

2012 Performance Report

It's Possible



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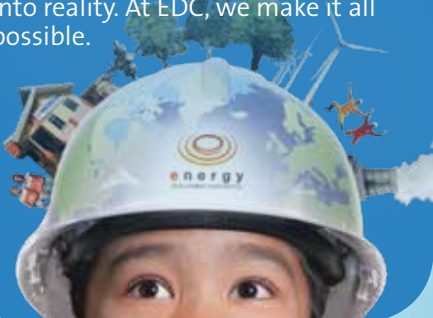
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About the Cover

There is in every child, the untapped power of imagination that creates wonderful dreams and aspirations and defines a future filled with exciting possibilities.

For us in EDC, we see in every square inch of the earth a potentially powerful and untapped energy resource which we explore, delineate, and harness until we turn steam from the earth's core into electric power. We harness this energy for communities and industries; for people and for the planet.

It's remarkable, this power of the imagination; turning dreams into reality. At EDC, we make it all possible.



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Our Vision

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

Our Mission

We are committed to provide the present and 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.

Our Core Values

LOPEZ GROUP

- A Pioneering Entrepreneurial Spirit
- Business Excellence
- Unity
- Nationalism
- Social Justice
- Integrity
- Employee Welfare and Wellness

EDC

- Bias for Action
- Pursuit of Excellence
- Integrity
- Entrepreneurial Spirit
- Stewardship
- Fairness
- Results-Driven Teamwork

Business at a Glance | How We Power the Nation

We are Energy Development Corporation (PSE: EDC), a geothermal energy industry pioneer and the recognized world leader in wet steamfield technology. Our business generates electricity from geothermal, hydro, and soon, wind energy resources.

Our vertically integrated geothermal operations is the world's largest at 1,130MW installed capacity. In the Philippines, we have diversified our clean energy portfolio with the acquisition of a strategic stake in the 132MW Pantabangan-Masiway Hydro Electric Power Project in 2009, and the development of the 87MW Burgos wind power project that will be commissioned by 2015. In international shores, we are

venturing into prime geothermal concessions in Chile, Peru and Indonesia.

Our core team of geoscientists and engineers together with experience-rich Board of Directors and Senior Management have strong track records in successfully developing sustainable energy projects right at the heart of the resource.

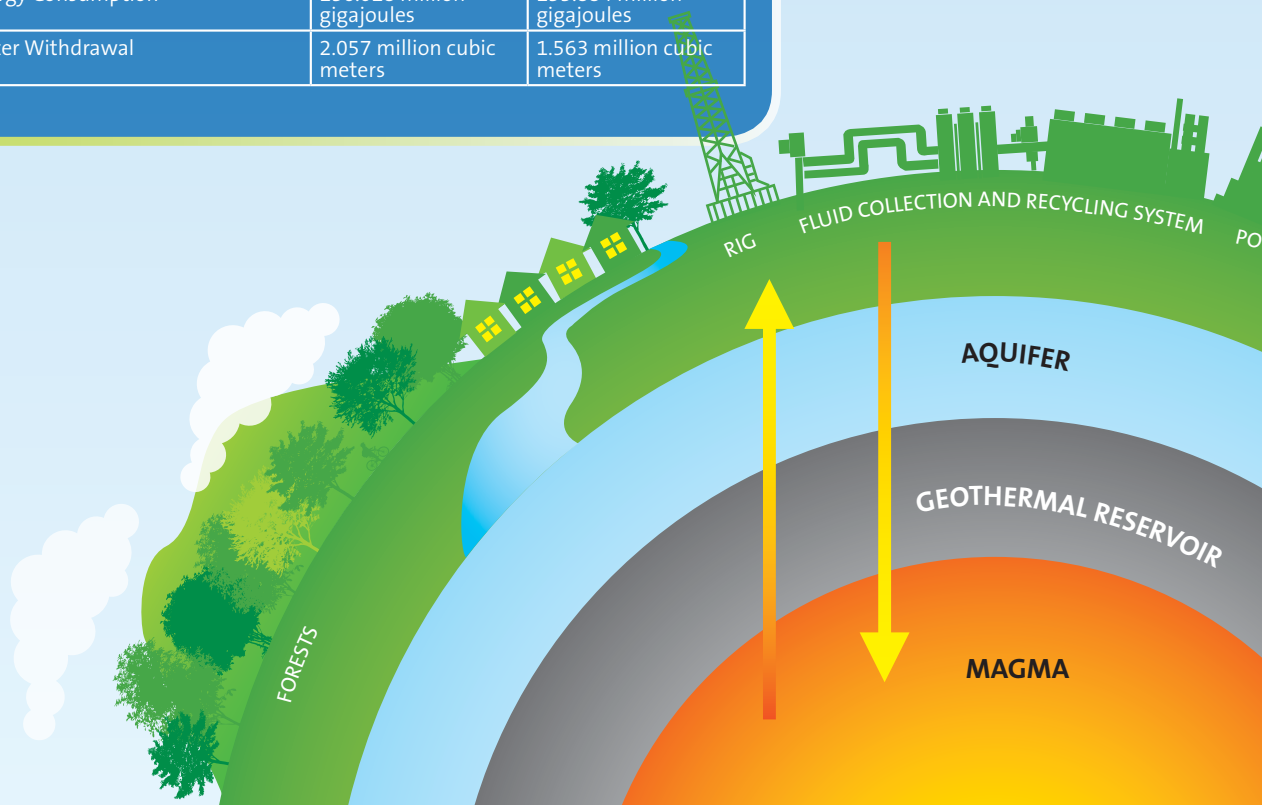
With 37 years of geothermal mastery nurtured with our more than 2,000 employees today, we support a vibrant economic life by providing clean and reliable electricity to the national power grid, enhancing geothermal reservations and creating community-sustaining jobs.

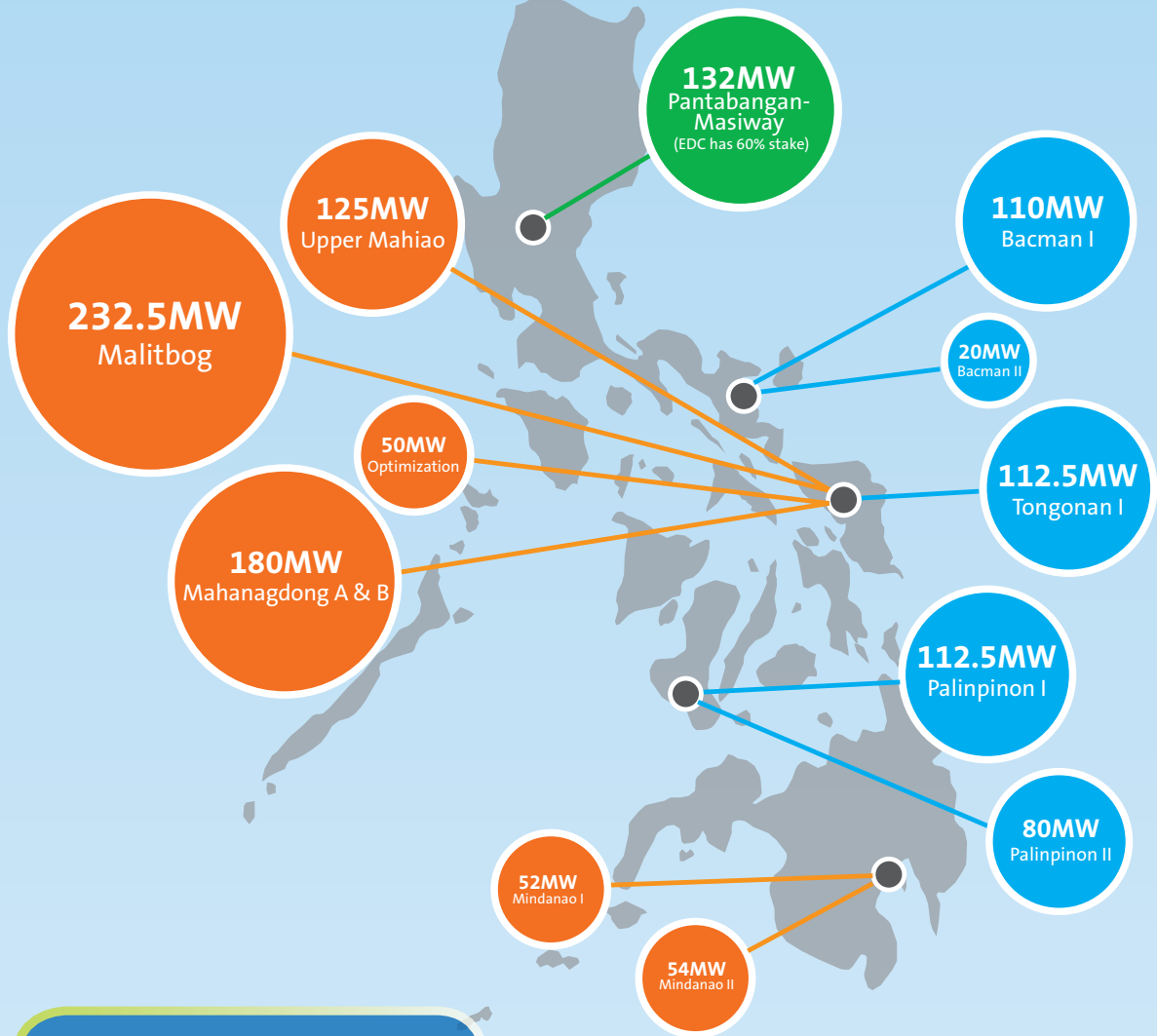
Our operational model is a chain of processes and activities that allow us to deliver a product of value to our customers on a national scale. Each part of the process, from exploration to power generation, is fueled by our commitment to power the nation to take care of the environment and to create positive impact on our host communities.

Our value chain is a continuum of investments that harmonizes our every activity with people and the planet. As a result, we generate energy with as little environmental impact as possible while uplifting lives in our areas of operation.

Key Performance Highlights

	2012	2011
Sales Volume	7,033.3 GWh	6,838.8GWh
Revenue	PhP26.36 B	PhP24.53 B
Net Income	PhP10.37 B	PhP0.61 B
EBITDA	PhP17.33 B	PhP13.23 B
Recurring Net Income	PhP9.89 B	PhP5.24 B
Total Workforce	2,567	2,533
Total Liabilities and Equity	PhP94.30 B	PhP90.01 B (restated)
Total Safety Man-hours	18.91 million	16.86 million
Total Energy Consumption	136.028 million gigajoules	133.884 million gigajoules
Total Water Withdrawal	2.057 million cubic meters	1,563 million cubic meters





Our Sustainability Commitment

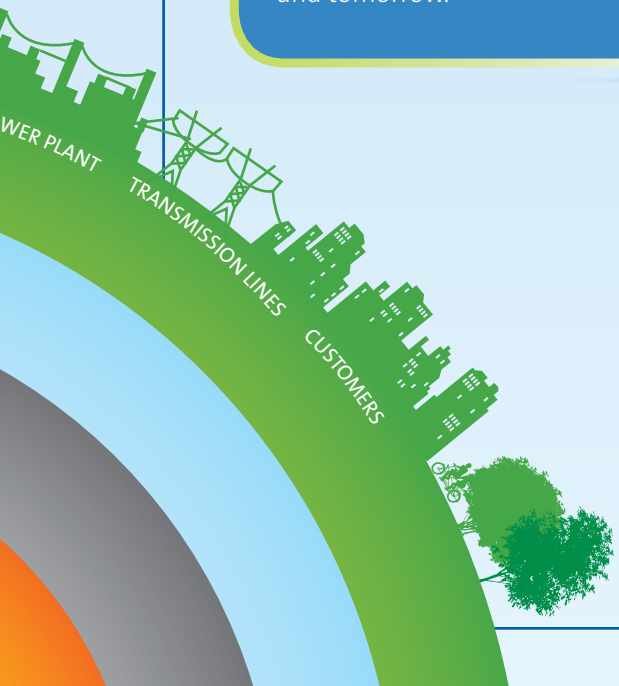
Energy, environment and empowerment resound in all our business undertakings, using renewable power to enable national development and create a better life for everyone today and tomorrow.

1,130MW
Total Geothermal Power

132MW
Total Hydropower

One MW can light up 20,000 rural homes.

- Integrated Steamfields and Power Plants
- Hydropower Plant (via FGHP)
- Steamfields (EDC) and Power Plants (EDC Subsidiaries)





“We re-acquainted ourselves with the Lopez values that have brought us to where we are today. These values have been at the heart of our DNA as Lopez companies. It is our wish that these same values will also reside at the core of the multi-year transformation of EDC.”

The Chairman's Letter

To my fellow stakeholders,

We look back at the year 2012 with much to be proud of as a company: at PhP28.4 billion, consolidated revenues stand at levels our company has never attained before while our recurring net income attributable to equity holders of the parent, at PhP8.2 billion, has surpassed anything EDC has ever accomplished in its 37 years as a company. In many ways these stellar results reflect our successful strategy of building EDC into both an integrated and more diversified power and energy player.

Revenues from the geothermal power plants we acquired from the National Power Corporation (NPC), namely the 112.5MW Tongonan I and 192.5MW Palinpinon plants, have been driving this growth with both higher contracted volumes as well as higher average tariffs. On the other hand, the 60% owned First Gen Hydro Power Corporation (FGHPC), which operates the 132MW Pantabangan-Masiway hydroelectric plants in Nueva Ecija, also contributed quite significantly due to higher sales of ancillary services and an increase in average tariffs and volumes from both contracted and spot market sales.

EDC also received a Gold Level rating from the Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE) and from the Institute of Corporate Directors (ICD) at the Annual Corporate Governance Scorecard awards last year. This three-peat achievement merited what they christened the Platinum Award for EDC -- attaining a Gold Level rating for its third consecutive year.

However, not everything was rosy. At the annual stockholders' meeting last year I mentioned that we expected to bring Bacon-Manito (Bacman) plants online by September of 2012. Of course we were disappointed that we missed this date altogether, and the plant has not yet operated over a sustained period. In many ways, this illustrates for us the challenges inherent in rehabilitating power plants. What's certain, however, is that our rehab team remains unfazed by the numerous challenges they've encountered and we recognize that all technical problems have solutions. We continue to make solid headway toward bringing the units to commercial operations and hope to resolve all issues in due course.

Another unfortunate event that occurred earlier in March 1st of this year was the tragic landslide at the Upper Mahiao sector in Leyte that claimed the lives of 14 people employed by a subcontractor, J.E. Arradaza. The incident occurred at 9:50

in the morning, ironically while the team was working on mitigating measures precisely aimed at preventing such landslides in the future. The work was for the reinforcement of just one of 104 vulnerable geohazard areas identified by both internal and external experts. Over the past several years, 98 areas had already been addressed and that pad in the Upper Mahiao sector was among the final six sites that would have been completed over the next few months. The event was tragic to say the least and there have been many lessons learned. It was difficult but we always have to remind ourselves that the challenges we faced were nothing compared to the pain and suffering of those who lost their loved ones. Although our crisis management teams were tried yet again, true closure is only achieved by empathetically addressing the real human concerns that surround such incidents. In this regard, I can say that your company stood tall amidst adversity.

In many ways, we like to describe EDC as a company still in the early phase of what will be a multi-year transformation. Aside from its integration with the power plants formerly owned by NPC, EDC has also been in the midst of diversifying its generation platform into other renewable forms of energy, like hydro through FG Hydro, and soon, wind, through our 87MW Burgos wind farm in Ilocos Norte.

Not as visible externally, but just as critical, is the transformation of the entire organization from being function-led into one driven

by separate Strategic Business Units (SBUs) each in Bacman, Leyte, Negros Island, and Mount Apo, with each being responsible for their own results and bottom lines. The functions will now actively support the needs of each SBU and we expect this heightened sense of accountability will drive efficiency and change efforts at each of the sites.

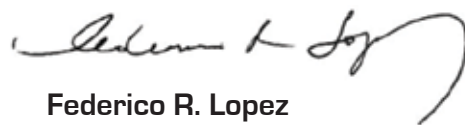
We are already seeing the various SBUs spinning off many non-core activities to third parties that can manage these projects with more focus and efficiency. These so-called “strategic contracting” initiatives will enable EDC to concentrate its balance sheet and manpower resources on core activities, like steam resource development and management, as well as power generation. We can see the visible effects of such initiatives in the form of more modern heavy equipment being made available to the sites, more incentivized drilling performance, as well as a more appropriate headcount that’s 26% lower than pre-privatization levels, just to name a few.

The proof of the pudding can already be seen in the numbers. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) margins were hovering at 49% in 2009, shortly after we took over from government in 2007. Today, just three years later, that margin now stands at 60% and we’re just getting started!

These last two years, our Chairman Emeritus launched a campaign throughout the First Philippine Holdings (FPH)

group to reacquaint all of us with our past as well as the Lopez values that have brought us to where we are today. We reacquainted ourselves with values such as: a pioneering entrepreneurial spirit, business excellence, unity, nationalism, social justice, integrity and an overriding concern for employee welfare and wellness. Throughout our family’s history, these values have been at the heart of our DNA as Lopez companies. It is our wish that these same values will also reside at the core of the multi-year transformation of EDC as it continues its post-privatization journey and becomes a full-fledged “Kapamilya” in FPH and the Lopez group of companies.

So this year, once again, I’d like to thank all our customers, suppliers, employees and management teams. Change and transformation never come easy but together, we see all of us braving the toughest of headwinds to create a stronger and better company. Our appreciation also goes to our board members and all our shareholders for being steadfast in the face of challenges. We want you to know that it is precisely your faith and trust that inspires us to take EDC to greater heights, and can make anything possible!



Federico R. Lopez

Chairman and CEO
April 2013

It's not just about
building a company;
it's about building a nation,
and everything about
making the world
a better place.

Federico R. Lopez

*Chairman and CEO
First Philippine Holdings Corporation*



FPH

A Lopez Group Company



First Gen

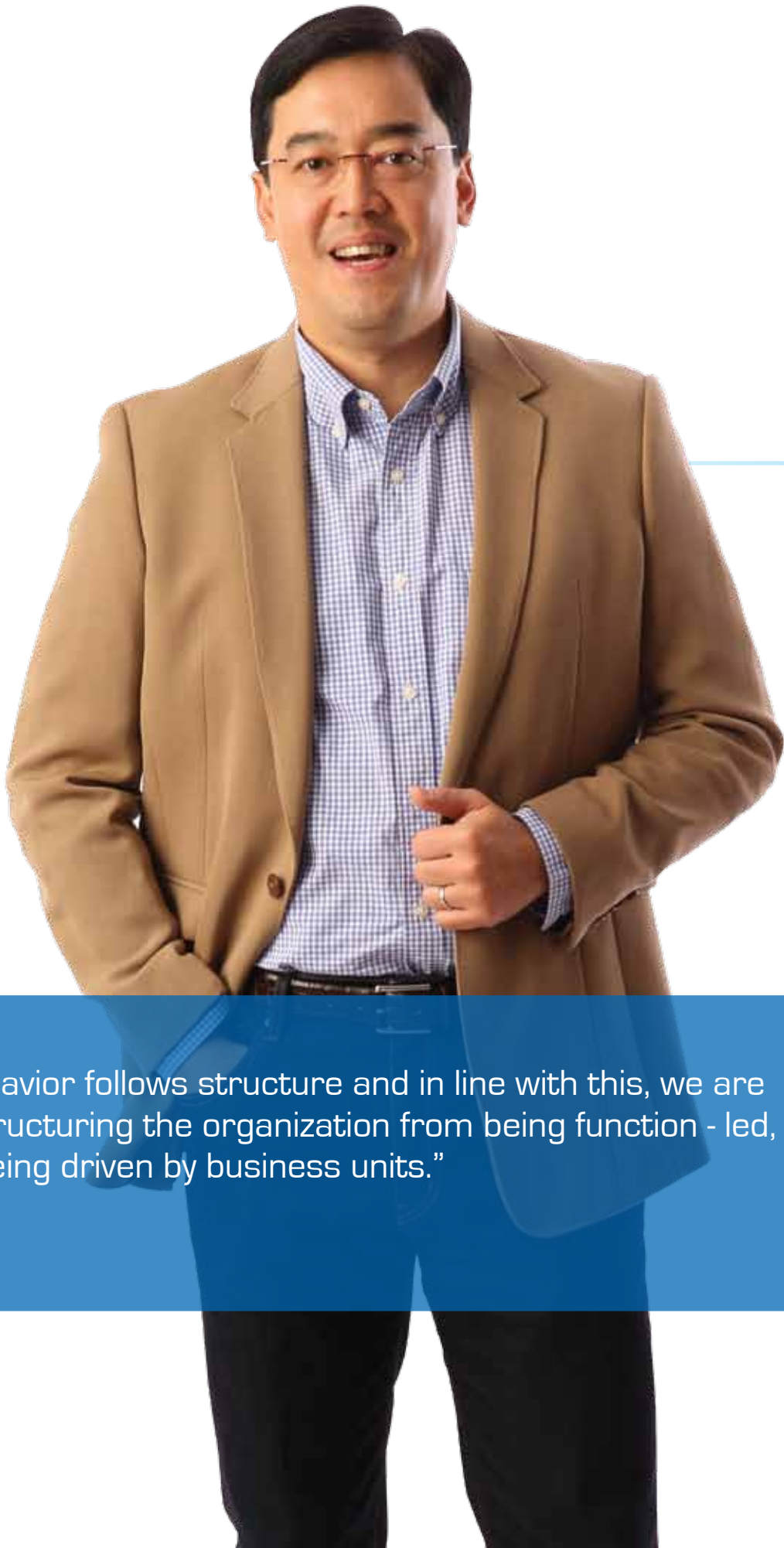


energy



ROCKWELL LAND





“Behavior follows structure and in line with this, we are restructuring the organization from being function - led, to being driven by business units.”

The President's Report

To our valued shareholders and stakeholders,

In 2012, we achieved a few milestones.

Before I discuss our company's 2012 performance, I would like to reflect, with great sadness, on the landslide that claimed 14 lives in the vicinity of our Upper Mahiao steam field. Our support, thoughts and prayers are with the families of the 14 workers who lost their lives. No amount of assistance can replace the loss of a life and it is in the very spirit of humility that we are working with the families to help them move forward.

In total, we had 350 rescue workers toiling around the clock during the rescue and recovery efforts. We are very grateful for the support of the leadership of our host local government units, the municipality of Kananga and Ormoc City, and the 19th Infantry Battalion, the Kananga police force, the Ormoc Search and Rescue Team and the Makati Rescue Team that brought their trained sniffing dogs for being with us throughout the rescue and retrieval operations. The response of our very own EDC Emergency Rescue Team composed of trained volunteers worked non-stop in the search for survivors and recovery of the casualties.

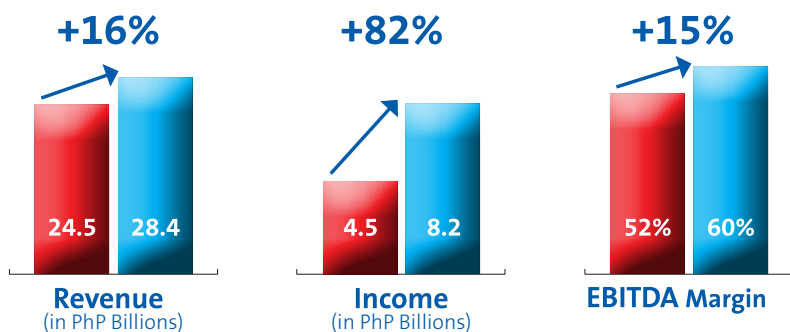
It is in the very nature of our business to work in mountainous terrain where extinct volcanoes exist. It is for this reason that across all our sites we identified risk areas and designed mitigation measures for them. In Leyte in particular, we had addressed 98 of the 104 risk areas

identified and the site of the landslide was one of the last six areas of work.

We are working with government agencies and experts to determine what can be learned from the worst incident to have occurred in our sites. Our employees, together with the Department of Energy (DOE), Department of Environment and Natural Resources (DENR) and the Department of Labor and Employment (DOLE), are working cooperatively to enhance safety and risk management so accidents like this will not happen again.

RESULTS

We reached our highest consolidated revenues at PhP28.4 billion, up by 16% from PhP24.5 billion in 2011. We also achieved our highest recurring net income attributable to equity holders of the parent level at PhP8.2 billion in 2012, a significant increase from PhP4.5 billion registered in 2011.



This was driven mainly by the stellar results of two of our subsidiaries: (a) Green Core Geothermal, Inc. (GCGI) composed of the 112.5MW Tongonan Power Plant located in Leyte and the 192.5MW Palinpinon Power Plants located in Negros Oriental; and (b) First Gen Hydro Power Corporation (FG Hydro) which operates the 132MW Pantabangan-Masiway Hydro-electric Plants located in Nueva Ecija in which your company has a 60% equity ownership. GCGI's volume increased by 14.8% while average tariffs also increased 12.4% resulting in PhP2.4 billion in incremental revenues.

Meanwhile, FG Hydro added another PhP2.4 billion increase in revenues due to higher sales of contingency and dispatchable reserves to National Grid Corporation of the Philippines (NGCP), as well as increase of 19.3% in average tariff and 56.3% in kWh volume in the form of contracted and spot market sales.

Quite crucially, the results of the customer-centric marketing and efforts to achieve greater efficiency, our Earnings Before Interest,

Taxes, Depreciation, and Amortization (EBITDA) increased substantially by PhP4.1 billion, with EBITDA margins improved yet again from 52% to 60%. EDC sold 7,033.3GWh of electricity to a growing number of non-institutional customers. Our marketing group has successfully contracted for subsidiary GCGI a total of 23 customers from only 12 customers in 2010.

Early in the year, we suffered a major setback when the generators of the acquired Bacman power plants proved unreliable following major work by one of our subcontractors. We took the decision to send the generators to the facilities of the original equipment manufacturer in Stafford, England. Instead of operating early in 2012, your company decided to proceed with a permanent solution resulting in extensive delay in its operations.

We shall address the issues of Bacman with both vigor and urgency and constantly communicate our progress to our stakeholders.



Non-operational Bacman was acquired on an "as is, where is" basis. Despite the setbacks, we are optimistic that it will generate strong revenues and cash flow once fully operational. Photo shows the Palayan power plant before and after refurbishment.

OPERATIONAL HIGHLIGHTS

We are working toward modernizing and rehabilitating our power assets, as most of them approach 15 to 20 years in service. With the exception of two plants, we have been able to operate our power plants at acceptable levels in terms of reliability and availability.

Tongonan had a reliability factor of 82% and an availability factor of 75% due to the extended time required to rewind its generator, while Mindanao II had a reliability factor of 89% and an availability factor of 82% due to the failure of the electro-hydraulic turbine controller just weeks before its scheduled replacement with a brand new unit.

The rest of our power plants operated with at least 98% reliability factor and 97% availability factor. In terms of capacity factor, our Palinpinon I and II power plants both operated at 93% and Mindanao I at 91%. Capacity factors of Unified Leyte, Mindanao II and Tongonan I, on the other hand, were at 75%, 70% and 69%, respectively.

We continue to drill replacements for our old production and reinjection wells, some of which are 30 years old, to address these below target performance figures.

Early in the year, we took the decision to drill less wells and focus

on efforts to improve our absolute performance on a per well basis. Our drilling improvement initiatives are paid off with about 12% increase in average penetration rate from 43 to 48 meters per day. The five Make-up-and-Replacement (M&R) wells that we had drilled in 2012 have contributed additional 35MW to our production capacity, while the other two wells are now being interconnected.



EDC's GCGI power plants were one of the main drivers of sales revenue in 2012.

We need to further improve on our safety performance. Our annual Total Recordable Incident Rate (TRIR) performance for 2012 is 0.20, which is still a long way from the international standard of 0.05. Major activities in 2012 helped us improve our safety performance like the Safety Re-indoctrination Training for employees, and a comprehensive Safety Passport Program for contractors whereby each of the many

subcontractors get safety trained and certified for the kind of work they need to do.

We also had training provided by the National Fire Protection Association (NFPA) of the USA, technical audit conducted by the NFPA, and regular coordination meetings among safety personnel across the organization.

STRATEGIC INITIATIVES

Behavior follows structure and in line with

this, we began in 2012 the restructuring of our organization from being function-led, to being driven by business units. Our Strategic Business Units (SBUs) transformation initiative has resulted in significant savings, as expected in the short term.

However, what is more critical is achieving the long-term effect of deeper business insights and improved decision making because

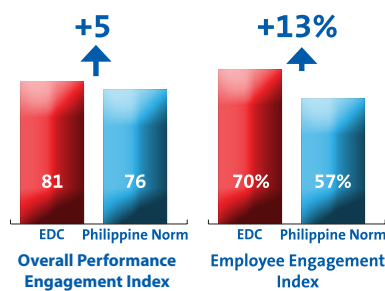
everyone in the business unit is accountable for the bottom line instead of entitled to spend a budget. Nestor Vasay, Rico Bersamin, Dominic Camu and Erwin Avante now head the Mt. Apo, Leyte, Bacman, and Negros Island business units, respectively.

The business units are focused on costs and the bottom line, in addition to environment, safety and security. The functions now exist to support the SBUs. The SBUs will also drive change efforts at the level of the site and these include: the rollout of SAP as the company's enterprise resource planning system, benchmarking, strategic contracting, and the modernization and integration of our control systems across our steam field and power plant facilities. These changes are already in the execution mode and will have lasting impact on how we undertake our day-to-day activities.

LISTENING

The other major initiative we undertook in 2012 was to listen attentively to our stakeholders. My first and most important stakeholders are my fellow employees, without whom growth and improvement would be impossible.

Employee Opinion Survey



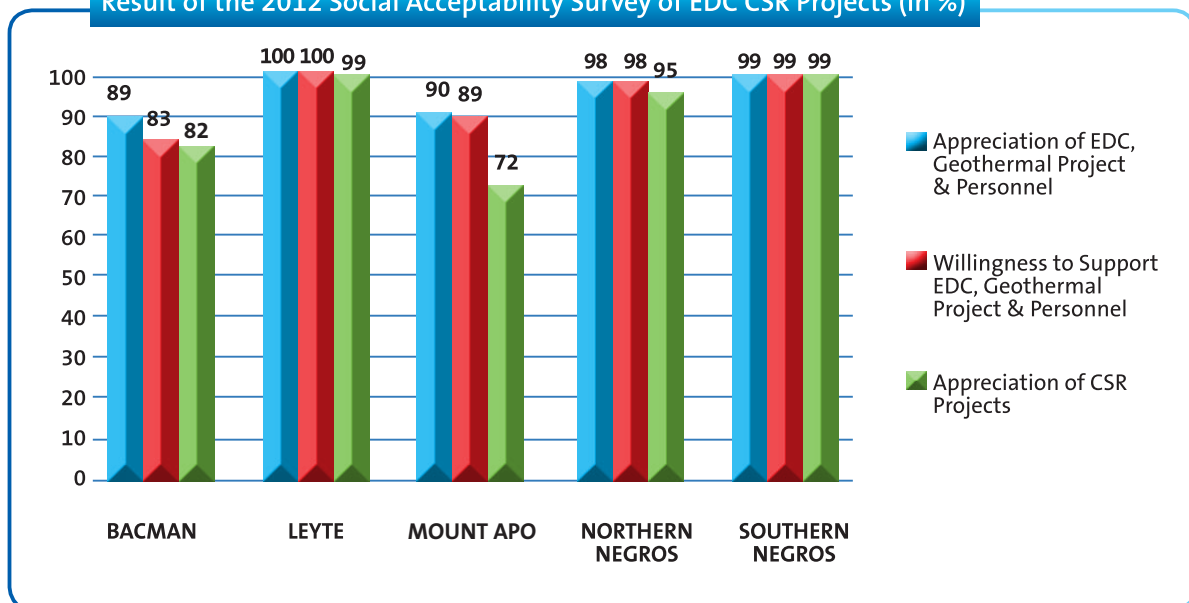
We hired Management Executive Network, Inc. (ManEx) to run Employee Opinion Surveys (EOS) in 2010 and 2012 and the strong results of the 2012 survey show that the initiatives we are undertaking are bearing

fruit. Employee engagement is at an all-time high with EDC obtaining an employee engagement index of 70% in 2012 versus 59% in 2010. Today, EDC is one of only 12 companies that have an overall EOS score of 80 or higher versus the Philippine norm of 76.

We also listened to our host communities. In the 2012 Social Acceptability Survey, EDC scored an average of 95% for "appreciation" and 94% for "willingness of the community to support the company" vs. the 80% standard for high acceptance (in the Guttman scale). Across all SBUs, the scores exceeded the global standard for high acceptance.

We also listened to our investors. In the fourth quarter of 2012, EDC teams conducted 62 one-on-one meetings in a series of roadshows in the US, UK, Singapore, Europe, and Hong Kong. I personally led one team

Result of the 2012 Social Acceptability Survey of EDC CSR Projects (in %)



and Nestor Vasay, EDC Chief Financial Officer, led the other team.

Our failure to deliver our promise on Bacman was the pressing concern raised in most of the meetings. You will recall that our share price took a nosedive following the news on delay in commercial operations of Bacman. In terms of market capitalization, we lost close to PhP26 billion as our share price closed at PhP4.90 at the end of February 2012, down from PhP6.29 a month earlier. The confidence of our investors was clearly shaken.

In terms of Corporate Governance, EDC received a Gold level rating of 95%+ in the Annual Corporate Governance Scorecard of the Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE), and Institute of Corporate Directors (ICD). We were cited with a Platinum Award for maintaining this gold level of Corporate Governance Excellence for three consecutive years.

While our regulators rate our corporate governance practices based on compliance with governance regulations, transparency, the level of detail of our disclosures and feedback from our stakeholders, my view is that the strongest evidence of good corporate governance is a company where there is an alignment between the Board of Directors and Management regarding its directions and



EDC was cited with a Platinum Award for obtaining Gold level ratings of at least 95% for three consecutive years in the corporate governance scorecard.

decision making, and where all actions taken are consistent with our corporate values.

In 2012, the Department of Environment and Natural Resources (DENR) recognized our company's environmental performance beyond compliance: the Leyte Geothermal Power Project, Mount Apo Geothermal Power Project, and GCGI-Tongonan Geothermal Power Plant were recognized under the Philippine Environmental Partnership Program Award. The program seeks to provide a package of incentives and reward mechanisms to industries with effective voluntary self-regulation and improved environmental performance.

Bacman was also recognized with the Saringgaya Award from DENR Region V. Now on its 12th year, the Saringgaya Award acknowledges the efforts of individuals and organizations in ecological conservation, environmental protection and management, and sustainable use of natural resources in

the Bicol Region. Lastly, the environmental laboratories of Southern Negros and Bacman were also declared Laboratory of Excellence by the DENR.

No one can deny that as we use or tug on one item of nature, we impact everything else. A liter of water used, a tree cut, a thousand trees planted --- everything is linked to everything else. It is with great pride that I inform you that our integrated annual report has been validated by GRI Netherlands at Application Level A+. This reflects the highest level of transparency as we shed light on 100 parameters of impact in our operations. In addition to profit, the GRI standard allows us to dispassionately report on our impact on people and our planet.

Our journey over the past three years is one characterized not only by increased transparency, but one that has resulted in a more careful and efficient use of the resources we are entrusted with.

More significantly, our clean energy brand is standing out among business competition as we have appeared on the radar screen of Bloomberg and Sustainalytics, both global independent sustainability research providers to investors.

the Labo geothermal service contracts were approved by the DOE in March 2010. For our domestic geothermal expansion projects, we started our exploratory drilling for our expansion projects in Bacon – Manito, Albay.

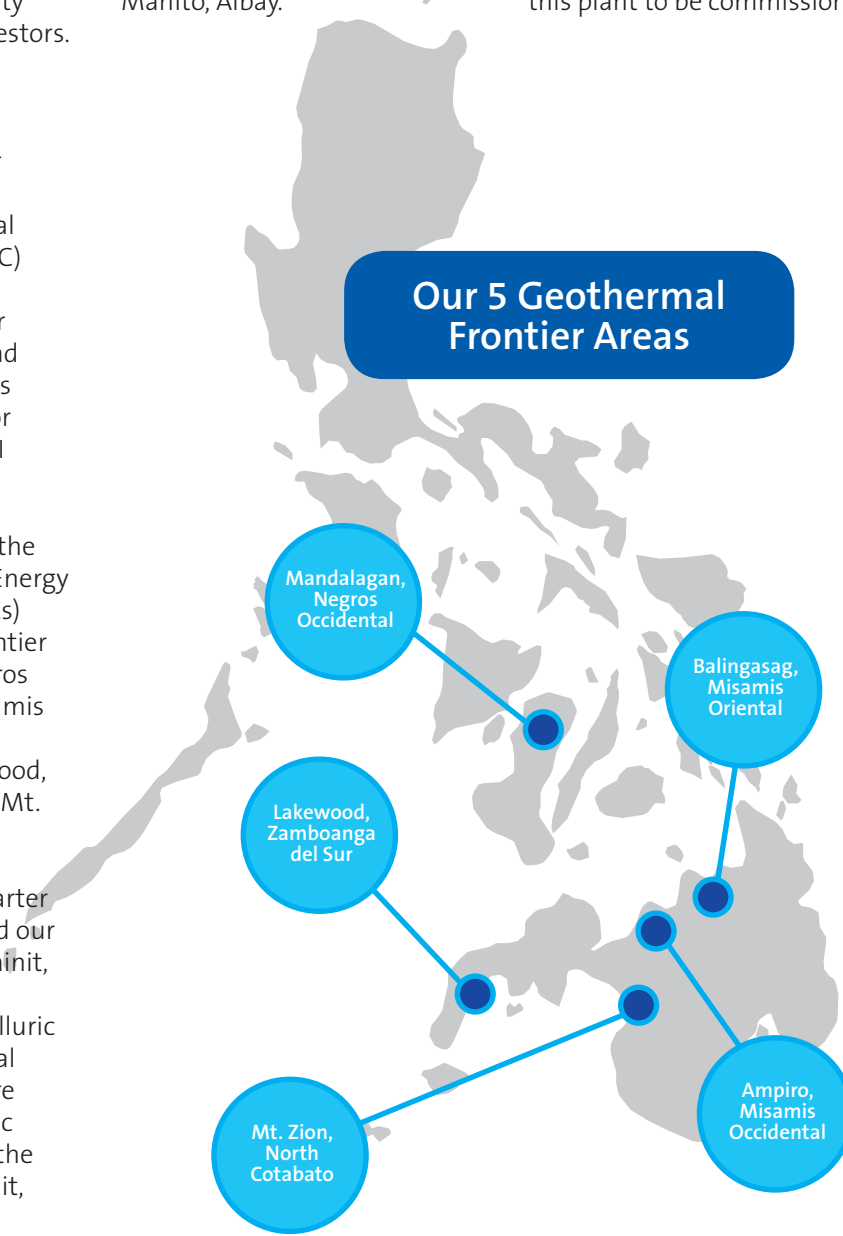
In the fourth quarter, we awarded the contract for the transfer of the 49MW Northern Negros Power Plant located in Negros Occidental to Southern Negros in Valencia Negros Oriental. We expect this plant to be commissioned

GROWTH

In the first quarter of 2012, we finalized and executed two Geothermal Operating Contracts (GOC) with the Department of Energy (DOE): one for our 192.5MW Palinpinon I and Palinpinon II Power Plants and the second GOC is for our 112.5MW Tongonan I Power Plant.

We also executed the Geothermal Renewable Energy Service Contracts (GRES-Cs) with the DOE for five frontier areas: Mandalagan, Negros Occidental; Ampiro, Misamis Occidental; Balingasag, Misamis Oriental; Lakewood, Zamboanga del Sur; and Mt. Zion in North Cotabato.

On the second quarter of 2012, we implemented our work program for our Mainit, Surigao del Norte service contract. The magnetotelluric (MT) surveys, geochemical and geological surveys are part of EDC's geoscientific work commitment with the DOE. Together with Mainit,



Our 5 Geothermal Frontier Areas

Mandalagan, Negros Occidental

Balingasag, Misamis Oriental

Lakewood, Zamboanga del Sur

Ampiro, Misamis Occidental

Mt. Zion, North Cotabato



EDC opens Chile Office. (L-R): VP for Business Development International Arman Lapus, Philippine Ambassador to Chile, Peru & Ecuador Ma. Consuelo Puyat-Reyes, Papal Nuncio Monsignor Ivo Scapulo, Office Administrator Claudia Martinez and Country Manager Manuel Sanchez.

in 2014 and generate an incremental 20-25MW from an existing field where all the wells have already been drilled.

In the international front, we continue to build the foundation to establish and grow our business in Latin America. Last October, we signed two agreements that allow us to look at the prospects of developing six concessions in Peru and two concessions in Chile.

Together with our three wholly-owned concessions in Chile and another concession in Peru that we own 70% of, we now have access to multiple sites – providing a critical mass of opportunities to deploy resources more efficiently and to build strong local teams who understand how these markets work.

In Indonesia, we were awarded our first Preliminary Survey Rights over a site in Sumatra last December. We are now going through the permitting process and expect to begin geotechnical studies in the second quarter of 2013.

By the end of 2013, we expect to have a firm view of the geothermal potential of the site and whether or not we will invest in developing the project. Globally, we continue to look for other sites for direct applications and are exploring possible joint ventures for existing concessions.

CONCLUDING REMARKS

We are now in the early stages of a multi-year transformation of our company. The past few years have been focused on fixing our balance sheet, domestic growth by successfully acquiring government assets, diversification to other renewables like hydro power generation and developing a clear domestic international growth strategy.

As we look to the future, I am pleased to report that the organization is capable of executing our strategies and responding well to the strategic initiatives, in particular the SBU transformation project. We are on a constant drive to get to our fighting form, to continually

sharpen how we do what we do best and to move away from performing non-core activities.

We now stand as a team of 2,160 strong EDC employees, down from a peak of over 2,900. We are focused on developing our new culture of entrepreneurship and accountability with a commitment to business excellence.

On behalf of the Board of Directors and Management Team, I would like to thank our customers for their trust and confidence in EDC over this past year. I would like also to thank all our employees for their dedication and hard work as well as for their openness and willingness to embrace change.

And finally, I would like to thank our shareholders and other stakeholders for their continued support in these challenging times. We have set out on a demanding and exciting journey. More than ever, we are determined to execute against our strategies that will unlock EDC's full potential and grow the value of your investment.

