ENERGY DEVELOPMENT CORPORATION

LONG ISLAND INVESTMENTS (TEAM PHILIPPINES)

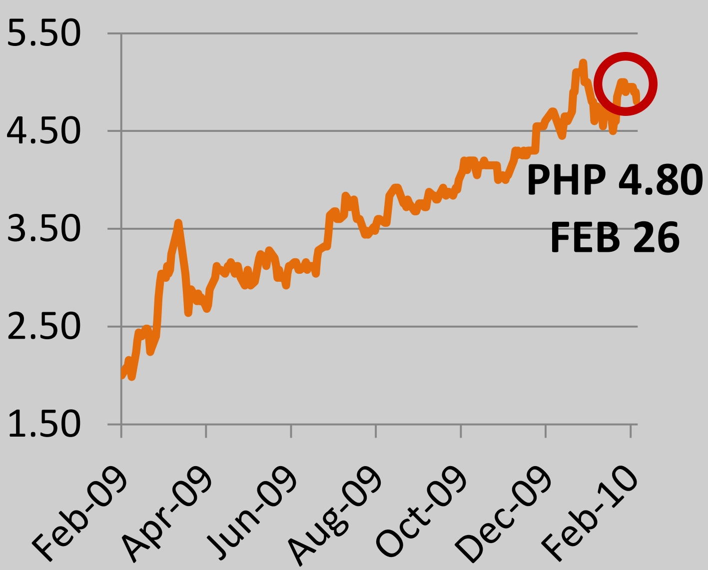
LONG ISLAND INVESTMENTS

ENERGY DEVELOPMENT CORPORATION

- Largest geothermal energy producer in the Philippines, 2nd in the world
- 80% of revenues from steam and electricity sales to power distributors
- 66% of geothermal energy in the country
- Fully privatized in 2007

LONG ISLAND INVESTMENTS

EDC'S 52-WEEK STOCK PRICE



Source: Philippine Stock Exchange

1-YEAR PRICE TARGET: PHP 7.00

46% UPSIDE BASED ON DCF-FCFF

*FX: PHP 46.26: USD 1

INVESTMENT MERITS

Industry Forces Spur Interest in Renewables

Timely Strategies Seize Market Opportunities

Risk-Reward Analysis Reveals Modest Upside

BUY RECOMMENDATION

Regular power interruptions in southern and central Philippines since 2009. News of possible blackouts in Metro Manila last February.

Energy Crisis Calls for Immediate Action

Legislation Favors RE Sector

Geothermal Energy to Remain Competitive

'Why is there sudden power lack in South?'

By Lina Sagaral-Reyes
Inquirer Mindanao
Amy R. Remo and Gil Cabacungan Jr.
in Manila

REELING FROM THE POWER SHORTage in Mindanao, rural electric cooperatives suspect that "some sectors might be manipulating events to cause an artificial crisis" on the island.

"Why this sudden power supply shortage in the last two months?" asked Sergio Dagooc, president of the Association

WHY/A4

NEWS / A2
Pastor Quiboloy says he's no double election registrant

BUSINESS / B1
BSP says OFW bond float to hurt exporters

WORLD / A18
Chile quake, tsunami toll passes 700

ACROSS / A11
Cebu dam water supply drops by 60%

PHILIPPINE DAILY INQUIRER
BALANCED NEWS, FEARLESS VIEWS

Tuesday, March 2, 2010 ★★ 5 sections / Vol. 25 / No. 84 P18

Power play at PGH: Is the chief doctor in or out?

By Jeannette I. Andrade

IS THE CHIEF DOCTOR in?

It depends on which of the opposing camps at Philippine General Hospital (PGH) you asked.

The historic govern-

POWER PLAY/A6

Brownouts hit Luzon

Metro now also reeling from power shortage

By Amy R. Remo

ROTATING BROWNouts yesterday hit Luzon, including Metro Manila, because of the breakdown of certain units of the island's three coal-fired power plants. More brown-

GMA AT PMA
President Macapagal-Arroyo troops the line for the last time at the Philippine Military Academy where she arrived late for the graduation rites of the "Masidlak" Class 2010 at Fort del Pilar in Baguio City on Monday. She speaks at length about the legacy of her nine-year administration but gives no formal farewell as

