million for the years ended December 31, 2011, 2010 and 2009, respectively.

41. GCGI's 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 PSCs of NPC with the following assigned customers:

Customers	Contract Expiration
<u>Palinpinon</u>	
V.M.C. Rural Electric Service Cooperative, Inc. (VRESCO)	December 25, 2010
Central Negros Electric Cooperative, Inc. (CENECO)	December 25, 2010
Dynasty Management & Development Corp. (DMDC)	March 15, 2016
Aklan Electric Cooperative, Inc. (AKELCO)	December 25, 2009
Guimaras Electric Cooperative, Inc. (GUIMELCO)	December 25, 2012

Customers	Contract Expiration
(Forward)	
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
<u>Tongonan</u>	
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 PSCs assigned to GCGI remained effective namely, DMDC, GUIMELCO, PFMC, IPG and PHILPHOS. Since GCGI's takeover of the power plants, 20 new PSAs have been signed as follows:

Customers	Contract Start	Contract Expiration
<u>Leyte</u>		
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 II Electric Cooperative, Inc. (LEYECO II)	December 26, 2011	December 25, 2021
Leyte III Electric Cooperative, Inc. (LEYECO III)	December 26, 2011	December 25, 2021
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, 2015
Philippine Phosphate Fertilizer Corporation (PHILPHOS)	December 26, 2011	December 25, 2016
<u>Cebu</u>		
VECO*	December 26, 2010	December 25, 2015
VECO	December 26, 2011	December 25, 2016
Balamban Enerzone Corporation (BEZ)	December 26, 2010	December 25, 2015
<u>Negros</u>		
Central Negros Electric Cooperative, Inc. (CENECO)	December 26, 2011	December 25, 2021
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
<u>Panay</u>		
Aklan Electric Cooperative, Inc. (AKELCO)*	March 26, 2010	December 25, 2020
Capiz Electric Cooperative, Inc. (CAPELCO)*	January 27, 2010	December 25, 2020
ILECO I*	March 26, 2010	December 25, 2022
Iloilo II Electric Cooperative, Inc. (ILECO II)*	December 26, 2010	December 25, 2020

*With Provisional Authority from the ERC as of December 31, 2011.

Other than those PSAs with Provisional Authority, preparations for the filing of the application for the approval of the PSAs with distribution utility customers are ongoing.

Under the PSCs of GCGI, revenue from sale of electricity amounted to ₱7,428.97 million, ₱6,555.40 million and ₱1,045.69 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Under Section 30 of the EPIRA, the ERC may authorize other similar entities to become eligible as members, either directly or indirectly, of the WESM. All generating companies, DUs, suppliers, bulk consumers/end-users and other similar entities authorized by the ERC, whether direct or indirect members of the WESM, shall be bound by the WESM spot market rules with respect to transactions in the market.

GCGI as a direct WESM member sells/buys in the WESM. Total revenue from the sale of electricity amounted to ₱585.55 million in 2011 and nil in 2010 and 2009.

42. 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 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	732
Mindanao	154	448
Bacon-Manito (Luzon)	270	415
Palinpinon (Negros Oriental)	217	399
Northern Negros	47	55
Total	1,374	2,049

Source: GeothermEX Report, December 15, 2010

43. Commitments and Contingencies

Stored Energy

In 1996 and 1997, the Parent Company entered into Addendum Agreements to the PPA related to the Unified Leyte power plants 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. As of December 31, 2011 and 2010, the commitments for stored energy is equivalent to 4,326.6 GWH.

Lease Commitments

Future minimum lease payments under the operating leases as of December 31, 2011 and 2010 are as follows:

	2011	2010
Within one year	₱75,143,348	₱106,164,134
After one year but not more than five years	320,931,075	312,741,882
After five years	1,545,711	81,375,806
Total	₱397,620,134	₱500,281,822

The Parent Company's lease commitments pertain to the drilling rigs and various office space and warehouse rentals.

On October 1, 2010, the lease contract 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, subject to a five percent yearly increase beginning July 13, 2013. The 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 commenced on December 1, 2011 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 lease contract.

The lease contract 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 lease contract 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 expired on November 30, 2011. As of December 31, 2011, the Company is negotiating for the extension of the portion (laboratory) of the lease contract with PNOC.

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, 2011 and 2010 amounted to ₱233.39 million and ₱103.46 million, respectively, of which, contractual commitments for the acquisitions of property, plant and equipment amounted to ₱218.80 million as of 2011. 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 Notes 3 and 17).