Richard B. Tantoco

President and
Chief Operating Officer



“The significant 1,587% leap in our bottom line shows that we are on the right track; we have gained the upper hand in our battle to overcome the difficult challenges that we confronted head on in the previous years.”

The Chief Financial Officer's Report

Dear stakeholders,

I am pleased to report to you that our sustained and determined program to cleanse and strengthen our company's balance sheet is yielding the desired results. The significant 1,587% leap in our bottom line in 2012 clearly shows that we are on the right track and that we have gained the upper hand in our battle to overcome the difficult challenges that we confronted head on in the previous years. 2012 showcased the company's resilience to these challenges as those short term hits that we had to endure in the past years have now turned into the longer term tangible benefits that we expect to reap from our deliberate strategies.

Our 2012 sales, EBITDA and income are all record highs. Combining perfectly with our zero impairment losses last year, our robust sales resulted in a PhP9.8 billion jump in our consolidated net income that reached PhP10.4 billion. This represents a healthy turnaround from the PhP0.6 billion consolidated net income that we reported the year before and about PhP1.7 billion better than our targeted net income for 2012.

Our EBITDA margin jumped from 52% to 60% in 2012. The company's recurring net income of PhP9.9 billion translates to a hefty 90% improvement over the PhP5.2 billion posted in 2011.

Our balance sheet is the strongest it has been in the last 5 years. EDC's Net Debt to Equity improved from 1.32x in 2011 to 1.06x in 2012 while its Net Debt to EBITDA ratio likewise was better at 2.17x in the current year coming from 2.95x the previous year. These and our other relevant

financial ratios keep us fully compliant with our financial covenants to our various creditors.

In terms of our insurance cover, the renewal of our policy in 2012 required an increase of over 30% in our insurance premium. This is attributed mainly on the global industry losses incurred by our insurers in 2011 which also resulted in the moderate hardening of the overall insurance market. The line-up of our local and international insurers however remained intact for this renewal. We view this as an indication of their positive impression on the effectiveness of our investments in both preventive and mitigating measures to avoid the incurrence of loss damage. And despite the passing of destructive typhoons, particularly typhoon Pablo, and the unusually heavy rainfalls that we experienced in our sites last year, we had a zero typhoon-related insurance claim as compared to previous year's claims of PhP0.512 billion.

EDC NOW POISED FOR TAKE OFF

We continue to utilize and invest the cash that we generate from our operations wisely. Out of the total PhP17.3 billion that we generated last year, PhP5.5 billion was used for debt service while PhP8.4 billion went to the various capital investments and growth projects. We also paid out an aggregate of PhP4.5 billion in dividends to our shareholders. This represents roughly 86% of the previous year's recurring net income. From a beginning cash balance of PhP12.5 billion, the company's cash account stood at PhP 11.4 billion as of end-2012.

The investments that we made on the rehabilitation of our acquired assets Green Core Geothermal, Inc. (GCGI) and Bacman Geothermal, Inc. (BGI) -- and despite the delay in the completion of our rehabilitation works on the latter -- are sound investment decisions that are bearing fruit. GCGI's sales for one have grown by 29% to PhP10.6 billion as its contracts have repriced to higher levels. The excellent performance of GCGI combined quite well with the absence of attributable financing charges and reduced operating expenses brought about by lower maintenance cost and zero power outages of the assets.

On the other hand, the Bacman plant in 2012 remained cash accretive

despite the delays that we encountered in its rehabilitation. To service the supply contracts signed earlier for Bacman, the plant's limited output last year was supplemented with replacement power sourced from other suppliers that include the Wholesale Electricity Spot Market (WESM), FG Hydro, GCGI as well as other third party providers. All told, Bacman generated a total of PhP3.8 billion in blended revenues, of which, PhP3.5 billion was used to cover for power that we purchased from other electricity sources and retaining PhP0.3 billion as net cash generated from its combined limited runs. And as we all await for that long-anticipated full commercial operations of the plant, I can only reiterate President Tantoco's message that *"We shall address the issues of Bacman with both vigor and urgency and constantly communicate our progress to our stakeholders."*

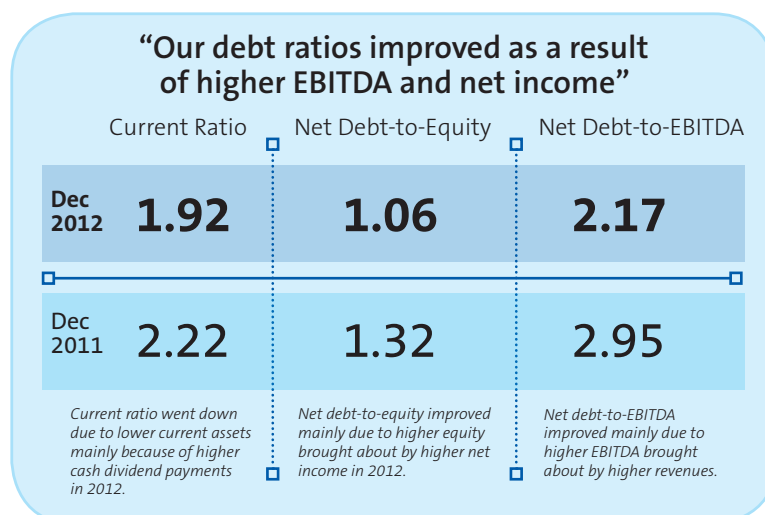
On this note, we are committed to be transparent and accessible. We visited a total of 62 investors over the course of the year, spending time as well on new potential

investor markets to tell the EDC story. Our investor relations team addresses questions and inquiries within our self-imposed "within the hour" limit as we welcome keen interest in our business from our investing stakeholders.

CAPITALIZING ON FAVORABLE FINANCIAL MARKETS

On the financing front, we continue to take advantage of the prevailing tail winds in both the domestic and international financial markets. In April of 2012, we successfully concluded the refinancing of our PhP7.0 billion fixed rate corporate notes (FXCN). Arranged by SB Capital and RCBC Capital, the refinancing resulted in the extension of the average life of the facility by eight years and a reduction in interest rate by approximately 2%.

Adding this to the other refinancing programs that we completed earlier on, the term of our overall loan mix has now been lengthened from 4.5 years in 2010, prior to the refinancing of the USD club loan in 2011 and fixed rate corporate notes in 2012, to about 5.5 years today. Our



average interest rates have also gone down from 7.4% in 2011 to 7.1% in 2012.

We are managing both currency and interest risk and volatility actively. The favorable trend in the financial markets allowed us to protect the company from the effects of future currency and interest rate movements as we contracted currency and interest rate swaps for the remaining portion of our unhedged US Dollar exposures. In 2012, the company entered into a total of USD65 million of cross currency swaps at an average peso interest rate of 4.57% and fixed foreign exchange rate of PhP42.13, effectively converting a portion of our floating US Dollar exposure to fixed Peso. These swaps will help in mitigating the impact of both foreign exchange and interest rate volatility. We are combining the swap arrangements with the natural hedge provided under EDC's existing contracts as a protection to its foreign currency obligations.

And with more tangible benefits coming our way from continuously-improving financial markets, we will definitely remain on the lookout for every available opportunity to further strengthen the financial footing of EDC.

TAKING THAT BIG LEAP TO PROGRESS

We continue to implement better ways to

make our business more sustainable, to effectively manage our risks and to fuel growth in areas where we operate to achieve our corporate goals each day.

Bigger steps have been taken in 2012 to strengthen our processes by utilizing a world-class unified business information and processing system for the company. Spearheaded by our Finance and Supply Chain Management Sectors, this Enterprise Resource Planning initiative which we named Project Optima seeks to integrate all of our processing and reporting systems, standardize data and processes that will facilitate and enhance decision-support functionality beginning in 2013. This will cover everything from materials planning to ordering to inventory to payment, processing and recording. With this change, a number of disparate and sometimes even manual systems will be integrated and will result in more streamlined back office operations, improved cycle times and even more accurate reporting.

We are focused on our goal of growing globally as domestic opportunities of a material size become more difficult to find. So far we have focused our efforts on acquiring concession areas in Chile, Peru and Indonesia. We have built partnerships with Hot Rock Limited (HRL), an Australia based publicly listed company, and Alterra

Power, another publicly listed company based in Canada. EDC acquired 70% interest in each of the projects covered by these partnerships.

Locally, the impending commercial operations of our Bacman asset should just be one among the series of positive turnarounds for us in 2013. Our other projects to look forward to include the construction of our 87MW wind farm in Burgos Ilocos Norte, the financing arrangements of which are being finalized, and the transfer of the previously written-off 49MW Northern Negros Power Plant from its former location in Bago City, Negros Occidental to Valencia in Negros Oriental where we can fully utilize our excess steam capacity.

And with all our geothermal facilities remaining in good working condition today, we are optimistic to not only achieve our financial targets but may even outdo our accomplishments in 2012. We anticipate more opportunities to help in building our nation as we energize more homes and industries and empower more of our partners in progress.



Nestor H. Vasay
Chief Financial Officer

About this report | Performance, Engagement and Thought Leadership

This year, we obtained the Global Reporting Initiative (GRI) A+ level of application four years since our sustainability journey began in 2009. We always look for better ways of integrating relevant non-financial information into the annual report to provide the breadth and depth of our performance on a yearly basis. We think that the detailed story of how we grow as a company, stumbles and all, is an important one that is well worth sharing.

The strategic initiatives that are driving EDC's transition to a business units-led company are reflected in the integration efforts that we are striving for in our reporting process today. The initiatives we rolled out are multi-year by nature and it is by reporting on our progress that we can track and share results with you. By doing so, we get validation and feedback from key stakeholder groups where they matter most.

Our reporting process benefitted greatly from two stakeholder reviews convened by our long-time partner institution, the University of Asia and the Pacific-Center for Social Responsibility (UA&P-CSR).

In a review session and employee seminar in the 3rd quarter of 2012, we cascaded to the employees our plan to set up a stakeholder-oriented integrated reporting process in the succeeding reporting cycles. Another review in the 1st quarter of this year was held as part of the assurance process that allowed us to receive feedback guided by a panel of subject matter experts.

This approach challenged us to look at our work in 2012 as critically as possible and to find new ways to articulate what

it means to be a values-driven renewable energy company.

REPORTING PARAMETERS

This report is based on calendar year 2012. Our target readers are our shareholders and institutional investors, our employees, our suppliers and contractors, our customers, our host communities and the regulatory bodies.

In determining report content, we were guided by our own corporate goals, achievements and shortcomings. We follow the AA1000 Principles in engaging with stakeholders. We use GRI's G3.1 guidelines and its Electric Utilities Sector Supplement (EUSS) for reporting on industry-specific information. Our report is reviewed by GRI and assured by a third party hosted by UA&P-CSR.

We cover our geothermal business units, hydropower business unit and subsidiaries Green Core Geothermal, Inc. (GCGI) and Bacman Geothermal, Inc. (BGI) in this report. Though we now have offices in Santiago, Chile and Jakarta, Indonesia, these are excluded for the moment because we have no commercial operations there yet.

Our multi-disciplinary sustainability technical working group uses a data gathering and monitoring system that has been instrumental in providing key performance output in the third party validation activities.

We follow the principles of materiality, stakeholder inclusiveness, accountability and completeness in writing this report. Where we have not addressed particular GRI guidelines, it has generally been because they were not relevant to our business or they dealt with proprietary information.

MATERIALITY

We completed an exhaustive materiality testing in 2010. We continually refine this approach to identify and report material sustainability topics. Throughout this report, you will know about our sustainability priorities and goals, as well as updates on our triple bottomline indicators over three years.

We consider our initiatives in operational enhancements of the acquired power assets, environmental management and social investments to be material to our performance in 2012.



As we are committed to collaborating with others to create positive change, our efforts to engage our 43 primary community partners and growing number of non-institutional customers are material.

EXCITING PROSPECTS, SO LET'S KEEP IN TOUCH

This moment in our history offers an opportunity to build on our past gains and to strengthen key areas in the sustainability reporting process. That is why we are engaging in another partnership with UA&P-CSR to document our experience vis-a-vis the nascent practice of corporate sustainability in the Philippines. Nurtured by our mutual yearning for a richer texture of the integrated reporting process, we combine our robust knowledge and practical experience to collaborate on an action research that will enhance the usability of sustainability concepts in areas like strategy, governance, impact measurement and communication of progress.

Together with our upcoming online resources in our website (www.energy.com.ph), this printed report records our progress, challenges and vision today and years to come. We hope you find our integrated report informative and engaging. We welcome your inputs and views, which you can share with us by going to the "Contact Us" section of our website or by sending us an email at pubrels@energy.com.ph.

Awards and Recognition | What Makes Us Proud

Our 37 years of reputable green record has set the pace of corporate environmentalism with some of our notable practices becoming the benchmark of environmental standards in both national and global geothermal industry. In the 2008 World Exposition in Spain, EDC was showcased as a best practice from an emerging economy selected for its water sustainability model highlighting expertise in geothermal science and environmental preservation. In 2011, the World Bank IFC bestowed on EDC the Client Leadership Award for its excellent sustainability record, topping 129 companies and organizations across 70 countries. In 2012, we received the following awards and recognition:

- ◆ Platinum scorecard rating for corporate governance from the Institute of Corporate Directors and Securities and Exchange Commission after achieving three consecutive years of the gold rating
- ◆ 3 Seals of Approval from the Department of Environment and Natural Resources (DENR): Mindanao Geothermal Business Unit, Leyte Geothermal Business Unit and Green Core Geothermal, Inc. (GCGI) under the Philippine Environment Partnership Program for voluntary self-regulation and improved environmental performance
- ◆ 1 Saringgaya Award for the Bacman Geothermal Power Field from DENR Region V for ecological conservation, environmental protection and sustainable resource use
- ◆ 8th Placer in Finance Asia's Best in Corporate Social Responsibility
- ◆ 4 Philippine Quill Excellence Awards: HELEn Community Partnerships (social responsibility and community relations), CAREERS Program (social responsibility), BINHI: Let the Future Take Root nationwide reforestation program (social responsibility)
- ◆ 4 Anvil Excellence Awards: 2011 Calendar Our Pride, Our Heritage (communications tool), 2010 Integrated Annual Report Values@ Work (communications tool) and BINHI: Let the Future Take Root (communications program)
- ◆ 1 Anvil Merit Award: Values@ Work Corporate Sustainability Communications program
- ◆ 3 Lopez Achievement Awards: Values@Work: Measuring Triple Bottomline and Impact (corporate image building), Save our Steam (Operations Management) and Tongonan-Palimpinon Rehabilitation Project (Operations Management)
- ◆ University of the Philippines, Los Banos Plaque of Appreciation: 10th Multi-Sectoral Forum on Sustainable Watershed Management



Investor's Nook | Performance and Prospects

STOCK INFORMATION

We have a total of 700 stockholders as of December 31, 2012. Price as of last trading day on December 28, 2012, was PhP6.75 per share. The public float level is 50.34% (or 9,439,425,489 common shares). As of January 31, 2013, the total number of stockholders was 697 and the stock price was PhP7.15 per share. Public float level was at 50.33% (or 9,437,175,364 common shares).

Our common equity was listed in the Philippine Stock Exchange since December 13, 2006 at an Initial Public Offering price of PhP3.20 per share.

CASH AND STOCK DIVIDENDS

On March 13, 2012, the Board of Directors approved the following cash dividends in favor of all stockholders of record as of March 28, 2012 and payable on or before April 24, 2012:

- ◆ Cash dividend of PhP0.0008 per share on the preferred shares; and
- ◆ Regular cash dividend of PhP0.10 per share on the common shares.

On September 5, 2012, the Board of Directors approved the payment of special cash dividends of PhP0.04 per share on the common shares in favor of common stockholders of record as of September 20, 2012, payable on or before October 16, 2012.

We paid a total cash dividend amounting to PhP2.62 billion to holders of EDC's common shares and PhP7.5 million to holders of preferred shares.

In March, May and October 2012, FG Hydro declared and paid cash dividends amounting to PhP0.088 billion, PhP1.25 billion and PhP0.52 billion respectively.

SHAREHOLDER AND STAKEHOLDER RIGHTS

EDC is committed to promoting stockholders' rights as embodied in our Corporate Governance Manual:

"It shall be the duty of the Board to promote stockholders' rights, remove impediments to the exercise thereof and allow possibilities of seeking redress for violation of such rights. The Board shall encourage the exercise of stockholders' voting rights and the collective action towards solution of problems through appropriate mechanisms."

VOTING RIGHTS. We follow the one share, one vote policy concerning shareholders' voting rights, regardless of the class of shares.

Our company provides opportunities for its shareholders to participate and vote on important corporate actions by providing full, fair and accurate information on matters to be taken up in the Annual Stockholders' Meetings.

PRE-EMPTIVE RIGHT AND APPRAISAL RIGHT. Although no company activity or transaction was undertaken for 2012, which

EDC Share Prices 2011 vs 2012 (PhP)

Period	Highest Close		Lowest Close		
	Price	Date	Price	Date	
2011	1 st Qtr	6.29	Mar 18, 2011	5.50	Feb 10,11 & 15, 2011
	2 nd Qtr	6.96	May 3, 2011	6.27	May 25, 2011
	3 rd Qtr	7.02	Jul 8, 2011	5.28	Sep 26, 2011
	4 th Qtr	6.36	Dec 16, 2011	5.42	Oct 5, 2011
2012	1 st Qtr	6.35	Jan 1, 2012	4.90	Feb 27, 2012
	2 nd Qtr	6.10	Apr 17, 2012	5.60	May 16, 2012
	3 rd Qtr	6.27	Jul 3, 2012	5.70	Aug 8 & 9, 2012
	4 th Qtr	7.09	Nov 28, 2012	6.10	Oct 1, 2012



may call for the shareholders' right to exercise their preemptive right or appraisal right, we recognize these rights and emphasize its importance by including the same in the company's Corporate Governance (CG) Manual.

RIGHT TO INFORMATION. We ensure that all reports submitted to regulators and to investors are complete and accurate, and that media reports are properly addressed.

In addition to the submission of annual and quarterly reports to the SEC and PSE, as well as shareholding structure and related information, our Investor Relations Office conducted several investors/analysts briefings, attended international brokers' conferences and organized several roadshows in 2012 to report the company's financial and operational updates. We recognize the shareholder's right to inspect the corporate

books and minutes, subject to legal and statutory controls.

RIGHT TO DIVIDENDS. Under company policy, the payout of the cash dividends should be no more than eighteen (18) trading days from the cut-off date.

APPRAISAL RIGHT. We continue to stand by our commitment to uphold shareholders' appraisal rights with its observance in the company's CG Manual.

LONG-TERM DEBTS

On January 31, 2012, EDC fully settled its matured JP¥1.5 billion OECF 8th Yen loan amounting to PhP20.3 million. With this, we have now fully paid all our Yen-denominated long-term loans.

On April 4, 2012, EDC signed a 10-year Fixed Rate Note Facility (FXCN) agreement amounting to PhP7 billion, which is divided into two tranches. The

proceeds from the first tranche amounting to PhP3 billion were used to prepay in full our Fixed Rate Corporate Note (FRCN) Series One and Series Three for PhP1.774 billion and PhP1.007 billion, respectively.

On May 3, 2012, the FRCN Series Two was also prepaid in full for PhP4.211 billion using the proceeds from the second FXCN tranche amounting to PhP4 billion. The FXCN tranches 1 and 2 bear a coupon rate of 6.6173% and 6.6108% per annum, respectively. FRCN Series One and Series Three were originally scheduled to mature in July 2014 while FRCN Series Two was originally scheduled to mature in July 2016.

GROWTH STRATEGY

Our vertically integrated operation primes us for global geothermal leadership. The country's policy to increase the production of power from renewable energy sources allows us to expand and diversify our portfolio of renewable energy generating assets. We will increase our hydropower and wind power generation capacities while we maintain our position as the Philippines' leader in geothermal energy.

We have long-standing partnerships with customers from the Luzon, Visayas and Mindanao power grid markets. We assure them of value-added services in a reliable, systematic manner.

We are pursuing the 87MW wind power project in Burgos, Ilocos Norte. We have an expansion space of 230MW more in frontier geothermal areas in the next ten years. We have eight

green-field concessions with a mix of geothermal and wind in the exploration stage.

We will partner with like-minded international companies that are eager to bring reliable and clean base-load electricity to their respective customers. We are nurturing our prime geothermal concessions in Chile, Peru and Indonesia, which have volcanic topography similar to ours in the Philippines. This means that the chances of succeeding there are higher because our experience and expertise are compatible with their geological make up and economic and legal frameworks.

While the concept of a geothermal project is simple, it requires the proper management and synchronization of complex, interdependent activities. We have acquired the technical know-how in geothermal exploration, development and operational safeguards over our almost four decades of managing geothermal

projects. We have proven our ability to bring together the different elements necessary for geothermal projects, successfully managing resource risks through scientific expertise and stakeholder interests with the implementation of environmental and social programs.

We now seek to leverage these capabilities and make a decisive move into the international market, becoming a positive contributor to the structuring and development of the global geothermal industry. All of these factors make us a clear partner of choice in the long-term development and management of renewable, sustainable and indigenous geothermal projects.

GROWTH OPPORTUNITIES IN 2012

CHILE

- Awarded Newen, Batea and San Rafael geothermal concessions through direct application in 1Q 2012
- Conducted resource assessment for the San Rafael & Batea concessions
- Hiring of technical and administrative team for Chile office
- Entered into an agreement with Alterra Power Corp. for exploration field works and due diligence for one geothermal concession project



PERU

- Entered into Joint Venture with Hot Rock Limited (HRL) to co-develop the Chocopata and Quellaapacheta geothermal authorizations
- Conducted reconnaissance survey on Chocopata and Quellaapacheta geothermal authorizations
- Commenced the incorporation process for the Quellaapacheta Project Company
- Entered into an agreement with Alterra Power Corp. for exploration field works and due diligence at five geothermal authorizations



INDONESIA

- Established local office
- Incorporated two companies for application of Preliminary Survey rights
- Applied for Preliminary Survey rights covering pre-identified sites
- Granted preliminary survey rights to Grahya Nyabu—valid for 12 months from Dec. 13, 2012





We were green way before it was in

EDC has been at the forefront of renewable energy development as early as the 1970's.

Sustainable development, environmentally sound practices, and a keen vision of the energy needs of tomorrow have always been at the heart of our geothermal operations.

We set the pace in green energy because we know it's the way to go.



e n e r g y
DEVELOPMENT CORPORATION

www.energy.com.ph

Our 2012 Performance

Resiliency and Responsibility



The firebrand that marked our company's birth in the tumultuous 70's energy crisis opened up new possibilities of providing an economically viable indigenous energy resource that came to the succor of a nation in need. The EDC pioneers invested in the necessary capital and banked on its team of strategists, scientists and engineers to make a shining example of how a vision can be made into a reality.

Our pioneering and growth inclusive attitude towards complex challenges protects our viability. Our corporate mission is to provide clean and sustainable power for the present and future generations. We are demonstrating that technology can work in harmony with the environment.

Then, as now, we rethink the connections between environmental and social issues with financial performance. We have worked to understand and align these connections with our strategy, risk management and business results. We believe that our ability to deliver a reasonable return to our shareholders is greatly enhanced when our operations also promote positive environmental and social outcomes. Investors, employees and other key stakeholders have paid close attention to how we are managing these risks and opportunities for both today and the future.

In this section:

- [Financial Highlights](#)
- [Operational Highlights](#)
- [Economy and Society Performance](#)
- [Impact and Environmental Performance](#)
- [Employee and Organizational Performance](#)

FINANCIAL HIGHLIGHTS

	2012	2011
Revenues	PhP26.36 B	PhP 24.53 B
Cost of Sales	PhP10.12 B	PhP10.56 B
General and Administrative Expenses	PhP4.78 B	PhP4.66 B
Income Before Income Tax	PhP11.01 B	PhP0.58 B
Net Income (Loss)	PhP10.37 B	PhP0.61 B
Net Income (Loss) Attributable to EDC	PhP8.65 B	(PhP0.16 B)
EBITDA	PhP17.33 B	PhP13.23 B
Recurring Net Income	PhP9.89 B	PhP5.24 B
Recurring Net Income (Loss) Attributable to EDC	PhP8.17 B	PhP4.45 B

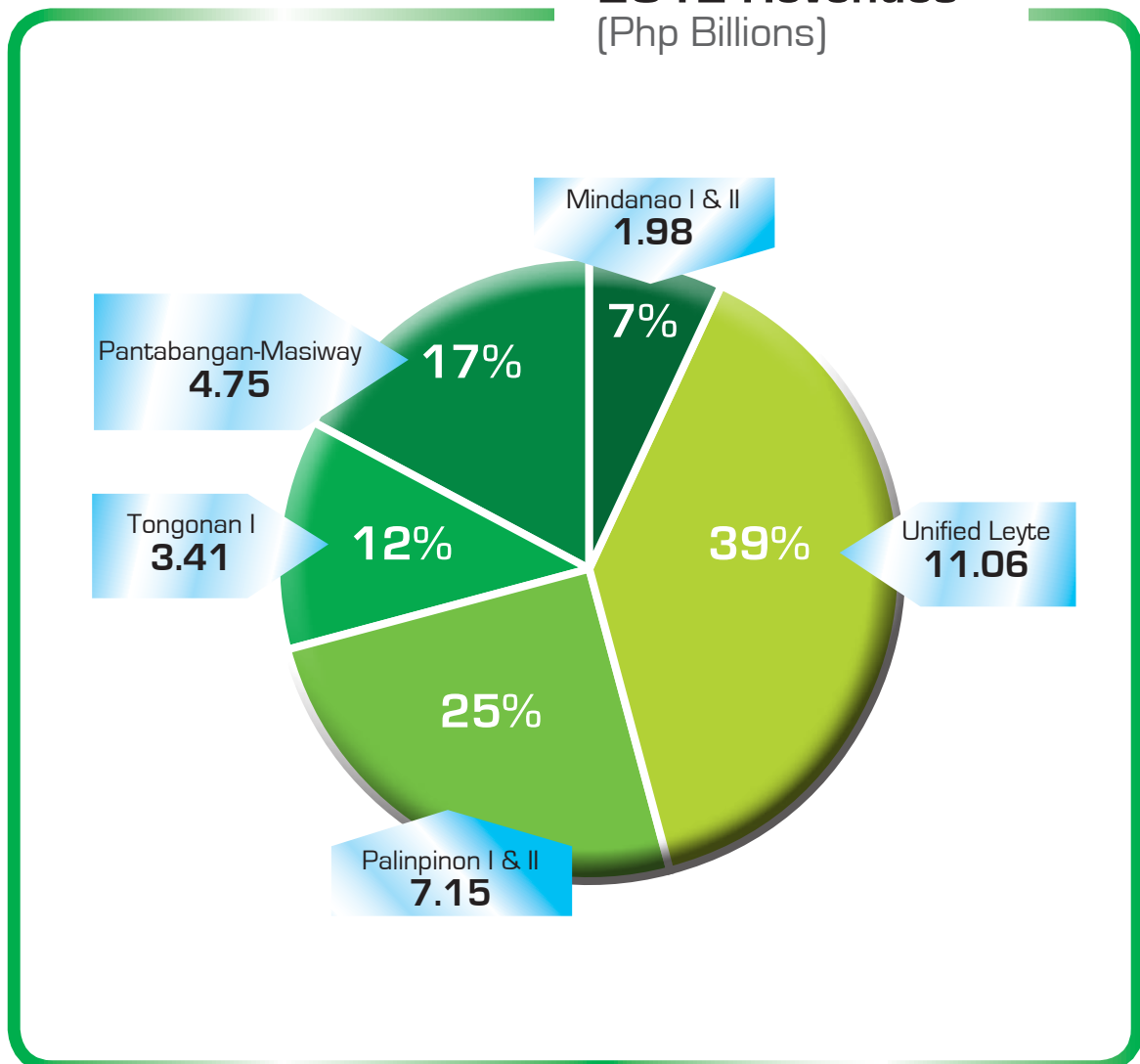


Financial Performance | Recovery and Resiliency

Our performance in 2012 reflects resiliency amid challenging circumstances. Our net income posted PhP10.37 billion, demonstrating marked improvement from the PhP0.614 billion in 2011. Our sales revenue grew by 15.6% capping PhP28.36 billion compared to the PhP24.53 billion in 2011. The improved consolidated revenue is brought by higher sales volume coming mostly from our subsidiaries Green Core Geothermal Inc. (GCGI), which

operates the 112.5MW Tongonan I and the 192.5MW combined Palinpinon I and II power plants in the Visayas and First Gen Hydro, which operates the 132MW Pantabangan-Masiway hydro power complex in Luzon. Recurring net income increased by 88.7% to PhP9.89 billion compared to PhP5.24 billion in 2011.

2012 Revenues (Php Billions)



We delivered 7,033GWh in sales volume to our institutional and commercial customers in 2012, higher by 194.5GWh than the 6,838GWh generated in 2011

The increase is driven by growing sales performance from the GCGI and FG Hydro power plants, which showed strong uptake in the Wholesale Electricity Spot Market (WESM) and through new power supply contracts that were signed with distribution utilities, mostly in the Visayan region.

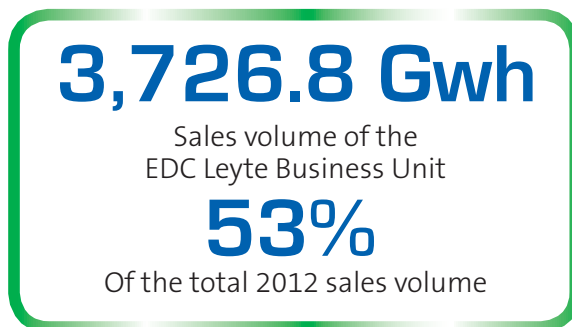
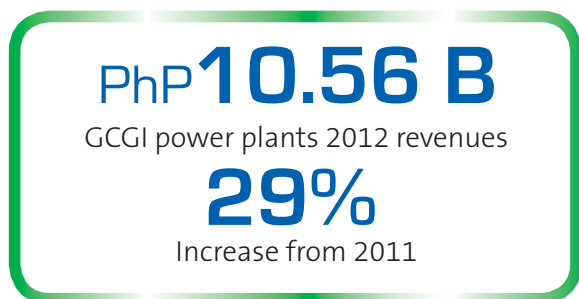
GCGI power plants generated higher revenues of PhP10.56 billion up by 29% from PhP8.16 billion in 2011 primarily due to increase in sales volume and favorable tariff. Most notably, FG Hydro generated 447.8GWh, higher than the 286.6GWh generated in 2011. Its revenues from WESM and bilateral contract quantity (BCQ) amounted to PhP2.42 billion higher by 86% than the PhP1.30 billion sold in 2011.

Of the total 7,033GWh sales volume, 53% was generated by our Leyte business unit through its Unified Leyte power plants, although smaller at 3,726.8GWh compared to 3,872.9GWh in 2011 resulting in smaller gross

revenues of PhP11.06 billion versus PhP11.45 billion in 2011. Mindanao I and II did not reach the 788GWh minimum energy offtake (MEOT). Revenues from the Mindanao business unit stood at PhP1.98 billion compared to PhP2.16 billion the previous year.

As our business grows and evolves, we continue to see the mix of our sales improve driven by the performance acquired power assets. We are taking determined steps to put the acquired power assets back into fighting shape to be able to perform at par in the competitive electricity market.

We are excited about some of our new commercial customers that now comprise 54% of our clientele compared to the domination of institutional customers in the past. We look forward to growing and expanding our relationship with them in the years to come. We will differentiate ourselves in the minds of our prospective customers.



Operational Performance | Integration and Optimization

RESOURCE OPTIMIZATION

We are now fully integrated across the geothermal value chain, and we see this vertical integration resulting in seamless, more efficient operations. We strive to optimize the availability, reliability, and efficiency of all our operating steamfields and power-generating assets as we maintain a competitive cost structure. We closely monitor our reliability and availability targets set across all power plants at 99% and 94-96%, respectively.

To ensure that our plants and equipment will last throughout their design lives, we control degradation to an acceptable level by practicing both time-based and condition-based preventive maintenance on our power plants. To manage our predictive, preventive, and corrective maintenance activities, we are implementing a company-wide Computerized Maintenance Management System (CMMS).

We also make considerable investments in research and development, which are primarily aimed at solving or addressing technical, geoscientific and resource-related operational requirements, and enhance work processes and methodologies. They generally serve to improve the energy conversion efficiency of power plants, recover waste heat energy for productive use, and mitigate other energy losses to improve efficiency, reliability, and availability of power.

Our Key Operational Performance Indicators

Net Generation by Asset (in GWh)		2012	2011
Geothermal	Unified Leyte	3,752.24	3,897.34
	Tongonan 1	653.59	602.99
	Palinpinon I & II	1,493.24	1,307.56
	Mindanao I & II	686.13	791.41
	Bacman (under rehabilitation)	0	0
	Northern Negros (on shutdown)	0	65.6
Hydro	Pantabangan-Masiway	446.86	295.37
TOTAL		7,032.66	6,960.27

Materials Used (in Million Tons)

	2012	2011
Input Materials	19.01	23.10
Steam	57.91	57.16
TOTAL	76.92	80.27

Direct Energy (in Million GJ)

Location	2010 (partial)	2011 (complete)	2012 (complete)
Head Office	0.0082	0.0017	0.0012
Leyte	1.3840	83.3282	77.0385
Negros Island	0.4553	24.8506	29.1138
Bacman	0.0388	12.4549	15.9972
Mindanao	0.2045	12.9353	12.6605
Nueva Ecija	0.0017	0.0048	1.0797
Exploration	0.0254	0.3090	0.1375
TOTAL	2.1179	133.8845	136.0284

Indirect Energy (in Million GJ)			
Location	2010 (partial)	2011 (complete)	2012 (complete)
Head Office	0.012	0.0126	0.0088
Leyte	-	0.0002	0.00002
Negros Island	0.0008	0.0052	0.0031
Bacman	0.003	0.0169	0.0018
Mindanao	-	-	0.00001
Nueva Ecija	-	0.000004	0.0010
Exploration	-	0.000085	0.0001
TOTAL	0.0170	0.0350	0.0148

RISK MANAGEMENT AND BUSINESS CONTINUITY SYSTEMS

Risks are managed throughout the company using the overarching Enterprise Risk Management (ERM) policy, which reviews the company's total risk profile and the accompanying risk management measures. The ERM designs accountability for the identification, measurement, evaluation and mitigation of risks. As a result, functioning risk management system has been integrated in our business model.

The policy also establishes the board-level Risk Executive Committee whose role is to approve and monitor key risk factors of the company. The committee determines which risks require an independent assessment and those factors that are best measured through functional unit reporting.

Our ERM system was revisited in 2005, with focus on both the tangible and intangible assets of the company.

In 2010, the ERM system was re-launched and improved to align with ISO 31000:2009 (Risk Management – Principles and Guidelines).

In 2012, our business units identified their top risks and determined treatment options to address these risks. Risk management activities are practiced at the project, operational, and strategic levels.

We also launched the business continuity management (BCM) system in 2012 with the objective of developing a framework in building resilience, identifying impact of potential loss events, and building capabilities for an effective response.

The BCM has been piloted in our business units in the Head Office, Southern Negros (geothermal) and Nueva Ecija (hydro). The system will be fully implemented in all operating units by 2014.



FOSTERING A CULTURE OF SAFETY, HEALTH AND WELL-BEING

At EDC, we value our employees' safety and health. Our employees achieve an outstanding performance in order to provide renewable energy for the consumers. Our top objective is to have every employee return home from work safely each day. Zero harm involves more than just preventing accidents; it also

EDC received eight Corporate Excellence Safety Awards from the Safety and Health Association of the Philippines Energy Sector (SHAPES) and the Department of Energy.





means preventing occupational illnesses that can have long-term effects on health. To reach our goal of zero harm, we must have the right policies, procedures, tools and training, as well as a culture that encourages peer coaching, incident reporting, information sharing, and corrective and preventive actions. All of these are captured in our Corporate Safety and Health Policy. We believe that a healthful workforce and a safe workplace result in higher productivity, and participation is the key to successfully fostering such a culture.

We have created the Center of Excellence for Health, Safety and Security that will strengthen our policy on occupational health and safety. Our objective is for all the employees to fully understand the precautionary measures while at the site. To up the ante, we will provide specialist health, safety services, and quality control and quality assurance for site health in all business units.

We ask employees to look out for each other on the

job and to speak up if safety or health is compromised. EDC employees and contractors/suppliers are equally represented in the Project Safety and Health Committee (PROSHCOM) for steamfield operations and in the Plant Health, Environment and Safety Committee (PESHCOM) for power plant operations. Safety committee meetings are recorded with a tracking system for all agreed action items. Representatives from various business units and groups including contractors actively participate in discussions pertaining to safety and health.

In addition to promoting awareness on employees' health and safety, we implement the Minimum Health Management Standards in all sites and aspects of EDC operations that should meet local regulatory requirements: health risk management, monitoring of health performance and incident reporting and investigation, fitness to work including alcohol and drugs, local health facilities and medical emergency response,

health and wellness, health impact assessment for new projects and occupational health for contractor operations.

Contractor safety is a major focus of our efforts. We share our training and safety culture with them. We set in place a system to measure the safety performance of our contractors.

While many of our contractors have improved their safety performance records, we still had 42 motor vehicle accidents and 15 total recordable incidents last year. These are not acceptable. We continue to develop model contractor safety program guidelines.

A comprehensive safety passport program for contractors was implemented to ensure that all contractor workers are trained and certified for the kind of work they need to do. The goal is to create consistent safety and health expectations and practices that will result in fewer or no injuries and fatalities throughout our operations.

We have safety priorities that we make use of to maintain the smooth flow of work. We aim to raise the bar on safety performance, develop recognition and consequence management processes, unify and standardize existing policies into one safety manual for road transport, execute safety audits, create a unified work permit, and implement the incident management processes.

We do not just settle for our employees' health and safety while on the site. We make sure that we give them outstanding services even beyond their workplace. In 2012, we were able to establish these programs for our employees: health services, blood supply and health performance reporting, health and wellness, medical and emergency response, food safety, travel health, contractor safety program, emergency preparedness, baseline technical audit and unified safe work permit standard.

We have a strong focus on health and wellness within our company. The Lopez Lifelong Wellness Program adopted in EDC when the company became part of the Lopez Group in 2007 provides employees and their families with access to health-related education, tools and programs that promote good health, well being and productivity. The program promotes the adoption of healthy habits and choices, which lower the risk of developing chronic health conditions.

We promote physical fitness, feelings of fulfillment, and mental and spiritual wellness. We hold regular five-kilometer "Walk

Our 2012 Safety Statistics

INCIDENTS	Company	Contractor	Total
Fatality	0	0	0
Days Away from Work Cases	1	4	5
Restricted Work Activity Cases	0	3	3
Medical Treatment	3	8	11
Total Recordable Incident	4	15	19
Total Manhours	5,341,022	13,572,685	18,913,707
Total Recordable Incident Rate	0.1498	0.2210	0.2009
First Aid	20	62	82
Near-Miss	16	46	62
Motor Vehicle Incident	4	42	46
Property/ Equipment Damage	49	29	78
Spill	6	0	6
Fire	9	6	15
Enforcement Actions	0	1	1

Our Emergency Response Teams



25 Teams formed as of 2012:
 BGPF: 9 teams @ 10 pax/team
 LGPF: 5 teams @ 15 pax/team
 SNGP: 3 teams @ 10 pax/team
 NNGP: 1 team @ 21 pax
 MGPF: 7 teams @ 60 pax/team

the Talk" walkathons, zumba dance classes and sports tournaments with other Lopez Group companies. A fitness center that was built exclusively for our employees at the head office is free and open to them before and after office hours. At the sites, a similar wellness program is being implemented.

Since 2005, EDC organized and trained 25 Barangay Emergency Response Teams (BERT) to prepare them for natural disasters. This is in parallel with EDC's efforts to develop inhouse emergency and rescue capability. EDC's Emergency Response Team (ERT) was one

of the first responders in the Ginsaugon mudslide tragedy in Southern Leyte.

The teams have received varying levels of training by EDC's in-house Emergency Response Team, PNRC, PDRRMC and other partners in the following areas:

- Swimming
- First aid; basic life support
- Rescue (terrain, water, accident)
- Landslides
- Fire
- Earthquake
- Epidemics such as dengue

Economy & Society | Powering the Nation, Empowering the People

We explore and develop indigenous energy resources to produce clean fuel that will generate electricity from our power plants. Our product is sold to our customers, the distribution utilities, which in turn provide electricity to light up thousands of homes all over the country.

Our power assets comprise 61% of the installed geothermal capacity and approximately 7% of the overall installed generating capacity in the country. Geothermal energy accounts for an average 11% of the total power generation mix. Since inception, our power generation can be considered to have displaced 198 million barrels of fuel oil equivalent saving the country USD9.18 billion in oil imports.

We know that a meaningful indicator of our economic value has to do with our contributions to local economic development. Our work with our host communities 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.

In 2012, we generated an economic value of PhP29.40 billion compared to the PhP25.65 billion in 2011. Of the total economic value generated in 2012, we distributed an equivalent of PhP24.11 billion through business operations, employee wages, tax payments and community investments.

We stimulated the economy in areas where we operate by spending PhP8.35 billion on local procurement, providing PhP3.11 billion in regular wages and benefits to employees, paying PhP2.04 billion in government taxes, servicing PhP8.20 billion in payments to capital providers and investing PhP0.46 billion in our host communities.