Source: Philippine Daily Inquirer

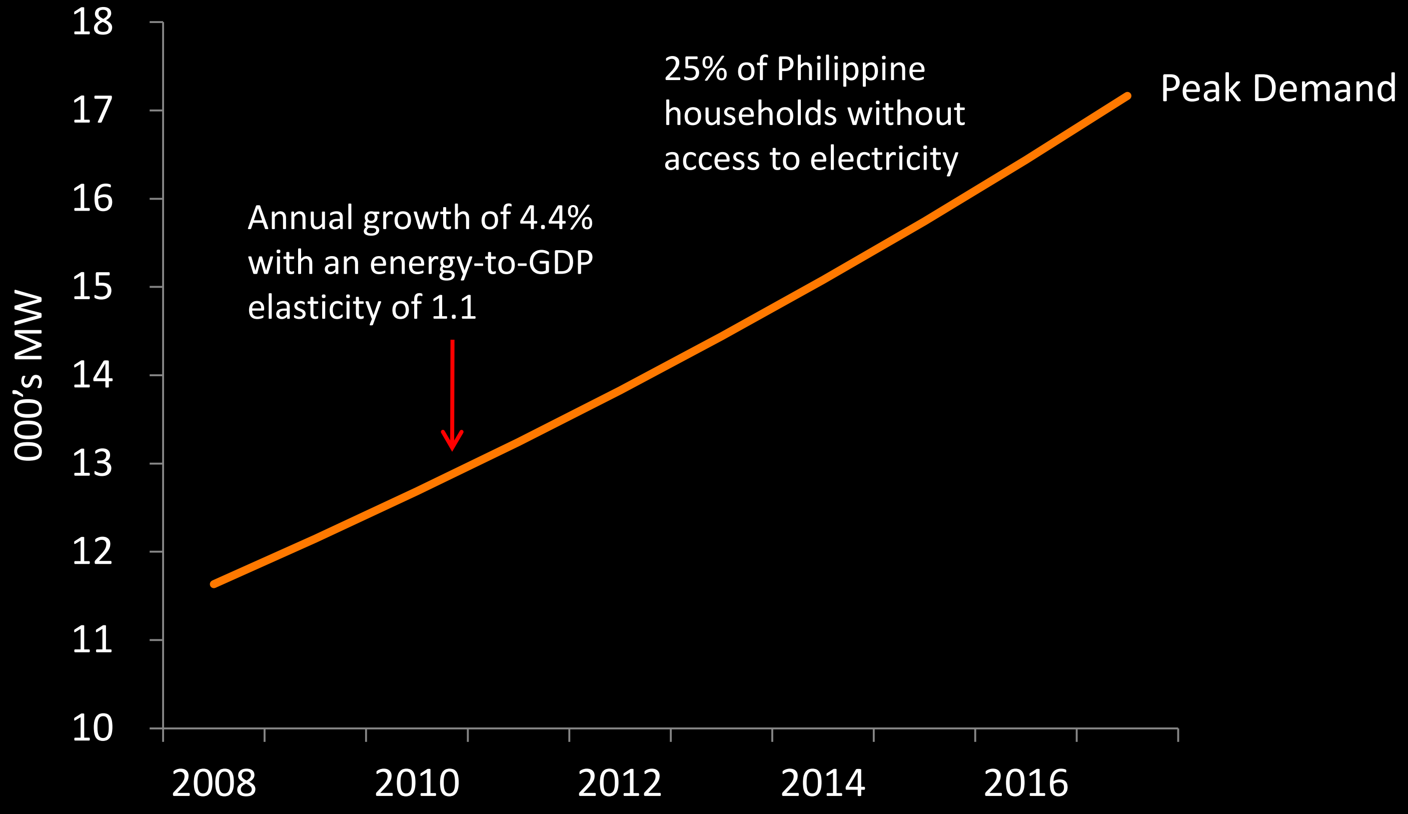
Regular power interruptions in southern and central Philippines since 2009. News of possible blackouts in Metro Manila last February.