44. Events After the Financial Reporting Date

On January 10, 2012, the Chilean Ministry of Energy awarded to EDC Chile Limitada the geothermal exploration concession of Newen, while San Rafael and Batea geothermal exploration concessions were awarded on January 19, 2012.

On January 31, 2012, the Parent Company fully settled its JP¥1.5 billion OECF 8th Yen loan amounting to ₱20.25 million.

On February 2, 2012, EDC entered into Joint Venture Agreements (JVA) with Hot Rock Limited of Australia (HRL) to co-develop four geothermal exploration projects: the Calerias and Longavi projects in Chile, and the Quellaapacheta and Chocopata projects in Peru. EDC and HRL successfully concluded negotiations after discussions began with the signing of the Heads of Terms Agreement last November 28, 2011. Under the terms of the JVAs, EDC obtained a 70% interest in each of the Projects and HRL taking the remaining 30% interest.

45. Electricity Power Industry Reform Act (EPIRA)

Republic Act. No. 9136, otherwise known as the EPIRA, and the covering IRR provide for significant changes in the power sector, which include among others:

- a. 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);
- b. the unbundling of electricity rates; the creation of a WESM; and
- c. 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 DU is allowed to source from an associated company engaged in generation, except for contracts entered into prior to the effectivity of the EPIRA.

Section 4 of the EPIRA IRR provides 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 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 has also been accomplished, with the contract of the Benguet Mini-Hydro Plant to be transferred to its IPPA, subject to the latter's acceptance of the condition for assignment set by the IPP operator.

With the successful bidding of the 150 MW BMGPP, NPC has privatized approximately 85% 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. Based on the privatization plan submitted and endorsed by the Joint Congressional Power Commission (JCPC) and approved by the Office of the President, IPPA privatization level has already reached 76.85%. PSALM targets to bid out the IPPA contracts for the 140 MW Casecan Multi-purpose Hydropower Plant and the 640-MW Unified Leyte geothermal power complex.

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 April 2011, NPC/PSALM's share was only 19% 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. The DOE has given PEMC a deadline to establish the reserve market in the WESM by June 2012.

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.

46. 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 (see Note 37).

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 five GSCs mentioned above were fully converted to GRESCs upon signing of the parties on October 23, 2009. In addition, the Parent Company received the Certificate of Registration as an RE Developer for the contract area in Mt. Labo, Camarines Norte and Sur on February 19, 2010. Moreover, the DOE issued to the Parent Company a new GRESC of Mainit Geothermal Project under DOE Certificate of Registration No. GRESC 2010-03-021 on March 24, 2010. Thus, the Parent Company is now the holder of seven GRESCs (see Notes 36 and 37).

47. FG Hydro's Contracts and Agreements

PSCs

In 2006, FG Hydro acquired existing contracts from NPC as part of FG Hydro's acquisition of the 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, 2011. Upon renegotiation with the customers and due process as stipulated by the ERC, the expired contracts 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 from December 2007 to December 2020.

Upon expiration, these contracts may be renewable upon renegotiation with the customers and by the approval of ERC. As of December 31, 2011, there are five remaining PSCs being serviced by FG Hydro.

In addition to the above contracts, FG Hydro entered into a PSA with BGI, effective for a period of two months, commencing on December 26, 2011, unless it is sooner terminated or thereafter renewed or extended under such terms as may be agreed by both parties.

Revenue from sale of electricity covered by FG Hydro's PSCs amounted to ₱1,101.71 million, ₱1,201.26 million and ₱873.93 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Details of the existing contracts of FG Hydro are as follows:

Related Contracts	Expiry Date	Other Developments
PAMES	December 25, 2008	PAMES has not yet formally renewed its purchase supply agreement with FG Hydro, but FG Hydro continues to supply electricity to PAMES on a month-to-month basis.
Nueva Ecija II Electric Cooperative, Inc., Area 2 (NEECO II - Area 2)	December 25, 2016	The ERC granted a provisional approval on the PSA between FG Hydro and NEECO II-Area 2 on August 2, 2010 with a pending final resolution of the application for the approval thereof.
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 10 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 10 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 “Costs of sales of electricity and steam” account in the consolidated statements of income, specifically “Repairs and maintenance” account (see Note 23).

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 2011, 2010 and 2009. The user's fee is included under "General and administrative expenses" account in the consolidated statements of income, specifically "Rental, insurance and taxes" account (see Note 25).

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 LOA, 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.