118,274.40
TOTAL GEOTHERMAL POWER
GENERATED

9,189.50
US\$ MILLION SAVED

198
MILLION BARRELS OF FUEL OIL
EQUIVALENT DISPLACED

Economic Value Generated, Distributed and Retained* (in PhP Billions)

	2010	2011	2012
Economic Value Generated	25.25	25.65	29.40
Core Revenues	24.90	25.26	29.03
Non-Core Revenues	0.35	0.39	0.37
Economic Value Distributed	21.94	25.06	24.11
Operating Costs	10.12	12.65	10.35
Wages & Benefits	3.43	2.56	3.11
Payment to capital providers	6.20	7.45	8.20
Tax payments (withholding and business)	1.89	2.06	2.04
Community Investments	0.30	0.34	0.41
Economic Value Retained	3.31	0.59	5.29

*Per GRI Framework

2012 Local Purchases of Goods and Services

	Procured Item	Source	Amount (PhP Millions)
Head Office	Goods	Foreign	384.05
		Local	382.28
	Services	Local	1,306.07
Sub-total			2,072.39
Leyte	Goods	Foreign	336.53
		Local	510.85
	Services	Local	1,927.17
Sub-total			2,774.55
Bacman	Goods	Foreign	108.06
		Local	274.94
	Services	Local	1,433.62
Sub-total			1,816.62
Mindanao	Goods	Foreign	30.76
		Local	149.45
	Services	Local	486.94
Sub-total			667.15
Northern Negros	Goods	Local	22.55
		Local	101.91
Sub-total			124.46
Southern Negros	Goods	Foreign	157.91
		Local	187.26
	Services	Local	559.53
Sub-total			904.70
GRAND TOTAL			8,359.87

INVESTING IN PEOPLE AND COMMUNITIES

We strive to ensure that the company's progress is in pace with the host communities' prosperity. We are able to achieve the highest standards of economic performance when we contribute to the broader social context to which we belong. Ultimately, we recognize that our stakeholders provide insights on how best to responsibly improve on our service, efficiency, productivity, and innovation.

We support economic activity through local procurement. We directly award the procurement of goods and services to qualified locally based suppliers through our procurement policy. This allows us to work with capable community organizations and cooperatives and help in building their entrepreneurial capabilities.



Total 2012 CSR Investments (in Php Millions)

	2011	2012
REGULAR PROGRAMS*	97.41	77.17
Health	3.76	3.74
Education	24.28	22.91
Livelihood	37.22	17.25**
Environment	20.76	22.99
Emergency Response and Relief	3.34	0.60
Socio-Cultural/External Relations/Promotion	6.16	7.40
Project Evaluation and Assessment	1.89	2.28
SPECIAL PROJECTS	47.40	27.03
Schools for Excellence	3.60	5.67
Kananga-EDC Institute of Technology	22.45	21.36
Valencia Rural Health Building (completed in 2011)	21.35	0.0
SMALL / LARGE SCALE CONTRACTS	191.32	382.40
MT. APO FOUNDATION, INC.	3.89	6.96
TOTAL	340.02	493.56

*Includes all geothermal and hydro business units

**Bacman's community association FEDBAHC is on its path to livelihood sustainability resulting in lower investment

2012 CSR Investments, by Location (in Php Millions)

	Head Office	Bacman	Leyte	Mindanao	N. Negros	S. Negros
Health	-	1.53	0.86	0.87	0.18	0.28
Education	4.50	4.48	31.05	3.25	2.54	4.10
Livelihood	6.61	0.83	4.08	6.85	0.98	4.46
Environment	5.44	1.69	1.67	2.47	4.25	2.20
Emergency Response and Relief	0.24	-	0.12	0.00	0.22	0.008
Socio-Cultural/External Relations/Promotion	3.26	1.04	1.29	1.19	0.38	0.20
Project Evaluation and Assessment	4.26	0.08	0.00	0.00	0.00	0.00
Small/Large Scale Contracts	0.63	118.78	60.92	29.71	4.06	87.61
TOTAL	24.94	128.40	99.99	44.34	12.61	98.86

Remote rural areas in the Philippines are often some of the poorest in the country. Operating in some of these remote, mountainous areas, we see an opportunity to facilitate sustainable development and create meaningful change among our host communities. We are doing this through our corporate social responsibility program called HELEn, which focuses on health, education, livelihood, and environment. The HELEn program is catalyzing change in communities so that they can ultimately bring about their own development and break their cycle of poverty.

Over the years, HELEn has become robust, creating ecosystem jobs and institutionalizing shared socio-

environmental values that are improving the quality of life in our 43 primary host communities of 18,000 households and 131 community associations. We were able to re-equip the farmers and their families and turn them into environmental stewards – they have become themselves proactive in developing and sustaining their local economies. This has proven to be crucial given the impacts of global warming. With the creation of ecosystem-related livelihoods, we drive home the important message that there are direct economic opportunities in caring for the environment.

Through Energy Regulations (ER) 1-94, we set aside one centavo per kilowatt-hour of power generated from the geothermal plants to fund

electrification, development and livelihood, reforestation and watershed management, health, and environment enhancement projects proposed by the host local government units (LGUs). In 2012, we helped host communities in facilitating proposals for community development projects amounting to PhP35.7 million. In our Mindanao operations, we set up the Mount Apo Foundation Inc. (MAFI) in 1994 to manage another one centavo per kilowatt-hour which became known as the Environmental and Tribal Welfare Trust Fund (ETWF). In 2012, the ETWF amounted to a total of PhP6.9 million. The fund is chiefly used to support a scholarship program for the children of indigenous peoples (IP) and upland dwellers in our area of operation in Mindanao.



EVOLUTION OF EDC's CSR

Vis-a-vis the Philippines

CSR first came to EDC in the late 70's in the form of an environmental protection initiative. Environmentalism alone would not be able to address the issue of poverty in the upland areas where geothermal energy is usually found. This situation threatened the delicate balance of the ecosystem when people clear pristine lands for their sustenance.

In 1986, we turned to social forestry where we integrated non-destructive livelihood practices into the natural cycle of geothermal watersheds. During this time, we helped communities and farmers organize themselves – building their capability to plan, manage and grow cottage enterprises that are based on natural resources like inter-planting the shade tolerant rattan and coffee seedlings under natural forest stands.

Then beginning 2005 when we firmed up our privatization plan, we revitalized our CSR activities and folded them into a comprehensive community partnerships investment program.

PHILIPPINES*

Dawning of NGOs

1970's

Community Relations

1980's

Corporate Citizenship

1990's

Integrative CSR

2000's

EDC

Environmental Monitoring

Environmental Management

Watershed Management/
Social Forestry

Environmental Management

Watershed Management/
Social Forestry

Expanded ComRel

Environmental Management

Watershed Management/
Social Forestry

CSR/
Community Partnership

and appreciate the value of sustaining the natural regenerating capacity of these natural systems. A healthy reservoir will sustain not only our business but also the habitat of people and a thousand more life forms that are just so diverse and intricately linked to our survival.

Alongside environmental objectives, broad-based campaigns were conducted to ensure the social acceptability of our energy projects starting 1990. For greater transparency, the multi-sectoral monitoring teams (MMT) – composed of representatives of the local government units, host community, non-governmental organizations, DENR and EDC – were installed across all our operating sites in 1993.

As you can see, we have already set the pace in corporate social responsibility even before the call for sustainable social investments became the trend. From this brainchild sprang HELEn, which is now anchored on building enduring partnerships with our 43 community stakeholders in four key areas, namely health, education, livelihood and environment.

* Source: Francisco L. Roman, Jr. (2006) & Gisela Velasco (1996). Corporate Philanthropy in Asia: The Philippine Case in "Doing Good in Business Matters: CSR in the Philippines" by the Asian Institute of Management & De La Salle Professional Schools, 2007

Bridging Gaps for Brighter CAREERS

by Frances L. Ariola

A doe-eyed teenage girl stares into the television, watching the lithe athletes of the University of the Philippines (UP) Maroons cheerleading team perform power jumps and snappy pyramid formations. Thea Faye Culaba, 16, dreams of becoming a student of the country's premier university. Although she was the class valedictorian of the Valencia National High School, Negros Oriental, a public school of more than a thousand students, she is resigned to the fact that she will not be able to pursue higher education in a big school. Besides, the campuses of the UP system are located in city centers, far from her family's hometown. When you live in the uplands with very little access to information and resources, you tend to think that your choices in life are limited. Or so she thinks until she found out about CAREERS.

As an EDC scholar, Thea got a chance to take part in CAREERS, or College Admission, Review and Readiness Project, a bridging activity that assists graduating high school students in preparing for university admission exams. Jointly administered by the CSR Department at the head office and the CSR units at the business sites, CAREERS takes in the top 30 graduating students from each site every year. CAREERS provides the necessary support from assistance in the application process to conducting review sessions so they can prepare for the entrance exams of their chosen higher education institution. Through a six-phase program, CAREERS helps the top-performing students make the most of their potential.

Thea got in and took the review lessons. After a few weeks of rigorous preparation, she and 14 other scholars went through

the University of the Philippines College Admission Test (UPCAT). When results came out, Thea could not believe her eyes. She passed the UPCAT. With aptitude in Mathematics, Science and English, it is no surprise that she qualified for the course she applied for, and this is a quota course that set a higher passing score. Eight of her batch mates got in to the Computer Science program in UP Visayas and UP Mindanao while the rest qualified in science courses. Thea chose to take up Management in UP Visayas.

"My Papa took up Management so I was inspired to take up the same course to learn about the science of management. I see myself as an entrepreneur providing employment to other people. I don't want to be an employee forever. I'd rather be the one who gives jobs to other people," explained Thea. Her mother Carmencita says, "This is a chance of a lifetime for Thea and I will do my best to support her. EDC's CAREERS has been instrumental in providing her this opportunity.

Now she has a chance to make her life better than ours. Thank you for helping her get to her dream university."

CAREERS links its beneficiaries to scholarships and financial aid opportunities, such as UP's Socialized Tuition and Financial Assistance Program (STFAP) for full tuition subsidy. CAREERS also provides psychosocial briefings to prepare them for the new challenges of university life. The parents are asked to join these orientations so they can provide strong support for their children while studying away from home.

Thea feels much anticipation about the next chapter in her life. She is determined to make it work. She vows to help ease her parents' financial burdens after graduation. "They really did their best to raise me and my sister even if they had limited resources. I will not waste this gift that God has given me. I won't let my parents down. I won't let EDC down. I will make you proud of me," she said.



Thea (third from left) and fellow CAREERS reviewees passed the 2012 UP College Admission Test (UPCAT).

Environmental Management | Trailblazer and Green Keeper

We have always been at the forefront of renewable energy development. As the private sector representative of the Philippine Government in the Earth Summit of 1992, EDC led the way in modeling the requirements of the Rio Declaration on the Protection of the Atmosphere. Our geothermal ventures proved effective not only in addressing the energy crisis back then; it also sparked environmentalism in the Philippines at a time when sustainability and climate change were not buzzwords.

The major advantage of geothermal over other fossil-based options is its on-site utilization. It avoids transport, processing and distribution activities, which expand the areas that are exposed to environmental risk. We always ensure that environmental planning is incorporated in all aspects of the project design, development and operation.

Beyond compliance is our deep commitment to environmental stewardship, which finds its concrete expression in our Corporate Environmental Policy and in our Code of Conduct and Business Ethics. Our operations are subject to extensive and stringent safety, health and environmental laws and regulations. Multi-sectoral monitoring teams (MMT) composed of representatives from the Department of Environment and Natural Resources (DENR), local government units, host communities and non-government organizations (NGOs) monitor the air and water quality within our projects sites. We have maintained air and water quality at normal levels and we are fully compliant with the Philippine Clean Air Act and Clean Water Act in our areas of operation to safeguard the health and

safety of our personnel and host communities.

By operating and growing our business in the most efficient and environment-friendly way possible, we are already making significant inroads on a daily basis to worldwide efforts in mitigating climate change. As well, we contribute to curbing alarming speeds in biodiversity loss, reversing deforestation rates, and managing watersheds.

LAND

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 80's. This has been improved and sustained until today as this paradigm is embedded. Being site specific, geothermal operations sometimes clear vegetation to prepare the well pads for drilling. During well construction, directional drilling and multiwell pad technologies are adopted to prevent the opening of more areas than necessary. In directional drilling,

the well is not drilled straight down but can be deviated to as much as 1.5 kilometers from the origin. It allows several wells to be drilled from a single well pad to avoid forests, populated areas and other critical land uses.

The use of the vertical discharge diffuser (VDD) enables us to mitigate temporary defoliation of adjacent forest stands during well testing. By using the VDD, brine sprays are diverted to the silencer to prevent affecting nearby vegetation.

Our major watershed management strategy is reforestation to enhance the recharge of the reservoir. Thus, grassland areas, open and denuded areas in the geothermal reservations are planted with forest trees. We are among the few in the country to use indigenous forest tree species in reforestation projects. The reforestation sites are the carbon sinks that help absorb carbon dioxide, a major greenhouse gas that contributes to climate change events. The trees also provide ecosystem services like land protection, water storage and

Environmentally Responsible Geothermal Operations

Since 1987, we have been implementing various watershed management, protection and development activities within the geothermal reservations where EDC operates. 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. Thus, several watershed programs are adopted by the company.

Forest Protection
Forest Fire Prevention
Slope Stabilization
Biodiversity Management

LAND COVER
IMPROVEMENT

Reforestation
Nursery Management
Carbon Sequestration
Measurement

PARTNERSHIP
BUILDING

Community-based Forest
Management
Agroforestry
Implementation of Projects
with Partner Institutions

IMPLEMENTATION
OF POLICIES
AND REGULATIONS

various forest products to forest dwellers.

We have intensified our reforestation activity through the BINHI program, which aims to bridge forest gaps, promote and conserve biodiversity at the same time provide livelihood opportunities to the upland communities within the geothermal reservations. From its launching in December 2008, BINHI targets to reforest 1,000 hectares of forestland every year for 10 years.

We developed a unified watershed management plan, with the objective of ensuring the optimum and rational land use of all EDC-managed watersheds. We will use Geographic Information System (GIS) technology for data integration and analysis that will ultimately support our policy formulation and decision-making capability.

WATER

Daily water quality monitoring is conducted to

ensure that the ambient water quality guideline values which are protective of the beneficial water uses downstream of our projects are maintained at all times. We continue to fully implement the Zero Discharge System (ZDS) policy by separating the fluids from the steam that we extract to generate power and by injecting them back into the geothermal reservoir.



Total Withdrawal (in cubic meters)

Location	2010	2011**	2012***
Head Office*	-	38,392.00	4,263.45
Leyte	685,791.50	443,119.85	606,933.75
Negros Island	1,003,983.00	442,968.34	537,122.74
Bacman	841,953.40	184,769.40	430,233.77
Mindanao	380,223.60	453,149.39	483,612.07
Nueva Ecija (domestic use only)	-	418.09	506.40
TOTAL	2,911,951.50	1,563,317.08	2,057,902.32

*Head Office transferred to a rented high-rise building where water is billed only for the floors it occupies. Previous water bill covers 4 buildings and surrounding facilities.

**Partial water uses but meters installed in 2011 for more accurate record

***Water withdrawal of drilling activities of third party contractor is now included, completing the record in 2012



BINHI is the inspiration of EDC's first ever BINHI Youth Conference (BYC) which gathered budding environmentalists from various colleges and universities all over the country.

Managing Our Atmospheric Impact

In 2012, EDC's Greenhouse Gas emissions went down as a result of Lower Electricity Consumption

Table 1. Comparison of Geothermal and Fossil Fuel CO2 Emissions

	Geothermal	Coal	Petroleum	Natural Gas
Emissions (lbs.CO2/kw-hr)	0.18	2.13	1.56	1.03

Table 2. Geothermal "Greenhouse" Gas Emissions

	CxO2	H2s	CH4	NH3
Emissions (lbs./kw-hr)	0.18	1.87E-04	1.66E-03	1.39E-04

Source: Bloomfield, K. K. and Moore, J.N. in "Geothermal Electrical Production CO2 Emissions Study" (1999).

EDC GHG Emissions (in Tons)

	2010	2011	2012
Direct	703,362	646,024	547,313.3
Indirect	-	6,864	3,326.4
Total	703,362	652,888	550,639.7

The reduction of the GHG Emissions of EDC in 2012 is mostly due to the quality of steam extracted from the geothermal reservoir and also due to reduced electricity consumption

AIR

The electricity from geothermal resources emits less carbon per kilowatt-hour than the electricity generated from coal, petroleum and natural gas. Albeit in small levels, we do acknowledge that it can still contribute carbon and greenhouse gases into the atmosphere. We have installed measures to control these emissions. For instance, in all our geothermal and hydro areas, carbon is intrinsically managed

mainly through sequestration by natural sinks such as vegetation and nearby water bodies. When these natural sinks are not available, reforestation is a common strategy we use to manage or enhance the natural sinks.

For air quality monitoring, the levels of the noise and the geothermal gas naturally found in project sites, hydrogen sulfide (H2S) are regularly measured at designated impact stations. These

take into account the current project activities and sources of emissions.

The GHG emissions of EDC for 2012 is computed at 550,639 tons of CO2 equivalent as compared to 2011 figures of 652,888 tons. 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

IN 2012 WE BEGAN MONITORING THE INDIRECT CO2 EMISSIONS FROM TRAVELS OF EMPLOYEES – BASELINE DATA THAT WE CAN USE TO MANAGE CARBON FOOTPRINT

2,955,038
passenger miles
=
Total indirect
CO2 emissions of
908.67 Tons

OZONE-DEPLETING SUBSTANCES, BY WEIGHT (in Tons)

Location	2011	2012
Bacman	0.0072	0.0058
Leyte	0.0077	0.0084
Southern Negros	0.0024	0.0030
Northern Negros	0.00002	0.00002
Mindanao	0.0010	0.005
Nueva Ecija	0.0005	0.0005

**Nitrogen Oxides
(in Tons)**

2011	2012
58.71	16.76

**Sulfur Oxides
(in Tons)**

2011	2012
3.89	1.11

**Carbon Monoxide
(in Tons)**

2011	2012
12.65	3.61

Standard, we made computations using Scope 1 (Direct GHG Emissions), Scope 2 (Indirect GHG Emissions) and forayed into Scope 3 with the carbon footprinting of employees' air travel initially computed at 908 tons.

The Philippines is a Non-Annex 1 country and has no binding emission reduction targets or allowances under the Kyoto Protocol. EDC is participating in the existing mechanism to generate value

from emerging carbon markets. As such, participation in Clean Development Mechanism (CDM) has been included in the early stages of development efforts for greenfield projects.

The company has centralized its activities in this respect with the objective of gaining a better understanding of the process institutionally, developing efficient and effective procedures, and establishing networks. The company is also

venturing into wind energy projects, which also provide opportunities for the generation of carbon credits from CDM and other carbon markets.

The Dream of a Thousand Trees

by Frances L. Ariola

Each seed that is planted is a promise of the future. In fact, Friedrich Nietzsche once said that everyone who enjoys trees thinks that the fruit is the most important to a tree, but in fact the principal thing is the seed. There lies the difference between one who enjoys and the other who creates. For EDC, it is the seed that is principal. In fact, the seed is the inspiration of our longest running environmental program.

Our then Chairman Oscar M. Lopez took a big leap in 2008 by taking corporate greening to a whole new level through the BINHI Greening Legacy program. BINHI aims to bring back premium, indigenous tree species to abundance by planting them on 1,000 hectares per year for the next 10 years. This is reinforced by the strategy and science-based operation prescribed by our current Chairman and CEO, Federico R. Lopez.

The BINHI program immediately caught the interest of the industry. Government institutions, private companies, schools and local government units signed partnership agreements with EDC to plant and nurture mother trees that would be pooled in a seed bank for the rarest, the most prime and the most endangered species. As of today, BINHI has 71 program partners like the Department of Environment and Natural Resources (DENR), which adopted BINHI in 2011 as one of its strategic components in the National Greening Program.

We, in EDC have taken greening to heart by planting trees and planting it right using science. BINHI's Tree for the Future module centers on reforestation where vanishing native trees are grown right at the urban centers like public parks, industrial estates, and even schools where sustained care is provided through partnership agreements. We received numerous offers for partnership. It was then that

we realized, there is not enough supply of seedlings that we need to keep up with the growing clamor for BINHI parks. Most of the species have limited stocks, their rarity caused by overexploitation compounded by the fact that they are not prolific seed producers. Mother trees are needed in our genome bank. This is where the scientific approach becomes useful.



This led us to a visit and eventually, a long-term partnership with the DENR-Ecosystem Research and Development Bureau (ERDB). The answer? Propagate mother trees faster via the vegetative material reproduction (VMR). Asexual reproduction like marcotting technique was piloted in our nursery in Barangay Mailum, Bago City, Negros Occidental in 2012.

We built the VMR facility and this is where it gets more interesting. We installed an Israeli technology called Dream Controller System, the first of its kind to be used in a local nursery. An automated mist/fogger irrigation system was added and voila, the ground is now set for the perfect seed production of sensitive mother trees. Its sensors can be programmed to automatically turn on the mist irrigation at appropriate hours of the day, giving off just the right amount of mist to mimic the conditions of their natural habitat. "Our first mist irrigation system innovation was

installed in this same nursery in 2007. We have found it to be critical to the survival of the premium, indigenous species," said Reiner S. Medrano, EDC Corporate Social Responsibility Manager. He piloted this type of nursery in EDC's Northern Negros Geothermal Project. "The Dream Controller Facility enables us to fully automate this system and use it in large areas like this big hedge garden," he added.

Studies show that this technology increases the survival rate of planting materials. Higher survival rate means there will be more seedlings that can be planted as mother trees by our BINHI partners. To date, there are 76 (out of 96 that EDC has rescued) premium endangered indigenous tree species in the VMR nursery. In 2012, about 50 seedlings were planted in the grounds of the University of the Negros Occidental- Recoletos in a ceremony during its 50th founding anniversary. Sixty seedlings were shared with University of St. La Salle Bacolod, the planting of which was timed on its 60th Jubilee anniversary. Most of the marcotted seedlings have been planted in DENR's national greening sites.

Continuous research and development are still being done to increase these rare species rescued from the wild and brought to this nursery; to expand the hedge garden; and to continuously propagate the vegetative materials.

"Our dream is to have enough species in our hedge garden to bring back all these premium, endangered, rare, indigenous species to abundance so we can share them with people. We focus on schools and public parks so children will get to know our very own trees rather than seeing them only as street names. We are optimistic that the VMR and our scientific approach to greening will help us fulfill this dream," shared Medrano.

WASTES

We continue to achieve zero incident of significant spills and zero environmental case in 2012. We are compliant with applicable pollution control laws, regulations and standards. Hazardous waste transporters and treaters are strictly checked for accreditation and legal compliance, and are audited for proper handling, treatment and disposal practices.

In 2012, we generated a total of 1,790 tons of wastes and disposed a total of 1,601 tons of wastes, which were handled properly. Non-hazardous wastes were either recovered or disposed in landfill. We have an ongoing agreement with ABS-CBN Foundation Inc. (AFI) to recycle waste oil and used batteries. We engaged third party contractors accredited by the Philippine Department of Environment and Natural Resources for the transport, treatment and off-site disposal of hazardous wastes.

BIODIVERSITY

We maintain the diverse habitat of our 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 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. We have an ongoing geographical plotting, measurement, and tagging of trees in our two-hectare Permanent Forest Dynamic Plots in all operating sites. On top of that, we will continue to pursue our various watershed programs related to biodiversity to complement our energy development objectives while improving the ecology of the areas where we operate.

In 2012, we were able to obtain information for select biodiversity indices comparing

four of the permanent forest dynamic plots (PDFP) established in our operating sites. Initial results show that areas around our geothermal and hydro sites have diverse floristic community. Bacman has the highest overall diversity. In 2006, it was officially declared by the Philippine Department of Tourism as an eco-tourism destination. Its Simpson index indicates that it is abundant in most common species. Meanwhile, the Shannon-Wiener and Fisher's alpha indices show that it has the highest species richness compared to the other three sites.

Wastes Generated and Disposed (in Tons)

Location	Generated	2011	2012
Bacman	Hazardous	206.0	148.8
	Non-Hazardous	25.2	1065.4
Leyte	Hazardous	703.5	635.7
	Non-Hazardous	254.1	76.4
Southern Negros	Hazardous	8.8	23.2
	Non-Hazardous	61.0	57.4
Northern Negros	Hazardous	7.2	5.1
	Non-Hazardous	26.3	3.5
Mindanao	Hazardous	19.6	34.6
	Non-Hazardous	36.1	16.2
Pantabangan	Hazardous	0.6	0.0
	Non-Hazardous	16.3	29.0
TOTAL		1,364.7	2,095.3

Location	Disposed	2011	2012
Bacman	Hazardous	33.3	1.9
	Non-Hazardous	1143.4	1050.0
Leyte	Hazardous	225.9	606.4
	Non-Hazardous	86.2	28.3
Southern Negros	Hazardous	118.6	9.8
	Non-Hazardous	117.2	57.4
Northern Negros	Hazardous	22.6	5.1
	Non-Hazardous	0.00005	3.5
Mindanao	Hazardous	0.0	86.5
	Non-Hazardous	53.5	16.8
Nueva Ecija	Hazardous	2.0	0.0
	Non-Hazardous	16.3	29.0
TOTAL		1,819.00	1,894.70

Select Biodiversity Indices for the Four Permanent Forest Dynamic Plots

Biodiversity Index	Nueva Ecija (Hydro)	Northern Negros (Geothermal)	Leyte (Geothermal)	Bacman (Geothermal)
Fisher's alpha	29.55	49.77	52.06	53.6
Shannon (log e)	3.63	4.36	4.26	4.49
Simpson (1-D)	0.94	0.97	0.95	0.98

The data on bird diversity of our five geothermal sites has been generated using the biodiversity monitoring system (BMS) developed by the University of the Philippines Institute of Biology. This was first established in the Northern Negros site and applied later to the other four sites. Results of the transect walks were compared across EDC sites using the following diversity indices. Our Southern Negros site has the highest diversity index while our Mindanao site has the highest dominance index.

Our programs on the conservation and protection of the environment are inherent aspects of the business. Long before climate change and biodiversity loss turned into marquee issues in a host of green events and campaigns by governments

and private companies, EDC's operations have already been moving silently but systematically to prevent the adverse effects of these negative developments. Expanding to international markets, we remind ourselves that profit generation for EDC is anchored on sound sustainability principles and practices. For our company, going global means pioneering and setting the trend here in the Philippines to contribute to global best practices.



Bird Diversity of Five Geothermal Sites

Biodiversity Index	Bacman	Mindanao	Leyte	N. Negros	S. Negros
Taxa S	73	76	71	78	70
Individuals (n)	778	1290	1104	1607	459
Dominance D	0.04572	0.09034	0.06978	0.04726	0.03708
Shannon H	3.597	3.236	3.359	3.498	3.708
Simpson 1-D	0.9543	0.9097	0.9302	0.9527	0.9629
Margalef	10.82	10.47	9.99	10.43	11.26
Equitability J	0.8383	0.7471	0.7879	0.8029	0.8729

List of Threatened, Endangered and Vulnerable Faunal Species Found in EDC Geothermal Sites

Species (Birds)	IUCN	DAO 15	Northern Negros	Southern Negros	Mindanao	Leyte	Bacman
<i>Aceros waldeni</i> (Rufous-headed Hornbill)	CR	VU	X1	X1			
<i>Actenoides hombroni</i> (Blue-capped Kingfisher)	VU	VU			X		
<i>Alcedo argentata</i> (Silvery Kingfisher)	VU	VU				X	
<i>Anas luzonica</i> (Philippine Duck)	VU	VU					X
<i>Bubo philippensis</i> (Philippine Eagle-Owl)	VU	VU					X
<i>Coracina mindanensis</i> (Black-bibbed Cicadabird)	VU	VU				X	
<i>Coracina ostenta</i> (White-winged Cuckooshrike)	VU	VU	X				
<i>Dasyctrota speciosa</i> (Flame-templed Babbler)	EN	EN	X				
<i>Eurylaimus samarensis</i> (Visayan Broadbill)	VU	VU				X	
<i>Dicaeum haematostictum</i> (Visayan Flowerpecker)	VU	VU	X	X			
<i>Ficedula basilanica</i> (Little Slaty Flycatcher)	VU					X	
<i>Gallicolumba crinigera</i> (Mindanao Bleeding-heart)	VU	EN				X 2	
<i>Gallicolumba keayi</i> (Negros Bleeding-heart)	CR	CR	X	X			
<i>Nisaetus philippensis</i> (Philippine Hawk-Eagle)	VU	VU		X			
<i>Penelopides panin ipanini</i> (Visayan Hornbill)	EN	EN	X	X			
<i>Penelopides panini manillae</i> (Luzon Hornbill)		EN					
<i>Penelopides panini affinis</i> (Mindanao Hornbill)		EN					
<i>Penelopides panini samarensis</i> (Leyte-Samar Hornbill)		EN					
<i>Pithecophaga jefferyi</i> (Philippine Eagle)	CR	CR			X		
<i>Rhinomyias albigularis</i> (White-throated Jungle-Flycatcher)	EN		X	X			
<i>Stachyris nigrorum</i> (Negros Striped-Babbler)	EN	EN		X			
<i>Todiramphus winchelli</i> (Rufous-lored Kingfisher)	VU	VU				X	

X1 Based on interviews with the community
X2 Based on the Environmental Impact Assessment report

My Love is Like a Red, Red ... *Rafflesia*?

by Mabi David

“Which species is your favorite?” I was often asked this question by the botanists I interviewed for the book *Rafflesia* of the Philippines, published in August 2012 by EDC. It was a question that often stumped me. To my untrained eye, they all looked the same: scary. In fact, maybe even a little ugly. To be able to tell them apart would have been a feat; to choose a favorite, a joke.

But the botanists practically waxed poetic every time they talked about the flower, as if it were a cousin of the rose, which has long been the subject of many great poems. While the *Rafflesia* is as red, the similarities it shares with the beautiful rose stop there. Having neither roots nor leaves, it is a parasite that is completely dependent on its host and defies the

process of photosynthesis. The buds take around 1–1.5 years to grow and bloom, and majority die in the process. Those that survive and bloom begin to decay after five to seven days. It may not be the best-looking plant, but it is certainly the most interesting.

After months of research and interviews, I was hungry to see an actual *Rafflesia*, preferably *R. schadenbergiana*, the largest of the Philippine species, at 27 inches in diameter. There were leads on *Rafflesia* populations in bloom in our forests, but every time I was geared up to go, I would be informed they were false leads. I resigned myself to the possibility that I might never actually see it. After all, the Filipino botanists studying the species only came upon them accidentally, and only

after weeks of being in the deep forest. They are found in primary forests, and very little of that survive today.

So imagine my surprise when after my climb to the summit of Mt. Kinabalu in Sabah, Indonesia, I saw a poster saying that *R. keithi* was in bloom near Poring Hot Springs, 1.5 hours away from where we were staying. Our flight back to Manila was in the afternoon that same day, but I knew such a rare chance might never happen again. I had to see



it. Despite the tight schedule, I pleaded with my companions to join me to Poring.

At Poring, we found ourselves standing in front of a stall that announced, “Welcome, Viviane *Rafflesia* Garden: Full Bloom.” The site was far from being a manicured garden, but it was definitely not the deep forest I expected. A male guide led us through a short dirt road after we paying 20MYR. The garden had been turned into an eco-tourism site. Narrow planks over muddy soil led us to a makeshift gate.

There, on the other side of the gate were two large, red blooms. And the first thing I said when I saw them was, “Gorgeous.” My companion must have thought I had gone crazy. In front of us were blooms as big as my torso,

with “petals” (perigone lobes) that were already turning whitish-gray, as if they were getting moldy. The lobes too were in limp, heavy curls. I thought I could detect a faint stink.

As I sat in front of the *Rafflesia*, I remembered the stories that our Filipino botanists shared with me—its fascinating plant life despite the evolutionary and environmental odds stacked against it. The *Rafflesia* is very much like the state of Philippine biodiversity—teeming with life but also very much threatened.

I remembered the efforts of Filipino botanists who teach about Philippine plant life even as the number of botany students continues to dwindle. They, along with our biologists, would share what they know with the public—personally answering text messages from school principals, blogging, and writing newspaper columns

among others—so that greater awareness would lead to deeper understanding and, consequently, concern for the environment.

All these stories surrounding the *Rafflesia* were the reasons why I thought it was gorgeous, and yes, to me, even more than the rose. What the late Leonard Co, eminent Filipino botanist, told me in our 2009 interview was true, “*Hindi mo mamahalin ang isang bagay na hindi mo naiintindihan*” (You can’t possibly love what you do not understand).

Mabi David is the co-author of the book “Rafflesia of the Philippines” which was launched in August 2012 in honor of Oscar M. Lopez for his laudable environmental projects. She hopes to see an actual Philippine species of the Rafflesia in the near future.

Talent Management | Preparing Tomorrow's Workforce Today

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. 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 believe only a highly trained and motivated workforce can fortify the company's geothermal leadership position and reputation for global excellence. 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.

Nearly 2.6 percent of EDC's employees are expected to retire during the next five years. With a steady decline in engineering graduates from Philippines colleges during the last 15 years and the long lead time required to be trained as a reservoir engineer or power plant operator, the electric utility industry is facing an aging work force and a shortfall of critical skills. We have developed a plan to address the dilemma: hire the best new employees, invest in their expertise training and keep our existing work force enthusiastic and engaged.

We strive to attract, develop and retain the right pool of diverse talents to deliver on commitments to our stakeholders and prepare them for the business needs of the future. We are delighted to know that our emerging leadership in sustainability is helping us to attract new talent, especially among younger generations who are extremely concerned about the environment. One of the first questions prospective employees often ask is how EDC is involved in renewable energy resources and environmental management. Our goal is to ensure that our people are equipped to deliver the integrated solutions our customers need while remaining true to our green corporate brand.

We are pursuing systematic knowledge transfer programs, increased partnerships with colleges, universities and technical schools, as well as new approaches to training employees and leadership succession and development for future EDC leaders, including succession planning to prepare candidates for key leadership roles and early identification and preparation of emerging leaders.

Our Onboarding Program welcomes new employees and ensures they have a good business and cultural understanding of the company as a whole, from a local and global perspective. The program aims to provide a richer, more in-depth approach than typical induction programs. We

also run local, specialist trainee programs, such as the "Energy Academy" training program. We are developing mentoring and peer-to-peer coaching programs that facilitate the sharing of knowledge and experience through the Energy Academy. We have a world-class geothermal pool of talents, developed and run in partnership with global academic institutions in New Zealand and US, among others.

Given the level of expertise required of our employees, we ensure rewards and remuneration are in compliance with existing legal and statutory wage requirements nationwide, internally equitable, and market competitive. A leadership development program supports succession planning and management, and we make it a point to monitor the career development of each staff. Good management-employee relations are further contributory factors to our goals of workplace productivity and industrial harmony.

A total of 953 employees, or 37 percent of our total work force, are represented by unions. We value our relationship with our unionized employees and seek a labor-management relationship that is based on mutual trust, openness and collaboration.

In our stakeholder consultations, most of our respondents emphasized the importance of culture — fostering

Percentage of Employees Eligible to Retire in the Next 5 and 10 Years

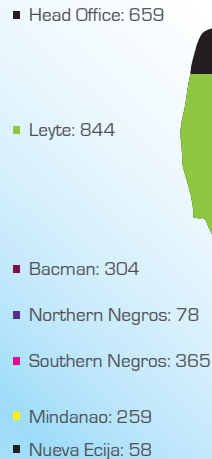
Date	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total	0.88%	0.84%	1.43%	1.47%	2.55%	2.67%	3.31%	3.87%	3.91%	4.11%

Human Resources Management Indicators

2,567

Total Manpower Count, by Location

(As of Dec. 31, 2012)



a work atmosphere that brings out the best in all employees, helps us recruit and retain younger workers and ensures the company's future success. Since our integration into the Lopez Group, our parent company down to our sister companies and affiliates have been driving a culture of high involvement, shared commitment, synergy, collaboration and mutual care.

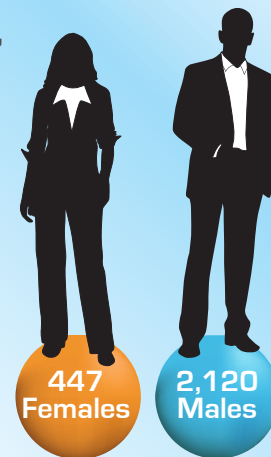
We recognize that changing corporate culture can take years of demonstration and reinforcement of these values by the leadership team, managers and employees. While we still have work to do to make these cultural priorities the norm at all levels of the organization, we have made progress and have a plan to launch a revitalized employee communications program that aims to provide high level of awareness of the organizational transformation happening across all business units. By providing timely information and support mechanisms to motivate amid the ongoing changes, we hope to create a highly engaged workforce during and after the transformation.

Every day, employees across the country live EDC's purpose: harnessing natural energy resources to generate clean power for generations to come. Our people's determination, focus and teamwork enable the company to realize its growth ambitions.

In 2012, we began the process of initiating several strategic changes to make the company more competitive, resilient and growth-capable in the new markets that we are entering into. The business-

Total Manpower Count, by Gender

(As of Dec. 31, 2012)



Non-regular employees (As of Dec. 31, 2012)

Location	Consultant	Projectbased	Term	Total
Northern Negros		3		3
Mindanao		25		25
Bacman		12	1	13
Southern Negros		15	1	16
Leyte	4	25	1	30
Head Office	7	48	18	73
Nueva Ecija	0	0	0	0
Total	11	128	21	160

Human Resources Management Indicators

Attrition Rate

By Location 2010 2011 2012

Head Office	17	24	17
Bacman	2		5
Leyte	7	3	4
Mindanao	3	2	
Negros	3	2	4
Grand Total	32	31	30

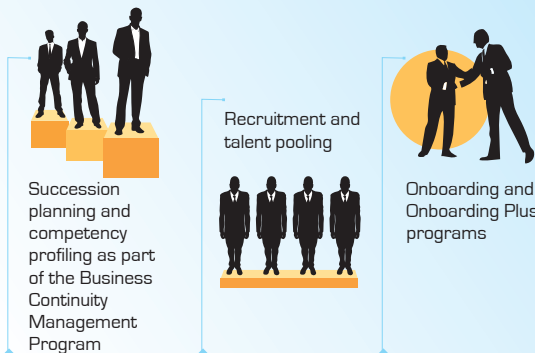
Manpower count at the beginning of the year 2,583 2,390 2,474
Resignation Rate 1.24% 1.30% 1.21%

By Age 2010 2011 2012

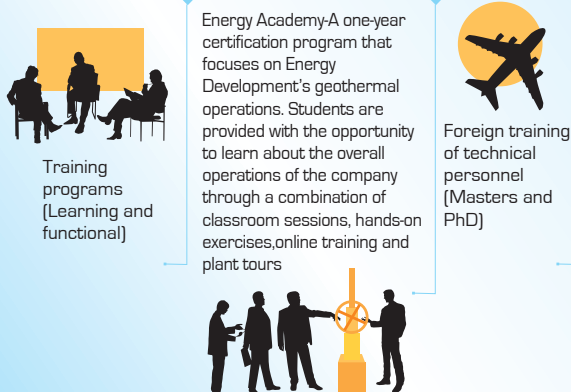
< 30	13	12	16
31 to 40	12	13	5
41 to 50	7	6	7
50 >			2
Grand Total	32	31	30

By Gender 2010 2011 2012

Female	11	12	10
Male	21	19	20
Grand Total	32	31	30



PROGRAMS AND PROCESSES TO ENSURE THE AVAILABILITY OF A SKILLED WORKFORCE



Average Training Hours



28

Executives

35

Average Training Hours

Executive Learning Sessions



107

Managers

64

Average Training Hours

Leadership Empowerment & Managerial Excellence



363

Supervisors

68

Average Training Hours

Advanced Supervisory Training



1,027

Professional Technical

57

Average Training Hours

Business Process Improvement



984

Rank & File

40

Average Training Hours

Personal Effectiveness Training

2,509

Employees

52.8

Average Training Hours

Labor Unions*

NAME	Location	Membership
BACMAN Professional and Technical Employees Union (BAPTEU)	Bacman	31
BGPF-Rank and File Union (BGPF-RFU)	Bacman	77
EDC-BGPF Supervisory Employees Union (EBSEU)	Bacman	21
Leyte A Geothermal Project Employees' Union (LAGPEU)	Leyte	225
Mt. Apo Professional and Technical Employees Union (MAPTEU)	Mindanao	41
Mt. Apo Workers Union (MAWU)	MIndanao	75
PNOC Energy Group of Employees Association (PEGEA)	Head Office	48
PNOC EDC- LGPF and TIPF Association of Technical, Supervisory and Professional Employees (PELT ATSAPE)	Leyte	152
PNOC EDC NNGP Employees Rank and File Union (PENERFU)	Northern Negros	22
PNOC EDC SNGP Supervisory Association (PESSA)	Southern Negros	61
EDC SNGP Rank and File Union (SNGPF-RF)	Southern Negros	104
Tongonan Workers' Union (TWU-NAFLU)	Leyte	49
United Power Employees' Union (UPEU)	Leyte	47
TOTAL		953

* A total of 953 employees (37%) are members of the 13 unions, all with standing Collective Bargaining Agreements with the company

led organization through the newly formed SBUs (Strategic Business Unit) will be at the forefront of the change agenda.

We have institutionalized the feedback and interaction program through the successful runs of the Employee Consultations and Expanded Labor-Management Councils (EC/ELMC). These platforms have been effective in rolling out strategic programs that impact our people. In 2012, we conducted a total of 22 EC/ELMC sessions for the head office and business units.

Our drive towards a highly professional and world-class company focuses on the establishment of improved internal systems and business processes. To this end, we pursued ISO-based management systems, as well as the establishment and implementation of an improved business process management framework. We accomplished the following in 2012:

- The successful completion of the third-party audit by SGS (Société Générale de Surveillance) of EDC's Mount Apo Geothermal Project (MAGP), leading to a recommendation for ISO 14001:2004 certification;
- The professionalization of the management systems with the seven (7) trained lead auditors for the Environmental Management Systems (EMS); and
- Enterprise-wide process inventory as part of the process improvement strategies of the company.

Fulfilling the Fire Bringer's Mandate

Times of change and uncertainty can also bring new opportunities. Sustainability encourages us to learn what others think and expect of us and look for ways to collaborate while adapting to change.

We have a focused business growth plan as well as

strategies to manage our risks when we seize such opportunities during these dynamic times. Our focus is on executing that plan. We will work closely with our own employees and other stakeholders to achieve the best results. We will call on our stakeholders to publicly support issues we agree on, such as making renewable energy affordable and more growth inclusive. We expect they will push us harder on some issues, too.

We face formidable challenges, as we have many times in the past, but we are confident that we will emerge more viable than we have ever been. This is a time of exciting new opportunities and renewal — the prospect of building a brighter future for the Philippines and similar emerging economies that also harbor untapped geothermal energy. EDC will be part of that renewal and among those leading the way. We look forward to working together as we continue our journey. At EDC, we are making all these possible.