Energy Crisis Calls for Immediate Action

Legislation Favors RE Sector

Geothermal Energy Prevails Over Competition

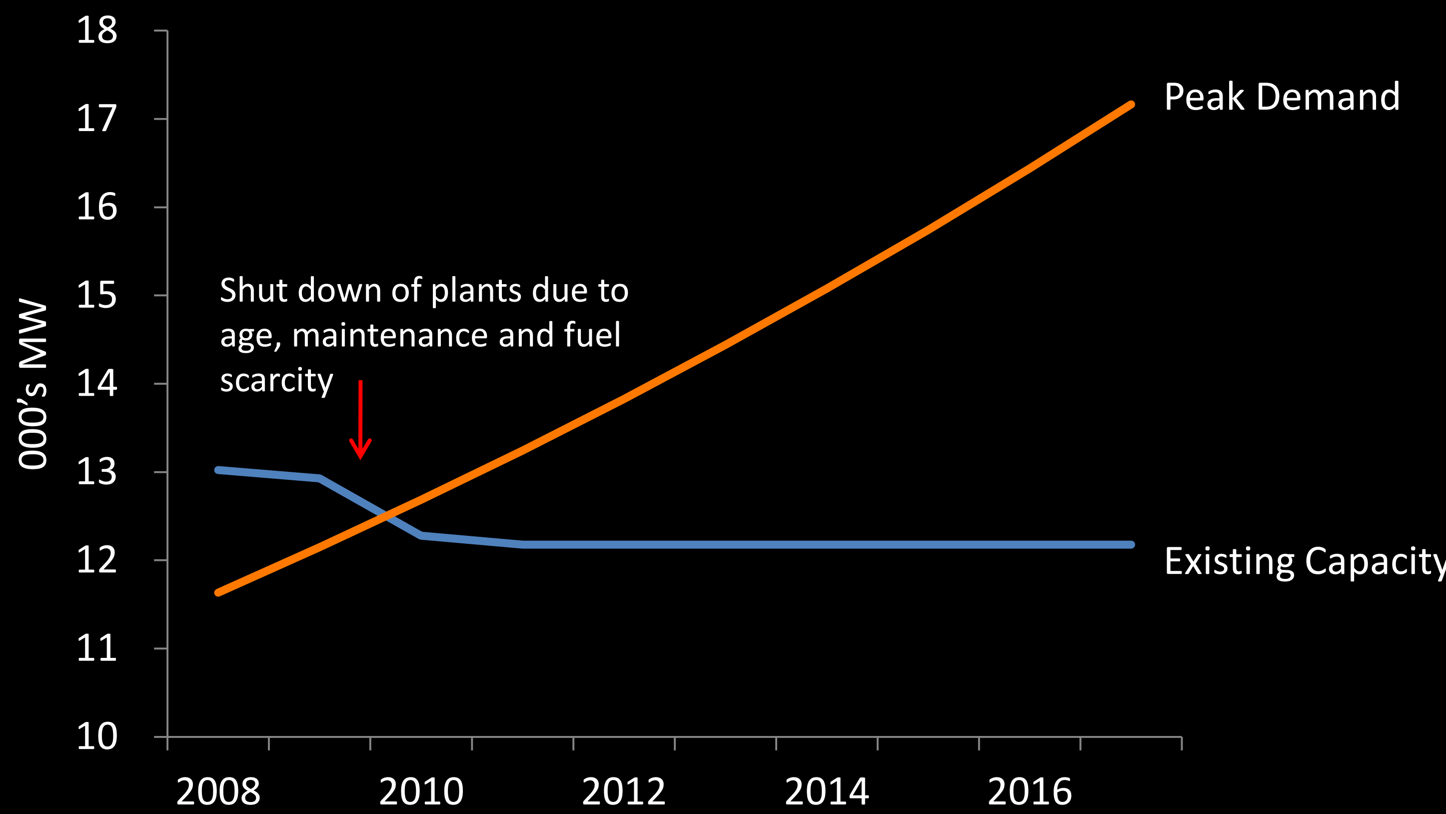
Philippine Energy Demand and Supply



Source: Department of Energy (Philippines)

Regular power interruptions in southern and central Philippines since 2009. News of possible blackouts in Metro Manila last February.

Energy Demand vs. Supply



Source: Department of Energy (Philippines)

LONG ISLAND INVESTMENTS

INDUSTRY FORCES SPUR INTEREST IN RENEWABLES

TIMELY STRATEGIES SEIZE MARKET OPPORTUNITIES

RISK-REWARD ANALYSIS REVEALS MODEST UPSIDE

Regular power interruptions in southern and central Philippines since 2009. News of possible blackouts in Metro Manila last February.