Ancillary Services Procurement Agreement (ASPA)

FG Hydro entered into an agreement with the National Grid Corporation of the Philippines (NGCP) on February 23, 2011 after being certified and accredited by NGCP as capable of providing Contingency Reserve Service, Dispatchable Reserve Service, Reactive Power Support Service and Black Start Service. Under the agreement, FG Hydro shall provide any of the stated Ancillary Services to NGCP. Total revenue from ancillary services with NGCP amounted to ₱1,106.17 million in 2011.

The ASPA is effective for a period of three years, commencing on February 23, 2011 and shall be automatically renewed for another three (3) years after the end of the original term subject to certain conditions as provided in the ASPA.

Memorandum of Agreement with NGCP (MOA with NGCP)

FG Hydro entered into a MOA with NGCP for the performance of services on the operation of the Pantabangan Hydro Electric Power Plant 230 kV switchyard and its related appurtenances (Switchyard).

NGCP shall pay FG Hydro a monthly fixed operating cost of ₱0.06 million and monthly variable charges representing energy consumed at the Switchyard.

The MOA is effective for a period of five years and renewable for another three years under such terms as may be agreed by both parties.

WESM Transactions

FG Hydro as a direct WESM member sells/buys in the WESM. Total revenue from the sale of electricity amounted to ₱183.14 million, ₱938.28 million and ₱373.25 million in 2011, 2010 and 2009, respectively.