Our Corporate Governance Performance

Stewardship and Integrity



e n e r g y
DEVELOPMENT CORPORATION

We continue to reach for new heights and accomplish new things on corporate governance while holding corporate values close to our hearts. Our corporate governance program has been revisited and realigned with corporate direction in order to promote sustainability in the midst of the fast-paced development and organizational growth from 2012 to 2015.

Our policies ensure that our employees are able to conduct themselves and do their work ethically and with a greater sense of accountability.

Our corporate leaders serve as models of excellence. We have the brightest minds driving our company to new and challenging growth frontiers. Our stakeholders inspire and motivate us to become paragons of top-level performance.

In this section:

- [Corporate Governance Performance](#)
- [Our Board of Directors](#)
- [Our Corporate Officers](#)

LEADING WITH HIGH GOVERNANCE STANDARDS

Our corporate governance performance merited its third Gold Award in 2012 with a scorecard rating above 96.44%, which in turn, warranted a Platinum Award for achieving Gold for three consecutive years. This year's double corporate governance recognition marked the 5th consecutive year that EDC has been cited for excellence in corporate governance programs and practices. Our most recent corporate governance scorecard rating is 96.44%, broken down as follows: Rights of Shareholders 87.00%; Equitable Treatment of Shareholders 100.00%; Role of Stakeholders 100.00%; Disclosure and Transparency 98.00%; and Board Responsibility 96.00%. The Institute of Corporate Directors (ICD), the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE) bestow the recognition on corporate governance excellence.

BEYOND COMPLIANCE

"Compliance" to EDC means complete, accurate and timely submissions of governance disclosures, reports and data to the SEC and PSE, such as, but not limited to the structured reports of the regulatory bodies, disclosures, certifications and submission of reports on performance assessments.

Operational reports, permits and information required from the company by government and industry regulators such as the Department of Energy, Energy Regulatory Commission, Department of Environment and Natural Resources and Department of Labor and Employment, among others,

are constantly monitored and prepared for their timely submission and compliance. We have formally set up a regulatory team with members from all sectors of the company headed by the Compliance Officer. It is assisted by a steering committee composed of all the vice presidents as members and the President as Chairman to rationalize the operational compliance requirements for improved governance.

Since the adoption of the EDC Corporate Governance (CG) Manual in November 15, 2006 in compliance with the Corporate Governance Code of the SEC under SEC Memorandum Circular No. 2, series of 2002 dated April 5, 2002, the CG Manual has provided guidance to the Company, the Board and Management throughout the years. With the amendments effected in compliance with the requirements of the new SEC Revised CG Code under SEC memorandum Circular No. 6, series of 2009, the Corporate Governance Manual of EDC ensures that there is full compliance by the Company on governance in relation to its day-to-day operational concerns.

OUR CORPORATE GOVERNANCE POLICY AND PROGRAMS IN 2012

Code of Conduct and Business Ethics. Our Code of Conduct and Business Ethics was launched on September 13, 2004. Even as a state-owned enterprise then, we have been striving to be on a par with the world's best, in the face of increased demand for accountability and transparency from our growing number of investors and stakeholders.

The Code provides the

company's policy guidelines and key principles to help EDC and its employees and officers re-align their personal values, actions and concepts of business behavior and governance based on enduring moral values. The Code encourages employees and senior leaders to act with unflinching integrity when faced with situations involving ethical issues.

The Code states the values that motivate the Company and its workforce to persevere and aim for excellence while maintaining favorable relations with co-workers as well as with other stakeholders.

Code of Conduct and Discipline.

Signed and put into effect on September 16, 2011, our Code of Conduct and Discipline prescribes the norms of conduct and standards of behavior to instill a strong sense of discipline among employees. These standards of behavior will serve as guideposts in ensuring that our employees embrace and live the EDC and Lopez core corporate values.

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 board 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.

A Conflict of Interest may include, but are not limited to:

- Interest in any group or organization which has, or is seeking to have, business or financial dealings with the company or where there is an opportunity for preferential treatment to be given or received;

- Sale or lease any kind of property, facilities or equipment to the company;

- Participation or involvement, direct or indirect, in any transaction involving any person, firm, corporation or any business enterprise with which the company, directly or indirectly, has a commercial relationship, where such participation or involvement is improper or undesirable in the interest of the company;

- Accepting commissions, share in profits, gifts in cash, gift certificates, etc. from an organization, firm or individual doing or seeking to do business with the company;

- Accepting appointments in the national or local government in any capacity, run for elective office, or actively engaged in partisan political activities, when it may tend to prejudice the company.

GUIDELINES ON TRADING RULES AND RESTRICTIONS

One of the action points that is accorded high importance is the principle of transparency. Our directors and officers are required to disclose their stock transactions involving company security, using SEC Forms 23-A and 23-B. Management has advised time and again that material information should be treated delicately so as to comply with the PSE and SEC Rules on Disclosure.

TRADING BLACKOUT POLICY. As a listed company, we comply with trading regulations and restrictions to protect public and shareholder interest. We strictly observe the policy on Trading Blackouts and issues the Trading Blackout notice via email and memoranda to all insiders pursuant to the standards required by the Philippine Stock Exchange.

FRAUD POLICY. The policy facilitates the development of controls that aid in the detection and prevention of fraud. The policy also promotes 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.

WHISTLEBLOWER POLICY. We encourage and enable employees and others to raise serious concerns within the company prior to seeking resolution outside the company. The whistleblower policy is a guarantee that no person who reports a violation of company policies shall suffer harassment, retaliation, or adverse employment consequence. The EDC Whistleblower Policy identifies who could be whistleblowers, the procedure and as well as rights and responsibilities.

ELECTION OF THE EDC BOARD OF DIRECTORS

During the May 9, 2012 Annual Stockholders' Meeting held at the Philippine Stock Exchange Auditorium in Pasig City, Philippines, 11 highly-

qualified and highly-experienced professionals with exemplary backgrounds on business, local and international finance and energy were elected by the stockholders to EDC's Board of Directors.

The present board is comprised of 8 regular directors and 3 independent directors. The regular directors are a good combination of executive and non-executive directors. All the elected members of the Board have been screened and evaluated by the Nomination and Compensation Committee to ensure qualifications under existing laws, rules, regulations and EDC's Corporate Governance Manual. All EDC Directors, most especially its Independent Directors, are active participants during meetings and in major corporate undertakings.

The election of three independent directors is our compliance above and beyond the legal and regulatory requirement. For the year 2012-2013, the following were the elected Independent Directors in the EDC Board: Atty. Francis Ed. Lim, Mr. Edgar O. Chua, and Mr. Arturo T. Valdez.

EDC defines an independent director as "...one who is independent of Management and who is free from any business or other relationship with the Company which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director of the Company. An Independent Director is also one who possesses all the qualifications and none of the disqualifications for an independent director under existing laws, government issuances, rules or regulations.

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

CONSTITUTION AND COMPOSITION OF THE EDC BOARD COMMITTEES

As per rule, only three committees are required. In EDC, we created five board-level committees to handle oversight functions of day-to-day matters, which would require careful deliberation. The committee members are appointed in consideration of regulatory requirements, best practices and operational demands. Our independent directors are active members in the Audit and Governance Committee, Nomination and Compensation Committee and Corporate Social Responsibility Committee.

Audit and Governance Committee

- Edgar O. Chua (*Chairman, Independent*)
- Francisco Ed. Lim (*Independent*)
- Francis Giles B. Puno
- Ernesto B. Pantangco

• **Financial Reporting and Disclosures:** Reviewed with management and the external auditor (SGV & Co.) the annual and quarterly interim financial reports.

• **Internal Control Environment:** Reviewed the results of the external audit regarding internal control issues; demonstrated functional responsibility over Internal Audit and Compliance Office and receiving reports on work done in assessing key governance, risk management and control components and promoted a culture of integrity and ethical values in the company.

• **External and Internal Audit:** Reviewed and affirmed the management evaluation on the performance of the external auditor (for the 2011 financial statements audit) and approved the reengagement of SGV & Co. for another year (2012 audit) as well as the non-audit services rendered by external auditors.

• **Compliance:** Approved the annual plan of the Compliance Office, strengthened the governance framework such as ensuring that all directors and senior executives comply with the corporate governance training requirements, among others.

• **Assessment of Performance:** In compliance with SEC Memorandum Circular No. 4, Series of 2012, the Audit and Governance Committee assessed its own performance based on the guidelines and parameters set in SEC, and the results of which were reported to the SEC last October 4, 2012 (i.e. overall rating of 'Very Satisfactory').

Nomination and Compensation Committee

- Federico R. Lopez (*Chairman*)
- Elpidio L. Ibañez
- Francis Giles B. Puno
- Peter D. Garrucho, Jr.
- Arturo T. Valdez (*Independent*)

• **Compliance:** Under the Securities Regulation Code and the Company's Corporate Governance Manual, the committee reviewed the qualifications, credentials and disqualifications of nominees for regular and independent directors for the 2012 annual stockholders meeting.

• **Review of Management Qualifications:** Evaluated the qualifications of new vice presidents (Supply Chain,

Power Generation and Project Development Officer for EDC International) and appointments of other officers to new or different sectors.

Risk Management Committee

- Francis Giles B. Puno (*Chairman*)
- Jonathan C. Russell
- Peter D. Garrucho, Jr.

• **Business Continuity Management:** launched the Business Continuity Management Project in all business units, and targeted for completion in 2013.

• **Strategic Business Unit Risk Review:** Reviewed risks associated with an SBU-led organization vis-à-vis steam availability, power availability and reliability and CSR projects.

• **Electric Cooperative Credit Risk Portfolio:** Conducted a credit risk portfolio analysis of customers to identify the credit default risk exposure of the company, focusing on their financial strength and credit worthiness.

• **Vendor Evaluation:** Conducted 34 financial evaluations of suppliers to provide an understanding of the financial risks of the supply chain system.

Corporate Social Responsibility Committee

- Federico R. Lopez (*Chairman*)
- Edgar O. Chua (*Independent*)
- Arturo T. Valdez (*Independent*)
- Ernesto B. Pantangco

• **Oversight Function:** Monitored and reviewed the CSR policy and strategy vis-à-vis socioeconomic development of EDC's host communities and environmental stewardship programs. These programs have

been guided by EDC's pursuit of corporate excellence that goes beyond compliance and beyond the financial bottom line.

• *CSR Strengthening:*

Approved the CSR road map for the Health, Education, Livelihood and Environment (HELEn) projects and established major Climate Change Program thrusts.

Operations Committee

- Richard B. Tantoco
- Francis Giles B. Puno
- Ernesto B. Pantangco
- Jonathan C. Russell
- Peter D. Garrucho, Jr.
- Elpidio L. Ibañez

• *Operations Matters:*

Deliberated on 72 items, which were approved or elevated to the Board for final approval with a cumulative worth of about PhP39.35 billion. Of these, more than 40% of the items pertained to drilling activities while the bulk of the amount for operational support activities pertained to

the 2012 corporate budget of EDC and the subsidiaries GCGI and BGI.

ATTENDANCE IN BOARD MEETINGS

Members of the EDC Board ensured their maximum participation by conscientiously attending all Board and Committee meetings for 2012. Their constant presence in Board and Committee Meetings fostered a more effective Board governance framework. Disclosures filed at the SEC and the PSE show attendance of the different Committee Chairpersons during the 2012 Annual Stockholders' Meeting of EDC.

THE CHAIRMAN OF THE BOARD & THE CHIEF EXECUTIVE OFFICER

In 2012, the positions of Chairman and Chief Executive Officer (CEO) have been vested anew in one individual when Mr.

Federico R. Lopez was reelected as both Chairman of the Board and Chief Executive Officer of EDC.

In order to provide the necessary checks and balances for the positions, the Company's By-Laws and the 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.

Since Mr. Lopez was first elected as Chairman and CEO of EDC, there has been no instance of any conflict in function in the performance of his duties as Chairman and CEO of the Company.

Directors' Attendance in Board Meetings and the Annual Stockholders' Meeting for 2012

Name of Directors	ASM*		ORG**						
	31-Jan	24-Feb	13-Mar	9-May	9-May	10-Jul	5-Sep	17-Oct	20-Nov
OSCAR M. LOPEZ	P	P	P	P	P	P	A	P	P
FEDERICO R. LOPEZ	P	P	P	P	P	P	P	P	P
RICHARD B. TANTOCO	P	P	P	P	P	P	P	P	P
ELPIDIO L. IBAÑEZ	P	P	P	P	P	P	P	P	P
PETER D. GARRUCHO, JR.	P	P	P	P	P	P	P	P	P
ERNESTO B. PANTANGCO	P	A	P	P	P	P	P	P	P
FRANCIS GILES B. PUNO	P	P	P	P	P	P	P	P	P
JONATHAN C. RUSSELL	P	P	P	P	P	P	P	P	P
FRANCIS ED. LIM (IND.)	P	P	P	A	P	P	P	P	P
EDGAR O. CHUA (IND.)	P	P	P	P	P	P	P	P	P
ARTURO T. VALDEZ (IND.)	P	P	P	P	P	P	P	P	P

* Annual Stockholders' Meeting
** Organizational Meeting

P-Present
A-Absent

Directors' Attendance in Committee Meetings for 2012

EDC DIRECTORS	Audit & Governance (4 Meetings)	Nomination & Compensation (3 Meetings)	Risk Management (1 Meeting)	Corporate Social Responsibility (1 Meeting)	Operations (37 Meetings)
OSCAR M. LOPEZ	1				
FEDERICO R. LOPEZ	3	3 (Chairman)	1	1 (Chairman)	23 (Member)
RICHARD B. TANTOCO	3	1	1	1	29 (Member)
PETER D. GARRUCHO, JR.	1	3 (Member)	0 (Member)		5 (Member)
ERNESTO B. PANTANGCO	4 (Member)	1	1	1 (Member)	22 (Member)
FRANCIS GILES B. PUNO	4 (Member)	3 (Member)	1 (Chairman)		20 (Member)
JONATHAN C. RUSSELL	3	1	1 (Member)		32 (Member)
FRANCIS ED. LIM (IND.)	4 (Member)	1			
EDGAR O. CHUA (IND.)	3 (Chairman)	1		1 (Member)	
ELPIDIO L. IBAÑEZ	2	3 (Member)	1	1	28 (Member)
ARTURO T. VALDEZ (IND.)	3	2 (Member)	1	1 (Member)	1

NOTES:

- Directors are issued an open invitation to attend all Committee Meetings. As such, even non-members' attendance are likewise indicated in the table
- The Operations Committee is a collegial body and there is no Chairman.
- Source: 2012 Board Committee Reports, Committee Secretariats, EDC Director Relations Office

CORPORATE GOVERNANCE EVALUATION

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

In 2012, the Compliance Office assisted the Board in the conduct of its Annual Self-Assessment and President's Evaluation, featuring a new evaluation tool whereby respondents were asked to cite their reasons for giving the highest and the lowest ratings. This feature would help the Board and Management know the rationale for the ratings and as such, they can provide inputs for the improvement of Board processes and activities.

For the Board's Self-Assessment, highest rating was given to the board's accountability and independence. A comparison of the 2012 and 2011 results shows a marked consistency on items relating to accountability, independent-mindedness and stewardship. Further, on their recommendations for improvement, several suggestions reiterate the need to focus more on strategy and strategic processes. On the other hand, for the President's Evaluation, the

2012 cycle resulted in the highest evaluation rating for the president, with the respondents citing that the President/COO'S clear vision, strategies & directions, leadership, management skills, financial expertise and capacity to cooperate and work closely with the Board helped achieve the company's strategic objectives.

DISCLOSURE AND TRANSPARENCY

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

In 2012, we complied 100% with all required structured reports to the SEC, and a total of 37 unstructured reports and disclosures to both the SEC and PSE. One of the strongest disclosure tools used by the company is its website (www.energy.com.ph) which is kept updated at all times with full, fair and accurate reports to comply with the disclosure requirements of the SEC and PSE.

The Office of the Corporate Secretary, the Compliance Office and other concerned groups in coordination with the Investor Relations Office submit disclosures on time.

Our commitment to full disclosure is embodied in the Corporate Governance Manual, stating that: "The Board shall, at all times commit to fully disclose material information and/or transactions that could potentially affect the market price of the company's shares and such other information which are required to be disclosed pursuant to the Securities Code

and its Implementing Rules and Regulations including, without limitation, earnings results, acquisition or disposal of significant assets, off balance-sheet transactions, Board membership changes, shareholdings of Directors and Officers and any changes thereto, and remuneration of Directors and Officers and related party transactions."

PLANS TO IMPROVE

We recognize the stockholders and other stakeholders' expectations of high standards of behavior and accountability, from our directors and officers to our employees. We adhere to the corporate governance principles of loyalty, fairness, accountability, transparency and integrity.

All our directors, officers and employees are required and expected to carry out their respective duties and responsibilities effectively and in compliance with these governance principles.

We are continually reviewing policies and processes for further improvements in corporate governance practices to address the changes in government legislation, administrative regulations and international best practices. To this end, we have been strengthening our reportorial partnerships with regulatory government agencies and SEC-accredited corporate governance institutions. Through our Compliance Office, EDC has 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



Oscar M. Lopez
Chairman Emeritus

Federico R. Lopez
Chairman & CEO

Richard B. Tantoco
President & COO



Peter D. Garrucho, Jr.
Director

Ernesto B. Pantangco
Director

Elpidio L. Ibañez
Director

Francis Giles B. Puno
Director

Jonathan C. Russell
Director



Francis Ed. Lim
Independent Director

Edgar O. Chua
Independent Director

Arturo T. Valdez
Independent Director

Teodorico Jose R. Delfin
Corporate Secretary

Ana Maria A. Katigbak-Lim
Assistant Corporate Secretary

Oscar M. Lopez, 82

Mr. Lopez, Filipino, is the Chairman Emeritus of both the Lopez Holdings Corporation (formerly Benpres Holdings Corporation), the holding company for major investments in broadcast, telecoms and cable, power generation and distribution; and First Philippine Holdings Corporation (FPH), the specific associate holding company for power generation and distribution, property and manufacturing. 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. 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. 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 the Lopez Group Foundation. 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." Mr. Lopez was born on April 19, 1930. He 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, 51

Mr. Lopez, Filipino, is Chairman and CEO of EDC. He is also the Chairman and CEO of FPH, 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 Philippine Business for Social Progress and the Philippine Tropical Forest Conservation Foundation. He is also a member of the World President's Organization. Recently he was elected Chairman of the Oscar M. Lopez Center for Climate Change Adaptation and Disaster Risk Management Center.

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., 68

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 FPH and as Vice Chairman and CEO of First Gen Corp. where he continues to be a Director. 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).

Epidio L. Ibañez, 62

Mr. Ibañez, Filipino, has been a Director of EDC since July 2010. He is also the President and Chief Operating Officer of FPH. 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 also a director of various FPH 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, 46

Mr. Tantoco, Filipino, is the President and 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., and Executive Vice President of First Gen Bukidnon Power Corporation, Unified Holdings Corp., First

Gen Northern Energy Corp., and First Philippine Holdings. He was recently elected as one of the Board of Trustees and President of the Oscar M. Lopez Center for Climate Change Adaptation and Disaster Risk Management Foundation, Inc. He has been a 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, 62

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 FPCC and BPPC. He is the President of the Philippine Independent Power Producers Association (PIPPA) for the last 11 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, 48

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. He is also the Executive Vice President and Chief Financial Officer (CFO) of First Philippine Holdings Corp., and sits in the board of First Gen Hydro Power Corporation. 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, 48

Mr. Russell, British, has been a Director of EDC since November 2007. He is also an Executive Vice President of First Gen Corp. 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 & Export Management from the City University Business School, London, England (1989) and a Bachelor of Science with Honours in Chemical & Administrative Sciences from the City University, London, England (1987).

Francisco Ed. Lim, 58

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

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

Edgar O. Chua, 56

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 the 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. 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, 64

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.

Teodorico Jose R. Delfin, 44

Corporate Secretary

Atty. Delfin, Filipino, was appointed by the Board in July 2010. He is also Corporate Secretary of First Gen Hydro Power Corp., Green Core Geothermal Inc., BacMan Geothermal Inc., EDC Geothermal Corp., EDC Wind Energy Holdings, Inc., and several other Company subsidiaries. Prior to joining the Lopez Group, he was part of the FERIA Law Offices and the East Asia Power Resources Group, and has served in various capacities at the state-owned Philippine Amusement and Gaming Corporation. Mr. Delfin graduated with a Bachelor of Arts in Political Science degree from the University of the Philippines (1989) and earned his Bachelor of Laws degree from the University of the Philippines College of Law (1997).

Ana Maria A. Katigbak-Lim, 43

Assistant Corporate Secretary

Atty. Katigbak-Lim, Filipino, was appointed by the Board in January 2007. She is a member of the Castillo Laman Tan Pantaleon & San Jose Law Firm. Atty. Katigbak-Lim graduated cum laude at the University of the Philippines with an A. B. degree. She is a graduate of the University of the Philippines College of Law (1994) and a member of the Phi Kappa Phi international honor society. Her practice areas are corporate law, securities and litigation. She was admitted to the Philippine Bar in 1995.

Key Executives



Federico R. Lopez
Chairman & CEO

Richard B. Tantoco
President & COO

Ernesto B. Pantangco
Executive Vice President

Nestor H. Vasay
Chief Financial Officer

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

Manuel S. Ogena
SVP Technical Services

Marcelino M. Tongco
SVP Strategic Contracting

Rico G. Bersamin
SVP Steamfield Operations



Erwin O. Avante

*VP, Corporate Finance/
Head of Negros Island Geothermal
Business Unit*

Wilfredo A. Malonzo

VP, Supply Chain Management

Vincent Martin C. Villegas

VP, Business Development

Ma. Elizabeth D. Nasol

*VP, Human Resource
Management*

Dominic M. Camu

*VP, Power Generation /
Head of Bacman Geothermal
Business Unit*

Ferdinand B. Poblete

Chief Information Officer

Ariel Arman V. Lapus

VP, Business Development - International

*Not in Photo:

Maribel A. Manlapaz

Comptroller

Glenn L. Tee

Chief Audit Executive

Erudito S. Recio

Investor Relations Officer

Key Executives



Liberato S. Virata
*Resident VP, Bacman Geothermal
Business Unit*

Ellsworth R. Lucero
VP, Leyte Power Generation

Alejandro V. Catacutan
*Resident AVP, Mindanao Geothermal
Business Unit*

Manuel C. Paete
*Resident VP, Leyte Geothermal
Business Unit*

Dwight A. Maxino
*Resident VP, Negros Island
Geothermal Business Unit*

*Not in Photo: **Richard P. Difuntorum**
AVP-Power Plant Head, FGHPC

MEMBERSHIPS IN ASSOCIATIONS

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

*clean. reliable. sustainable.
Simply geothermal power.*

The oil crisis brought out the pioneers and the innovative in us. We mastered a groundbreaking technology and transformed our very own volcanic steam resources into usable electrical power. And the bonus? It is renewable.



2012 SUSTAINABILITY: THE WORK OF A TEAM

Sustainability Champions

Federico R. Lopez
Chairman & CEO

Richard B. Tantoco
President & COO

Sustainability Council

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

Nestor H. Vasay
*Chief Financial Officer /
Head of Mindanao Geothermal
Business Unit*

Maribel A. Manlapaz
Comptroller

Ferdinand B. Poblete
Chief Information Officer

Marcelino M. Tongco
SVP, Strategic Contracting

Rico G. Bersamin
*SVP / Head of Leyte Geothermal
Business Unit*

Manuel C. Paete
*Resident VP, Leyte Geothermal
Business Unit*

Ellsworth R. Lucero
*VP, Power Generation, Leyte Geothermal
Business Unit*

Erwin O. Avante
*VP, Corporate Finance / Head of Negros
Island Geothermal Business Unit*

Dwight A. Maxino
*Resident VP, Negros Island Geothermal
Business Unit*

Dominic M. Camu
*VP, Power Generation / Head of Bacman
Geothermal Business Unit*

Liberato S. Virata
*Resident VP, Bacman Geothermal
Business Unit*

Alejandro V. Catacutan
*Resident AVP, Mindanao Geothermal
Business Unit*

Richard P. Difuntorum
AVP-Power Plant Head, FGHPC

Milo V. Alejo
Head of Strategy Management

Regina Victoria J. Pascual
*Senior Manager, Environmental
Management*

Rhoda D. Cruz
Manager, Supply Chain Management

Allan V. Barcena
Manager, Watershed Management

Fernando B. Diaz de Rivera
Manager, Public Relations

Core Technical Working Group

Public Relations Department

Dave Jesus T. Devilles
Frances Ariola

Leyte Geothermal Business Unit

Romeo Rex B. Radaza
Clarissa Therese J. Soco
Constantino D. Diaz

Bacman Geothermal Business Unit

Edbert A. Zenit
Leonora Angela Cal Ortiz
Henry P. Roy, Jr.
Eduardo L. Jimenez

Negros Island Geothermal Business Unit

Rene V. Bolo
Gil. P. Moncal, Jr.
Norreen G. Bautista
Erwin B. Magallanes
Jan Mark M. Wong
Gerard V. Nueva España

Mindanao Geothermal Business Unit

Elmo Valentin F. Butardo
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Pantabangan-Masiway Hydro Power Business Unit

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Romelyn D. Adrados

Power Generation

Anaflor L. Candelaria
Jose Ponciano P. Tiglao
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Arrence Art I. Cuevas
Hazel A. Antonio

Human Resource Management

Oscar Fernando G. Soliman
Mary Jean C. Hungriano
Ruth Ann R. Dungca
Gerard Rae R. Yuson
Oscar Fernando G. Soliman

Safety

Nestor S. Evaristo

Compliance Office

Maria Jasmine M. Almogino

Risk Management

Larissa N. Jason

Policy Advocacy and Government Relations

Ann Christine T. Rojo

Information Technology Services

Reynaldo Horbino
Francis A. Alvir

Strategic Contracting

Justino C. Alcantara

GRI Adviser

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

ASSURANCE STATEMENT

The ERC is composed of renowned professionals in the different practice areas of sustainability who, at the request of the company, evaluate the organization's sustainability performance in a given year. Through this mechanism, the company takes in the opinion of leading independent sustainability experts to help strengthen and scale up its sustainability measurement, management and reporting to stakeholders.

OVERVIEW

Since 2009, the Energy Development Corporation (EDC) has been submitting an Integrated Annual and Sustainability Report (IASR) based on the Key Performance Indicators (KPIs) and Guideposts outlined in the Global Reporting Initiative (GRI). In 2010, the IASR has been subjected to validation by an External Review Committee (ERC) composed of academics and outside consultants, who are national experts on environment, economy and society. In 2011, the EDC filed for a B+ Application with the GRI. For the 2012 IASR, the EDC is seeking a Level A+ Application. Clearly, EDC is committed to scale upward its GRI ladder of sustainability performance to reaffirm its commitment to do renewable energy business the sustainable way.

We, the members of the ERC for 2012 IASR of EDC, were tasked to look into the EDC's reporting on its social, economic and environmental performance based on the updated GRI's KPIs. For this purpose, we kept in mind that all the reportorial requirements on sustainability in the different areas of work and business fleshed out in the GRI system must meet the criteria of Inclusiveness (involvement of various stakeholders), Materiality (relevance of the data reported) and Responsiveness of the measures taken by the EDC. Hence, assurance on the 2012 IASR is only possible if there is full EDC disclosure of data and information in all critical areas listed under the GRI system and if the EDC is prepared to subject itself to deeper scrutiny and validation through on-site visits, interactive dialogue with key stakeholders and examination of the pertinent company records.

PROCESS

We are pleased to affirm that EDC has been very open in the disclosure of the needed data and in arranging the on-site visits and dialogues/interviews with stakeholders in the different EDC geothermal sites located in Southern Mindanao, Northern Negros, Southern Negros, Leyte and Bicol. The interviewees in each site represent varied stakeholder groups: managerial, HR, safety, environmental and CSR officials; trade unionists; contractors/suppliers; local government officials (mayors and barangay captains); principals in EDC-assisted schools and EDC scholars; leaders of cooperatives and farm associations; and employees.

The only facility that was not visited by the ERC team was the hydro power plant in Pantabangan (a non-geothermal EDC facility), because of the difficult

political situation in the area. However, the officials of the hydro power plant gave a special briefing to ERC in the EDC headquarters in Ortigas Center, where the company's SVP for Environment & External Relations and Compliance and other corporate officers actively participated in the ensuing dialogue with the ERC. The EDC also promptly responded to the requests of the ERC for additional data such as the audited financial report for 2012.

Also, in March 2013 towards the end of our engagement for the review of EDC's 2012 performance, a natural calamity happened in its geothermal facility in Kananga, Leyte. The EDC apprised the assurance panel about the incident and how it was being addressed. The matter is still under investigation by the company as of the time of the writing of the report.

Overall, we are satisfied with the efforts of EDC to be transparent and complete in its sustainability reporting.

OBSERVATIONS & FINDINGS

Area-wise, the scale of EDC's operations is huge and unparalleled in the Philippine geothermal business. The geothermal sites collectively measure 266,326 hectares of mountainous public land, or one (1) per cent of the country's total land area. These sites are covered by an ambitious EDC greening program called BINHI, which seeks to reforest 10,000 hectares in ten years, maintain the standing forest, and enrich the biodiversity in these areas. The EDC reported 1,284 hectares reforested in 2012. This greening program is being reinforced by an array of environmental programs such as erosion control under an integrated watershed management system put in place in each site.

Care of the environment is also the guiding precept in the conduct of the core business of EDC, which is the sequestration of steam power to generate electricity and reduce the country's dependence on fossil fuel. Under the EDC's zero disposal system, the extracted geothermal fluid or brine is re-injected back into the underground steam fields where it came from. For 2012, the EDC generated total sales volume of 7,033 GWH out of its active power generating assets.

The renewable geothermal steam and hydro power extraction business and the BINHI greening program are complemented by an equally ambitious community-oriented CSR program composed of HELEn (an array of health-education-livelihood-environmental programs), special projects (e.g., skills development schools), small/large contracts and support to the Mt. Apo Foundation. These are all targeted for the benefit and well-being of the communities living in and around the different EDC sites. For 2012, the EDC allotted five hundred million pesos (P500M) for these CSR projects and reported that there were at least 22,000 and 8,000

beneficiaries for its education and livelihood/small contract projects respectively. The EDC also works in partnership with 44 barangays. In the dialogues with beneficiary LGUs, beneficiary schools and beneficiary cooperative/farmers' groups, the ERC saw vividly how EDC has become central in the life of the people living in and around the EDC geothermal sites, that is, as a source of jobs, scholarships and health assistance. No company in the Philippines can rival the scale and social impact of EDC's CSR program.

In support of its energy extraction business and the foregoing greening/environmental and CSR programs, the EDC maintains a work force of 2,567, with 160 classified as non-regulars. This is relatively lean given the scale and magnitude of EDC's manifold work. However, the reported work force does not include the workers of hundreds of contractors doing myriad services, ranging from janitorial and security to short-term construction and road-building projects. EDC is highly unionized and has collective bargaining agreements or CBAs with 13 active unions. The EDC offers competitive wage levels that are higher than the regional minimum wage and considers local community residents as priority candidates for its human capital requirements in each business location. A non-contributory defined benefit retirement plan for its regular employees is maintained with a trustee bank aside from post-employment benefits and savings plan. In 2012, some 407 of its employees availed of early and/or mandatory retirement benefits.

To ensure availability and reliability of electricity supply, a regular maintenance program has been put in place. Rehabilitative work in the Bacman plant, on-going in 2012, is expected to be completed in early quarter of 2013.

EDC has an Energy Academy to develop the next-generation of scientific-technical geothermal personnel. It has been investing on geothermal-related R&D programs, which means the allocation of US\$13 million for EDC personnel pursuing advanced studies; NZ\$1 million for a collaborative research agreement with the New Zealand's GNS Science; and some US\$2.3 million for R& D in the Philippines.

On incremental economic value (EV), the 2012 data indicate significant flowback of wealth to its stakeholders more than the retained economic value, the impacts of landslides and floods due to heavy rains notwithstanding. Cost-wise, the natural calamities in 2012 amounted to P10.2 million less than the P355.8 million losses in 2011.

EDC has been trying to minimize such calamities. A five-year program to address climate change resilience commenced in 2012 with the installation of the Phase One Basic Early Warning System (BEWS). Also worth mentioning here is the EDC's strict adherence to its health and safety standards which are enforced EDC-wide, for the observance by all, employees and guests alike. For instance, in every on-site visit by the ERC, the team members were given formal health and safety

orientation and were asked to wear the needed hard hats and protective gear in visiting the turbine areas.

SOME ISSUES AND CONCERNS

This brings us to some issues and concerns, which we hope the EDC can focus on in the coming months to further improve their operations. There is no doubt in our mind that EDC is a model employer and it has carved a special niche in the Philippine corporate world by doing trail-blazing CSR programs such as HELEn and the unequalled BINHI greening program. By and large, it has fulfilled the reportorial requirements of the GRI.

However, sustainability is a never-ending task and requires continuous investment on the upward upgrading of existing programs. The following are some of the major issues and concerns identified by the ERC:

First, the EDC should take a fresh and thorough review of its contracting business. Being lean should not lead to a bloated outsourcing business. In Ormoc, while there is only a small number of EDC contractors that have NLRC cases for allegedly violating certain labor standards, there should be a zero-tolerance policy on irresponsible and unethical contracting, similar to the EDC's zero-tolerance policy on any violations of health and safety standards.

Secondly, while EDC bases its hiring on the applicant's qualifications and not on gender, it should integrate affirmative gender-sensitive measures in its administrative and operations programs such as openly advertising that all jobs are open to both women and men possessing similar skills and credentials.

Thirdly, while HELEn, BINHI, and skills development institutions such as KEITECH provide significant and enormous benefits to the partner communities and stakeholders, the challenge to EDC is how to make these socio-environmental-economic programs sustainable investments for the sustainable empowerment of these communities and stakeholders. Can the spirit of EDC-community partnership evolve from one of dependence on EDC's largesse to one of co-responsibility and co-ownership of these programs?

Fourthly, the recent calamities not only in EDC's areas but even in other parts of the country that were said to be brought about by Climate Change should push the company to accelerate the completion and implementation of all its Climate Change Risk Reduction Programs in all its sites.

CONCLUSION

The EDC's sustainability investment management strategy continues to lessen the nation's dependence on fossil fuel, uplift peoples' lives and deepen beneficial partnership with the communities and other stakeholders. The 2012 Sustainability Report is anchored on full disclosure of data that justifiably supports the application level of GRI A+.

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UNIVERSITY OF ASIA AND THE PACIFIC
CENTER FOR SOCIAL RESPONSIBILITY



The Center for Social Responsibility at the University of Asia and the Pacific (CSR-UA&P) was commissioned by EDC to host the 2012 External Review Committee. Our terms of engagement were limited to facilitating the administrative and logistical requirements of the ERC and were not part or responsible for preparing the assurance statement nor have effective control over the data and information disclosed. Thus, CSR-UA&P assumes no responsibility over the statement and shall not be liable to any person or organization for any loss, damage or expense caused by reliance on the information or advice in this document.

GRI 3.1 EUSS Content Index

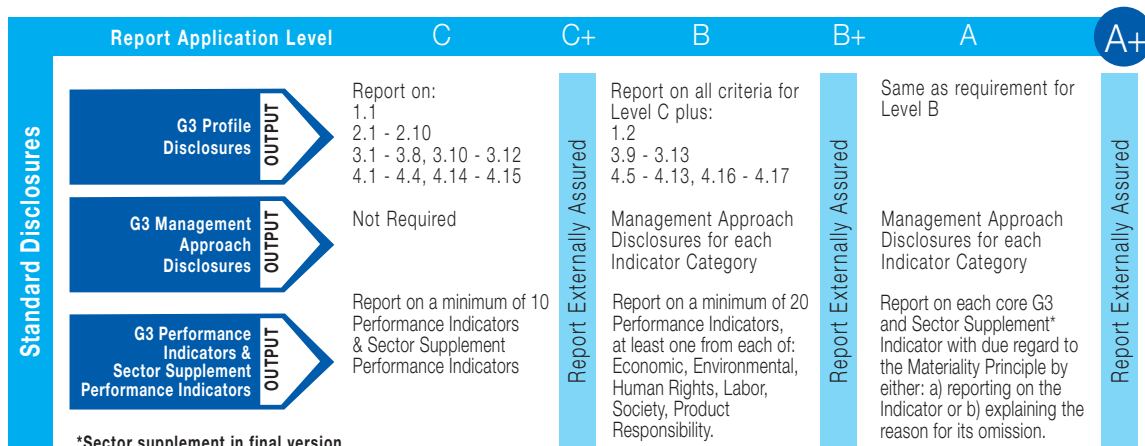
Disclosure	Level of reporting	Location of disclosure (Or direct answer as applicable)	IFC Performance Standards
STANDARD DISCLOSURES PART I: Profile Disclosures			
1. Strategy and Analysis			
1.1	Statement from the most senior decision-maker of the organization.	Full	Pages 6 to 17
1.2	Description of key impacts, risks, and opportunities.	Full	Pages 4, 34, 42
2. Organizational Profile			
2.1	Name of the organization.	Full	Energy Development Corporation
2.2	Primary brands, products, and/or services.	Full	Energy generated from geothermal and hydro resources
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Full	SEC 17-A Report, pages 1-2 (http://www.energy.com.ph/investor-relations/psesec-structured-reports/)
2.4	Location of organization's headquarters.	Full	Pasig City, Philippines
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Full	No operations yet in Chile, Peru and Indonesia
2.6	Nature of ownership and legal form.	Full	SEC 17-A Report , page 8 (http://www.energy.com.ph/investor-relations/psesec-structured-reports/)
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Full	Philippine power grid markets in Luzon and Visayas, distribution utilities mostly in Visayas and institutional customer National Power Corporation
2.8	Scale of the reporting organization.	Full	As of Dec. 31, 2012, EDC has 2,567 employees with commercial operations in Bicol, Leyte, Negros Island and Mindanao in the Philippines for a total of 1,130 MW
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Full	There were no significant changes in the size and structure during fiscal year 2012
2.10	Awards received in the reporting period.	Full	Page 23
EU1	Installed capacity, broken down by primary energy source and by regulatory regime.	Full	Page 5
EU2	Net energy output broken down by primary energy source and by regulatory regime	Full	Page 33
EU3	Number of residential, industrial, institutional and commercial customer accounts.	Full	A total of 23 commercial customers (distribution utilities, industrial estate) vs 12 only in 2010, mostly institutional customer
EU4	Length of above and underground transmission and distribution lines by regulatory regime	N / A	EDC does not handle transmission and distribution for the electricity supplied to customers
EU5	Allocation of CO2e emissions allowances or equivalent, broken down by carbon trading framework.	N / A	The Philippines has yet to adopt a regulatory framework in connection with the Kyoto Protocol on the reduction of CO2 emission targets and carbon trading, hence EDC has yet to observe allowances at this time.
3. Report Parameters			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Full	Calendar year 2012
3.2	Date of most recent previous report (if any).	Full	May 9, 2012
3.3	Reporting cycle (annual, biennial, etc.)	Full	Annual
3.4	Contact point for questions regarding the report or its contents.	Full	Public Relations Department (pubrels@energy.com.ph)
3.5	Process for defining report content.	Full	Materiality: In 2010, EDC conducted its most comprehensive materiality assessment to determine the GRI indicators that are relevant to the company's performance. Stakeholder Inclusiveness: Investor roadshows & stakeholder consultations were conducted Sustainability Context: The messages of the Chairman, President and CFO set the context of EDC's sustainability performance. The brief introductions of the three major sections (economy and society, environment and people and corporate governance) of this report further drills down the context. Completeness: We strive to provide update on material issues that cut across the concerns of stakeholders. Special areas of interest include CSR and environmental management. Balance: We report on a set core performance indicators, sustainability goals and priorities to illustrate both positive and negative performance trends Comparability: Key performance metrics are presented in major performance areas. When available, industry performance data are included for comparability. Accuracy: We employ internal & external validation of performance. Internal auditors and subject matter experts provide their respective validation to ensure reliability of reporting. Timeliness: The corporate and sustainability reports have been combined and integrated into s the EDC Performance Report. It is published every 2 nd Tuesday of May (annual stockholders meeting). Clarity: Data are presented in concise illustrations and infographics. Reliability: Financial statements are assured by SGV, an auditing firm in the Philippines. The non-financial aspects are validated by 5 independent subject matter experts hosted by the University of Asia and the Pacific-Center for SR
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Full	All information in this report covers areas where we have operational control, environmental impact and social involvement. It also covers subsidiaries GCGI, BGI and affiliate FGHPC.
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Full	This report does not include direct sustainability information from our suppliers, customers and contractors. Some indicators may not be comparable to previous years because they are being reported for the first time this year.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Full	Reporting on the sustainability of subsidiaries GCGI, BGI and affiliate FGHPC is deemed important as EDC has direct control over these entities.
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Full	Our data were subjected to a rigorous internal and external verification process led by the technical working group that verified qualitative and quantitative information.
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Full	Restatement was only done on previous financial statements. Sustainability information reporting has no restatement.
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Full	None
3.12	Table identifying the location of the Standard Disclosures in the report.	Full	This set of pages on GRI Index
3.13	Policy and current practice with regard to seeking external assurance for the report.	Full	Our reports has are validated by a team of external experts in economic, environmental, social and labor sectors. Their statement appears on page 73.
4. Governance, Commitments, and Engagement			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	Full	Page 59
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Full	Page 57
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	Full	Page 57
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Full	Page 24
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	Full	EDC's compensation philosophy is to recognize company & individual performance as reflected in the value of each officer or employee's position compared against the marketplace and within the company. Executive officers are compensated in a manner that is consistent with these principles, aligns the interests of management and shareholders and drives sustained and superior performance.
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Full	Page 56
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	Full	Page 58
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.	Full	Page 5 and also found in www.energy.com.ph
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Full	Pages 58 to 59

Disclosure	Level of reporting	Location of disclosure (Or direct answer as applicable)	IFC Performance Standards
4.10	Full	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. Page 60	
4.11	Full	Explanation of whether and how the precautionary approach or principle is addressed by the organization. The operations and risk management committees are set up to assess & develop accompanying measures to address gaps in risk management, occupational health, safety and environmental risks. At the very minimum EDC ensures that its operational controls comply with government regulations and applicable international standards.	PS 1, PS 4
4.12	Full	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. EDC through the owners Lopez Family has committed the company's nationwide reforestation program to the Clinton Global Initiative	
4.13	Full	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic. Page 69	
4.14	Full	List of stakeholder groups engaged by the organization. Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability/	
4.15	Full	Basis for identification and selection of stakeholders with whom to engage. Our Approach to sustainability webpage http://www.energy.com.ph/our-social-sustainability	PS 1, PS 5, PS 7
4.16	Full	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. Pages 22 and 40	PS 1, PS 5, PS 7
4.17	Full	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. Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability/	PS 1, PS 5, PS 7
STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)			
Disclosure on Management Approach EC			
	Full	Economic performance We will enhance our leading market position in the Philippine geothermal energy business & pursue strategic business opportunities, leveraging our strong technical expertise in geothermal energy exploration, drilling, development & production.	
	Full	Market presence Our goal is to be the preferred supplier of electricity (average 85% capacity factor across its geothermal power plants), provide electricity at competitive rates, achieve superior long standing relationships with our customers and offer value added services in a systematic manner.	
	Full	Indirect economic impacts Through our CSR & environmental programs, we are able to empower our stakeholders & partner communities to become agents of their own development. Positive externalities:, uplifting the standard of living of host communities, preservation of watersheds and reducing of the country's carbon intensity by displacing fossil fuel-based power generation.	
	Full	Availability and reliability 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 EDC to set its target reliability factor at 99% and target availability factors of 94-96% across all power plants.	
EU6	Full	Management approach to ensure short and long-term electricity availability and reliability Pages 12 and 33	
EU7	Not Reported	Demand-side management programs including residential, commercial, institutional and industrial programs EDC has yet to embark on demand-side management but recognizes its importance as a way to enhance customer service and demonstrate action on climate change	
EU8	Full	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development Pages 12, 13 to 14, 33	PS 1
EU9	N / A	Plant decommissioning Provisions for decommissioning of nuclear power sites We do not operate nuclear power plants	
Disclosure on Management Approach EN			
	Partial	Materials _{COMM} Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Energy Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Water _{COMM} Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Biodiversity _{COMM} Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Emissions, effluents and waste _{COMM} Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Products and services Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Compliance Our Approach sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Transport Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
	Full	Overall Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
Disclosure on Management Approach LA			
	Full	Employment Our Approach to sustainability http://www.energy.com.ph/our-social-sustainability	
EU14	Full	Programs and processes to ensure the availability of a skilled workforce Page 52	
EU15	Full	Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region Page 50	
EU16	Full	Policies and requirements regarding health and safety of employees and employees of contractors and subcontractors Page 36	
	Full	Labor/management relations Page 53	
	Full	Occupational health and safety Page 36	
	Full	Training and education Page 52	
	Full	Diversity and equal opportunity Page 52	
	Full	Equal remuneration for women and men Page 52	
Disclosure on Management Approach HR			
	Full	Investment and procurement practices We require all our employees to read the Code of Conduct and Business Ethics and to refer to it when investment & procurement issues arise (www.energy.com.ph/governance)	
	Full	Non-discrimination We do not tolerate workplace discrimination. Supporting policies like the anti-sexual harassment policy, fair and just treatment, and gender and cultural diversity policies are in place.	
	Full	Freedom of association and collective bargaining Page 53	
	Full	Child labor We do not tolerate any form of child labor or forced or compulsory labor in direct or indirect association with our business activities. We also respects the rights of indigenous peoples through the Cultural Heritage Policy	
	Full	Prevention of forced and compulsory labor	
	Partial	Security practices	
	Partial	Indigenous rights	
	Not Reported	Assessment Our newly signed Human Rights Policy will be further developed into a set of Implementing Rules and Regulations. Target reporting on this indicator is 2015	
	Not reported	Remediation	
Disclosure on Management Approach SO			
Local communities			
EU19	Full	Stakeholder participation in the decision making process related to energy planning and infrastructure development. EDC maintains constant dialogue & consultation with all stakeholders with regard to energy planning and infrastructure development. In 2012 there were no significant plans on infrastructure development. The 87 MW Burgos Wind Power Project conducted consultation since 2010. The wind project is slated to be commissioned in 2015.	
EU20	Full	Approach to managing the impacts of displacement Resettlement was implemented in the late 70s and early 80s when the geothermal projects began. Individuals or communities that were affected were provided with a relocation package and livelihood program. There was no relocation in 2012.	
	Full	Corruption Espoused in the Corporate Governance Manual, Whistleblower Policy and Code of Conduct and Ethical Business Practice Corporate Governance http://www.energy.com.ph/corporate-governance/	
	Full	Public policy We have a Public Advocacy and Government Relations group that aligns company interests with relevant laws and promulgations	
	Full	Anti-competitive behavior We do not monopolize the energy sector. EDC is a provider of clean electricity sold to institutional and commercial customers transmitted by another entity.	
	Full	Compliance As a publicly listed company, we are compliant with all regulatory requirements. In some instances, our compliance initiatives have been modelled by regulatory agencies for certain environmental policies.	