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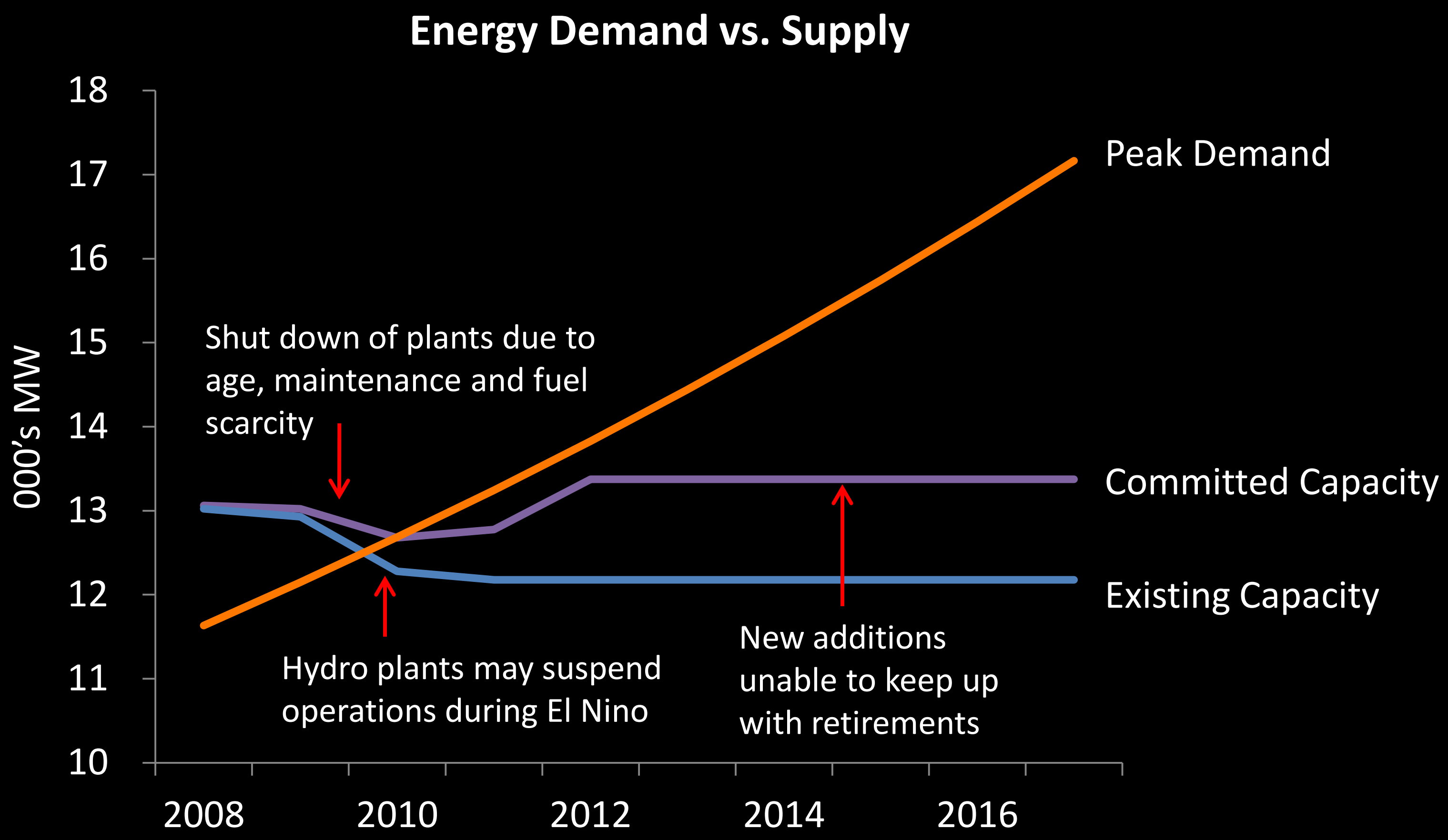
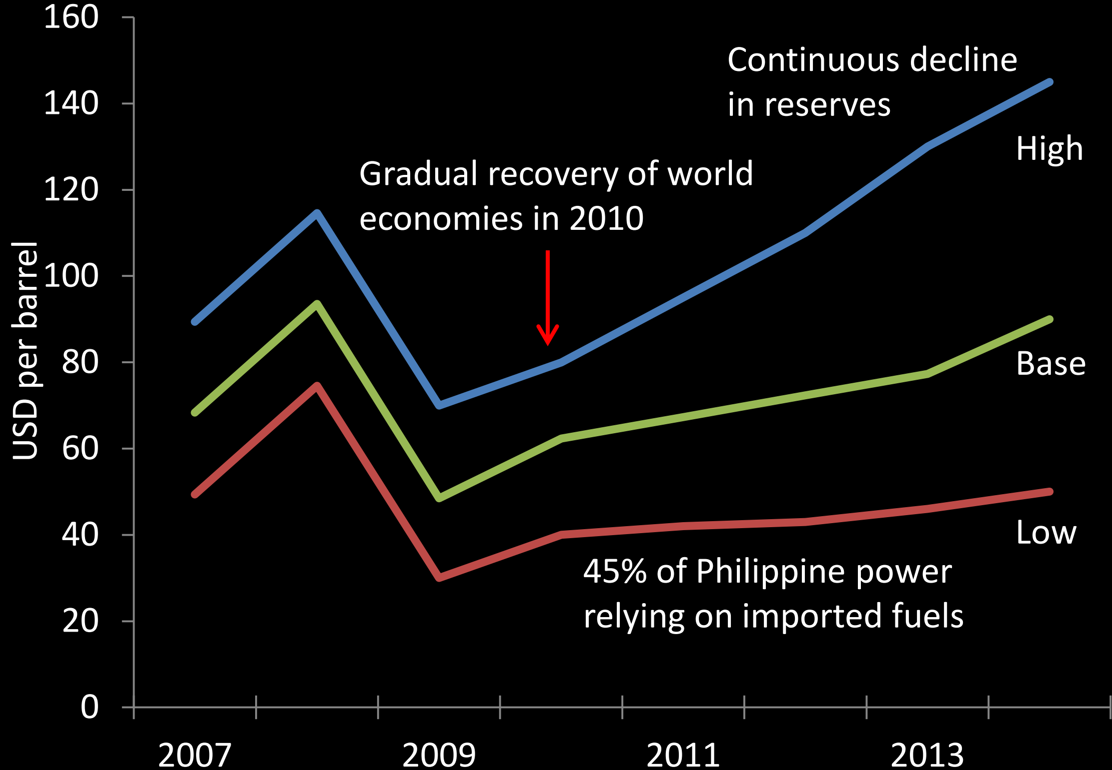
Geothermal Energy to Remain Competitive