GLOSSARY OF TERMS

ACA	Aguiting Community ASSO	LSPP	Local Seminar Participation Proposals
AFS Investments	Available-for-Sale Investments	LTA	Lost Time Accident
AGC	Audit and Governance Committee	Marubeni	Marubeni Corporation
Availability Factor	A measure (expressed as a percentage) of the available generation of a plant over a defined period of time compared with the maximum possible available generation of the plant over the same period	MEOT	Minimum Energy Off Take agreement
		MGPF	Mindanao Geothermal Production Field
		MGPP-2	Mahanagdong Geothermal Power Plant-2
BAFA	Basud Farmers Association	MMB	Million Barrels
BFA	Baslay Farmers Association	MMBFOE	Million Barrels of Fuel Oil Equivalent
BGPF	Bacman Geothermal Production Field	Mount Kanlaon	is an area adjacent to the Mount Kanlaon Natural Park (Negros Occidental) that was designated for economic use through Republic Act 9154
BIR	Bureau of Internal Revenue	Buffer Zone	
BOD	Biological Oxygen Demand	MW	Megawatt
BOD	Board of Directors	MWh	Megawatthour; one million watthours
BOT	Build-Operate-Transfer scheme	Nasuji MPP	Nasuji Modular Power Plant
BPMD	Budget Performance Monitoring Department	NCC	Nominations and Compensation Committee
BPTL	Below Poverty Threshold Level	NCDMF	Netherlands Clean Development Mechanism Facility
BSP	Bangko Sentral ng Pilipinas	NG	National Government or the Republic of the Philippines or the ROP
CalEnergy	California Energy Company, Inc		
CBA	Collective Bargaining Agreement	NGCP	National Grid Corporation of the Philippines
CB-BOL	Central Bank – Board of Liquidators	NNGP	Northern Negros Geothermal Production Field
CBU	Capital build-up	NPC	National Power Corporation
CDM	Clean Development Mechanism	NRE	New and Renewable Energy
CFSA	Community Forest Stewardship Agreement	NSMNP	Northern Sierra Madre Natural Park
CG	Corporate Governance	NTC	National Transmission Company or Transco
CME	Cocomethyl ester	Okoy 6 MPP	Okoy 6 Modular Power Plant
CMMS	Computerized Maintenance Management System	Opscomm	Operations Committee
COCOBIND	Coco Coir Business Integration and Development	Ormat	Ormat Inc.
CPD	Community Partnerships Department	Oxbow	Oxbow Power Corporation
CSR	Corporate Social Responsibility	P2P	Procure to Pay
CSRC	Corporate Social Responsibility Committee	Pal 1	Palinpinon 1
DA	Department of Agriculture	Pal 2	Palinpinon 2
DENR	Department of Environment and Natural Resources	PAMB	Parks Administration and Management Bureau
DepEd	Department of Education	PAS	Philippine Accounting Standards
DO	Dissolved Oxygen	PCIC	Philippine Crop Insurance Corporation
DOE	Department of Energy	PCIRBs	Principal Collateralized Interest Reduction Bonds
DOLE	Department of Labor and Employment	Peso or Php	Philippine Peso, the lawful currency of the Republic of the Philippines
DOT	Department of Tourism		
DTI	Department of Trade and Industry	PFRS	Philippine Financial Reporting Standards
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	PGPP-1	Palinpinon Geothermal Power Plant 1
		PGPP-2	Palinpinon Geothermal Power Plant 2
ECA	Energy Conversion Agreement	PGI	Philippine Geothermal Incorporated
ECC	Environmental Compliance Certificate	PGS	Power Generation Sector
EDD	Energy Drilling Division	PLC	Publicly Listed Company
EMB	Environmental Management Bureau	PMD	Property Management Department
EMD	Environmental Management Department	PME	Professional Mechanical Engineers
EPC	Engineering, Procurement and Construction	PNOC	Philippine National Oil Company
EPIRA	Electric Power Industry Reform Act of 2001	PNOC EDC or the Company	PNOC Energy Development Corporation
EPS	Earnings Per Share	PNS/ISO	Philippine National Standard/International Standardization Organization
ERC	Energy Regulatory Commission	PPA	Power Purchase Agreement
ERDD	Energy Research and Development Department	PSALM	Power Sector Assets and Liabilities Management Corporation
ERPA	Emissions Reduction Purchase Agreement		
ERT	Emergency Response Team	PSE	Philippine Stock Exchange
ESA	Electricity Sales Agreement	PT Union	Professional/Technical Union
FCRS	Fluid Collection and Recycling System	RE Coalition	Renewable Energy Coalition
FG	First Gen Corporation	Red Vulcan Holdings Corp.	Majority Owner of PNOC EDC shares of stocks
FGHPC	First Gen Hydro Power Corporation	RMC	Risk Management Committee
FPHC	First Philippine Holdings Corporation	ROP	Republic of the Philippines or National Government
Fuji	Fuji Electric Co., Ltd.	SART	Site Emergency Response Team
GHG	Greenhouse gas	SEC	Securities and Exchange Commission
GSC	Geothermal Service Contract	SFE	Schools for Excellence
GWh	Gigawatthours; 1,000,000,000 watthours; 1,000 MWh	SFO	Steamfield Operation
GOCC	Government Owned and Controlled Corporation	SHAPES	Safety and Health Association of the Philippine Energy Sector
GRSC	Geothermal Resources Sales Contract	SIDC	Sorosoro Ibaba Development Cooperative
GSIS	Government Service Insurance System	SNGPF	Southern Negros Geothermal Production Field
HROD	Human Resources Organization Department	Sogongon MPP	Sogongon Modular Power Plant
IBJ	International Bank of Japan	SONEGCO	Southern Negros Geothermal Cooperative
IBRD	International Bank for Reconstruction and Development	SSA	Steam Sales Agreement
ICD	Institute of Corporate Directors	Subsidiary	PNOC EDC is a subsidiary of Red Vulcan Holdings which owns a majority of the outstanding capital stock
IFRIC	International Financial Reporting Interpretations Committee	TAD	Transmission and Dispatch
IMFA	Inang Maharang Farmers Association	Tech-Voc	Technical-Vocational
IRR	Implementing Rules and Regulations	TGP	Tongonan Geothermal Power Plant
ISD	Information Systems Department	TIFA	Trade and Investment Framework Agreements
JBIC	Japan Bank for International Cooperation	Tongonan 1	112.5-MW geothermal Power Plant in Tongonan, Leyte
Japan Yen or JPY	Japanese Yen	TOFA	Tongonan Farmers Association
Kasanayan sa Hanapbuhay	Livelihood Modules	Transco	National Transmission Company or NTC
KWh	Kilowatt-hour; 1,000 watthours	TSS	Technical Services Sector
LADCA	Lake Danao Community Association	TSS	Total Suspended Solids
LCF	League of Corporate Foundations	US dollar or USD	United States Dollar, the lawful currency of the United States of America
LGPF	Leyte Geothermal Production Field		
LGU	Local Government Unit		
LMC	Lihir Management Co. Pty. Ltd.		

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Leyte Geothermal Production Field

Steamfield Operations: Tongonan

Admin. Complex, Kananga, Leyte

Power Generation Office

Milagro Admin. Complex, Ormoc

City, Leyte

Southern Negros Geothermal Production Field

Ticala, Valencia, Negros Oriental

Mindanao Geothermal Production Field

Ilomavis, Kidapawan City, Cotabato

Northern Negros Geothermal Production Field

Bago City, Negros Occidental

Pantabangan-Masiway Hydro Power Complex

Brgy. West Poblacion, Pantabangan, Nueva Ecija

Bacon-Manito Geothermal Production Field

Palayang Bayan, Manito, Albay

North Luzon Wind Power Project

Brgy. Saoit, Burgos, Ilocos Norte



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