Disclosure	Level of reporting	Location of disclosure (Or direct answer as applicable)	IFC Performance Standards
EU21	Disaster/Emergency planning and response Contingency planning measures, disaster/emergency management plan and training programs, and recovery/restoration plans.	Full	We are committed to providing electricity to our customers in the most reliable and safe way. Our crisis management and business continuity protocols are in place to address extraordinary situations.
Disclosure on Management Approach PR			
	Customer health and safety Product and service labelling Marketing communications Customer privacy Compliance Access	Full	Operational Excellence, Bias for Action and Integrity are the three corporate values that directly link to our product responsibility approach. This means exercising due care in the generation of electricity to ensure that operations do not pose hazards to health and safety of the communities where the company operates and the environment. We have long standing management systems in place to assess the health & safety impacts of operations in all life cycle stages. We conduct business in accordance with the highest standards of business ethics.
EU23	Programs, including those in partnership with government, to improve or maintain access to electricity and customer support services.	Full	The Philippine Energy Department has a policy that encourages private sector participation in rural electrification. We are partner of the ER 1-94 program which articulates this policy. Our CSR group facilitates the electrification and development projects of the 43 host communities relative to the use of the ER 1-94 for electrification and development projects.
EU24	Practices to address language, cultural, low literacy and disability related barriers to accessing and safely using electricity and customer support services	Full	Short video presentations on safety are provided to customers. TV & radio commercials in local language are broadcast for better understanding of regional customers
STANDARD DISCLOSURES PART III: Performance Indicators			
Economic			
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.	Full	Page 37
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Full	Pages 7, 11 Reduced cost of damage from PhP350 million in 2011 to PhP10 million in 2012. Climate risk mitigation and adaptation projects intensified since 2006. EDC's climate change action is part of the Oscar M. Lopez Center for Climate Risk Management Foundation, Inc.
EC3	Coverage of the organization's defined benefit plan obligations.	Full	EDC has a funded, non-contributory, defined benefit retirement plan. The plan covers permanent employees and is administered by a trustee bank. EDC also provides post-retirement medical and life insurance benefits which are unfunded. Among the employees' benefits is a savings plan SLHOP (employee + company share).
EC4	Significant financial assistance received from government.	Full	None
Market Presence			
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	Full	Min. wage for rank & file employees ranges from 103%-156 % of the national wage in the country
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Full	Page 37
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Full	Page 52
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Full	Page 38
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Full	Pages 38 to 40
Availability and reliability			
EU10	Planned capacity against projected electricity demand over the long term, broken down by energy source and regulatory regime.	Full	In the Philippines, overall responsibility to supply electricity rests with state-owned National Power Corporation & the transmission with the recently privatized National Grid Power Corporation of the Philippines. The Department of Energy is responsible for planning & projecting energy capacity. EDC has committed 87MW wind power to supply power to the Luzon grid and 20MW Nasulo geothermal power project to supply electricity to the Visayas grid.
System efficiency			
EU11	Average generation efficiency of thermal plants by energy source and regulatory regime.	Full	Page 13
EU12	Transmission and distribution losses as a percentage of total energy.	N / A	We are not in the transmission business hence this indicator is N / A. All transmission lines, substations & distribution networks are maintained by another company.
Environmental			
EN1	Materials used by weight or volume.	Full	Page 33 Raw materials: Steam & Water Associated process materials: Drilling materials (rock bit, casing, bentonite, additive, cement), Fuel, Valve, Pipe, Bearing, Oil Semi-manufactured goods or parts: None Materials for packaging purposes: None None-renewable materials used: 19.06 million tons Direct materials used: 57.9 million tons
EN2	Percentage of materials used that are recycled input materials.	Not reported	Data is not available at this time. This indicator will be incorporated in the Enterprise Resource Planning Program to be reported in 2015.
Energy			
EN3	Direct energy consumption by primary energy source.	Full	Page 33 The electricity that EDC generates from geothermal (household) is directly used in powering operations at the sites, except at the head office where the source of electricity comes from the distribution utilities. • Direct non-renewable energy sources: None • Direct renewable energy sources: geothermal and hydro: Total of 136 million gigajoules
EN4	Indirect energy consumption by primary source.	Full	Page 34
EN5	Energy saved due to conservation and efficiency improvements.	Full	Page 34
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Full	Page 34 Generated 7,033 GWh. Reduced oil dependence equivalent 10.59 MMBFOE USD1.15B from oil imports.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Full	Pages 33 to 34 0.00006GJ reduction from office energy conservation efforts
Water			
EN8	Total water withdrawal by source.	Full	Page 43 Sources: Palayan Bayan, Tongonan, Ilomavis, Puhagan, Fatima
EN9	Water sources significantly affected by withdrawal of water.	Full	None, Page 43
EN10	Percentage and total volume of water recycled and reused.	Full	Page 43 34,937 cubic meters were recycled out of 1.18million cubic meters during drilling. The rest are injected back following zero disposal system
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Full	Page 47 EDC uses only 0.2% of the 2,663 sq km of total contracted area. Nearby protected areas and areas of high biodiversity are left untouched as much as possible per policy
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Full	Page 42
EU13	Biodiversity of offset habitats compared to the biodiversity of the affected areas	Full	Page 47
EN13	Habitats protected or restored.	Full	Page 47 89,700 hectares protected & reforested
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Full	Page 47

Disclosure	Level of reporting	Location of disclosure (Or direct answer as applicable)	IFC Performance Standards
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Full Page 48 7 Flora (Critically endangered) in Bacman, N. Negros, Leyte; 4 Fauna (Critically endangered) in Negros Island & Mindanao	PS 3, PS 6
Emissions, effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Full Pages 44 to 45 550,639.7 tons of CO2 equivalent	PS 3
EN17	Other relevant indirect greenhouse gas emissions by weight.	Full Pages 44 to 45 Recorded baseline total of 908.67 tons in CO2 emissions from air travels of employees	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Full Pages 44 to 45 Studies being done by the technical working group for roll out in 2014-2015	
EN19	Emissions of ozone-depleting substances by weight.	Full Pages 44 to 45	PS 3
EN20	NOx, SOx, and other significant air emissions by type and weight.	Full Pages 44 to 45	PS 3
EN21	Total water discharge by quality and destination.	Partial Pages 43 No discharge as result of using Zero Disposal System in the geothermal process	
EN22	Total weight of waste by type and disposal method.	Full Page 47 Method of disposal for non-hazardous: Composting, recycling, reuse Method for hazardous: Onsite storage	PS 3
EN23	Total number and volume of significant spills.	Full No incident in 2012	PS 3
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	N / A EDC does not import nor export internationally (transboundary) its hazardous wastes	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Full Pages 43 to 45 None, since Zero Discharge System technology do not discharge and runoff to bodies of water	
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Full Pages 42 to 43	PS 3
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	N / A As the electricity that EDC generates is not tangible, this indicator does not apply to the company's operations	
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Full PhP 0	
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Full EDC operations do not involve extensive supply & distribution networks. The impacts have been identified as significant based on Environmental Management Systems (EMS) and compilation of GHG emissions prepared for this report.	
Overall			
EN30	Total environmental protection expenditures and investments by type.	Full PhP 226.5 Million	
Social: Labor Practices and Decent Work			
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	Full 51 Total: 2,567 (excluding 11 consultants, 128 project-based and 21 termed employee) Males: 2,120 Females: 447	PS 2
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	Full Page 52	PS 2
EU17	Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities.	Not Available Direct sustainability performance of suppliers and contractors is not part of our sustainability monitoring system. With the upcoming implementation of the enterprise resource planning program, this indicator is going to be reported by 2015.	
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training.	Full All suppliers & contractors are required to undergo a comprehensive safety indoctrination program.	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Fully Page 51	
LA15	Return to work and retention rates after parental leave, by gender.	Not Available To be reported in 2014	
Labor/management relations			
LA4	Percentage of employees covered by collective bargaining agreements.	Fully Page 53	PS 2
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Fully Page 53	PS 2
Occupational health and safety			
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.	Fully Page 36 Over 75% -- all site and HO employees are represented through the Project safety and health committees	PS 2
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Fully Page 36	PS 2
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Fully Pages 36 to 37	PS 2
LA9	Health and safety topics covered in formal agreements with trade unions.	Fully Pages 36 to 37	PS 2
Training and education			
LA10	Average hours of training per year per employee by gender, and by employee category.	Fully Page 52	PS 2
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully Page 52	PS 2
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	Fully Page 50	PS 2
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Fully Pages 51 to 52 Female: 447; Male 2,120; Minority: 18; Ave. age: 42 years old	PS 2
Equal remuneration for women and men			
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Full Wages and salaries are determined by the type of work performed by the employee based on the job description. Individual performance and professional experience are also considered. In addition, remuneration is aligned with the labor market (energy industry). We conduct regular comparisons in this context.	
Social: Human Rights			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	Not reported EDC's newly signed Human Rights Policy will be further developed into a set of Implementing Rules and Regulations. Target reporting on this indicator is 2015	
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	Not Available	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Not Available	
Non-discrimination			
HR4	Total number of incidents of discrimination and corrective actions taken.	Full EDC did not receive any complaints in 2012	
Freedom of association and collective bargaining			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	Full There were no reported violations or significant risk were reported in 2012	PS 2
Child labor			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	Full EDC does not tolerate child labor in all aspects of its operations/supply chain	PS 2
Prevention of forced and compulsory labor			
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	Not reported Direct sustainability performance of suppliers and contractors is the limitation of this report. Plans to influence suppliers and contractors to employ fair labor practices are to be embedded in the vendor accreditation process. To be reported in 2015	PS 2
Security practices			

Disclosure	Level of reporting	Location of disclosure (Or direct answer as applicable)	IFC Performance Standards	
HR8	Full	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	All security services personnel undergo a rigorous security orientation administered by EDC's Health, Environment, Safety & Security Group	PS 4
Indigenous rights				
HR9	Full	Total number of incidents of violations involving rights of indigenous people and actions taken.	No violation or incident was reported in 2012	PS 7, PS 9
Assessment				
HR10	Not available	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	EDC's newly signed Human Rights Policy will be further developed into a set of Implementing Rules and Regulations. Target reporting on this indicator is 2015	
Remediation				
HR11	Not Available	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	No grievances were filed in 2012	
Social: Society				
SO1	Full	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Pages 38 to 40, 42	
SO1 G3.1	Full	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Pages 14, 38 to 40	PS 1, PS 4, PS 5, PS 7, PS 8, PS 9
EU22	Full	Number of people physically or economically displaced and compensation, broken down by type of project.	No people were displaced in 2012	
SO9	Full	Operations with significant potential or actual negative impacts on local communities.	Page 42	
SO10	Full	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Pages 14, 42	
Corruption				
SO2	Full	Percentage and total number of business units analyzed for risks related to corruption.	The Head Office and one business unit have been analyzed in 2012	
SO3	Full	Percentage of employees trained in organization's anti-corruption policies and procedures.	All employees, including new hires, sign the employee handbook which discusses thoroughly the policy on anti-corruption	
SO4	Full	Actions taken in response to incidents of corruption.	There were cases of corruption reported in 201, mostly transactional. Investigations are on-going.	
Public policy				
SO5	Full	Public policy positions and participation in public policy development and lobbying.	EDC has longstanding relationships with the government and interacts regularly with various government agencies and industry groups. EDC's engagement includes a wide range of activities and issues including but not limited to participation in congressional hearings and consultations in the National Renewable Energy Board.	
SO6	Full	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	PhP0	
Anti-competitive behaviour				
SO7	Full	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	In 2012, EDC was not involved in any legal actions for anti-competitive behaviour or anti-trust or monopoly practices. To date, the Philippines does not have a comprehensive and developed legislation relating to anti-trust and monopolistic activities.	
Compliance				
SO8	Full	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	PhP 0	
Social: Product Responsibility				
PR1	Full	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	EDC converts geothermal and hydro resources into electricity. Throughout the business value chain (natural resource, technology, people, suppliers and contractors) EDC conducts impact studies. In resource planning, EDC considers social impacts along with economic and financial impacts that are created in the process of generating electricity.	
PR2	Full	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	None	
EU25	Full	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases.	Page 36	
Product and service labelling				
PR3	N / A	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	EDC produces electricity for institutional and commercial customers. As such, it is the customers' responsibility to comply with product requirements	
PR4	N / A	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	In the Philippines, there is no law on service information and labelling for products of power producers.	
PR5	Full	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Page 14, 22, 38	
Marketing communications				
PR6	Full	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	EDC adheres to laws, standards and voluntary codes related to marketing communications. This includes following the guidelines of SGS Philippines on the use of the ISO certification mark and the code of ethics governed by the Advertising Board of the Philippines.	
PR7	Full	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	No incident or complaint was reported in 2012	
Customer privacy				
PR8	Full	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	No complaints were reported in 2012	
Compliance				
PR9	Full	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	PhP 0	
Access				
EU26	N / A	Percentage of population unserved in licensed distribution or service areas.	This indicator is N / A to EDC's business. EDC does not have any licensed distribution areas and its customers are mainly commercial and institutional and not individual end users	
EU27	N / A	Number of residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime.	EDC does not have residential customers and thus, this indicator is N / A.	
EU28	Full	Power outage frequency.	Pages 12, 33	
EU29	Full	Average power outage duration.	Pages 12, 33	
EU30	Full	Average plant availability factor by energy source and by regulatory regime.	Page 13	



2012 Consolidated Financial Statements

Growth and Stability




e n e r g y
DEVELOPMENT CORPORATION

Energy Development Corporation

(A Subsidiary of Red Vulcan Holdings Corporation)
and Subsidiaries

Consolidated Financial Statements
December 31, 2012 and 2011
and Years Ended December 31, 2012, 2011 and 2010

and

Independent Auditors' Report
SyCip Gorres Velayo & Co.



2012 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 and Disclosures

- We have reviewed with management and the external auditor (SGV & Co.) the annual audited financial statements and the quarterly interim financial reports and endorsed these to the Board for approval and release to regulatory agencies, stockholders and lenders. Our review included discussions on the appropriateness of accounting policies adopted by management, the reasonableness of estimates, assumptions and judgments used in the preparation of financial statements, the impact of new accounting standards and interpretations, and other key accounting issues and audit results as highlighted by the external auditor.

Internal Control

- We have monitored the effectiveness of the internal control environment through various measures such as: the review of the results of the external audit regarding internal control issues; 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 2011 financial statements audit) and approved the re-engagement of SGV & Co. for another year (2012 audit).
- We have approved the non-audit services rendered by external auditors.
- 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: completion of the corporate governance evaluation (i.e. Board self assessment and President/COO evaluation); ensuring that all directors and senior executives comply with the corporate governance training requirements; participation in the ASEAN Corporate Governance Scorecard project and the PSE Bell Awards; update of the corporate governance pages in the EDC website; and receiving the 'Platinum Award' for the 2011 Corporate Governance Scorecard results as adjudged by the Institute of Corporate Directors.

Committee Meetings

- We conducted four meetings in 2012. All the Committee members were able to attend at least a majority of the meetings.

Assessment of Performance

- We have assessed our performance based on the guidelines and parameters set in SEC Memorandum Circular No. 4, series of 2012. We have reported the results to the SEC last October 4, 2012 (i.e. overall rating of 'Very Satisfactory') and have committed to take steps to address the identified areas for improvement.

February 14, 2013



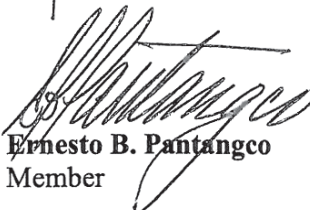
Edgar O. Chua
Chairman



Francis E. Lim
Member



Francis Giles B. Puno
Member



Ernesto B. Pantangco
Member

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS



Energy Development Corporation
38th Floor, One Corporate Centre Building, Julia Vargas corner Meralco Avenue,
Ortigas Center, Pasig City 1605, Philippines
Trunklines: +63 (2) 667-7332 (PLDT) / +63 (2) 755-2332 (Globe)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


February 20, 2013

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, 2012 & 2011, 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



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

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

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

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, 2012 and 2011, 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, 2012, 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 auditor considers 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, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2012,
April 11, 2012, valid until April 10, 2015

PTR No. 3669687, January 2, 2013, Makati City

February 20, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8 and 33)	₱11,420,144,203	₱12,493,406,963
Trade and other receivables (Notes 3, 6, 9, and 33)	4,115,764,605	3,411,309,528
Available-for-sale investments (Notes 3, 10 and 33)	132,345,200	673,853,680
Parts and supplies inventories (Notes 2, 3, 5, and 11)	3,338,825,869	3,355,767,653
Due from related parties (Notes 22 and 33)	–	7,812
Derivative assets (Note 33)	248,760	–
Other current assets (Note 12)	692,264,834	741,911,257
Total Current Assets	19,699,593,471	20,676,256,893
Noncurrent Assets		
Property, plant and equipment (Notes 3, 5 and 13)	60,680,219,306	57,676,929,006
Goodwill and intangible assets (Notes 3 and 14)	4,818,403,979	4,705,245,708
Exploration and evaluation assets (Notes 3 and 15)	1,604,105,412	1,087,079,413
Available-for-sale investments (Notes 3, 10 and 33)	707,125,693	20,443,924
Deferred tax assets - net (Notes 2, 5 and 30)	1,092,093,791	1,420,656,657
Other noncurrent assets (Notes 3, 16 and 33)	5,701,745,500	4,431,205,183
Total Noncurrent Assets	74,603,693,681	69,341,559,891
TOTAL ASSETS	₱94,303,287,152	₱90,017,816,784
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 3, 17 and 33)	₱7,694,918,122	₱6,704,075,261
Royalty fee payable (Notes 18, 33 and 36)	20,618,242	287,626,313
Due to related parties (Notes 22 and 33)	49,577,503	60,090,825
Income tax payable	5,204,019	18,736,456
Current portion of:		
Long-term debts (Notes 19, 22 and 33)	2,393,871,767	2,249,517,382
Derivative liabilities (Note 33)	85,423,548	–
Total Current Liabilities	10,249,613,201	9,320,046,237
Noncurrent Liabilities		
Long-term debts - net of current portion (Notes 19, 22 and 33)	46,656,000,099	49,240,054,073
Derivative liabilities - net of current portion (Note 33)	153,500,314	–
Net retirement and other post-employment benefits (Notes 3 and 29)	659,932,661	1,054,237,256
Provisions and other long-term liabilities (Notes 3, 13 and 20)	1,150,385,989	756,877,725
Total Noncurrent Liabilities	48,619,819,063	51,051,169,054
Total Liabilities	58,869,432,264	60,371,215,291

(Forward)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
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 32)	(358,429,306)	(372,272,723)
Additional paid-in capital (Note 32)	6,277,865,786	6,266,966,828
Equity reserve (Note 21)	(3,706,430,769)	(3,706,430,769)
Net accumulated unrealized gain on available-for-sale investments (Note 10)	111,522,725	91,758,915
Cumulative translation adjustments	(138,589,991)	592,534
Retained earnings (Notes 2 and 21)	12,331,621,322	6,304,695,114
	33,361,309,767	27,429,059,899
Non-controlling interest (Note 21)	2,072,545,121	2,217,541,594
Total Equity	35,433,854,888	29,646,601,493
TOTAL LIABILITIES AND EQUITY	₱94,303,287,152	₱90,017,816,784

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2012	2011 (As Adjusted, Note 6)	2010 (As Adjusted, Note 6)
REVENUES			
Sale of electricity (Notes 3, 38, 39, 40 and 41)	₱28,368,552,055	₱24,539,607,457	₱22,944,227,877
Sale of steam (Notes 3 and 37)	–	–	1,208,696,413
	28,368,552,055	24,539,607,457	24,152,924,290
COSTS OF SALES OF ELECTRICITY AND STEAM			
(Notes 11, 13, 22, 23, 25 and 41)	(10,125,177,154)	(10,569,874,768)	(9,465,844,724)
GENERAL AND ADMINISTRATIVE EXPENSES			
(Notes 9, 11, 13, 16, 22, 24 and 25)	(4,781,244,120)	(4,660,365,401)	(4,691,040,150)
FINANCIAL INCOME (EXPENSE)			
Interest income (Notes 8, 26 and 33)	364,640,989	390,212,719	347,689,037
Interest expense (Notes 18, 19, 26 and 33)	(3,703,648,469)	(4,106,516,315)	(3,708,457,266)
	(3,339,007,480)	(3,716,303,596)	(3,360,768,229)
OTHER INCOME (CHARGES)			
Foreign exchange gains (losses) - net (Note 27)	1,053,466,774	(111,052,329)	(15,895,046)
Derivative gains - net (Note 33)	36,160	108,319,377	436,998,854
Loss on impairment of property, plant and equipment (Notes 3 and 13)	–	(4,998,608,008)	(3,390,000,000)
Miscellaneous - net (Notes 10, 13, and 28)	(161,749,839)	(11,320,264)	1,257,344,824
	891,753,095	(5,012,661,224)	(1,711,551,368)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	11,014,876,396	580,402,468	4,923,719,819
BENEFIT FROM (PROVISION FOR) INCOME TAX			
(Note 30)			
Current	(433,838,464)	(421,569,578)	(404,660,851)
Deferred	(302,826,491)	537,191,407	(297,961,636)
	(736,664,955)	115,621,829	(702,622,487)
NET INCOME FROM CONTINUING OPERATIONS	10,278,211,441	696,024,297	4,221,097,332
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS			
(Note 6)	97,495,445	(81,238,483)	173,978,533
NET INCOME	₱10,375,706,886	₱614,785,814	₱4,395,075,865
Net income (loss) attributable to:			
Equity holders of the Parent Company	₱8,659,426,208	(₱167,192,156)	₱4,115,747,261
Non-controlling interest	1,716,280,678	781,977,970	279,328,604
	₱10,375,706,886	₱614,785,814	₱4,395,075,865
Basic/Diluted Earnings (Loss) Per Share for:			
Net Income (Loss) from Continuing Operations Attributable to Equity Holders of the Parent Company (Note 31)	₱0.456	(₱0.005)	₱0.210
Net Income (Loss) Attributable to Equity Holders of the Parent Company (Note 31)	₱0.461	(₱0.009)	₱0.219

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
NET INCOME	₱10,375,706,886	₱614,785,814	₱4,395,075,865
OTHER COMPREHENSIVE INCOME (LOSS)			
Cumulative translation adjustments on hedging transactions, net of income tax amounting to ₱16,047,386 in 2012 (Notes 30 and 33)	(144,426,476)	–	–
Cumulative translation adjustments on foreign subsidiaries	5,243,951	(777,466)	1,370,000
Changes in fair value of available-for-sale investments recognized in equity (Notes 10 and 33)	19,763,810	(27,724,193)	6,541,474
Net unrealized gain removed from equity and recognized in profit or loss (Notes 10 and 33)	–	(235,689)	–
	(119,418,715)	(28,737,348)	7,911,474
TOTAL COMPREHENSIVE INCOME	₱10,256,288,171	₱586,048,466	₱4,402,987,339
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	₱8,540,007,493	(₱195,929,504)	₱4,123,658,735
Non-controlling interest	1,716,280,678	781,977,970	279,328,604
	₱10,256,288,171	₱586,048,466	₱4,402,987,339

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2012, 2011 and 2010

	Equity Attributable to Equity Holders of the Parent Company							Net			
	Preferred Stock (Note 21)	Common Stock (Note 21)	Common Employee Trust Account (Note 21)	Additional Paid-in Capital	Equity Reserve (Note 21)	Gain on Available- for-sale Investments (Note 10)	Cumulative Translation Adjustments	Retained Earnings (Note 21)	Subtotal	Non-controlling Interest (Note 21)	Total Equity
Balances, December 31, 2009	P93,750,000	P18,750,000,000	(P391,643,364)	P6,262,027,052	(P3,706,430,769)	P113,177,323	P-	P7,669,894,141	P28,790,774,383	P1,529,761,117	P30,320,535,500
Total comprehensive income:											
Net income								4,115,747,261	4,115,747,261	279,328,604	4,395,075,865
Changes in fair value of available- for-sale investments recognized in equity (Notes 10 and 33)						6,541,474			6,541,474		6,541,474
Cumulative translation adjustment on foreign subsidiaries							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)								(2,256,333,333)	(2,256,333,333)		(2,256,333,333)
Share-based payment (Notes 22 and 32)				3,260,796					3,260,796		3,260,796
Deferred tax effect of share-based payment (Notes 30 and 32)											
Documentary stamp tax on: Preferred shares subscription				811,435					811,435		811,435
Common shares subscription								(131,250)	(131,250)		(131,250)
Common shares subscription								(4,573,009)	(4,573,009)		(4,573,009)
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	P30,669,891,336	P1,569,089,721	P32,238,981,057

(forward)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2012, 2011 and 2010

	Equity Attributable to Equity Holders of the Parent Company										Total Equity
	Preferred Stock (Note 21)	Common Stock (Note 21)	Common Stock Trust Account (Note 21)	Additional Paid-in Capital	Equity Reserve (Note 21)	Gain on Available-for-sale Investments (Note 10)	Cumulative Translation Adjustments	Retained Earnings (Note 21)	Subtotal	Non-controlling Interest (Note 21)	
Balances, January 1, 2011, as previously reported	₹93,750,000	₹18,750,000,000	₹379,219,785	₹6,266,099,283	₹3,706,430,769	₹119,718,797	₹1,370,000	₹9,524,603,810	₹30,669,891,336	₹1,569,089,721	₹32,238,981,057
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	32,394,063,664
Total comprehensive income:	-	-	-	-	-	-	-	(167,192,156)	(167,192,156)	781,977,970	614,785,814
Changes in fair value of available-for-sale investments recognized in equity (Notes 10 and 33)	-	-	-	-	-	(27,724,193)	-	-	(27,724,193)	-	(27,724,193)
Cumulative translation adjustment on foreign subsidiaries	-	-	-	-	-	-	(777,466)	-	(777,466)	-	(777,466)
Net unrealized gain removed from equity and recognized in profit or loss (Notes 10 and 33)	-	-	-	-	-	(235,689)	-	-	(235,689)	-	(235,689)
Total other comprehensive income	-	-	-	-	-	(27,959,882)	(777,466)	-	(28,737,348)	-	(28,737,348)
Cash dividends to non-controlling interest (Note 21)	-	-	-	-	-	(27,959,882)	(777,466)	(167,192,156)	(195,929,504)	781,977,970	586,048,466
Effect of subsidiary's issuance of and declaration of dividends on preferred shares to non-controlling interest (Note 21)	-	-	-	-	-	-	-	(3,007,500,000)	(3,007,500,000)	-	(3,007,500,000)
Share-based payment (Notes 22 and 32)	-	-	6,947,062	1,859,813	-	-	-	(200,289,147)	(200,289,147)	200,289,147	8,806,875
Deferred tax effect of share-based payment (Notes 30 and 32)	-	-	-	(992,268)	-	-	-	-	(992,268)	-	(992,268)
Balances, December 31, 2011	₹93,750,000	₹18,750,000,000	₹(372,272,723)	₹6,266,966,828	₹(3,706,430,769)	₹91,758,915	₹592,534	₹6,304,605,114	₹27,429,059,899	₹2,217,541,594	₹29,646,001,493

(Forward)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2012, 2011 and 2010

	Equity Attributable to Equity Holders of the Parent Company											
	Preferred Stock (Note 21)	Common Stock (Note 21)	Common Shares in Employee Trust Account (Note 21)	Additional Paid-in Capital	Equity Reserve (Note 21)	Gain on Available- for-sale Investments (Note 10)	Accumulated Unrealized Net	Cumulative Translation Adjustments	Retained Earnings (Note 21)	Subtotal	Non-controlling Interest (Note 21)	Total Equity
Balances, December 31, 2011	P93,750,000	P18,750,000,000	(P37,272,723)	P6,266,966,828	(P3,706,430,769)	P91,758,915	P592,534	P6,304,695,114	P27,429,059,899	P2,217,541,594	P29,646,601,493	
Total comprehensive income (loss):	-	-	-	-	-	-	-	8,659,426,208	8,659,426,208	1,716,280,678	10,375,706,886	
Changes in fair value of available- for-sale investments recognized in equity (Notes 10 and 24)	-	-	-	-	-	19,763,810	-	-	19,763,810	-	19,763,810	
Cumulative translation adjustments on hedging transactions, net of income tax amounting to P16,047,386 (Note 33)	-	-	-	-	-	-	(144,426,476)	-	(144,426,476)	-	(144,426,476)	
Cumulative translation adjustments on foreign subsidiaries	-	-	-	-	-	-	5,243,951	-	5,243,951	-	5,243,951	
Total other comprehensive income	-	-	-	-	-	19,763,810	(139,182,525)	8,659,426,208	(119,418,715)	1,716,280,678	(119,418,715)	
Cash dividends (Note 21)	-	-	-	-	-	19,763,810	(139,182,525)	8,540,007,493	(2,632,500,000)	10,256,288,171	(2,632,500,000)	
Cash dividends to non-controlling interest	-	-	-	-	-	-	-	(1,862,533,076)	24,742,375	-	(1,862,533,076)	
Share-based payment (Notes 22 and 32)	-	-	13,843,417	10,898,958	-	-	-	-	-	-	24,742,375	
Investments from non-controlling shareholders in PT EDC Indonesia and PT EDC Panas Bumi Indonesia and EDC Oueliaapacheta (Note 1)	-	-	-	-	-	-	-	-	-	1,255,925	1,255,925	
Balances, December 31, 2012	P93,750,000	P18,750,000,000	(P358,429,306)	P6,277,865,786	(P3,706,430,769)	P111,522,725	P138,589,991	P12,331,621,322	P33,361,309,767	P2,072,545,121	P35,433,854,888	

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	₱11,014,876,396	₱580,402,468	₱4,923,719,819
Income (loss) before income tax from discontinued operations (Note 6)	139,279,207	(89,224,109)	248,540,761
Adjustments for:			
Interest expense (Notes 6 and 26)	3,703,648,469	4,106,760,462	3,708,457,266
Depreciation and amortization (Notes 6, 13 14, 23 and 24)	3,578,627,171	3,441,874,497	3,445,004,630
Unrealized foreign exchange gains - net (Notes 5, 6 and 27)	(1,217,556,247)	(161,645,620)	(168,978,452)
Interest income (Notes 6, 8, 26 and 33)	(364,640,989)	(390,212,719)	(347,695,016)
Provision for doubtful accounts - net (Notes 16 and 24)	203,286,078	308,945,159	56,993,821
Loss (gain) on:			
Debt extinguishment (Notes 19 and 28)	188,145,763	197,898,124	–
Disposals and retirements of property, plant and equipment (Note 28)	455,016	19,962,107	401,388,002
Early redemption of available-for-sale investments (Notes 10 and 28)	–	(271,292)	–
Loss on (recovery of) impairment on property, plant and equipment of NNGP (Notes 3, 13 and 28)	(63,614,885)	4,998,608,008	3,390,000,000
Retirement and other post-employment benefits costs (income) [Notes 25 and 29]	(42,858,229)	50,797,100	386,578,060
Share-based benefit cost (Notes 22 and 32)	24,742,375	8,806,875	15,601,571
Unwinding of discount on NNGP's provision for rehabilitation and restoration costs (Note 12)	4,221,982	1,484,139	–
Unrealized derivative losses (gains) - net (Note 33)	(248,760)	–	9,598,487
“Day 1” loss on security deposits	–	7,552,372	–
Recovery of impairment loss on input value-added tax (VAT) claims for refund/tax credits (Notes 16 and 28)	–	–	(1,638,884,447)
Operating income before working capital changes	17,168,363,347	13,081,737,571	14,430,324,502
Decrease (increase) in:			
Trade and other receivables	(721,533,010)	1,212,951,046	280,053,478
Due from related parties	7,812	(7,812)	–
Parts and supplies inventories	52,737,319	(529,996,999)	(605,220,377)
Other current assets	146,548,819	(37,849,179)	(142,186,723)
Increase (decrease) in:			
Trade and other payables	1,340,265,541	1,507,522,135	1,645,853,895
Royalty fee payable	(277,953,101)	(298,490,087)	(312,323,998)
Due to related parties	(64,093,934)	(275,559,659)	(172,553,945)
Retirement and other post-employment benefits contributions (Note 29)	(351,446,366)	(303,696,889)	(327,566,659)
Cash generated from operations	17,292,896,427	14,356,610,127	14,796,380,173
Interest and other financing charges paid	(4,108,361,868)	(4,128,372,948)	(3,592,715,769)
Income tax paid	(563,089,655)	(444,345,425)	(199,551,244)
Net cash flows from operating activities	12,621,444,904	9,783,891,754	11,004,113,160

(Forward)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment (Note 13)	(P6,663,047,373)	(P9,230,304,828)	(P5,815,310,918)
Proceeds from revenue generated from testing of property, plant and equipment (Note 13)	520,417,469	37,981,304	–
Interest received	365,288,722	381,250,687	346,163,528
Purchase of available-for-sale investments	(162,093,722)	–	–
Proceeds from retirement of property, plant and equipment	5,426,167	–	–
Proceeds from early redemption of available-for-sale investments (Note 10)	–	4,747,050	–
Payments for acquisition of Bacon-Manito Geothermal Power Plants (Note 5)	–	–	(1,279,725,000)
Increase in:			
Exploration and evaluation assets	(517,025,999)	(187,531,880)	(132,354,844)
Other noncurrent assets	(1,698,256,608)	(1,526,225,270)	(608,743,701)
Net cash flows used in investing activities	(8,149,291,344)	(10,520,082,937)	(7,489,970,935)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Long-term debts (Note 19)	(8,287,843,366)	(6,108,335,704)	(19,255,755,199)
Dividends (Note 21)	(4,495,033,076)	(3,341,315,244)	(2,496,333,333)
Loan payable (Note 26)	–	(175,000,000)	(452,950,000)
Proceeds from:			
Long-term debts (Note 19)	6,934,833,050	16,612,500,000	13,058,750,000
Loan payable	–	–	638,840,000
Increase (decrease) in provisions and other long-term liabilities	306,762,368	58,744,924	(38,012,335)
Net cash flows from (used in) financing activities	(5,541,281,024)	7,046,593,976	(8,545,460,867)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,069,127,464)	6,310,402,793	(5,031,318,642)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(4,135,296)	25,079,038	(31,653,383)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,493,406,963	6,157,925,132	11,220,897,157
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	P11,420,144,203	P12,493,406,963	P6,157,925,132

See accompanying 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 its foreign subsidiaries. Below are the Parent Company’s ownership interests in its subsidiaries:

	Percentage of Ownership			
	December 31, 2012		December 31, 2011	
	Direct	Indirect	Direct	Indirect
EDC Drillco Corporation (EDC Drillco)	100.00	–	100.00	–
EDC Geothermal Corp. (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	–	100.00
EDC Mindanao Geothermal Inc. (EMGI)**	–	100.00	–	100.00
Bac-Man Energy Development Corporation (BEDC)**	–	100.00	–	100.00
Kayabon Geothermal, Inc. (KGI)***	–	100.00	–	100.00
Energy Development (EDC) Corporation Chile Limitada [EDC Chile Limitada]	99.99	0.01	99.99	0.01
EDC Holdings International Limited (EHIL)**	100.00	–	100.00	–
Energy Development Corporation Hong Kong Limited (EDC HKL)**	–	100.00	–	100.00
EDC Chile Holdings SPA*	–	100.00	–	–
EDC Geotermica Chile*	–	100.00	–	–
EDC Peru Holdings S.A.C.*	–	100.00	–	–
EDC Geotermica Peru S.A.C.*	–	100.00	–	–
EDC Quellaapacheta*	–	70.00	–	–
PT EDC Indonesia*	–	95.00	–	–
PT EDC Panas Bumi Indonesia*	–	95.00	–	–
EDC Wind Energy Holdings, Inc. (EWEHI)	100.00	–	100.00	–
EDC Burgos Wind Power Corporation (EBWPC)	–	100.00	33.33	66.67
EDC Pagudpud Wind Power Corporation (EPWPC)*	–	100.00	–	–
First Gen Hydro Power Corporation (FG Hydro)	60.00	–	60.00	–

* Incorporated in 2012 and has not yet started commercial operations.

** Incorporated in 2011 and serves as an investment holding company.

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

History of Ownership

Beginning December 13, 2006, the common shares of EDC were listed and traded in 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, a Philippine corporation). 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, a publicly listed Philippine corporation) 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 energy projects in five Geothermal Service Contract (GSC) areas, namely:

1. Bacon-Manito Geothermal Project (BMGP);
2. Mt. Apo Geothermal Project (MGP);
3. Northern Negros Geothermal Project (NNGP);
4. Southern Negros Geothermal Project (SNGP); and
5. Tongonan Geothermal Project (TGP).

These GSCs are entered into with the Department of Energy (DOE) pursuant to the provisions of Presidential Decree 1442 (P.D. 1442). These GSCs were replaced by Geothermal Renewable Energy Service Contracts (GRESs) on October 23, 2009 in accordance with the provisions of R.A. 9513 or the Renewable Energy Act of 2008 (RE Law) [see Note 36].