Source: Department of Energy (Philippines)

Dubai Crude Oil Price Forecast



Source: Asian Development Bank (Asian Development Outlook)

Electricity Rates, 2006 In US cents per kWh	
Japan	17.54
Philippines	14.01
Hongkong	13.44
India	11.42
Indonesia	11.32
Singapore	10.59
Vietnam	9.83
China	8.24
Thailand	7.92
Malaysia	6.71

Source: Wholesale Electricity Market Report

Only sustainable option is to develop low-cost indigenous energy sources

Energy Crisis Calls for Immediate Action

Legislation Favors RE Sector

Geothermal Energy to Remain Competitive

2009 RE Law

(Renewable Energy Law)

Incentives	Pre-RE Law	RE Law
Corporate Income Tax Rate	30%	10%
Income Tax Holiday for New Plants	5 years	7 years
Royalty Fees for Use of Steam Fields (% of gross revenues)	6%	1.5%

Incentives to trigger RE investments of over PHP 90B

Energy Crisis Calls for Immediate Action

Legislation Favors RE Sector

Geothermal Energy to Remain Competitive

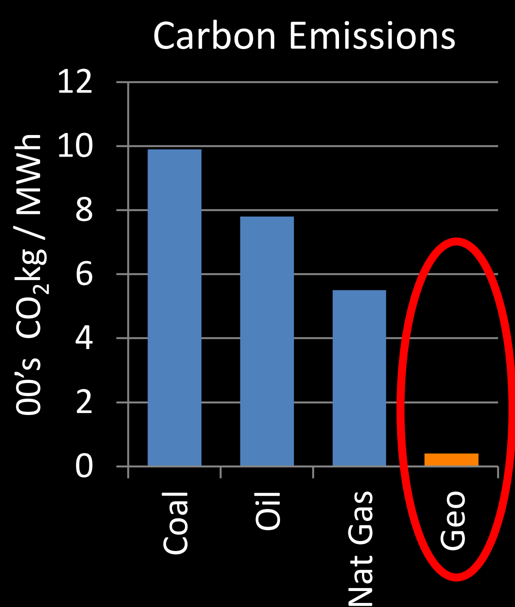
Current Energy Crisis

Favorable Legislation

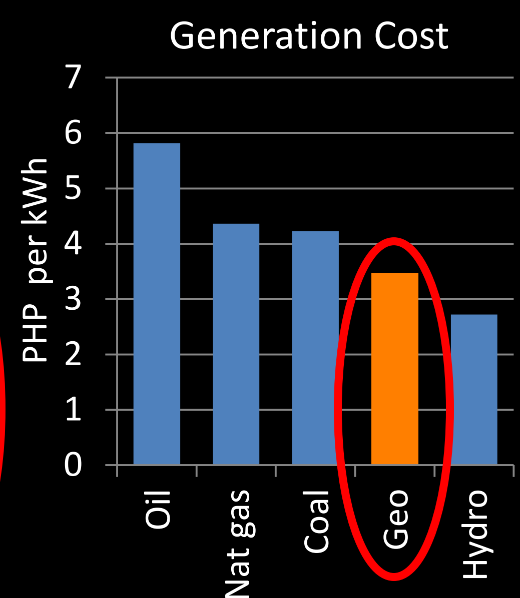
- Attractive picture for RE industry
- Competitive environment

Geothermal energy is expected to become more relevant in the future.

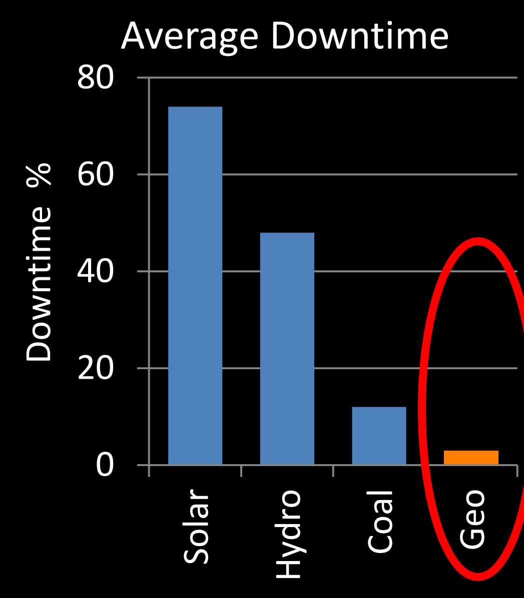
CLEANER



CHEAPER



MORE RELIABLE



Source: Credit Suisse, Department of Energy (Philippines)

Geothermal energy is expected to become more relevant in the future.