Geothermal steam produced is delivered to the National Power Corporation (NPC) and fed to the Parent Company's and subsidiary's power plants to produce electricity. EDC sells steam and electricity to NPC under the Steam Sales Agreements (SSAs) and Power Purchase Agreements (PPAs), respectively (see Notes 37 and 38). Meanwhile, GCGI and BGI sells electricity to bilateral customers under the Power Supply Agreements (PSAs) [see Note 40].

Also, until October 2012, the Parent Company had drilling activities in Papua New Guinea (see Note 6).

Subsidiaries

EDC Drillco

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 related activities. As of December 31, 2012, EDC Drillco remained non-operating.

EGC

EGC, originally named as First Luzon Geothermal Energy Corporation, 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, EGC became an 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 its corporate name to EDC Geothermal Corp.

Further details on EGC's wholly owned subsidiaries follow:

- 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 Megawatt (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.
- 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.
- ULGEI is a company incorporated on June 23, 2010; SNGI and EMGI are companies incorporated on February 4, 2011; and BEDC and KGI are companies incorporated on September 22 and 28, 2011, respectively. These are Philippine companies incorporated 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. As of December 31, 2012, ULGEI, SNGI, EMGI, BEDC and KGI remained non-operating.

EHIL and EDC HKL

EHIL was incorporated on August 17, 2011 in British Virgin Islands and will serve as an investment holding company of EDC's international subsidiaries. Under EHIL is EDC HKL, which was incorporated on November 22, 2011 in Hong Kong. The following entities are the subsidiaries under EDC HKL:

- EDC Chile Holdings SPA, which was incorporated on January 13, 2012 in Santiago, Chile, is a wholly owned subsidiary of EDC HKL and is the holding company of EDC Geotermica Chile, a wholly owned foreign subsidiary that was also incorporated on January 13, 2012 in Santiago, Chile.
- EDC Peru Holdings S.A.C., incorporated on January 19, 2012 in Lima, Peru is a 99.9%-owned subsidiary of EDC HKL. EDC Peru Holdings S.A.C. holds 99.9% stake in EDC Geotermica Peru S.A.C., which was also incorporated on January 19, 2012 in Lima, Peru. EHIL owns the remaining 0.1% stake in EDC Peru Holdings S.A.C. and EDC Geotermica Peru S.A.C.

On July 17, 2012, EDC Quellaapacheta was incorporated in Lima, Peru as a 70%-owned subsidiary of EDC Geotermica Peru S.A.C.

- On July 9, 2012, PT EDC Indonesia and PT EDC Panas Bumi Indonesia were incorporated in Jakarta Pusat, Indonesia as 95%-owned subsidiaries of EDC HKL.

As of December 31, 2012, all subsidiaries of EDC HKL remained non-operating.

EWEHI

EWEHI is a holding company incorporated on April 15, 2010. The following entities are the wholly owned subsidiaries of EWEHI:

- EBWPC is a company incorporated on April 13, 2010 to carry on the general business of generating, transmitting, and/or distributing energy. In September 2012, following EWEHI's acquisition of 1,249,500 shares of EBWPC, representing 33.33% ownership interest, from EDC for ₱141.4 million, EBWPC became a wholly owned subsidiary of EWEHI. EBWPC is currently developing the 86 MW wind energy concession in Burgos, Ilocos Norte.
- EPWPC is a company incorporated on February 29, 2012 to carry on the general business of generating, transmitting, and/or distributing energy. As of December 31, 2012, EPWPC remained non-operating.

FG Hydro

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 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 privately-owned distribution utilities (DUs) under the PSAs and Power Supply Contracts (PSCs).

EDC Chile Limitada

EDC Chile Limitada is a limited liability company incorporated on February 11, 2010 in Santiago, Chile with the purpose of exploring, evaluating and extracting any mineral or substance to generate geothermal energy. The Chilean Ministry of Energy awarded to EDC Chile Limitada the geothermal exploration concessions of Newen on January 10, 2012, and of San Rafael and Batea, both on January 19, 2012.

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 14, 2013. The same consolidated financial statements were also approved and authorized for issuance by the BOD on February 20, 2013.

2. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments and available-for-sale (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 amended PFRSs, which were adopted as of January 1, 2012:

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments have no impact on the Company's financial position or performance.

- Philippine Accounting Standards (PAS) 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)*

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments have no impact on the Company's financial position or performance.

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.

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 11 and 30). The effect of the voluntary

change in accounting policy resulted to an increase in parts and supplies inventories and net income amounting to ₱19.7 million and ₱17.7 million, respectively, and decrease in loss per share by ₱0.001 per share for the year ended December 31, 2011.

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.

Discontinued Operations

In October 2012, the Company has completed its contract with Lihir Gold Ltd. (Lihir) in Papua New Guinea for the provision of drilling services. In line with its current strategy, the Company will no longer engage in drilling activities but will maintain its two major segments - electricity and steam. Management considered that the drilling operations met the definition of discontinued operations, which is a component that has been terminated and is comprised of operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the Company.

Classification of Financial Instruments

On initial recognition, the financial instruments, or its component parts, are classified either as 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 33.

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 34 to the consolidated financial statements.

Operating Leases

The PPAs and 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 34).

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:

Estimation of Fair Value of Identifiable Net Assets of an Acquiree in 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. The Company's transactions which qualified as business combinations are discussed in Note 5.

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 independent personnel. 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 33).

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 aggregate carrying amounts of current and noncurrent trade and other receivables are ₱4,128.0 million and ₱3,411.3 million as of December 31, 2012 and 2011 (Notes 9 and 16). The total amount of impairment losses recognized in 2012, 2011 and 2010 amounted to ₱39.0 million, ₱126.3 million and ₱23.4 million, respectively (see Notes 9, 16 and 24).

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 and prolonged, whenever it reaches 20% or more and lasts longer than 12 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.

No impairment loss on AFS investments were recognized in 2012, 2011 and 2010. The total carrying amount of current and noncurrent AFS investments was ₱839.5 million and ₱694.3 million as of December 31, 2012 and 2011, respectively (see Notes 10 and 33).

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, 2012 and 2011 amounted to ₱3,338.8 million and ₱3,355.8 million, respectively (see Note 11). Provision for (reversal of) allowance for inventory obsolescence amounted to (₱88.7 million), ₱169.0 million and (₱15.0 million) in 2012, 2011 and 2010, respectively (see Notes 11 and 24).

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 ₱60,680.2 million and ₱57,676.9 million as of December 31, 2012 and 2011, respectively (see Note 13). The carrying amount of water rights amounted to ₱1,815.6 million and ₱1,911.8 million as of December 31, 2012 and 2011, respectively (see Note 14).

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 for input VAT. Meanwhile, for the other non-financial assets, 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.

In 2011, the Company fully impaired its NNGP assets. 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 10.1% in 2011 and 10.2% 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 and ₱3,390.0 million in 2010 for NNGP's property, plant and equipment (see Note 13).

In February 2012, EDC transferred vacuum pumps from NNGP to the Palinpinon Power Plant owned by GCGI. Since these transferred assets can still be utilized and were included in the CGU of the Palinpinon Power Plant, the Company recognized a corresponding reversal of impairment loss amounting to ₱63.6 million, representing the net book value of the assets transferred had no impairment loss been previously recognized (see Note 28).

The Company also recorded a provision for impairment of input VAT of ₱196.1 million, ₱282.9 million and ₱54.6 million in 2012, 2011 and 2010, respectively (see Notes 16 and 24).

The carrying amount of property, plant and equipment as of December 31, 2012 and 2011 amounted to ₱60,680.2 million and ₱57,676.9 million, respectively (see Note 13). The carrying amount of water rights as of December 31, 2012 and 2011 amounted to ₱1,815.6 million and ₱1,911.8 million, respectively (see Note 14). The carrying amount of input VAT as of December 31, 2012 and 2011 amounted to ₱3,750.8 million and ₱2,908.6 million, respectively (see Notes 16 and 24).

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 post-tax discount rate applied to cash flow projections is 9.0% in 2012 and 9.2% in 2011 for FG Hydro and 8.8% in 2012 and 11.4% in 2011 for GCGI. The cash flows beyond the remaining term of the existing agreements are extrapolated using growth rates of

4.0% and 3.7% for the years ended December 31, 2012 and 2011, respectively, for FG Hydro and 4.0% for GCGI for the years ended December 31, 2012 and 2011.

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 Company's weighted average cost of capital. 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 2012, 2011 and 2010. The carrying value of goodwill as of December 31, 2012 and 2011 amounted to ₱2,535.1 million (see Note 14).

Impairment of Intangible Asset not yet Available for Use

The Company's intangible asset not yet available for use pertains to its Burgos wind energy development costs. The Company performs impairment review on this asset annually irrespective of whether there is any indication of impairment by comparing its carrying amount with its recoverable amount. This impairment review 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 8.4% and 11.3% in 2012 and 2011, respectively.

Following are the key assumptions used:

- Feed-in Tariff (FIT) Rate

On July 27, 2012, the Energy Regulatory Commission approved the initial FIT rates that shall apply to generation of electricity from renewable energy sources. Particularly, for wind energy, the approved FIT rate amounted to ₱8.5 per kwh. Accordingly, the Company used the new FIT rate in the impairment assessment of the Company's wind energy project development costs. Prior to the issuance of the FIT rate, the Company used FIT rate of ₱10.4 per kwh in its 2011 value-in-use estimates.

- 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 (CPI) and 60% growth rate based on the change in dollar to Peso exchange rate. This is consistent with the Natural Resources and Environment Board's proposed annual FIT escalation rate. The Company assumed an annual 4% increase of CPI based on Philippine average inflation factor as of 2012 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. The carrying value of the intangible asset not yet available for use amounted to ₱467.7 million and ₱258.4 million as of December 31, 2012 and 2011, respectively (see Note 14).

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, 2012 and 2011, the carrying amount of capitalized exploration and evaluation costs amounted to ₱1,604.1 million and ₱1,087.1 million, respectively (see Note 15).

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, 2012 and 2011 amounted to ₱659.9 million and ₱1,054.2 million, respectively. The detailed information with respect to the Company's net retirement and other post-employment benefits is presented in Note 29 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, 2012 and 2011, the Company recognized provision for rehabilitation and restoration costs amounting to ₱493.5 million and ₱406.8 million, respectively, presented under "Provisions and other long-term liabilities" account in the consolidated statements 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 legal 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, 2012, provisions for these liabilities amounting to ₱185.6 million and ₱319.3 million are recorded under "Trade and other payables" (specifically under "Other payables") account (see Note 17) and "Provision and other long-term

liabilities” (part of “Others”) account (see Note 20), respectively. Meanwhile, provisions for these liabilities as of December 31, 2011 amounting to ₱366.9 million are recorded under “Provision and other long-term liabilities” (part of “Others”) account (see Note 17).

Interest on liability from litigation amounted to ₱8.6 million, ₱7.8 million and ₱8.2 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 26).

Shortfall Generation

The Parent Company’s PPA with NPC requires the annual nomination of capacity that EDC shall deliver to NPC. EDC bills NPC based on the nominated capacity. At the end of the contract year, EDC’s fulfillment of the nominated capacity shall be determined and any shortfall would be reimbursed to NPC. The contract year for the Unified Leyte PPA is for fiscal period ending July 25 while the contract year for the Mindanao I and II PPAs is for fiscal period ending December 25 (see Note 38). Assessment is made at every reporting date whether the nominated capacity would be met based on management’s projection of electricity generation covering the entire contract year. If the occurrence of shortfall generation is determined to be probable, the amount of estimated reimbursement to NPC is accounted for as a deduction to revenue for the period and a corresponding liability is recognized. As of December 31, 2012 and 2011, the Company’s estimated liability arising from shortfall generation amounted to ₱431.4 million and ₱81.1 million, respectively shown under the “Trade and other payables” account, specifically under “Other payables” (see Note 17).

Share-based Payments Expense

The Company measures the cost of share-based payments granted to officers and employees by reference to the quoted price of the Parent Company’s shares listed in the PSE at the date at which the shares are granted. Share-based payments expense amounting to ₱24.7 million, ₱8.8 million and ₱15.7 million were recognized in 2012, 2011 and 2010, respectively, in relation to the Parent Company’s stock grant plan (see Notes 22 and 32).

Deferred Tax Assets

Deferred tax assets are recognized to the extent that it is probable that sufficient future taxable profits 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 ₱2,268.4 million and ₱2,486.5 million as of December 31, 2012 and 2011, respectively (see Note 30).

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 [OCI] 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 OCI 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 of 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 OCI. 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 prior to January 1, 2010 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 currency of the Company's subsidiaries is Peso, except for the following subsidiaries:

Subsidiary	Functional Currency
EHIL	United States dollar
EDC HKL	Hong Kong dollar
EDC Chile Holdings SPA	Chilean peso
EDC Geotermica Chile	- do -
EDC Chile Limitada	- do -
EDC Peru Holdings S.A.C.	Peruvian nuevo sol
EDC Geotermica Peru S.A.C.	- do -
EDC Quellaapacheta	- do -
PT EDC Indonesia	Indonesian rupiah
PT EDC Panas Bumi Indonesia	- do -

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 translation 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.

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.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before these are utilized. This account comprises prepaid expenses, withholding tax certificates, tax credit certificates and advances to contractors. The prepaid expenses are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred; withholding tax certificates 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.

Property, Plant and Equipment

Property, plant and equipment, except land, is stated at cost less accumulated depreciation, amortization 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, depreciation and amortization. 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.

The income generated wholly and necessarily as a result of the process of bringing the asset into the location and condition for its intended use (e.g., net proceeds from selling any items produced while testing whether the asset is functioning properly) is credited to the cost of the asset. When the incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are not offset against the cost of the asset but are recognized in profit or loss and included in their respective classifications of income and expense.

Depreciation and amortization are calculated on a straight-line basis over the economic lives of the assets as follows:

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

Depreciation and amortization of an item of property, plant and equipment begin 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 and amortization cease 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 and amortization 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 13).

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.

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.

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.

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 Costs

Project development costs are expensed as incurred until management determines that the project is technically, commercially and financially viable, at which time, project development costs are capitalized. Project viability generally occurs in tandem with management's determination that a project should be classified as an advanced project, such as when favorable results of a system impact study are received, interconnected agreements are obtained and project financing is in place.

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

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 has 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/tax credits, 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, 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, such as wind energy project development cost, 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 when 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 liability 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.

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.

Classified under financial instruments at FVPL are foreign currency forward contracts and foreign currency swap contracts as of December 31, 2012 and 2011 (see Note 33).

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, 2012 and 2011.

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 8, 9, 16, 22 and 33).

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 other comprehensive income in the "Net accumulated unrealized gain (loss) on AFS investment" account 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 on the investments is reported as interest income 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 10 and 33).

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 trade and other payables, amounts due to related parties, long-term debts and royalty fee payable (see Notes 17, 18, 19, 22 and 33) 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.

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.

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 of 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 comprehensive 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.

Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset, liability or highly probable forecast transaction and could affect the consolidated statement of income. The effective portion of the gain or loss on the hedging instrument is recognized as other comprehensive income (loss) in the "Cumulative

translation adjustments” account in the consolidated statement of financial position while the ineffective portion is recognized as “Mark-to-market gain (loss) on derivatives” in the consolidated statement of income.

Amounts taken to other comprehensive income (loss) are transferred to the consolidated statement of income when the hedge transaction affects profit or loss, such as when hedged financial income or expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income (loss) are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in other comprehensive income (loss) are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as hedge is revoked, amounts previously recognized in other comprehensive income (loss) remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is recognized in the consolidated statement of income.

The Company uses cross currency swaps to partially hedge its exposure to foreign currency and interest rate risks on its floating rate Club Loan that is benchmarked against US LIBOR (see Notes 19 and 33).

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 plus unrecognized actuarial gains, less past service cost not yet recognized, unrecognized actuarial losses and 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 in accordance with its GRESCs. 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 under property, plant and equipment.

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.

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

Awards granted under the employee stock option plan of the Company are accounted for as equity-settled transactions. The cost of equity-settled transaction is measured by reference to the fair value of the equity instruments at the date it is granted. Such cost, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the grantee becomes fully entitled to the award (“vesting date”). The cumulative expense recognized for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired, as well as the Company’s best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, in which, awards are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognized for any modification which increases the total fair value of the share-based payment transaction or which is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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 net assets 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.

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 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.

Retained earnings include the earnings of subsidiaries which are not available for dividend declaration.

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. 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.

Revenue from sale of electricity, as ancillary services, to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided.

Drilling Services

Revenue is recognized as drilling services are rendered. The Company discontinued its drilling services in 2012 (see Note 6).

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 Costs 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.

Costs of drilling services were included in the computation of net income from discontinued operations.

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.

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 [i.e., net operating loss carry-over (NOLCO)], 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 OCI 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
- where receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from the taxation authority is recorded as “Input VAT” under the “Other noncurrent assets” account in the consolidated statement of financial position. Subject to approval of the taxation authority, input VAT can be claimed for refund or as tax credit for payment of certain types of taxes due to the Company. Input VAT claims granted by the taxation authority is separately presented as “Tax Credit Certificates” under the “Other noncurrent assets” account.

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 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 outstanding during the year, adjusted for the effect of all dilutive potential common shares.

As of December 31, 2012 and 2011, the Company does not have any dilutive potential common shares. Hence, diluted EPS is the same as basic EPS.

Operating Segment

The Company's operating businesses are organized and managed separately according to the nature of the services provided (see Note 7).

Discontinued Operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as net income (loss) from discontinued operations in the consolidated statement of income.

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.

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.

New and Amended Standards

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)*

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, *Financial Instruments: Presentation*. 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 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 and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, 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. The standard becomes effective for annual periods beginning on or after January 1, 2013.

A reassessment of control was performed by the Parent Company on all its subsidiaries in accordance with the provisions of PFRS 10. The Parent Company determined that there will be no change in the composition of subsidiaries currently included in the Company's consolidated financial statements.

- 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 using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

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

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

The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (Amendments)*

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits (Revised)*

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 revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefits obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

The Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The accounts below are expected to increase (decrease) as follows:

Consolidated statements of financial position:

	As at December 31, 2012	As at January 1, 2012
Net retirement and other post-employment benefits liability	₱777,178,535	₱703,427,597
Deferred income tax assets	78,778,866	70,799,106
Retained earnings	(696,914,252)	(632,628,491)
Non-controlling interest	(1,229,863)	(638,885)

Consolidated statements of income and statements of comprehensive income:

	2012	2011
Net retirement benefits expense	(₱381,134,316)	(₱5,233,969)
Interest cost	(113,104,859)	(118,552,925)
Provision for deferred income tax	(7,979,760)	(46,127,091)
Net income for the year:	343,009,251	4,688,543
Attributable to equity holders of the Parent Company	342,992,964	4,657,703
Attributable to non-controlling interests	16,287	30,840
Other comprehensive income	(408,780,429)	(415,268,904)

- PAS 27, *Separate Financial Statements* (as revised in 2011)

As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Company. 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 issuance of the new PFRS 11 and PFRS 12, PAS 28, *Investments in Associates*, 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.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”) and addresses the accounting for the benefit from the stripping activity. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (“stripping activity asset”). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Company expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013. This new interpretation is not relevant to the Company.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*

These amendments 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. The amendments affect presentation only and have no impact on the Company’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39, and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that

has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 might have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

As of December 31, 2012, the Company did not conduct an evaluation of the impact of the Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments: Classification and Measurement*, in its financial statements. The Company did not early adopt PFRS 9 in its December 31, 2012 annual consolidated financial statements. The Company will assess the impact of PFRS 9 in its financial statements upon completion of all the phases of PFRS 9.

- 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 SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Company.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The Company is currently assessing the impact of this amendment.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Company expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

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\$28.3 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 ₱1,279.7 million representing the full payment of the Bac-Man power plants acquisition.

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

	Fair Values
Property, plant and equipment (Note 13)	₱1,203,700,070
Parts and supplies inventories (Note 11)	76,024,930
Total assets	1,279,725,000
Percentage of ownership acquired	100%
Share in assets acquired	1,279,725,000
Goodwill arising from acquisition	–
Total acquisition cost	₱1,279,725,000

The valuation of the BMGPP including the identification and valuation of any other identifiable assets was adjusted in September 2011.

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 in 2011 and 2010.

The net loss of BGI from the acquisition date until December 31, 2010 amounted to ₱32.5 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 ₱1,304.5 million which consists of the ₱1,279.7 million acquisition cost and ₱24.8 million transfer and documentary stamp taxes.

6. Discontinued Drilling Operations

In October 2012, the Company discontinued its drilling services to Lihir in Papua New Guinea. As of December 31, 2012, the remaining assets of the drilling component pertain to trade receivables only amounting to ₱133.8 million (see Note 9). Equipment and other tools used in drilling operations were then being leased from third parties by the Parent Company.

Following are the results of the drilling component's operations for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Revenue	₱660,681,295	₱712,789,795	₱748,691,558
Cost of drilling services:			
Purchased services and utilities	(242,739,844)	(369,188,442)	(235,337,900)
Rental, insurances and taxes	(150,270,290)	(226,729,448)	(23,632,853)
Repairs and maintenance	(64,518,763)	(54,784,118)	(71,808,060)
Parts and supplies issued	(34,198,258)	(65,910,688)	(29,104,021)
Business and related expenses	(3,614,955)	(36,947,353)	(39,200,965)

(Forward)

	2012	2011	2010
Depreciation (Note 3)	(₱1,259,855)	(₱1,110,041)	(₱3,314,593)
Personnel costs (Note 25)	(310,177)	(17,523,676)	(53,688,297)
	(496,912,142)	(772,193,766)	(456,086,689)
General and administrative expenses:			
Depreciation (Note 3)	(17,838,394)	(17,801,118)	(850,188)
Purchased services and utilities	(2,675,127)	(5,047,925)	(10,322,732)
Parts and supplies issued	(1,749,986)	(3,058,955)	(8,278,843)
Personnel cost (Note 25)	(1,285,920)	(3,257,877)	(16,753,694)
Rental, insurances and taxes	(886,126)	(928,852)	(3,440,640)
Business and related expenses	(575,725)	(1,179,390)	(2,612,674)
Repairs and maintenance	(137,900)	(588,185)	(3,700,696)
	(25,149,178)	(31,862,302)	(45,959,467)
Financial income (expenses):			
Interest expense	–	(244,147)	–
Interest income	–	–	5,979
	–	(244,147)	5,979
Other income (charges):			
Foreign exchange gains	733,689	2,323,950	2,023,574
Others	(74,457)	(37,639)	(134,194)
	659,232	2,286,311	1,889,380
Income (loss) before income tax	139,279,207	(89,224,109)	248,540,761
Benefit from (provision for) income tax (Note 30)			
Current	–	–	(73,141,019)
Deferred	(41,783,762)	7,985,626	(1,421,209)
	(41,783,762)	7,985,626	(74,562,228)
Net income (loss) from discontinued operations (Note 31)	₱97,495,445	(₱81,238,483)	₱173,978,533

Net income (loss) from discontinued operations is entirely attributable to equity holders of the Parent Company.

The net cash flows from (used in) the drilling component operations amounted to ₱95.0 million, (₱38.6 million), and ₱242.6 million, for the years ended December 31, 2012, 2011 and 2010, respectively. There were no cash flows related to financing and investing activities for each of the three years in the period ended December 31, 2012.

The basic and diluted earnings per share for the discontinued operations are shown in Note 31.

7. 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 - This segment pertains to: (1) EDC's power plants covered mainly by long-term PPAs with NPC; (2) FG Hydro's spot sales to the WESM and with various DUs covered by PSCs; and (3) GCGI's sales to WESM and various NPC-assigned and new customers covered by PSCs and PSAs, respectively.

- b. Steam segment - This segment relates to EDC's sale of steam to GCGI and NPC covered by SSAs and GRESCs.
- c. Drilling - This segment relates to segment performing drilling services for Lihir Gold Ltd. in Papua New Guinea.

The Company has one geographical segment since it derives principally all its revenues from domestic operations.

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.

Segment performance is evaluated based on net income (loss) for the year and earnings (loss) before interest, taxes, and depreciation and amortization (EBITDA). Net income (loss) for the year is measured consistent with consolidated net income (loss) reported in the consolidated financial statements. EBITDA is calculated as total revenues minus costs of sales of electricity and steam and general and administrative 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 46.0% and 55.5% of the total electricity revenue in 2012 and 2011, respectively.

Financial information on the operating segments are summarized as follows:

	Electricity	Steam	Drilling	Eliminations	Discontinued Operations	Total
Year Ended						
December 31, 2012						
Segment revenue from external customers	₱28,368,552,055	₱-	₱660,681,295	₱-	(₱660,681,295)	₱28,368,552,055
Intersegment revenue	377,058,607	5,649,638,220	-	(6,026,696,827)	-	-
Total segment revenue	28,745,610,662	5,649,638,220	660,681,295	(6,026,696,827)	(660,681,295)	28,368,552,055
Segment expenses	(16,742,876,329)	(3,961,746,814)	(522,061,320)	6,026,696,827	522,061,320	(14,677,926,316)
Segment results	₱12,002,734,333	₱1,687,891,406	₱138,619,975	₱-	(₱138,619,975)	13,690,625,739
Unallocated expenses						(228,494,958)
Unallocated interest income						364,640,989
Unallocated interest expense						(3,703,648,469)
Unallocated other income - net						891,753,095
Unallocated provision for income taxes						(₱736,664,955)
Net income from discontinuing operations						97,495,445
Net income						₱10,375,706,886
EBITDA	₱15,239,493,650	₱2,160,465,340	₱157,718,224	₱-	₱-	₱17,557,677,214
Unallocated expenses						(227,388,035)
						₱17,330,289,179

	Electricity	Steam	Drilling	Eliminations	Discontinued Operations	Total
Year Ended December 31, 2011						
Segment revenue from external customers	₱24,539,607,457	₱-	₱712,789,795	₱-	(₱712,789,795)	₱24,539,607,457
Intersegment revenue	217,305,612	6,396,696,182	-	(6,614,001,794)	-	-
Total segment revenue	24,756,913,069	6,396,696,182	712,789,795	(6,614,001,794)	(712,789,795)	24,539,607,457
Segment expenses	(22,439,521,583)	(4,374,623,221)	(804,056,068)	6,614,001,794	804,056,068	(20,200,143,010)
Segment results	₱2,317,391,486	₱2,022,072,961	(₱91,266,273)	₱-	₱91,266,273	4,339,464,447
Unallocated expenses						(52,238,977)
Unallocated interest income						390,212,719
Unallocated interest expense						(4,106,516,315)
Unallocated other income - net						9,480,594
Unallocated benefit from income taxes						115,621,829
Net loss from discontinuing operations						(81,238,483)
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

	Electricity	Steam	Drilling	Eliminations	Discontinued Operations	Total
Year Ended December 31, 2010						
Segment revenue from external customers	₱22,944,227,877	₱1,208,696,413	₱748,691,558	₱-	(₱748,691,558)	₱24,152,924,290
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)	(748,691,558)	24,152,924,290
Segment expenses	(20,043,936,340)	(3,425,076,908)	(502,046,158)	5,540,699,140	502,046,158	(17,928,314,108)
Segment results	₱3,143,623,463	₱3,080,986,719	₱246,645,400	₱-	(₱246,645,400)	6,224,610,182
Unallocated expenses						(17,498,091)
Unallocated interest income						347,689,037
Unallocated interest expense						(3,708,457,266)
Unallocated other income - net						2,077,375,953
Unallocated provision for income taxes						(702,622,483)
Net income from discontinuing operations						173,978,533
Net income						₱4,395,075,865
EBITDA	₱10,142,991,914	₱3,372,419,841	₱249,971,521	₱-	₱-	₱13,765,383,276
Unallocated expenses						(17,475,297)
						₱13,747,907,979

	Electricity	Steam	Drilling	Eliminations	Total
As of and for the year ended December 31, 2012					
Segment assets	₱81,710,707,654	₱28,497,988,629	₱133,778,007	(₱32,476,936,892)	₱77,865,537,398
Unallocated corporate assets					16,437,749,754
Total assets					₱94,303,287,152
Segment liabilities	₱38,269,810,409	₱18,859,582,001	₱-	(₱2,537,851,309)	54,591,541,101
Unallocated corporate liabilities					4,277,891,163
Total liabilities					₱58,869,432,264
Capital expenditure	₱3,566,320,958	₱1,524,917,687	₱-	₱-	₱5,091,238,645
Unallocated capital expenditure					1,840,291,120
Total capital expenditure (Note 13)					₱6,931,529,765
Depreciation and amortization	(₱3,066,194,364)	(₱492,227,636)	(₱19,098,249)	₱-	(₱3,577,520,249)
Unallocated depreciation and amortization					(1,106,922)
Total depreciation and amortization (Note 12)					(₱3,578,627,171)

	Electricity	Steam	Drilling	Eliminations	Total
As of and for the year ended					
December 31, 2012					
Other non-cash items	(P170,564,952)	P19,653,702	P-	P-	(150,911,250)
Unallocated non-cash items					-
Total other non-cash items					(P150,911,250)
As of and for the year ended					
December 31, 2011					
Segment assets	P63,312,247,695	P12,376,428,799	P79,242,187	P-	P75,767,918,681
Unallocated corporate assets					14,249,898,103
Total assets					P90,017,816,784
Segment liabilities	P38,501,885,213	P20,589,217,647	P-	P-	P59,091,102,860
Unallocated corporate liabilities					1,280,112,431
Total liabilities					P60,371,215,291
Capital expenditure	P4,674,950,095	P4,106,780,031	P158,656,411	P-	P8,940,386,537
Unallocated capital expenditure					596,087,897
Total capital expenditure (Note 13)					P9,536,474,434
Depreciation and amortization	(P3,035,691,787)	(P386,991,348)	(P18,973,159)	P-	(P3,441,656,294)
Unallocated depreciation and amortization					(218,203)
Total depreciation and amortization (Note 13)					(P3,441,874,497)
Impairment loss	P4,998,608,008	P-	P-	P-	P4,998,608,008
Other non-cash items	(P305,215,436)	(P340,416,065)	(P198,180)	P-	(P645,829,681)
Unallocated non-cash items					23,722,640
Total other non-cash items					(P622,107,041)

The following table shows the Company's reconciliation of EBITDA to the consolidated net income for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010
EBITDA	P17,330,289,179	P13,237,533,092	P13,747,907,979
Add (Deduct):			
Interest expense (Notes 6 and 26)	(3,703,648,469)	(4,106,760,462)	(3,708,457,266)
Depreciation and amortization (Notes 13, 14, 23 and 24)	(3,578,627,172)	(3,441,874,497)	(3,445,004,630)
Foreign exchange gains (losses) - net (Notes 6 and 27)	1,054,200,463	(108,728,379)	(13,871,472)
Benefit from (provision for) income tax (Note 30)	(778,448,716)	123,607,455	(777,184,715)
Interest income	364,640,989	390,212,719	347,695,016
Provision for doubtful accounts (Notes 9, 16 and 24)	(234,415,270)	(408,598,578)	(75,257,592)
Reversal of (provision for) impairment of parts and supplies inventories (Notes 3, 11 and 24)	83,504,018	(168,959,002)	15,039,061
Derivative gains - net (Note 33)	36,160	108,319,377	436,998,854
Impairment loss on property, plant and equipment of NNGP (Notes 3 and 13)	-	(4,998,608,008)	(3,390,000,000)
Miscellaneous - net (Note 6 and 28)	(161,824,296)	(11,357,903)	1,257,210,630
Consolidated net income	P10,375,706,886	P614,785,814	P4,395,075,865

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

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

8. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	₱2,409,061,954	₱692,764,092
Cash equivalents	9,011,082,249	11,800,642,871
	₱11,420,144,203	₱12,493,406,963

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 ₱316.4 million in 2012, ₱376.1 million in 2011 and ₱318.3 million in 2010 (see Notes 6 and 33).

9. Trade and Other Receivables

	2012	2011
Trade (Note 6)	₱3,993,189,878	₱3,336,433,682
Others:		
Non-trade accounts receivable	68,133,713	99,398,810
Advances to employees	62,787,120	37,934,595
Loans and notes receivables	59,983,898	59,331,933
Employee receivables	7,100,074	8,896,656
Claims receivables	172,672	153,322
	198,177,477	205,715,316
	4,191,367,355	3,542,148,998
Less allowance for doubtful accounts	75,602,750	130,839,470
	₱4,115,764,605	₱3,411,309,528

Trade receivables are non-interest-bearing and are generally collectible in 30 to 60 days. Majority of the Company's trade receivables came from revenues from sale of electricity to NPC. Past due trade receivables earn interest either based at a six-month US treasury rate plus 5% or average non-prime lending rate per annum (see Notes 26 and 33).

Non-trade receivables include accrued interest, receivable from suppliers and other receivables arising from transactions not in the usual course of the Company's business such as disposal of property and equipment.

The rollforward analysis of allowance for doubtful accounts on trade receivables as presented below is based on specific impairment.

	2012	2011
Balance at beginning of year	₱130,839,470	₱30,606,792
Provision for doubtful accounts (Note 24)	31,775,230	100,232,678
Write-off	(86,083,931)	–
Recovery (Note 24)	(928,019)	–
Balance at end of year	₱75,602,750	₱130,839,470

In 2012, the Company has directly written-off trade receivables amounting to ₱282.0 thousand.

10. AFS Investments

	2012	2011
Current - Quoted government debt securities (Note 33)	₱132,345,200	₱673,853,680
Noncurrent (Note 33):		
Quoted government debt securities	473,624,637	–
Quoted equity securities (Note 22)	233,426,506	20,369,374
Unquoted equity securities	74,550	74,550
	707,125,693	20,443,924
Total	₱839,470,893	₱694,297,604

Quoted government debt securities consist of investments in Republic of the Philippines (ROP) bonds with maturities between 2013 and 2016 and interest rates ranging from 8.00% to 9.00% per annum. Such bonds were acquired at a discount.

Investments in equity securities consist mainly of shares traded in the PSE.

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:

	2012	2011	2010
Net accumulated unrealized gain on AFS investments at beginning of year	₱91,758,915	₱119,718,797	₱113,177,323
Changes in fair value recognized in equity (Note 33)	19,763,810	(27,724,193)	6,541,474
Net unrealized gain removed from equity and recognized in profit or loss (Note 33)	–	(235,689)	–
	19,763,810	(27,959,882)	6,541,474
Net accumulated unrealized gain on AFS investments at end of year	₱111,522,725	₱91,758,915	₱119,718,797

Changes in fair value recognized in the consolidated statements of comprehensive income refer to unrealized gains and losses during the period brought about by the temporary increase or decrease in the fair value of the debt and equity instruments.

In 2011, the issuer redeemed for ₱4.75 million the Company's investment in US\$110,000 ROP global bond prior to its original maturity. The transaction resulted to gain on early redemption amounting to ₱271.3 million (see Note 28).

11. Parts and Supplies Inventories

	2012	2011
On hand:		
Drilling tubular products and equipment spares	₱1,631,165,807	₱1,648,876,310
Power plant spares	682,729,900	718,777,618
Pump, production/steam gathering system, steam turbine, valves and valve spares	556,513,309	305,461,738
Electrical, cable, wire product and compressor spares	114,077,988	83,543,105
Chemical, chemical products, gases and catalyst	107,332,094	113,397,104
Heavy equipment spares	63,100,607	90,293,956
Construction and hardware supplies, stationeries and office supplies, hoses, communication and other spares and supplies	63,022,992	20,268,296
Automotive, mechanical, bearing, seals, v-belt, gasket, tires and batteries	48,468,361	39,385,963
Measuring instruments, indicators and tools, safety equipment and supplies	40,630,239	28,640,098
	3,307,041,297	3,048,644,188
In transit	31,784,572	307,123,465
	₱3,338,825,869	₱3,355,767,653

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 include items that are carried at net realizable value amounting to ₱328.7 million and ₱260.8 million as of December 31, 2012 and 2011, respectively, and have a cost amounting to ₱374.8 million and ₱520.8 million, respectively. The rest of the parts and supplies inventories are carried at cost.

Provision for (reversal of) impairment of parts and supplies inventories amounted to (₱83.5 million) in 2012, ₱169.0 million in 2011 and (₱15.0 million) in 2010 (see Note 24). The amount of inventory charged to expense amounted to ₱958.5 million in 2012, ₱1,180.2 million in 2011 and ₱894.8 million in 2010 (see Notes 6, 23 and 24). Details of parts and supplies inventories issued are as follows:

	2012	2011	2010
Cost of sales of electricity and steam (Note 23)	₱768,473,850	₱915,447,365	₱692,061,138
General and administrative expenses (Note 24)	154,094,455	195,747,618	165,307,006
Discontinued drilling operations (Note 6)	35,948,244	68,969,643	37,382,864
	₱958,516,549	₱1,180,164,626	₱894,751,008

12. Other Current Assets

	2012	2011
Withholding tax certificates	₱389,256,730	₱225,008,549
Prepaid expenses	199,507,054	141,483,327
Tax credit certificates (Note 16)	63,000,000	300,000,000
Advances to contractors	40,261,234	74,966,065
Others	239,816	453,316
	₱692,264,834	₱741,911,257

13. Property, Plant and Equipment

2012

	Land	Power Plants	FCRS and Production Wells	Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Laboratory Equipment	Major Spares and Others	Construction in Progress	Total
Cost											
Balances at January 1	₱379,809,254	₱37,204,980,737	₱20,651,972,508	₱2,246,291,592	₱4,074,330,782	₱85,355,600	₱69,065,713	₱580,618,276	₱57,649,072	₱9,517,751,748	₱75,457,825,282
Additions	135,778,474	214,431,401	54,879,048	95,128,090	254,153,493	27,511,268	76,186,312	60,619,297	75,366,756	5,937,475,626	6,931,529,765
Disposals/retirements (Note 28)	-	-	-	(97,659)	(9,745,984)	(5,151,022)	(6,330,083)	(218,577)	(1,653,843)	-	(23,197,168)
Reclassifications	-	(90,164,786)	1,838,540,808	37,131,041	(380,549,482)	(23,522,078)	(99,124,582)	(23,023,345)	71,295,241	(2,287,146,384)	(956,563,567)
Balances at December 31	515,587,728	37,329,247,352	22,545,392,364	2,378,453,064	3,938,188,809	84,193,768	629,797,360	617,995,651	202,657,226	13,168,080,990	81,409,594,312
Accumulated Depreciation, Amortization and Impairment											
Balances at January 1	17,255,629	7,867,549,819	6,368,571,711	429,037,601	1,949,150,666	34,764,668	347,350,269	172,673,077	3,678,839	590,863,997	17,780,896,276
Depreciation and amortization for the year	-	2,103,808,707	754,755,281	95,121,578	188,770,551	16,965,355	188,747,498	63,862,557	70,404,487	-	3,482,436,014
Recovery of Impairment - NINGP (Note 3)	-	(63,614,885)	-	-	-	-	-	-	-	-	(63,614,885)
Disposals/retirements (Note 28)	-	(43,715,747)	-	(97,657)	(8,520,176)	(5,151,022)	(3,010,882)	(218,561)	538,025	-	(16,998,298)
Reclassifications	-	-	-	(7,865,132)	(253,002,531)	(24,806,374)	(106,817,509)	(17,674,833)	-	-	(453,344,101)
Balances at December 31	17,255,629	9,864,027,894	7,123,326,992	516,196,390	1,876,398,510	21,772,627	426,269,376	218,642,240	74,621,351	590,863,997	20,729,375,006
Net Book Value	₱498,332,099	₱27,465,219,458	₱15,422,065,372	₱1,862,256,674	₱2,061,790,299	₱62,421,141	₱203,527,984	₱399,353,411	₱128,035,875	₱12,577,216,993	₱60,680,219,306

2011

	Land	Power Plants	FCRS and Production Wells	Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Laboratory Equipment	Major Spares and Others	Construction in Progress	Total
Cost											
Balances at January 1	₱333,924,551	₱36,607,352,559	₱17,392,141,146	₱1,798,591,948	₱3,803,840,502	₱67,240,415	₱495,684,907	₱456,421,470	₱53,030,079	₱5,021,702,358	₱66,029,929,935
Additions	45,884,703	-	344,150,911	419,864,968	278,703,487	36,618,569	210,525,800	132,783,958	44,533,825	8,023,408,213	9,536,474,434
Disposals/retirements (Note 28)	-	(35,988,750)	-	(1,094,655)	(1,812,341)	(1)	(1,899,186)	(344,455)	(583,522)	-	(41,722,910)
Reclassifications	-	633,616,928	2,915,680,451	28,929,331	(6,400,866)	(18,503,383)	(45,245,808)	(8,242,697)	(39,331,310)	(3,527,358,823)	(66,856,177)
Balances at December 31	379,809,254	37,204,980,737	20,651,972,508	2,246,291,592	4,074,330,782	85,355,600	699,065,713	580,618,276	57,649,072	9,517,751,748	75,457,825,282
Accumulated Depreciation, Amortization and Impairment											
Balances at January 1	-	4,054,656,189	3,256,620,699	287,626,674	1,462,628,729	42,658,867	233,098,901	89,502,206	-	-	9,426,792,265
Depreciation and amortization for the year	-	2,158,122,126	692,852,385	84,957,014	258,849,165	4,939,887	85,937,845	60,024,918	-	-	3,345,683,340
Impairment - NINGP (Note 3)	17,255,629	1,662,635,857	2,419,098,627	56,658,530	141,579,492	8	74,681,583	32,155,446	3,678,839	590,863,997	4,998,608,008
Disposals/retirements (Note 28)	-	(7,864,353)	(248,578)	(248,578)	(1,805,755)	-	(1,667,039)	(344,417)	-	-	(11,930,142)
Reclassifications	-	-	-	43,961	87,899,035	(12,834,094)	(44,701,021)	(8,665,076)	-	-	21,742,805
Balances at December 31	17,255,629	7,867,549,819	6,368,571,711	429,037,601	1,949,150,666	34,764,668	347,350,269	172,673,077	3,678,839	590,863,997	17,780,896,276
Net Book Value	₱562,553,625	₱29,337,430,918	₱14,283,400,797	₱1,817,253,991	₱2,125,180,116	₱50,590,932	₱311,715,444	₱407,945,199	₱53,970,233	₱8,926,887,751	₱57,676,929,006

Capitalization of Borrowing Cost

As discussed in Note 5, BMGPP is currently under rehabilitation which started in September 2010. In 2012, the Company capitalized borrowing cost amounting to ₱213.6 million from general borrowings using a capitalization rate of 6.15%.