Energy Crisis Calls for Immediate Action
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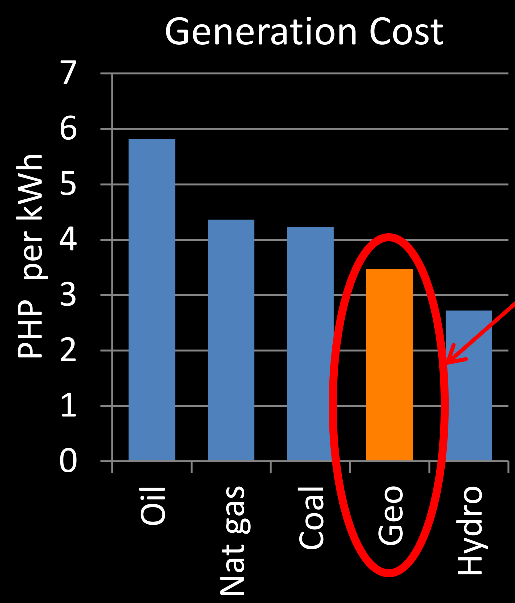
Geothermal Energy to Remain Competitive

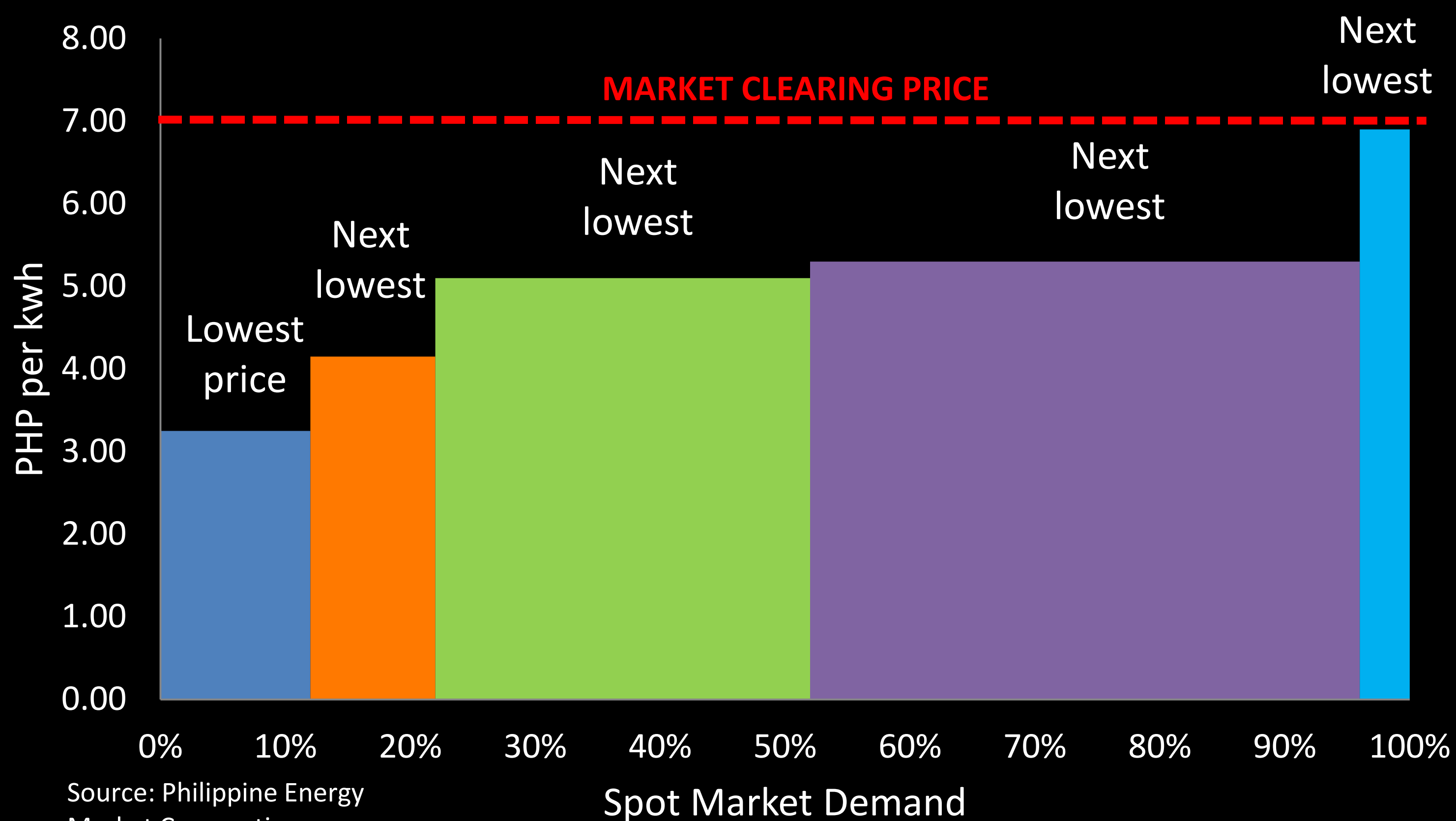
CHEAPER



Geothermal energy's low cost complements the Philippine electricity spot market

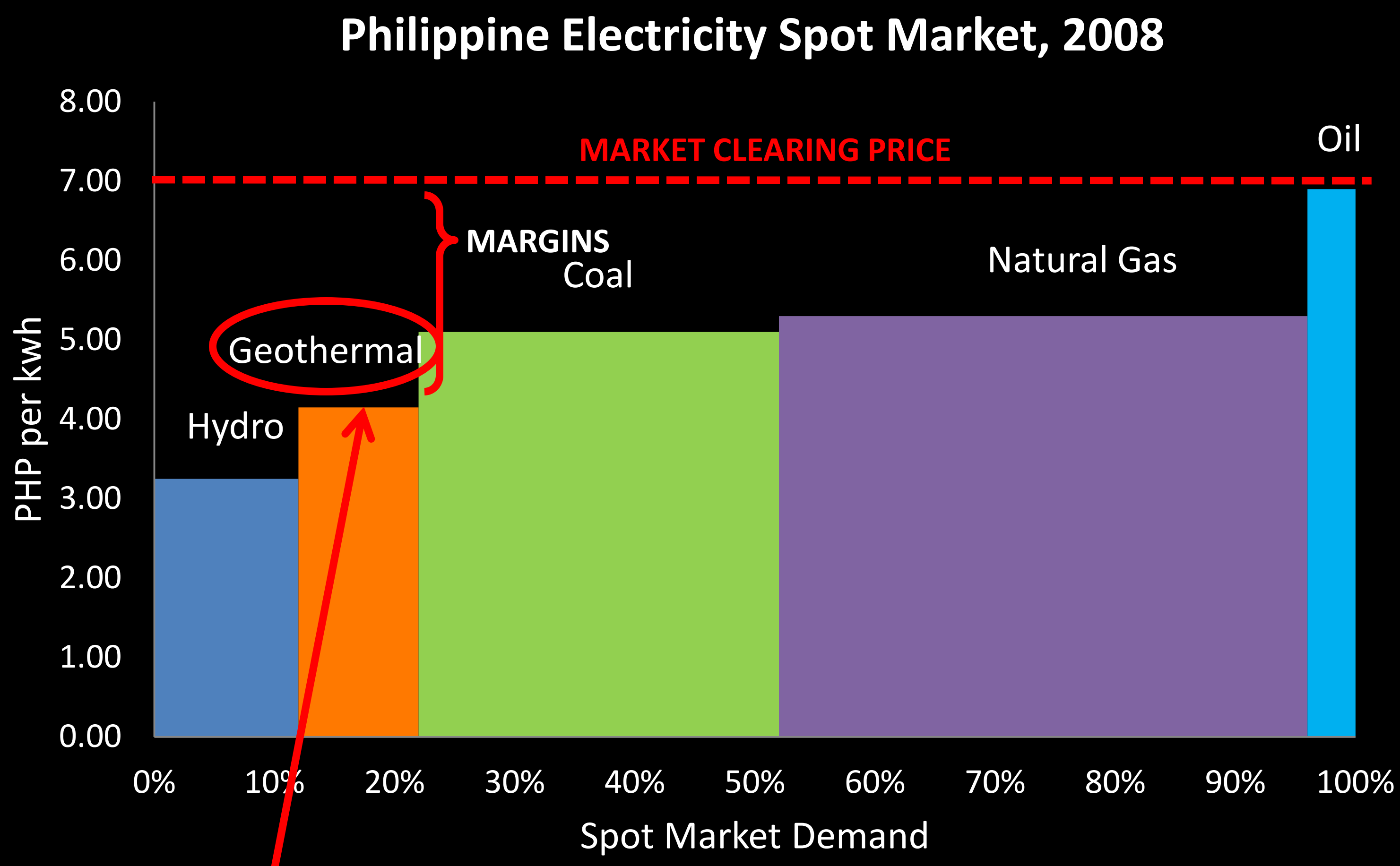
Energy Crisis Calls for Immediate Action
Legislation Favors RE Sector
Geothermal Energy to Remain Competitive

Philippine Electricity Spot Market, 2008



Source: Philippine Energy Market Corporation

Energy sources with the lowest prices are first to be dispatched.
Process continues until demand for electricity is satisfied.
All energy is sold at market clearing price.