Impairment Assessment of NNGP

In 2011, after the five-month shutdown of NNGP starting November 22, 2010, NNGP operated from April to June 2011 to complete its geothermal resource testing. Based on the subsequent technical assessment, the Company has come to a conclusion that the sustainable operation of NNGP is only at 5 to 10 MW only.

The Company evaluates the assets on a CGU basis for any indication of impairment at each financial reporting date. The Company assessed that there continues to be an indication of impairment for NNGP and, based on its impairment testing, recognized an impairment loss amounting to nil in 2012, ₱4,998.6 million in 2011 and ₱3,390.0 million in 2010 (see Note 3).

In February 2012, EDC transferred vacuum pumps from NNGP to the Palinpinon Power Plant owned by GCGI. Since these transferred assets can still be utilized and were included in the CGU of the Palinpinon Power Plant, the Company recognized a corresponding reversal of impairment loss amounting to ₱63.6 million, representing the net book value of the assets transferred had no impairment loss been previously recognized (see Note 28).

As of December 31, 2012 and 2011, accumulated impairment loss of NNGP asset amounted to ₱8,674.0 million and ₱8,737.6 million, respectively.

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 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. Details of the cost and related accumulated amortization of estimated rehabilitation and restoration costs follow:

	2012	2011
Cost	₱399,029,959	₱344,150,911
Accumulated amortization	52,745,789	28,719,118
Net book value	₱346,284,170	₱315,431,793

The corresponding provision for rehabilitation and restoration costs amounting to ₱493.5 million in 2012 and ₱406.8 million in 2011 is recorded under "Provisions and other long-term liabilities" account in the consolidated statements of financial position (see Note 20). Accretion expense amounted to ₱27.6 million and ₱61.1 million for the years ended December 31, 2012 and 2011, respectively (see Note 26).

Subsequent to its full impairment, the unwinding of discount on NNGP provision for rehabilitation and restoration costs amounted to ₱4.2 million and ₱1.5 million for the years ended December 31, 2012 and 2011, respectively.

Revenue Generated during Testing Period

Since 2010, BGI's power plants are undergoing rehabilitation. In 2011, BGI performed testing procedures in preparation for its planned commercial operations. For the years ended

December 31, 2012 and December 31, 2011, the revenue from electricity generated during the testing period amounting to ₱520.4 million and ₱38.0 million, respectively, were offset against the cost of property, plant and equipment.

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 42). The PRUP provides for the replacement and upgrade of significant parts and equipment of PAHEP. For the years ended December 31, 2012, 2011 and 2010, the cost, related accumulated depreciation and net book value of the property, plant and equipment that were replaced amounting to nil, ₱29.0 million and ₱398.9 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 28).

Depreciation and Amortization

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

	2012	2011	2010
Property, plant and equipment	₱3,482,436,014	₱3,345,683,340	₱3,348,813,473
Intangible assets (Note 14)	96,191,157	96,191,157	96,191,157
	₱3,578,627,171	₱3,441,874,497	₱3,445,004,630
Costs of sales of electricity and steam (Note 23)	₱3,195,213,914	₱3,178,921,446	₱3,233,623,822
General and administrative expenses (Note 24)	364,315,008	244,041,892	207,216,027
Discontinued drilling operations (Note 6)	19,098,249	18,911,159	4,164,781
	₱3,578,627,171	₱3,441,874,497	₱3,445,004,630

Reclassifications

The reclassifications in the cost of property, plant and equipment include the capitalized depreciation charges amounting to ₱57.9 million and ₱86.4 million under construction in progress which relates to ongoing drilling of wells as of December 31, 2012 and 2011, respectively.

14. Goodwill and Intangible Assets

	2012			Total
	Goodwill	Water Rights	Other Intangible Assets	
Cost				
Balances at January 1	₱2,535,051,530	₱2,404,778,918	₱258,394,939	₱5,198,225,387
Additions	–	–	209,349,428	209,349,428
Balances at December 31	2,535,051,530	2,404,778,918	467,744,367	5,407,574,815
Accumulated Amortization				
Balances at January 1	–	492,979,679	–	492,979,679
Amortization (Notes 13 and 23)	–	96,191,157	–	96,191,157
Balances at December 31	–	589,170,836	–	589,170,836
Net Book Value	₱2,535,051,530	₱1,815,608,082	₱467,744,367	₱4,818,403,979

2011

	Goodwill	Water Rights	Other Intangible Assets	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 13 and 23)	–	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

Goodwill

On September 2, 2009, GCGI acquired the 192.5 MW Palinpinon (in Negros Oriental) and 112.5 MW Tongonan 1 (in Leyte) geothermal power plants in an auction conducted by PSALM where GCGI submitted the highest complying financial bid of US\$220.0 million. This financial bid was subsequently reduced by US\$6.7 million as PSALM agreed that the Company will directly assume the obligations to procure the equipment/services indicated in the Purchase Requisitions being processed by NPC under Schedule R-Purchase Orders in the Asset Purchase Agreement (APA). The total acquisition cost incurred by the Company amounted to ₱10.7 billion resulting to goodwill of ₱2,241.7 million.

On September 8, 2006, FG Hydro participated and won the bid for the 112 MW PAHEP/MAHEP facility conducted by PSALM in connection with the privatization of NPC assets. FG Hydro paid a total consideration of US\$129.0 million (₱6.5 billion) and recognized goodwill amounting to ₱293.3 million.

Details of the impairment review for goodwill are shown in Note 3.

Water rights

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 18.9 years as of December 31, 2012.

Other intangible assets

Other intangible assets pertain to the Company's wind energy project development costs.

Goodwill, water rights and other intangible asset are not impaired as of December 31, 2012 and 2011 based on the assessments performed by management.

15. Exploration and Evaluation Assets

	2012	2011
Balances at January 1	₱1,087,079,413	₱1,170,407,115
Additions	517,025,999	187,939,410
Transfers	–	(271,267,112)
Balances at December 31	₱1,604,105,412	₱1,087,079,413

Details of exploration and evaluation assets per project are as follows:

	2012	2011
Cabalian	₱574,643,959	₱574,563,067
Mindanao III	485,749,683	361,289,046
Rangas/Kayabon	480,107,120	94,385,782
Dauin/Bacong	55,882,215	55,471,572
Others	7,722,435	1,369,946
	₱1,604,105,412	₱1,087,079,413

16. Other Noncurrent Assets

	2012	2011
Input VAT	₱4,308,566,903	₱3,270,286,773
Tax credit certificates	1,567,371,054	1,338,884,447
Special deposits and funds	221,843,903	123,278,392
Prepaid expenses	86,057,057	32,745,755
Long-term receivables	79,452,797	61,062,125
Others	63,444,527	27,670,094
	6,326,736,241	4,853,927,586
Less allowance for doubtful accounts	624,990,741	422,722,403
	₱5,701,745,500	₱4,431,205,183

Input VAT

Input VAT includes the outstanding input VAT claims of ₱1,246.2 million as of December 31, 2012 and 2011. Input VAT claims for 2010 (₱583.2 million), 2009 (₱149.2 million), 2008 (₱131.6 million), 2007 (₱89.1 million) and 2006 (₱293.1 million) are still pending with the Bureau of Internal Revenue (BIR)/Court of Tax Appeals as of December 31, 2012.

Tax credit certificates (TCCs)

In April and June 2010, ₱1,638.9 million TCCs were issued by the BIR to the Parent Company with respect to its input VAT claims on Build-Operate-Transfer (BOT) fees from 1998 and 1999 amounting to ₱1,894.7 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 may be fully applied. The remaining balance of input VAT claims of ₱255.8 million, which was disallowed by the BIR, was written off in 2010.

On August 17, 2012, BIR issued TCC to the Parent Company amounting to ₱26.5 million for the input VAT claims covering the period from January 1 to March 31, 2010.

In 2012, ₱35.0 million worth of TCCs were utilized for the payment of documentary stamp tax arising from the issuance of fixed rate note (see Note 19).

TCCs that remain unutilized after five years from the date of original issuance are still valid provided that these are duly revalidated by the BIR within the period allowed by law.

Special deposits and funds

The special deposits and funds mainly consist of escrow accounts in favor of terminated employees and security deposit for the Company's new office in Ortigas Center, Pasig City (see Notes 33 and 34).

Allowance for doubtful accounts

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

	2012			
	Input VAT	NPC	Others	Total
Beginning of year	₱361,660,278	₱2,508,223	₱58,553,902	₱422,722,403
Provision for doubtful accounts (Note 24)	196,105,738	–	7,180,340	203,286,078
Write-off	–	(1,017,740)	–	(1,017,740)
End of year	₱557,766,016	₱1,490,483	₱65,734,242	₱624,990,741
Specific impairment		₱1,490,483	₱65,434,961	₱66,925,444
Collective impairment		–	299,281	299,281
Total		₱1,490,483	₱65,734,242	₱67,224,725

	2011			
	Input VAT	NPC	Others	Total
Beginning of year	₱78,788,997	₱3,087,482	₱32,480,024	₱114,356,503
Provision for doubtful accounts (Note 24)	282,871,281	–	26,073,878	308,945,159
Reversal (Note 24)	–	(579,259)	–	(579,259)
End of year	₱361,660,278	₱2,508,223	₱58,553,902	₱422,722,403
Specific impairment		₱2,508,223	₱–	₱2,508,223
Collective impairment		–	58,553,902	58,553,902
Total		₱2,508,223	₱58,553,902	₱61,062,125

17. Trade and Other Payables

	2012	2011
Accounts payable:		
Third parties	₱5,604,345,331	₱4,562,690,830
Related parties (Note 22)	254,142,815	145,511,330
Accrued interest on long-term debts	661,127,313	1,047,605,943
Withholding and other taxes payable	367,865,856	328,466,441
Deferred credits	35,760,703	22,095,129
SSS and other contributions payable	2,741,924	1,893,569
Other payables (Note 3)	768,934,180	595,812,019
	₱7,694,918,122	₱6,704,075,261

Accounts payable are non-interest-bearing and are normally settled on a 30 to 60 days payment term.

“Other payables” account includes guarantee fees due to the Philippine Government (Government) arising from previous loans availed of by the Company, PNOC (the then parent company of EDC) and NPC (as primary borrower with sub-lending arrangements with EDC) from various international financial institutions.

As of December 31, 2012 and 2011, the Company has ₱10.9 billion and ₱9.6 billion of unused credit facilities from various local banks, respectively, which may be available for future operating activities.

18. Royalty Fee Payable

Royalty fee payable consists of the following:

	2012	2011
Due to DOE and Local Government Units (LGUs) prescribed by the RE Law	₱20,618,242	₱–
Deferred royalty fee due to DOE	–	287,626,313
	₱20,618,242	₱287,626,313

Pursuant to the provisions of the RE Law, the Parent Company shall pay royalty fee equivalent to 1.5% of its gross income. Such fiscal incentive was applied by the Parent Company beginning February 1, 2009 retroactive to the effective date on January 30, 2009 of the RE Law (see Note 36).

On May 8, 2012, upon execution of their respective Geothermal Operating Contracts with the DOE, GCGI and BGI also became subject to royalty fee of 1.5% of their gross income (see Note 36).

Royalty fees are allocated between the DOE and LGUs where the geothermal resources are located and payable within 60 days after the end of each quarter. Royalty fee expense amounted to ₱169.8 million, ₱193.9 million and ₱222.8 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 23).

Deferred royalty fee

Prior to the implementation of the RE Law, the Parent Company’s service contracts with the DOE under P.D. 1442 granted the Parent Company the right to explore, development, and utilize the country’s geothermal resources subject to sharing of net proceeds with the Government. 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 LGUs (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 covering the period from 1989 to 2008. As agreed with the DOE, the Parent Company will settle the deferred royalty fee for four years with a quarterly amortization of ₱87.5 million or an annual payment of ₱350.0 million. In accordance with PAS 39, “Day 1” gain amounting to ₱168.3 million was recognized for the difference between the nominal/maturity value and present value of the royalty fee payable. 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 on the accretion of Day 1 gain arising from the deferred royalty fee is shown below:

	2012	2011
Balance at January 1	₱10,945,030	₱42,277,858
Accretion (Notes 26 and 33)	(10,945,030)	(31,332,828)
Balance at December 31	₱–	₱10,945,030

Accretion is recognized under the “Interest expense” account in the consolidated statements of income (see Notes 26 and 33).

As of December 31, 2012, the deferred royalty fee has been paid in full.

19. Long-term Debts

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

Creditor/Project	Maturities	Interest Rate	2012	2011
US\$ 300.0 Million Notes	January 20, 2021	6.5%	₱12,187,362,619	₱13,003,311,706
Peso Public Bonds				
▪ ₱8.5 billion	June 4, 2015	8.6418%	8,438,332,932	8,416,912,815
▪ ₱3.5 billion	December 4, 2016	9.3327%	3,467,662,982	3,461,264,190
International Finance Corporation (IFC) [Note 22]				
▪ 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	3,537,463,896	3,871,272,055
▪ IFC 2 - ₱3.3 billion	2013-2025	6.6570%	3,203,252,862	3,196,114,630
Fixed Rate Note Facility (FXCN)				
▪ ₱3.0 billion	2012-2022	6.6173%	2,944,415,806	–
▪ ₱4.0 billion	2012-2022	6.6108%	3,926,420,799	–
Refinanced Syndicated Term Loan				
▪ US\$175.0 million	June 27, 2017	LIBOR plus a margin of 175 basis points	7,094,959,970	7,540,144,527
Restructured Philippine National Bank (PNB) and Allied Bank Peso Loan				
	November 7, 2022	1.5% + PDST-F rate or 1.0% + BSP overnight rate	4,250,000,000	–
Fixed Rate Corporate Note (FRCN)				
▪ Series 1 - ₱2.6 billion	2010-2014	8.3729%	–	1,969,790,128
▪ Series 2 - ₱4.9 billion	2010-2016	9.4042%	–	4,334,027,481
▪ Series 3 - ₱1.5 billion	2010-2014	8.4321%	–	1,116,752,741
PNB and Allied Bank Peso Loan				
	May 6, 2020	9.025%	–	4,559,728,738
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
Total			49,049,871,866	51,489,571,455
Less current portion			2,393,871,767	2,249,517,382
Noncurrent portion			₱46,656,000,099	₱49,240,054,073

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= ₱41.05 as of December 31, 2012) and (US\$1= JP¥77.912; US\$1= ₱43.840 as of December 31, 2011).

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

	2012	2011
Balance at January 1	₱649,610,989	₱626,140,912
Additions	100,166,950	382,328,678
Transaction costs derecognized due to extinguishment of debt (Note 28)	(101,553,355)	(197,898,124)
Amortization (Notes 26 and 33)	(118,353,909)	(158,790,979)
Foreign exchange losses (gains) - net	749,645	(2,169,498)
Balance at December 31	₱530,620,320	₱649,610,989

Parent Company Loans

The Parent Company entered into unsecured long-term loan arrangements with domestic and international financial institutions for its various development projects and working capital requirements.

US\$ 300.0 Million Notes

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 in 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. Such notes were listed and quoted on the Singapore Exchange Securities Trading Limited (SGX-ST).

Peso Public Bonds

On December 4, 2009, the Company received ₱12.0 billion proceeds from the issuance of fixed rate Peso public bonds - split into two tranches - ₱8.5 billion, due after five years and six months and ₱3.5 billion, due after seven years, paying a coupon of 8.6418% and 9.3327%, respectively.

IFC (see Note 22)

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 ₱4.1 billion. On January 7, 2009, the Parent Company opted to draw the loan in Peso and received the proceeds amounting to ₱4,048.8 million, net of ₱51.5 million front-end fee. The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another five to 10 years. Under the loan agreement, the Parent Company is restricted from creating liens and is subject to certain financial covenants.

On 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. 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.

Issuance of FXCN and Prepayment of FRCN

On July 3, 2009, EDC received ₱7,500.0 million proceeds from the issuance of FRCN split into two tranches. The first tranche of ₱2,644.0 million will mature after 5 years and the second tranche of ₱4,856.0 million will mature after 7 years with a coupon rate of 8.3729% and 9.4042% respectively. On September 3, 2009, EDC received ₱1,500.0 million proceeds from the additional issuance of FRCN, a 5-year series paying a coupon of 8.4321%.

On April 4, 2012, EDC signed a 10-year FXCN facility agreement amounting to ₱7,000.0 million which is divided into two tranches. The proceeds from the first tranche amounting to ₱3,000.0 million were used to prepay in full its FRCN Series One and Series Three for ₱1,774.3 million and ₱1,007.1 million, respectively. Subsequently, on May 3, 2012, the FRCN Series Two was also prepaid in full for ₱4,211.1 million using the proceeds from the second FXCN tranche amounting to ₱4,000.0 million. The FXCN tranches 1 and 2 bears a coupon rate of 6.6173% and 6.6108% per annum, respectively. FRCN Series One and Series Three were originally scheduled to mature in July 2014 while FRCN Series Two was originally scheduled to mature in July 2016.

EDC recognized loss amounting to ₱114.7 million arising from early extinguishment of FRCN in 2012 (see Note 28).

Debt issuance costs amounting to ₱100.2 million was capitalized as part of the new FXCN. Amortization of transaction costs in 2012 amounting to ₱6.0 million is included under the “Interest expense” account in the 2012 consolidated statement of income (see Note 26).

Refinanced Syndicated Term Loan

On June 17, 2011, the Parent Company had entered into a credit agreement for the US\$175.0 million (₱7,630.0 million) transferable syndicated term loan facility with ANZ, 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 syndicated term 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 2011 consolidated statement of income (see Note 28).

Syndicated Term Loan

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.

Other Long-term Debts

On January 31, 2012, the Parent Company fully settled its matured JP¥1.5 billion OECF 8th Yen loan amounting to ₱20.3 million.

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

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

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

The loan covenants covering its outstanding debts include, among others, maintenance of certain level of current, debt-to-equity and debt-service ratios. As of December 31, 2012 and 2011, 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 with the first payment made on November 8, 2010. The loan proceeds were 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.

On November 7, 2012, FG Hydro's outstanding loan amounting to ₱4.3 billion was restructured by way of an amendment to the loan agreement. The amended agreement provided for a change in the determination of the applicable interest rates and extended the maturity date of the loan by two years with the last repayment to be made on November 7, 2022. FG Hydro has the option to select its new applicable interest rate between a fixed or a floating interest rate. FG Hydro opted to avail of the loan at the floating rate which is the higher of the 6-month PDST-F rate plus a margin of 1.50% per annum or the BSP overnight rate plus a margin of 1% per annum as determined on the interest rate setting date. For the first interest period, the applicable rate was determined as the BSP overnight rate of 3.5% plus 1% margin. The principal and interest on the loan are payable on a semi-annual basis. Interest rates are determined at the beginning of every interest period. FG Hydro has a one-time option to convert to a fixed interest rate any time after the amendment effectivity date.

FG Hydro has assessed that the loan restructuring resulted to substantial modification of the terms of the original loan, hence, the original loan was considered extinguished. Amortization of the remaining transaction cost of the old loan amounting to ₱49.0 million was accelerated and the transaction cost incurred for the restructured loan amounting to ₱24.5 million was recognized as part of the loss on extinguishment of debt (see Note 28).

FG Hydro has been compliant to the covenants of its existing loans as of December 31, 2012 and 2011.

20. Provisions and Other Long-term Liabilities

	2012	2011
Provision for rehabilitation and restoration costs (Notes 3 and 13)	₱493,524,946	₱406,779,140
Accrued sick leave	200,960,606	212,808,197
Accrued vacation leave	131,848,883	135,507,434
Others (Note 3)	324,051,554	1,782,954
	₱1,150,385,989	₱756,877,725

Provision for rehabilitation and restoration costs

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 (see Note 13).

Details of the movement of provision for rehabilitation and restoration costs are as follows:

	2012	2011
Beginning of the year	₱406,779,140	₱–
Addition (Note 13)	54,879,048	344,150,911
Accretion of interest (Note 26)	27,644,866	61,144,090
Unwinding of discount of NNGP	4,221,892	1,484,139
	₱493,524,946	₱406,779,140

Accrued sick leave and accrued vacation leave

Sick and annual vacation leave with pay are given to active employees subject to certain requirements set by the Company. These leaves are convertible into cash upon separation of the employees. At the end of the year, any remaining unused sick and vacation leave are accrued up to maximum allowed number of leave credits which is based on the employees' length of service with the Company. Vacation and sick leave credits exceeding the maximum allowed for accrual are forfeited.

21. Equity

Capital Stock

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

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 ₱3.2 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 6.0 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 (Note 31). 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, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Preferred shares	1	1	1
Common shares	700	702	715

Details of the number of common and preferred shares as of December 31, 2012, 2011 and 2010 are as follows:

	Preferred	Common
Par value	₱0.01	₱1.00
Number of shares:		
Authorized	15,000,000,000	30,000,000,000
Issued and outstanding	9,375,000,000	18,750,000,000

Common Shares in Employee Trust Account

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 ₱404.2 million.

In 2009, a total of 93,000,000 common shares held in treasury that were acquired in 2008 at the cost of ₱404.2 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 recognized under the "Common shares in employee trust account" account in the consolidated statement of financial position (see Note 32).

Equity Reserve

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 then a wholly owned subsidiary of First Gen prior to the SPIA. FG Hydro and EDC were subsidiaries of First Gen at that time and were, therefore, under common control of First Gen. The acquisition was accounted for similar to a pooling-of-interests method since First Gen controlled FG Hydro and EDC before and after the execution of the SPIA. EDC recognized equity reserve amounting to ₱3,706.4 million pertaining to the difference between the acquisition cost and EDC's proportionate share in the paid-in capital of FG Hydro.

Retained Earnings

Declaration date	Record date	Payment date	Shareholders	Description	Dividend per share	Total amount
2012:						
September 5, 2012	September 20, 2012	September 30, 2012	Common	Special	₱0.04	₱750,000,000
March 13, 2012	March 28, 2012	April 24, 2012	Preferred	Regular	0.0008	7,500,000
- do -	- do -	- do -	Common	Regular	0.10	1,875,000,000
						₱2,632,500,000
2011:						
March 15, 2011	March 29, 2011	April 20, 2011	Preferred	Regular	₱0.0008	₱7,500,000
- do -	- do -	- do -	Common	Regular	0.16	3,000,000,000
						₱3,007,500,000

NCI

On May 9, 2011, the Philippine SEC approved the amendment of the articles of incorporation of FG Hydro reclassifying its unissued redeemable preferred shares into redeemable preferred “A” and “B” shares. Features of the preferred shares Series B includes the right to earn cumulative dividends from January 1, 2009 up to 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 and cap at nil in 2009, US\$8.0 million in 2010 and US\$14.0 million thereafter up to 2013. As a result of the issuance of FG Hydro’s 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 preferred shares Series B stockholders for the period January 1, 2010 to December 31, 2010.

In June 2011, FG Hydro declared and paid cash dividends to its preferred shares amounting to ₱333.8 million. In March and May 2012, FG Hydro declared and paid cash dividends to its preferred and non-controlling common shareholders amounting to ₱494.1 million and ₱848.5 million, respectively. In October 2012, FG Hydro declared and paid cash dividends to its non-controlling common shareholders amounting to ₱520.0 million.

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.

- a. Following are the amounts of transactions and outstanding balances as of and for the years ended December 31, 2012 and 2011:

Related Party	Nature of Transaction	Terms	Transactions for the years ended		Net amounts due from/to related parties as at December 31	
			December 31 2012	2011	December 31 2012	2011
Due from related parties						
First Gen	Interest-free advances	Unsecured and will be settled in cash	₱-	₱3,437	₱-	₱3,437
First Gen Northern Energy Corp.	Interest-free advances	- do -	-	2,511	-	2,511
First GES	Interest-free advances	- do -	-	1,864	-	1,864
			₱-	₱7,812	₱-	₱7,812

(Forward)

Related Party	Nature of Transaction	Terms	Transactions for the years ended Net amounts due from/to related parties as at December 31			
			December 31 2012	2011	December 31 2012	2011
Due to related parties						
First Gen	Consultancy fee	Unsecured and will be settled in cash	₱165,619,598	₱161,590,588	₱41,379,949	₱53,863,530
	Interest-free advances	- do -	26,095,569	62,587,201	8,166,941	6,061,620
Lopez Group Foundation, Inc.	Donation to support the Group's Corporate Social Responsibility efforts	- do -	1,095,000	838,400	-	-
First Gas Power Corporation	Interest-free advances	- do -	147,794	626,755	30,613	165,675
Bauang Private Power Corporation	Acquisition of one unit MVA transformer	- do -	57,330	-	-	-
Eugenio Lopez Foundation, Inc.	Donation to Lopez Museum	- do -	-	2,400,000	-	-
			₱193,015,291	₱228,042,944	₱49,577,503	₱60,090,825
Trade and other payables (Note 17)						
Thermaprime	Drilling and other related services	- do -	₱1,155,169,743	₱994,573,343	₱171,699,140	₱101,171,006
First Balfour Inc.	Steam augmentation and other services	- do -	192,687,664	158,696,338	73,339,568	38,989,273
First Philec Manufacturing Technologies Corp	Purchase of services and utilities	- do -	3,696,180	625,000	2,077,482	328,720
Adtel	Purchase of services and utilities	- do -	3,272,208	-	1,452,277	-
FEDCOR	Purchase of services and utilities	- do -	2,930,000	-	-	-
ABS-CBN Publishing, Inc.	Purchase of services and utilities	- do -	1,284,110	47,500	-	-
FPRC	Purchase of services and utilities	- do -	1,190,822	2,435,646	-	458,150
Bayantel	Purchase of services and utilities	- do -	531,781	1,090,465	5,038,978	4,524,811
Goldlink Security and Investigative Services Inc.	Purchase of services and utilities	- do -	494,787	458,603	-	-
Securities Transfer Services, Inc.	Purchase of services and utilities	- do -	129,920	159,884	39,370	39,370
ABS-CBN Corp.	Purchase of services and utilities	- do -	118,878	70,000	496,000	-
Rockwell Land Corporation	Purchase of services and utilities	- do -	70,000	-	-	-
First Philippine Industrial Corporation	Purchase of services and utilities	- do -	1,488	-	-	-
Sky Cable	Purchase of services and utilities	- do -	-	12,100	-	-
			₱1,361,577,581	₱1,158,168,879	₱254,142,815	₱145,511,330
Long-term debt						
IFC (Note 19)	Interest-bearing loans	- do -	₱519,860,137	₱4,223,815,201	₱6,740,716,758	₱7,067,386,685

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, 2012 and 2011.

i. First Gen

First Gen provides financial consultancy, business development and other related services to the Parent Company under a consultancy agreement beginning September 1, 2008. Such agreement is for a period of three years up to August 31, 2011. Under the terms of the agreement, billings for consultancy services shall be ₱8.7 million per month plus applicable taxes. This was increased to ₱11.8 million 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. The consultancy agreement was extended for another two years from January 1, 2013 to December 31, 2014. Total consultancy services amounted to ₱165.6 million, ₱161.6 million and ₱170.8 million in 2012, 2011 and 2010, 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

₱236.4 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 24). There were no similar charges in 2012 and 2011.

In 2012, the Parent Company purchased 5.4 million shares of First Gen with acquisition cost of ₱77.1 million recorded as AFS investments (Note 10).

ii. IFC

IFC is a shareholder of the Parent Company that has approximately 5% ownership interest in the Parent Company. 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, 2012 and 2011, the outstanding balance of the loan amounting to ₱3,203.3 million and ₱3,196.1 million, respectively, is included under the “Long-term debts” account in the consolidated statement of financial position (see Note 19).

On November 27, 2008, the Parent Company entered into a loan agreement with IFC for US\$100.0 million or its Peso equivalent of ₱4.1 billion. On January 7, 2009, the Parent Company opted to draw the loan in Peso and received the proceeds amounting to ₱4,048.8 million, net of ₱51.3 million front-end fee. The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another five to 10 years. Under the loan agreement, the Parent Company is restricted from creating liens and is subject to certain financial covenants. As of December 31, 2012 and 2011, the outstanding loan amounted to ₱3,537.5 million and ₱3,871.3 million, respectively, net of unamortized transaction costs of ₱49.6 million and ₱57.8 million, respectively. This loan is included under the “Long-term debts” account in the consolidated statement of financial position (see Note 19).

iii. First Balfour, Inc. (First Balfour)

Following the usual bidding process in 2010, the Company awarded to First Balfour procurement contracts amounting to ₱217.7 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, 2012 and 2011, the outstanding balance amounted to ₱73.3 million and ₱39.0 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.

iv. Other Related Parties

- 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 80.7%-owned by ABS-CBN Corp. on which Lopez Holdings Corporation has 57.3% interest. ABS-CBN Publishing, Inc. is a wholly owned subsidiary of ABS-CBN Corp.
- Rockwell Land Corporation is 86.79% owned by First Holdings.
- First Electro Dynamics Corporation (FEDCOR) is a wholly owned subsidiary of First Holdings.
- Adtel Inc. is a wholly owned Lopez Incorporated entity.
- Lopez Group Foundation, Inc. is the coordinative hub for the corporate social responsibility initiatives of Lopez Holdings Corporation.
- First Philec Manufacturing Technologies Corp., Securities Transfer Services, Inc. and First Philippine Realty Corp. (FPRC), formerly known as INAEC Development Corp, are wholly owned subsidiaries 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) and First Gen Northern Energy Corp. are wholly owned subsidiaries of First Gen.
- First Philippine Industrial Corp. is 60% owned by First Holdings.

b. Intercompany Guarantees

EDC Chile Limitada, 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.

Except for the 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 other related party in 2012 and 2011.

c. Remuneration of Key Management Personnel

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

	2012	2011	2010
Short-term employee benefits	₱118,627,463	₱94,076,334	₱126,184,215
Post-employment benefits (Note 29)	262,855,984	239,439,200	192,690,000
Share-based payments (Note 32)	24,742,375	8,806,875	15,684,375
	₱406,225,822	₱342,322,409	₱334,558,590

23. Costs of Sales of Electricity and Steam

	2012	2011	2010
Depreciation and amortization (Notes 13 and 14)	₱3,195,213,914	₱3,178,921,446	₱3,233,623,822
Personnel costs (Notes 25, 29 and 32)	1,982,097,751	1,454,616,847	1,728,719,810
Purchased services and utilities (Note 22)	1,729,664,759	1,994,234,596	1,274,882,583
Repairs and maintenance (Note 41)	1,214,445,888	1,652,594,246	1,486,178,615
Rental, insurance and taxes (Note 34)	1,005,291,154	1,033,018,600	899,085,485
Parts and supplies issued (Note 11)	768,473,850	915,447,365	692,061,138
Royalty fees (Note 18)	169,752,256	193,856,068	222,831,401
Business and related expenses	166,168,972	147,185,600	57,467,333
Proceeds from insurance claims	(105,931,390)	–	(129,005,463)
	₱10,125,177,154	₱10,569,874,768	₱9,465,844,724

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, 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. General and Administrative Expenses

	2012	2011	2010
Personnel costs (Notes 25, 29 and 32)	₱1,684,795,405	₱1,490,582,928	₱1,773,383,949
Purchased services and utilities	1,108,600,474	1,063,662,026	1,084,750,032
Rental, insurance and taxes (Notes 34 and 41)	802,484,066	651,513,045	773,467,311
Business and related expenses (Note 22)	469,171,599	370,829,003	550,000,926
Depreciation and amortization (Note 13)	364,315,008	244,041,892	207,216,027
Provision for doubtful accounts (Notes 9 and 16)	235,061,308	409,177,837	77,575,943
Parts and supplies issued (Note 11)	154,094,455	195,747,618	165,307,006
Provision for (reversal of) impairment of parts and supplies inventories (Notes 3 and 11)	(83,504,018)	168,959,002	(14,999,238)
Repairs and maintenance	46,871,861	66,431,309	76,744,056
(Forward)			

	2012	2011	2010
Reversal of provision for doubtful accounts (Notes 9 and 16)	(P928,019)	(P579,259)	(P2,405,862)
Loss on direct write-off of receivables	281,981	–	–
	P4,781,244,120	P4,660,365,401	P4,691,040,150

25. Personnel Costs

	2012	2011	2010
Salaries and other benefits (Note 32)	P3,732,671,291	P3,014,227,692	P3,322,197,742
Net retirement and other post-employment benefit costs (income) [Note 29]	(42,858,229)	50,797,100	397,606,557
Social security costs	36,584,471	36,701,697	38,791,600
	P3,726,397,533	P3,101,726,489	P3,758,595,899

Personnel costs amounting to P57.9 million, P135.8 million and P186.1 million were capitalized under property, plant and equipment, and intangible assets in 2012, 2011 and 2010, respectively (see Notes 13 and 14).

	2012	2011	2010
Costs of sales of electricity and steam (Note 23)	P1,982,097,751	P1,454,616,847	P1,728,719,810
General and administrative expenses (Note 24)	1,684,795,405	1,490,582,928	1,773,383,949
Discontinued drilling operations (Note 6)	1,596,097	20,781,553	70,441,991
Capitalized personnel costs	57,908,280	135,745,161	186,050,149
	P3,726,397,533	P3,101,726,489	P3,758,595,899

26. Interest Income and Interest Expense

Interest income consists of the following:

	2012	2011	2010
Interest income on cash equivalents (Notes 8 and 33)	P354,778,763	P369,729,747	P311,947,757
Interest income on cash in banks (Notes 8 and 33)	3,596,543	6,388,430	6,330,518
Interest income on employee and other receivables (Notes 9 and 33)	3,338,547	8,909,082	22,329,156
Interest income on AFS investments (Notes 10 and 33)	1,131,160	1,099,376	1,073,692
Interest income on trade receivables (Notes 9 and 33)	693,922	2,983,715	6,007,914
Others	1,102,054	1,102,369	–
	P364,640,989	P390,212,719	P347,689,037

Interest expense consists of the following:

	2012	2011	2010
Interest on long-term debts including amortization of transaction costs (Notes 19 and 33)	₱3,656,390,728	₱4,005,331,916	₱3,643,864,967
Interest accretion on provision for rehabilitation and restoration costs (Notes 3, 13 and 20)	27,644,866	61,144,090	–
Interest accretion of “Day 1” gain (Notes 18 and 33)	10,945,030	31,332,828	56,102,861
Interest on liability from litigation (Note 3)	8,608,023	7,811,107	8,185,077
Interest on loan payable and others (Note 33)	59,822	896,374	304,361
	₱3,703,648,469	₱4,106,516,315	₱3,708,457,266

Interest accretion of “Day 1” gain pertains to deferred royalty fee payable (see Note 18) while interest on liability from litigation is related to expropriation cases (see Note 3).

Interest on loan payable in 2011 and 2010 pertains to 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 2.3% 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.

27. Foreign Exchange Gains (Losses)

	2012	2011	2010
Realized foreign exchange gains (losses) - net	(₱169,333,424)	(₱270,373,999)	(₱182,849,924)
Unrealized foreign exchange gains - net	1,222,800,198	159,321,670	166,954,878
Net foreign exchange gains (losses)	₱1,053,466,774	(₱111,052,329)	(₱15,895,046)

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 receivables and payables, short-term placements and cash in banks. Following are the exchange rates used to restate outstanding balances at financial reporting date:

Currency	Peso Equivalent of 1 Unit of Foreign Currency		
	2012	2011	2010
US dollar	₱41.050	₱43.840	₱43.840
Japanese yen	0.477	0.562	0.537
Singaporean dollar	33.703	–	–

(Forward)

Currency	Peso Equivalent of 1 Unit of Foreign Currency		
	2012	2011	2010
Euro	₱54,530	₱–	₱–
New Zealand dollar	33,659	–	–
Sweden kroner	–	6,363	6,865

28. Miscellaneous Income (Charges)

	2012	2011	2010
Loss on debt extinguishment (Notes 19 and 33)	(₱188,145,763)	(₱197,898,124)	₱–
Recovery on impairment loss on property, plant and equipment (Note 13)	63,614,885	–	–
Loss on disposal of property, plant and equipment (Note 13)	–	(28,970,474)	(398,927,321)
Reversals of long-outstanding payables	–	189,613,624	1,946,165
Gain on early redemption of AFS investment (Note 10)	–	(271,292)	–
Recovery of impairment loss on input VAT claims for refund/tax credits (Note 16)	–	–	1,638,884,447
Others - net	(37,218,961)	26,206,002	15,441,533
	(₱161,749,839)	(₱11,320,264)	₱1,257,344,824

The Parent Company recognized recovery of impairment loss on input VAT claims amounting to ₱1,638.9 million on account of the tax credit certificates issued by the BIR in May and June 2010 (see Note 16).

29. Net Retirement and Other Post-employment Benefits

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 2012, 2011 and 2010 BGI, GCGI and FG Hydro, respectively, have set up a funded, non-contributory, defined benefit retirement plans which were included in the consolidated financial statements.

The following tables summarize the components of net benefit expense (income) recognized in the consolidated statement of income and the funded status and amounts recognized in the consolidated statements of financial position:

	2012	2011	2010
Current service cost	₱228,899,603	₱213,069,058	₱187,139,907
Interest cost on benefit obligation	213,132,871	215,470,088	273,393,511
Expected return on plan assets	(100,092,796)	(112,728,687)	(142,453,424)
Net actuarial loss recognized	368,122,254	520,800	86,988,383

(Forward)

	2012	2011	2010
Curtailment gain	(₱752,920,161)	(₱265,534,159)	(₱14,676,220)
Past service cost	–	–	7,214,400
Net retirement expense (income) (Note 25)	(₱42,858,229)	₱50,797,100	₱397,606,557
Actual return on plan assets	₱234,293,144	₱165,125,261	₱324,216,027
		2012	2011
Present value of defined benefits obligations		₱3,281,316,791	₱3,759,487,214
Fair value of plan assets		(1,844,120,175)	(2,001,855,915)
		1,437,196,616	1,757,631,299
Net unrecognized actuarial losses		(777,263,955)	(703,394,043)
Net retirement and other post-employment benefits		₱659,932,661	₱1,054,237,256

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

	2012	2011
Defined benefits obligation at January 1	₱3,759,487,214	₱3,434,199,212
Current service cost	228,899,603	213,069,058
Interest cost on benefit obligation	213,132,871	215,470,088
Benefits paid	(743,475,250)	(344,916,381)
Actuarial losses on obligation	576,192,514	507,199,396
Curtailment gain	(752,920,161)	(265,534,159)
Defined benefits obligation at December 31	₱3,281,316,791	₱3,759,487,214

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

	2012	2011
Fair value of plan assets at January 1	₱2,001,855,915	₱1,877,950,146
Expected return on plan assets	100,092,796	112,728,687
Contributions by employer	351,446,366	303,696,889
Benefits paid	(743,475,250)	(344,916,381)
Actuarial gains on plan assets	134,200,348	52,396,574
Fair value of plan assets at December 31	₱1,844,120,175	₱2,001,855,915

EDC's retirement benefits fund is maintained by the Bank of the Philippine Islands Asset Management and BDO Trust while GCGI and BGI's retirement benefits funds are maintained by BDO Trust.

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

	2012	2011
Cash and cash equivalents	4.18%	18.38%
Investment in debt securities	60.46%	71.86%
Investment in equity securities	33.85%	8.50%
Others	1.51%	1.26%
	100.00%	100.00%

Cash and cash equivalents include savings and time deposits. Investment in debt securities pertain to ROP bonds/government securities while investment in equity securities pertain to listed shares of stock.

The carrying value of the plan assets is equal to its fair value as of December 31, 2012 and 2011.

The Company expects to contribute ₱349.0 million to its defined benefit retirement plan in 2013.

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

	2012				2011		
	EDC	GCGI	FG Hydro	BGI	EDC	GCGI	FG Hydro
Discount rate	5.65%	5.65%	5.73%	5.70%	5.65%	5.65%	8.61%
Expected rate on return on assets	6.00%	5.00%	7.00%	–	6.00%	5.00%	7.00%
Future salary increase rate	6.00%	6.00%	12.00%	6.00%	6.00%	6.00%	12.00%
Medical trend rate	7.00%	7.00%	–	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.

Plan deficit and experience adjustments on plan assets and liabilities for the current year and previous four years are as follows:

	2012	2011	2010	2009	2008
Defined benefit obligation	₱3,281,316,791	₱3,759,487,214	₱3,434,199,212	₱3,265,217,548	₱3,179,147,273
Plan assets	(1,844,120,175)	(2,001,855,915)	(1,877,950,146)	(2,035,048,917)	(1,792,770,559)
Deficit	1,437,196,616	1,757,631,299	1,556,249,066	1,230,168,631	1,386,376,714
Experience adjustment on plan assets	134,200,348	52,396,574	181,762,603	89,549,657	(48,570,370)
Experience adjustment on plan liabilities	343,315,395	279,779,927	293,915,499	10,310,861	62,109,785

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

	2012		2011	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest cost	₱1,185,073	₱1,185,073	₱709,657	₱616,486
Effect on the defined benefits obligation	7,417,445	7,417,445	4,864,356	4,465,907

In 2012, 2011 and 2010, the Company recognized termination expense amounting to ₱605.2 million, ₱386.7 million and ₱140.7 million, respectively.

30. Income Tax

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

	2012				
	Beginning of Year	Charged to Income	Charged to Equity	End of Year	
Deferred income tax assets on:					
Unrealized foreign exchange losses - BOT power plants	₱1,018,787,247	(₱105,320,740)	₱-	₱913,466,507	
Impairment loss on property, plant and equipment	873,760,801	(6,632,190)	-	867,128,611	
Differences in fair value versus cost of Tongonan and Palinpinon property, plant and equipment	210,790,422	(19,743,203)	-	191,047,219	
Allowance for doubtful accounts	55,917,298	8,729,499	-	64,646,797	
Provision for rehabilitation and restoration costs	40,677,914	9,134,366	-	49,812,280	
Revenue generated during testing period of BGI power plant	3,798,130	36,406,581	-	40,204,711	
NOLCO	126,855,340	(103,751,757)	-	23,103,583	
Provision for impairment of parts and supplies inventories	31,606,692	(15,057,001)	-	16,549,691	
Unrealized foreign exchange losses	1,773,101	(1,038,809)	-	734,292	
Others	122,486,889	(36,781,363)	16,047,386	101,752,912	
	2,486,453,834	(234,054,617)	16,047,386	2,268,446,603	
Deferred income tax liabilities on:					
Differences in fair value versus cost of property, plant and equipment	973,445,491	47,749,278	-	925,696,213	
Capitalized rehabilitation and restoration costs	31,543,179	(3,889,988)	-	35,433,167	
Difference in fair value versus cost of inventories	18,252,554	1,493,705	-	16,758,849	
Unrealized foreign exchange gains	15,073,462	(135,642,799)	-	150,716,261	
Others	27,482,491	(20,265,832)	-	47,748,323	
	1,065,797,177	(110,555,636)	-	1,176,352,813	
	₱1,420,656,657	(₱344,610,253)	₱16,047,386	₱1,092,093,790	
2011					
	Beginning of Year	Effect of Voluntary Change in Accounting Policy	Charged to Income	Charged to OCI/Equity	End of Year
Deferred income tax assets on:					
Unrealized foreign exchange losses - BOT power plants	₱1,124,107,987	₱-	(₱105,320,740)	₱-	₱1,018,787,247
Impairment loss on property, plant and equipment	373,900,000	-	499,860,801	-	873,760,801
Allowance for doubtful accounts	16,655,667	-	39,261,631	-	55,917,298
Unrealized foreign exchange losses	46,081,980	-	(44,308,879)	-	1,773,101
Others	452,000,391	-	85,207,264	(992,268)	536,215,387
	2,012,746,025	-	474,700,077	(992,268)	2,486,453,834
Deferred income tax liability on:					
Differences in fair value versus cost of property, plant and equipment	1,070,440,486	-	96,994,995	-	973,445,491
Unrealized foreign exchange gains	-	-	(15,073,462)	-	15,073,462
Others	48,603,357	(17,230,290)	(11,444,577)	-	77,278,224
	1,119,043,843	(17,230,290)	70,476,956	-	1,065,797,177
	₱893,702,182	(₱17,230,290)	₱545,177,033	(₱992,268)	₱1,420,656,657

Portion of deferred income tax charged to income amounting to ₱41.8 million, ₱8.0 million and ₱1.4 million in 2012, 2011 and 2010, respectively pertains to discontinued operations.

- b. As of December 31, 2012, the Company has NOLCO that can be claimed as deductions against future taxable income as follows:

Inception Year	NOLCO	Application	Available Balance	Expiry Year
2010	₱746,441,380	(₱746,441,380)	₱–	2013
2011	637,555,873	(593,800,133)	43,755,740	2014
2012	524,543,368	–	524,543,368	2015
		(₱1,340,241,513)	₱568,299,108	

In 2012, no DTA was recognized for NOLCO of ₱337.3 million pertaining to losses subject to the 30% tax regime, as management does not expect any taxable income at the 30% tax regime where the applicable NOLCO can be claimed as a deduction.

- c. A numerical reconciliation between provision for income tax and the product of accounting income multiplied by the tax rates of 10% or 30% , as applicable, follows:

	2012	2011	2010
Income before income tax from:			
Continuing operations	₱11,014,876,396	₱580,402,468	₱4,923,719,819
Discontinued operations	139,279,207	(89,224,109)	248,540,761
	₱11,154,155,603	₱491,178,359	₱5,172,260,580
Income tax at statutory tax rates (10%/30%)	₱2,113,826,730	₱192,498,041	₱614,035,636
Adjustments for:			
Income tax holiday incentives	(1,040,160,497)	(358,607,011)	(281,870,518)
Effect of RE Law and effect of change in tax rate	(206,819,310)	97,013,916	109,954,650
Dividend income	(205,273,615)	–	–
Unrecognized deferred tax asset on NOLCO	73,383,756	–	–
Interest income - net of final tax	(43,558,738)	(45,442,819)	(95,440,903)
Non-deductible provisions/ (non-taxable recovery) - net	15,333,535	(24,117,578)	339,748,508
Non-deductible interest expense	16,263,341	18,099,925	15,477,353
Movement of temporary differences reversing during income tax holiday	27,955,021	1,472,641	81,103,236
Difference of regular corporate income tax (RCIT) and optional standard deduction (OSD) computation	–	(486,932)	–
Non-taxable/non-deductible foreign exchange loss (gains) on ROP bonds	(533,579)	(104,190)	9,635,830
Others	28,032,073	(3,933,448)	(15,459,077)
Provision for (benefit from) income tax	₱778,448,717	(₱123,607,455)	₱777,184,715

(Forward)

	2012	2011	2010
From continuing operations	₱736,664,955	(₱115,621,829)	₱702,622,487
From discontinued operations	41,783,762	(7,985,626)	74,562,228
	₱778,448,717	(₱123,607,455)	₱777,184,715

The 10% statutory rate applies to the relevant renewable energy operations covered by the RE Law while the 30% applies, in general, to the other activities.

- d. 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 2012, 2011 and 2010, the Company computed its income tax based on itemized deductions for its income subject to either 10% or 30% income tax rate, except for FG Hydro which computed its income tax in 2011 using optional standard deductions.

31. Basic/Diluted Earnings (Loss) Per Share

The basic/diluted earnings (loss) per share amounts were computed as follows:

	2012	2011	2010
Net income (loss) attributable to equity holders of the Parent Company	₱8,659,426,208	(₱167,192,156)	₱4,115,747,261
Less dividends on preferred shares (Note 21)	7,500,000	7,500,000	7,500,000
(a) Net income (loss) attributable to common shareholders of the Parent Company	8,651,926,208	(174,692,156)	4,108,247,261
(b) Less net income (loss) from discontinued operations attributable to equity holders of the Parent Company (Note 6)	97,495,445	(81,238,483)	173,978,533

(Forward)

	2012	2011	2010
(c) Net income (loss) from continuing operations attributable to common shareholders of the Parent Company	₱8,554,430,763	(₱93,453,673)	₱3,934,268,728
(d) 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 (a/d)	₱0.461	(₱0.009)	₱0.219
From continuing operations (c/d)	0.456	(0.005)	0.210
From discontinued operations (b/d)	0.005	(0.004)	0.009

The Parent Company does not have dilutive common share equivalents.

32. 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 granted shares will vest over a three-year period as follows: 20% after the first anniversary of the Grant date; 30% after the second anniversary of the Grant date; and the remaining 50% 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	Vested	
			Vested	Unvested
December 18, 2009	7,000,000	₱4.20	7,000,000	–
June 18, 2010	2,625,000	4.70	1,312,500	1,312,500
June 18, 2011	2,625,000	6.75	525,000	2,100,000
June 18, 2012	2,625,000	5.84	–	2,625,000

There were no stock awards cancelled, expired or forfeited in 2012, 2011 and 2010.

Total compensation expense recognized in 2012, 2011 and 2010 amounted to ₱24.7 million, ₱8.8 million and ₱15.7 million, respectively (see Note 22). A corresponding decrease in the “Common shares in employee trust account” amounting to ₱13.8 million, ₱7.0 million and ₱12.4 million and increase in the “Additional paid-in capital” account amounting to ₱10.9 million, ₱1.9 million and ₱3.3 million was recorded for the years ended December 31, 2012, 2011 and 2010, respectively.

33. 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.

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 aging analysis of the Company’s financial assets as of December 31, 2012 and 2011:

	2012						Total
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
<i>(In Thousand Pesos)</i>							
Loans and receivables:							
Cash and cash equivalents (excluding cash on hand)	₱11,420,013	₱–	₱–	₱–	₱–	₱–	₱11,420,013
Trade receivables	3,600,571	150,636	166,380	–	–	75,603	3,993,190

(Forward)

2012							
	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>							
Non-trade receivables	₱12,093	₱37,927	₱18,104	₱10	₱–	₱–	₱68,134
Advances to employees	57,410	3,214	227	1,936	–	–	62,787
Loans and notes receivables	59,984	–	–	–	–	–	59,984
Employee receivables*	12,210	–	–	–	–	–	12,210
Long-term receivables	12,228	–	–	–	–	67,225	79,453
AFS investments: Debt investments	605,970	–	–	–	–	–	605,970
Financial assets at FVPL: Derivative assets	249	–	–	–	–	–	249
Total	₱15,780,728	₱191,777	₱184,711	₱1,946	₱–	₱142,828	₱16,301,990

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

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>							
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
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
Total	₱16,262,491	₱83,389	₱196,581	₱40,343	₱–	₱191,901	₱16,774,705

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

Credit Quality of 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, 2012 and 2011, 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. Meanwhile, past due but not impaired financial assets are classified as standard grade.

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 (US\$). 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\$ 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, 2012 and 2011 are as follows:

	2012					
	Original Currency					
	US\$	Japanese yen (JP¥)	Singaporean dollar(SGD)	Euro (EUR)	New Zealand dollar (NZD)	Peso Equivalent ¹
Financial Assets						
Loans and receivables:						
Cash equivalents	34,740,000	–	–	–	–	₱1,426,077,000
Cash on hand and in banks	3,092,834	–	–	–	–	126,960,850
Trade receivables	50,449,149	–	–	–	–	2,070,937,566
AFS investments:						
Debt investments	13,569,553	–	–	–	–	₱605,969,837
Financial assets at FVPL:						
Derivative assets	6,060	–	–	–	–	248,760
Total financial assets	101,857,596	–	–	–	–	₱4,230,194,013
Financial Liabilities						
Liabilities at amortized cost:						
Accounts payable	15,842,877	16,494,900	230,186	965,226	261,141	₱727,400,439
Long-term debt	469,727,712	–	–	–	–	19,282,322,589
Accrued interest on long-term debts	8,824,142	–	–	–	–	362,231,029
Other payables - guarantee fees	1,405,947	51,773,878	–	–	–	82,412,430
Derivatives designated as cash flow hedges:						
Derivative liabilities	5,820,313	–	–	–	–	238,923,862
Total financial liabilities	501,620,991	68,268,778	230,186	965,226	261,141	₱20,693,290,349

¹ US\$1= ₱41.050, JP¥1=₱0.477, SGD1=₱33.703, EUR1=₱54.530 and NZD1=₱33.659 as of December 31, 2012 (see Note 27).

	2011			
	Original Currency			
	US\$	JP¥	Sweden kroner (SEK)	Peso Equivalent ¹
Financial Assets				
Loans and receivables:				
Cash equivalents	99,562,576	–	–	₱4,364,823,332
Cash on hand and in banks	1,909,007	125,208	–	83,761,320
Trade receivables	1,802,580	–	–	79,025,107
AFS investments:				
Debt investments	15,370,750	–	–	673,853,680
Total financial assets	118,644,913	125,208	–	5,201,463,439

(Forward)

	2011			
	Original Currency			Peso Equivalent ¹
	US\$	JP¥	Sweden kroner (SEK)	
Financial Liabilities				
Liabilities at amortized cost:				
Accounts payable	69,067,270	53,561,520	10,776,022	₱3,126,615,268
Accrued interest on long-term debts	8,808,888	482,792	–	386,441,946
Other payables - guarantee fees	1,405,947	51,773,878	–	90,733,635
Long-term debts	468,600,735	35,992,417	–	20,563,708,655
Total financial liabilities	547,882,840	141,810,607	10,776,022	₱24,167,499,504

¹US\$1 = ₱43.840, JP¥1 = ₱0.562 and SEK1 = ₱6.363 as of December 31, 2011 (see Note 27).

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rates of relevant foreign currencies, with all other variables held constant, of the Company's income before income tax for 2012 and 2011 and equity as of December 31, 2012 and 2011. The impact on the Company's income before income tax is due to revaluation of monetary assets and monetary liabilities while the impact on equity arises from changes in the fair value of cross currency swaps designated as cash flow hedges.

	2012		
	Foreign Currency Appreciates (Depreciates) By	Effect on Income Before Income Tax	Effect on Equity
USD	10% or ₱4.105 (10% or ₱4.105)	(₱1,617,161,228) 1,617,161,228	(₱249,654,621) 257,077,605
JPY	10% or ₱0.04770 (10% or ₱0.04770)	(₱3,256,421) 3,256,421	– –
SGD	10% or ₱3.37032 (10% or ₱3.37032)	(775,800) 775,800	– –
EUR	10% or ₱5.45300 (10% or ₱5.45300)	(5,263,377) 5,263,377	– –
NZD	10% or ₱3.36591 (10% or ₱3.36591)	(878,977) 878,977	– –
	2011		
	Foreign Currency Appreciates (Depreciates) By	Effect on Income Before Income Tax	Effect on Equity
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	– –

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:

2012						
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	More than 4 Years but less than 5 Years	More than 5 Years	Total
Fixed Rate						
US\$ 300.0 million						
Notes	6.50%	₱800,475	₱2,401,425	₱800,475	₱2,801,663	₱6,804,038
Peso Public Bonds						
Series 1	8.64%	734,553	1,101,830	–	–	1,836,383
Series 2	9.33%	326,645	979,934	–	–	1,306,579
IFC 1	7.40%	₱262,700	₱634,697	₱160,080	₱422,094	₱1,479,571
IFC 2	6.66%	227,506	546,583	148,129	575,002	1,497,220
FXCN						
₱3.0 billion	6.62%	197,030	579,179	189,089	826,335	1,791,633
₱4.0 billion	6.61%	262,449	771,480	251,871	1,100,698	2,386,498
Floating Rate						
PNB and Allied Bank	1.5% + PDST-F rate or 1.0% + BSP overnight rate	379,664	881,147	192,044	231,911	1,684,766
US\$ 175.0 million						
Refinanced Syndicated Term Loan	1.75% + LIBOR	138,125	294,676	36,055	–	468,856

2011						
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	More than 4 Years but less than 5 Years	More than 5 Years	Total
Fixed Rate						
US\$ 300 million						
Notes	6.50%	₱854,880	₱2,564,640	₱854,880	₱3,846,960	₱8,121,360
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
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
PNB and Allied Bank	9.03%	416,291	1,014,291	246,520	423,956	2,101,058
OECF	3.20%	327	–	–	–	327

(Forward)

2011						
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	More than 4 Years but less than 5 Years	More than 5 Years	Total
Floating Rate						
US\$ 175.0 million						
Refinanced						
Syndicated Term	1.75% +					
Loan	LIBOR	₱155,724	₱372,675	₱89,541	₱38,506	₱656,446

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 2012 and 2011 and equity as of December 31, 2012 and 2011. The impact on the Company's equity is due to changes in the fair value of AFS investments and cross currency swaps designated as cash flow hedges.

2012				
Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Equity		
		Change in Fair Value of AFS Investments	Cumulative Translation Adjustment	
+100	(₱45,157,053)	(₱4,424,970)		₱78,880,941
-100	45,157,053	4,864,677		(89,796,217)

2011				
Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Equity		
		Change in Fair Value of AFS Investments	Cumulative Translation Adjustment	
+100	(₱76,720,000)	(₱8,929,578)		₱-
-100	76,720,000	19,217,468		-

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 capital 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, 2012 and 2011.

December 31, 2012							
	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>							
Loans and receivables -							
Cash equivalents	₱-	₱9,011,083	₱-	₱-	₱-	₱-	₱9,011,083
AFS investments -							
Debt investments	605,970	-	-	-	-	-	605,970
	₱605,970	₱9,011,083	₱-	₱-	₱-	₱-	₱9,617,053
December 31, 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>							
Loans and receivables -							
Cash equivalents	₱-	₱11,800,643	₱-	₱-	₱-	₱-	₱11,800,643
AFS investments -							
Debt investments	673,854	-	-	-	-	-	673,854
	₱673,854	₱11,800,643	₱-	₱-	₱-	₱-	₱12,474,497

The tables below summarize the maturity analysis of the Company's financial liabilities as of December 31, 2012 and 2011 based on contractual undiscounted payments:

2012							
	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*	₱-	₱5,665,070	₱-	₱-	₱-	₱-	₱5,665,070
Accrued interest on long-term debts	-	360,213	300,914	-	-	-	661,127
Other payables	82,412	7,257	-	-	-	-	89,669
Due to related parties	49,578	-	-	-	-	-	49,578
Royalty fee payable	-	20,618	-	-	-	-	20,618
Long-term debts	-	75,879	2,217,278	2,168,742	33,285,188	30,479,342	68,226,429
Derivatives designated as cash flow hedges:							
Derivative liabilities	-	85,424	-	-	153,500	-	238,924
Total	₱131,990	₱6,214,461	₱2,518,192	₱2,168,742	₱33,438,688	₱30,479,342	₱74,951,415
*Excluding other liabilities which pertain to statutory liabilities to the Government.							
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 on long-term debts	-	713,620	243,217	-	-	-	956,837
Other payables	90,734	3,518	-	81,092	-	-	175,344
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	₱150,825	₱6,506,677	₱1,471,227	₱3,248,284	₱37,322,968	₱29,329,707	₱78,029,688
*Excluding other liabilities which pertain to statutory 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, 2012 and 2011.

	2012		2011	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱11,420,144,203	₱11,420,144,203	₱12,493,406,963	₱12,493,406,963
Trade receivables	3,917,587,128	3,917,587,128	3,205,594,212	3,205,594,212
Non-trade receivables	68,133,713	66,133,713	99,398,810	99,398,810
Advances to employees	62,787,120	62,787,120	37,934,595	37,934,595
Loans and notes receivables	59,983,898	59,983,898	59,331,933	59,331,933
Employee receivables	12,209,689	12,209,689	19,948,544	19,948,544
Due from related parties	—	—	7,812	7,812
Long-term receivables	12,228,071	10,808,592	—	—
AFS investments:				
Debt investments	605,969,837	605,969,837	673,853,680	673,853,680
Equity investments	233,501,056	233,501,056	20,443,924	20,443,924
Financial assets at FVPL:				
Derivative assets	248,760	248,760	—	—
	₱16,392,793,475	₱16,389,373,996	₱16,609,920,473	₱16,609,920,473
Financial Liabilities				
Financial liabilities at amortized cost:				
Accounts payable*	₱5,665,070,305	₱5,665,070,305	₱4,731,729,893	₱4,731,729,893
Accrued interest and guarantee fees	661,127,313	661,127,313	1,047,605,943	1,047,605,943
Other payables	89,669,356	89,669,356	175,343,680	175,343,680
Due to related parties	49,577,503	49,577,503	60,090,825	60,090,825
Royalty fee payable	20,618,242	20,618,242	287,626,313	290,907,188
Long-term debts	49,049,871,866	55,036,160,776	51,489,571,455	59,055,715,275
Derivative liabilities designated as cash flow hedges	238,923,862	238,923,862	—	—
	₱55,774,858,447	₱61,761,147,357	₱57,791,968,109	₱65,361,392,804

*Excluding other liabilities which pertain to statutory liabilities to the Government.

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, Royalty Fee Payable, Amounts Due from and to Related Parties, Trade and Other Payables

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 3.13% in 2012.

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

The fair values for the Company's long-term debts are estimated using the discounted cash flow methodology with the applicable rates ranging from 1.75% to 8.56% in 2012 and 1.91% to 10.88% in 2011.

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).

	2012				
	Total	Level 1	Level 2	Level 3	At Cost
Financial asset at FVPL:					
Derivative asset	₱248,760	₱-	₱248,760	₱-	₱-
AFS investments:					
Debt investments	605,969,837	605,969,837	-	-	-
Equity investments	233,501,056	233,426,506	-	-	74,550
Derivatives designated as cash flow hedges:					
Derivative liabilities	238,923,862	-	238,923,862	-	-
	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

During 2012 and 2011, 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:

	2012					
	Loans and Receivables	AFS Investments	Liabilities at Amortized Cost	Financial Assets at FVPL	Derivatives Designated as Cash Flow Hedges	Total
	<i>(In Thousand Pesos)</i>					
Financial Assets						
Cash and cash equivalents	₱11,420,144	₱-	₱-	₱-	₱-	₱11,420,144
Trade receivables	3,917,587	-	-	-	-	3,917,587
Non-trade receivables	68,134	-	-	-	-	68,134
Advances to employees	62,787	-	-	-	-	62,787
Loans and notes receivables	59,984	-	-	-	-	59,984
Employee receivables	12,210	-	-	-	-	12,210
Long-term receivables	12,228	-	-	-	-	12,228
AFS - debt investments	-	605,970	-	-	-	605,970
AFS - equity investments	-	233,501	-	-	-	233,501
Derivative asset	-	-	-	249	-	249
Total financial assets	₱15,553,074	₱839,471	₱-	₱249	₱-	₱16,392,794

(Forward)

2012						
	Loans and Receivables	AFS Investments	Liabilities at Amortized Cost	Financial Assets at FVPL	Derivatives Designated as Cash Flow Hedges	Total
<i>(In Thousand Pesos)</i>						
Financial Liabilities						
Accounts payable	₱-	₱-	₱5,665,070	₱-	₱-	₱5,665,070
Accrued interest on long-term debts	-	-	661,127	-	-	661,127
Other payables	-	-	89,669	-	-	89,669
Due to related parties	-	-	49,578	-	-	49,578
Royalty fee payable	-	-	20,618	-	-	20,618
Long-term debts	-	-	49,049,872	-	-	49,049,872
Derivative liabilities	-	-	-	-	238,923	238,923
Total financial liabilities	₱-	₱-	₱55,535,934	₱-	₱238,923	₱55,774,857

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
Advances to employees	37,935	-	-	37,935
Employee receivables	19,949	-	-	19,949
Due from related parties	8	-	-	8
AFS - debt investments	-	673,854	-	673,854
AFS - equity investments	-	20,444	-	20,444
Total financial assets	₱15,915,624	₱694,298	₱-	₱16,609,922
Financial Liabilities				
Accounts payable	₱-	₱-	₱4,798,971	₱4,798,971
Accrued interest on long-term debts	-	-	1,047,606	1,047,606
Other payables	-	-	175,344	175,344
Due to related parties	-	-	60,091	60,091
Royalty fee payable	-	-	287,626	287,626
Long-term debts	-	-	51,489,571	51,489,571
Total financial liabilities	₱-	₱-	₱57,859,209	₱57,859,209

The following table demonstrates the income, expense, gains or losses of the Company's financial instruments for the years ended December 31, 2012, 2011 and 2010:

	2012		2011		2010	
	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)
Loans and receivables						
Interest income on:						
Cash in banks (Note 8)	₱3,596,543	₱-	₱6,388,430	₱-	₱6,336,497	₱-
Cash equivalents (Note 8)	312,797,929	-	369,729,747	-	311,947,757	-
Trade receivables	693,922	-	2,983,715	-	₱6,007,914	-
Employee and other receivables	3,338,547	-	8,909,082	-	22,329,156	-
Provision for doubtful accounts - trade receivables	(31,775,230)	-	(100,232,678)	-	(21,008,910)	-
	₱288,651,711	₱-	₱287,778,296	₱-	₱325,612,414	₱-

(Forward)

	2012		2011		2010	
	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)
AFS investments						
Equity investments:						
Net gain (loss) recognized in equity	₱-	(₱3,648,940)	₱-	₱2,277,570	₱-	₱2,777,926
Debt investments:						
Net gain (loss) recognized in equity	-	23,412,750	-	(30,001,763)	-	3,763,548
Interest income on government debt securities	43,111,994	-	1,099,376	-	1,073,692	-
Net unrealized gain removed from equity and recognized in profit or loss (Note 10)	-	-	235,689	-	-	-
Gain on early redemption of AFS investment (Note 10)	-	-	271,292	-	-	-
	₱43,111,994	₱19,763,810	₱1,606,357	(₱27,724,193)	₱1,073,692	₱6,541,474
Financial assets at FVPL						
Net fair value changes of forward contracts						
	₱4,131,240	₱-	₱108,319,377	₱-	₱446,597,342	₱-
Unrealized loss on fair value on changes of embedded currency options						
	-	-	-	-	(9,598,487)	-
	₱4,131,240	₱-	₱108,319,377	₱-	₱436,998,855	₱-
Derivatives designated as cash flow hedges						
Cumulative translation adjustment						
	₱-	(₱144,426,476)	₱-	₱-	₱-	₱-
Financial liabilities at amortized cost						
Interest expense on (Note 26):						
Long-term debts including amortization of transaction costs						
	(₱3,656,390,728)	₱-	(₱4,005,331,916)	₱-	(₱3,643,864,967)	₱-
Royalty fee payable	(10,945,030)	-	(31,332,828)	-	(56,102,861)	-
Loan payable and others	(59,822)	-	(1,140,521)	-	(304,361)	-
Loss on extinguishment of debt (Note 28)						
	(188,145,763)	-	(197,898,124)	-	-	-
	(₱3,855,541,343)	₱-	(₱4,235,703,389)	₱-	(₱3,700,272,189)	₱-

Derivative Financial Instruments

The Company engages in derivative transactions, particularly foreign currency forwards, foreign currency swaps and cross-currency swaps, to manage its foreign currency risk and/or interest rate risk arising from its foreign-currency denominated loans. These derivatives are accounted for either as derivatives designated as accounting hedges or derivatives not designated as accounting hedges.

The table below shows the derivative financial instruments of the Company as of December 31, 2012.

	Derivative Assets	Derivative Liabilities
Derivatives designated as accounting hedges:		
Cross-currency swaps	P=	P238,923,862
Derivatives not designated as accounting hedges:		
Foreign currency forwards	248,760	-
Total derivatives	P248,760	P238,923,862
Presented as:		
Current	P248,760	P85,423,548
Noncurrent	-	153,500,314
Total derivatives	P248,760	P238,923,862

The Company has no outstanding derivative contracts as of December 31, 2011.

Derivatives Not Designated as Accounting Hedges

Foreign Currency Swap Contracts

A foreign currency swap is an agreement to exchange amounts in different currencies based on the spot rate at trade date and to re-exchange the same currencies at a future date based on an agreed rate.

In 2012 and 2011, the Company entered into a total of 6 and 36 foreign currency swap contracts, respectively, with terms as follows:

Position	December 31, 2012		December 31, 2011	
	Aggregate notional amount (in million)	Average forward rate	Aggregate notional amount (in million)	Average forward rate
Sell US\$ - buy PHP	US\$44.50	P41.42	US\$701.00	P43.32
Sell JPY - buy PHP	-	-	JPY12,450.00	P0.53
Sell JPY - buy US\$	-	-	JPY2,075.00	JPY81.00

For the years ended December 31, 2012 and 2011, the Company recognized P4.1 million loss and P40.1 million gain, respectively, from the fair value changes of these currency swap contracts. These are recorded under "Derivative gains (losses) - net" in the consolidated statements of income.

Foreign Currency Forward Contracts

These are contractual agreements to buy or sell a foreign currency at an agreed rate on a future date.

In 2011, the Company entered into a total of 38 foreign currency forward contracts. These include six deliverable buy JPY - sell US\$, 16 non-deliverable buy US\$ - sell PHP and 16 non-deliverable sell US\$ - buy PHP forward contracts. The aggregate notional amounts and weighted average forward rates of these foreign currency forward contracts as are as follows:

December 31, 2011		
Position	Aggregate notional amount	Average forward rate
Buy JPY - sell US\$	JP¥2,441.00 million	JP¥83.00
Buy US\$ - sell PHP	US\$255.00 million	₱43.12
Sell US\$ - buy PHP	US\$255.00 million	₱43.34

For the year ended December 31, 2011, the Company recognized ₱68.3 million gain from fair value changes of these foreign currency forwards contracts. Such amount is recorded under “Derivative gains - net” in the consolidated statements of income.

The Company did not enter into any foreign currency forward transaction in 2012.

Derivatives Designated as Accounting Hedges

In 2012, the Company entered into 6 non-deliverable cross-currency swap (NDCCS) agreements with an aggregate notional amount of US\$65.00 million to partially hedge the foreign currency and interest rate risks on its Refinanced Syndicated Term Loan that is benchmarked against US LIBOR and with flexible interest reset feature that allows the Company to select what interest reset frequency to apply (i.e., monthly, quarterly or semi-annually). As it is the Company’s intention to reprice the interest rate on the hedged loan quarterly, the Company utilizes NDCCS with quarterly interest payments and receipts.

Under the NDCCS agreements, the Company receives floating interest based on 3-month US LIBOR plus 175 basis points and pays fixed peso interest. On specified dates, the Company also receives specified USD amounts in exchange for specified peso amounts based on the agreed swap rates. These USD receipts correspond with the expected interest and fixed principal amounts due on the hedged loan. Effectively, the 6 NDCCS converted 37.14% of hedged USD loan into a fixed rate peso loan.

Pertinent details of the NDCCS are as follows:

Notional amount (in million)	Trade Date	Effective Date	Maturity Date	Swap rate	Fixed rate	Variable rate
US\$15.00	03/26/12	03/27/12	06/17/17	₱43.05	4.87%	3-month LIBOR + 175 bps
US\$10.00	04/18/12	06/27/12	06/17/17	42.60	4.92%	3-month LIBOR + 175 bps
US\$10.00	05/03/12	06/27/12	06/17/17	42.10	4.76%	3-month LIBOR + 175 bps
US\$10.00	06/15/12	06/27/12	06/17/17	42.10	4.73%	3-month LIBOR + 175 bps
US\$10.00	07/17/12	09/27/12	06/17/17	41.25	4.58%	3-month LIBOR + 175 bps
US\$10.00	10/29/12	12/27/12	06/17/17	41.19	3.44%	3-month LIBOR + 175 bps

The maturity date of the six NDCCS coincides with the maturity date of the hedged loan.

As of December 31, 2012, the outstanding aggregate notional amount of the Company’s NDCCS amounted to US\$65.00 million. The aggregate fair value changes on these NDCCS amounting to ₱144.4 million loss was recognized by the Company under “Cumulative Translation Adjustment” account.

Hedge Effectiveness Results

Since the critical terms of the hedged loan and the NDCCS match, except for one to two days timing difference on the interest reset dates, the hedges were assessed to be highly effective. As such, the aggregate fair value changes on these NDCCS amounting to ₱238.9 million loss was recognized by the Company under “Cumulative Translation Adjustment” account in the consolidated statements of financial position. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2012.

The net movement of changes made to “Cumulative Translation Adjustment” account for the Company’s cash flow hedges is as follows:

Balance at beginning of year	₱–
Changes in fair value of the cash flow hedges	272,353,423
	<hr/> 272,353,423
Less: Transferred to consolidated statement of income	
Foreign exchange loss	78,450,000
Interest expense	33,429,561
	<hr/> 111,879,561
Balance before tax	160,473,862
Less: Tax	16,047,386
Balance at end of year	<hr/> <hr/> ₱144,426,476

Fair Value Changes of Derivatives

The tables below summarize the net movement in fair values of the Company’s derivatives as of December 31, 2012 and 2011.

	December 31, 2012	December 31, 2011
Balance at beginning of year	₱–	₱–
Net changes in fair value of derivatives:		
Designated as accounting hedges	(272,353,423)	–
Not designated as accounting hedges	(4,131,240)	(108,319,377)
	<hr/> (276,484,663)	<hr/> (108,319,377)
Fair value of settled instruments:		
Designated as accounting hedges	33,429,561	–
Not designated as accounting hedges	4,380,000	108,319,377
	<hr/> 37,809,561	<hr/> –
Balance at end of year	<hr/> <hr/> (₱238,675,102)	<hr/> <hr/> ₱–
Presented as:		
Derivative assets	₱248,760	₱–
Derivative liabilities	(238,923,862)	–
	<hr/> <hr/> (₱238,675,102)	<hr/> <hr/> ₱–

The effective portion of the changes in the fair value of the NDCCS designated as accounting hedges were deferred in equity under “Cumulative Translation Adjustment” account.

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 at 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.

The table below shows the total capital considered by the Company and its debt ratio as of December 31, 2012 and 2011.

	2012	2011
Long-term liabilities	₱49,049,871,866	₱51,489,571,455
Equity	35,433,854,888	29,646,601,493
Total	₱84,483,726,754	₱81,136,172,948
Debt ratio	58.1%	63.5%

As of December 31, 2012 and 2011, the Company is able to meet its capital management objectives.

34. 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 (see Note 38). As of December 31, 2012 and 2011, 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, 2012 and 2011 are as follows:

	2012	2011
Within one year	₱86.5 million	₱78.4 million
After one year but not more than five years	271.1 million	320.9 million
After five years	–	1.5million
Total	₱357.6 million	₱400.8 million

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 in case of violation by either party of the terms of the lease and renewal upon mutual agreement by both parties.

The lease contract for the use of the office buildings at Fort Bonifacio was entered into between the Parent Company and PNOG 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 was set to expire on November 30, 2011. The lease contract covering the Laboratory is extended up to April 30, 2013.

Other lease contracts pertain to various office space and warehouse being rented by steam/electricity projects in Leyte, Northern Negros, Bacman, Southern Negros and Mindanao.

Purchase Commitments

Total purchase commitments for capital items as of December 31, 2012 and 2011 amounted to ₱156.9 million and ₱233.4 million, respectively, of which, contractual commitments for the acquisitions of property, plant and equipment amounted to ₱60.5 million and ₱218.8 million as December 31, 2012 and 2011, respectively. 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 20).

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, 2012, 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. Geothermal Service Concession Contracts

Geothermal Service Contracts

Under P.D. 1442, 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. Furthermore, 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 Geothermal Service Contracts (GSCs) with the Government of the Republic of the Philippines (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.

Under P.D. 1442, the right granted by the Government to the Company to explore, develop, and utilize the country's geothermal resource is 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%).

Geothermal Renewable Energy Service Contracts and Geothermal Operating Contracts

R.A. 9513, otherwise known as the Renewable Energy Act of 2008 (RE Law) and which became effective in January 2009, mandates the conversion of existing GSCs under P.D. 1442 into Geothermal Renewable Energy Service Contracts (GRESCs) so companies may avail of the incentives under the RE Law. Aside from the tax incentives, 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.

On September 10, 2009, the Parent Company was granted the Provisional Certificate of Registration as an RE Developer for the following existing projects: (1) GSC No. 01 - Tongonan, Leyte, (2) GSC No. 02 - Palinpinon, Negros Oriental, (3) GSC No. 03 - Bacon-Manito, Sorsogon/Albay, (4) GSC No. 04 - Mt. Apo, North Cotabato, and (5) GSC No. 06 - Northern Negros. With the receipt of the certificates of provisional registration as geothermal RE Developer, the fiscal incentives of the RE Law were availed of by the Parent Company retroactive from the effective date of such law on January 30, 2009. Fiscal incentives include, among others, change in the applicable corporate tax rate from 30% to 10% for RE-registered activities.

On October 23, 2009, the Parent Company received from DOE the Certificate of Registration as an RE Developer for the following geothermal projects:

- a. Tongonan Geothermal Project, Under DOE Certificate of Registration No. GRESA 2009-10-001
- b. Southern Negros Geothermal Project, Under DOE Certificate of Registration No. GRESA 2009-10-002
- c. Bacon-Manito Geothermal Project, Under DOE Certificate of Registration No. GRESA 2009-10-003

- d. Mt. Apo Geothermal Project, Under DOE Certificate of Registration No. GRESC 2009-10-004
- e. 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.

The remaining service contract of the Parent Company covered by P.D. 1442 as of December 31, 2012 is the Mt. Cabalian in Southern Leyte with a term of 25 years from the effective date of the contract on 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.

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

- (i) Ampiro Geothermal Project (with a five-year pre-development period expiring in 2017, 25-year contract period expiring in 2037)
- (ii) Mandalagan Geothermal Project (with a five-year pre-development period expiring in 2017, 25-year contract period expiring in 2037)
- (iii) Mt. Zion Geothermal Project (with a five-year pre-development period expiring in 2017, 25-year contract period expiring in 2037)
- (iv) Lakewood Geothermal Project (with a five-year pre-development period expiring in 2017, 25-year contract period expiring in 2037)
- (v) Balingasag Geothermal Project (with a five-year pre-development period expiring in 2017, 25-year contract period expiring in 2037)

Under the GRESCs, the Parent Company pays the Government royalty fee 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 (see Note 18). 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 RE Law also provides that the exclusive right to operate geothermal power plants shall be granted through a Renewable Energy Operating Contract with the Government through the DOE. Accordingly, on May 8, 2012, the Company, through its subsidiaries Green Core Geothermal Inc. and Bac-Man Geothermal Inc. secured three Geothermal Operating Contracts (GOCs) covering the following power plant operations:

- (i) Tongonan Geothermal Power Plant under DOE Certificate of Registration No. GOC 2012-04-038 (with a twenty-five (25) year contract period expiring in 2037, renewable for another twenty-five (25) years)
- (ii) Palinpinon Geothermal Power Plant under DOE Certificate of Registration No. GOC 2012-04-037 (with a twenty-five (25) year contract period expiring in 2037, renewable for another twenty-five (25) years)
- (iii) Bacon-Manito Geothermal Power Plant under DOE Certificate of Registration No. GOC No. 2012-04-039 (with a twenty-five (25) year contract period expiring in 2037, renewable for another twenty-five (25) years)

The Government share, presented as “Royalty fees” under the “Costs of electricity and steam” account, for both the GRESCs and GOCs are allocated between the DOE (60%) and the LGUs (40%) within the applicable contract area.

Total outstanding royalty fees due to DOE and LGUs, and the related expense are shown in Notes 18 and 23, respectively.

37. Steam Sales Agreements

Prior to the acquisition of BGI of the BMGPP on May 2010, the Parent Company supplied and sold steam to NPC under the SSA. Details follow:

- a. 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.
- b. 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 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 5).

The Company’s revenue from SSAs in 2010 amounted to ₱1,208.70 million.

38. Power Purchase Agreements

The Parent Company sells electricity to NPC pursuant to the following PPAs:

588.4 MW Unified Leyte

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.

52.0 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.

54.0 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 ₱13,051.52 million, ₱13,621.66 million and ₱13,715.33 million for the years ended December 31, 2012, 2011 and 2010, respectively.

39. Electricity Sales Agreement

In October 2006, the Parent Company entered into an Electricity Sales Agreement (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 I each year from its NNGP Plant. As the purchaser of electric energy, ILECO I agreed to pay for the energy supplied by the Parent Company. ILECO I 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 I, whichever is higher, multiplied by the electricity price. In August 2011, the Parent Company assigned its ESA to GCGI. On July 25, 2012, the ESA with ILECO I expired.

Revenue from sale of electricity covered by ESA amounted to ₱289.34 million, ₱470.0 million and ₱533.96 million for the years ended December 31, 2012, 2011 and 2010, respectively.

40. GCGI's Power Supply Contracts/Power Supply Agreements

With GCGI's takeover of the Palinpinon and Tongonan power plants effective October 23, 2009, Schedule X of the APA with PSALM provides for the assignment to GCGI of 12 NPC's PSCs. As of December 31, 2012, the following PSCs remained effective:

Customers	Contract Expiration
Dynasty Management & Development Corp. (DMDC)	March 25, 2016
Philippine Foremost Milling Corp. (PFMC)	March 25, 2016

Since the Company's takeover of the power plants, 23 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
LEYECO II*	December 26, 2011	December 25, 2021
Leyte III Electric Cooperative, Inc. (LEYECO III)*	December 26, 2011	December 25, 2021
Leyte IV Electric Cooperative, Inc. (LEYECO IV)	December 26, 2012	December 25, 2017
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

(Forward)

Customers	Contract Start	Contract Expiration
<u>Cebu</u>		
Visayan Electric Company, Inc. (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
(Forward)		
Negros Oriental II Electric Cooperative, Inc. (NORECO II)*	December 26, 2010	December 25, 2020
V.M.C. Rural Electric Service Cooperative, Inc. (VRESKO)*	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
Iloilo I Electric Cooperative, Inc. (ILECO I)*	March 26, 2010	December 25, 2022
Iloilo II Electric Cooperative, Inc. (ILECO II)*	December 26, 2010	December 25, 2020
Iloilo III Electric Cooperative, Inc. (ILECO III)	December 26, 2012	December 25, 2022
Guimaras Electric Cooperative, Inc. (GUIMELCO)	December 26, 2012	December 25, 2022

*With Provisional Authority from the Energy Regulatory Commission (ERC).

Coordination with ERC is ongoing to secure the Final Authority for the filed applications for the approval of the PSAs with distribution-utility customers. Preparations are ongoing for the filing with the ERC of the applications for the approval of the PSAs with LEYECO IV, ILECO III and GUIMELCO.

On December 13, 2012, the PSA between the Company and PASAR was assigned to BGI effective December 26, 2012.

Revenue from sale of electricity under the PSCs and PSAs amounted to ₱9,429.54 million, ₱7,428.96 million and ₱6,798.7 million in 2012, 2011 and 2010, respectively.

Under Section 30 of the Electric Power Industry Reform Act of 2011, the ERC may authorize other similar entities to become eligible members, either directly or indirectly, of the Wholesale Electricity Spot Market (WESM). All generating companies, distribution utilities, 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 directly. Total revenue recognized by GCGI from sale of electricity to WESM amounted to ₱843.21 million, ₱591.62 million and nil in 2012, 2011 and 2010, respectively

41. 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 were renewed except for the contract with Pantabangan Municipal Electric System (PAMES).

FG Hydro shall generate and deliver to these customers the contracted energy on a monthly basis. FG Hydro is bound to service these customers for the remainder of the stipulated terms, the range of which falls from December 2008 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, 2012, there are four 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 ₱1,129.6 million, ₱1,101.71 million and ₱1,201.26 million for the years ended December 31, 2012, 2011 and 2010, 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 contract with NEECO I has expired in 2012 and there was no renewal of the contract.
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.

(Forward)

Related Contracts	Expiry Date	Other Developments
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 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.

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 2012, 2011 and 2010. 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 24).

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 €31.4 million (US\$46.3 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\$, at an exchange rate fixed by reference to the European Central Bank fixing rate for converting Euro to US\$ 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\$, at an exchange rate fixed by reference to the European Central Bank fixing rate for converting Euro to US\$ 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 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 ₱2,361.3 million in 2012 and ₱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)

In 2011, FG Hydro entered into a MOA with NGCP for the performance of services on the operation of the PAHEP 230 kV switchyard and its related appurtenances (Switchyard).

NGCP shall pay FG Hydro a monthly fixed operating cost of ₱0.1 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 maybe 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 ₱918.31 million, ₱183.14 million and ₱938.28 million in 2012, 2011 and 2010, respectively.

42. Event After the Financial Reporting Date

On February 20, 2013, EDC declared cash dividends amounting to ₱1.5 billion to its common shareholders and ₱7.5 million to its preferred shareholders of record as of March 11, 2013 payable on or before April 8, 2013.

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