Low cost guarantees all geothermal energy produced is sold. Geothermal suppliers also realize wider margins.

Vertical Integration Strengthens Competitive Position

Expansion Activities Address Shortage

PLAYERS IN THE PHILIPPINE GEOTHERMAL INDUSTRY

	Steam Field	Power Plant
EDC	✓	✓
Chevron	✓	✗
Aboitiz	✗	✓

Source: Company Data

Higher operating efficiency due to coordinated scheduling of resources

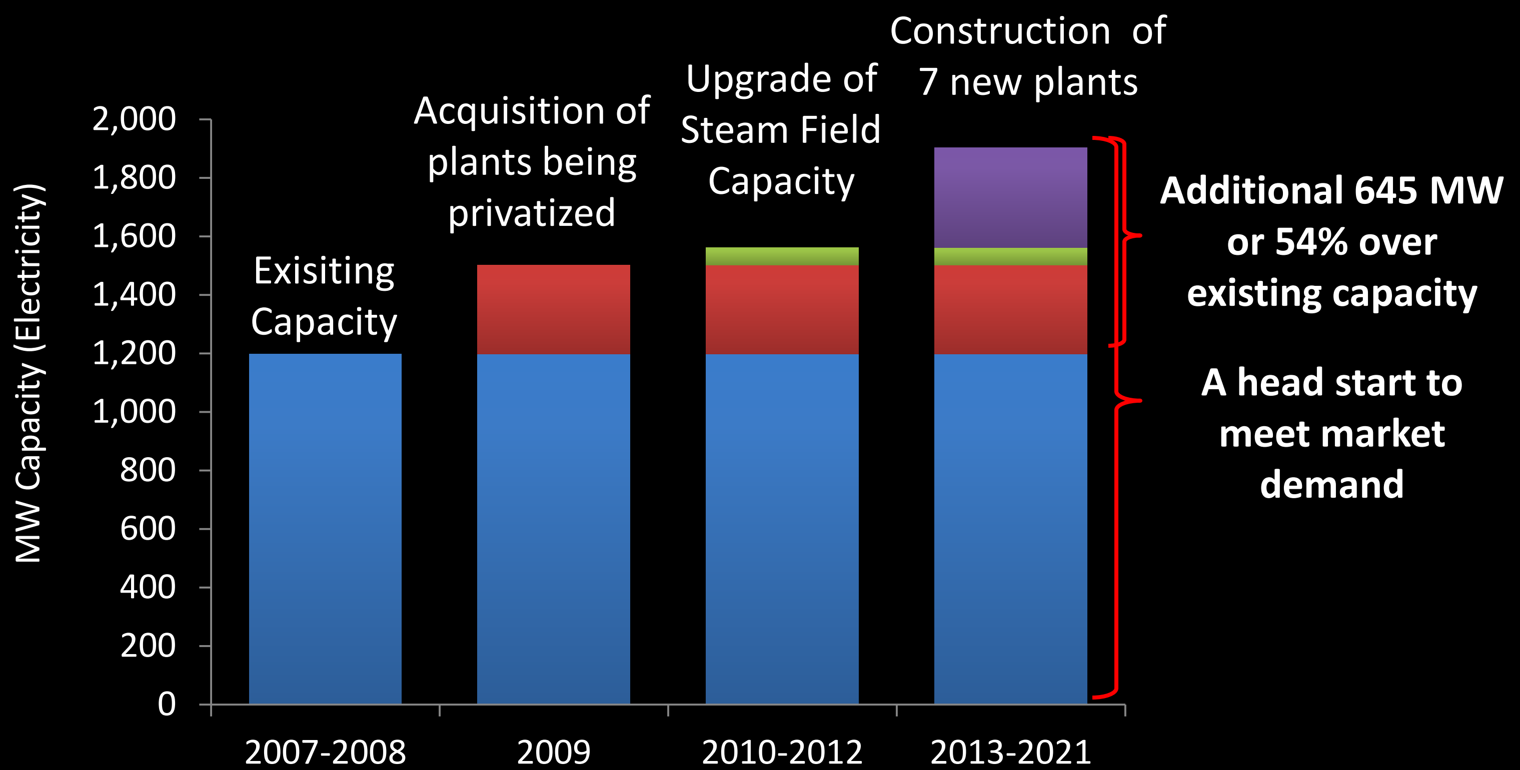
Lower production costs by 30% due to internal generation of steam

Vertical Integration Strengthens Competitive Position

Expansion Activities Address Shortage

EDC will have over 1,600 MW in installed capacity by the time new geothermal entrants complete their exploration stages which take a minimum of 6 years

EDC's Expansion Activities

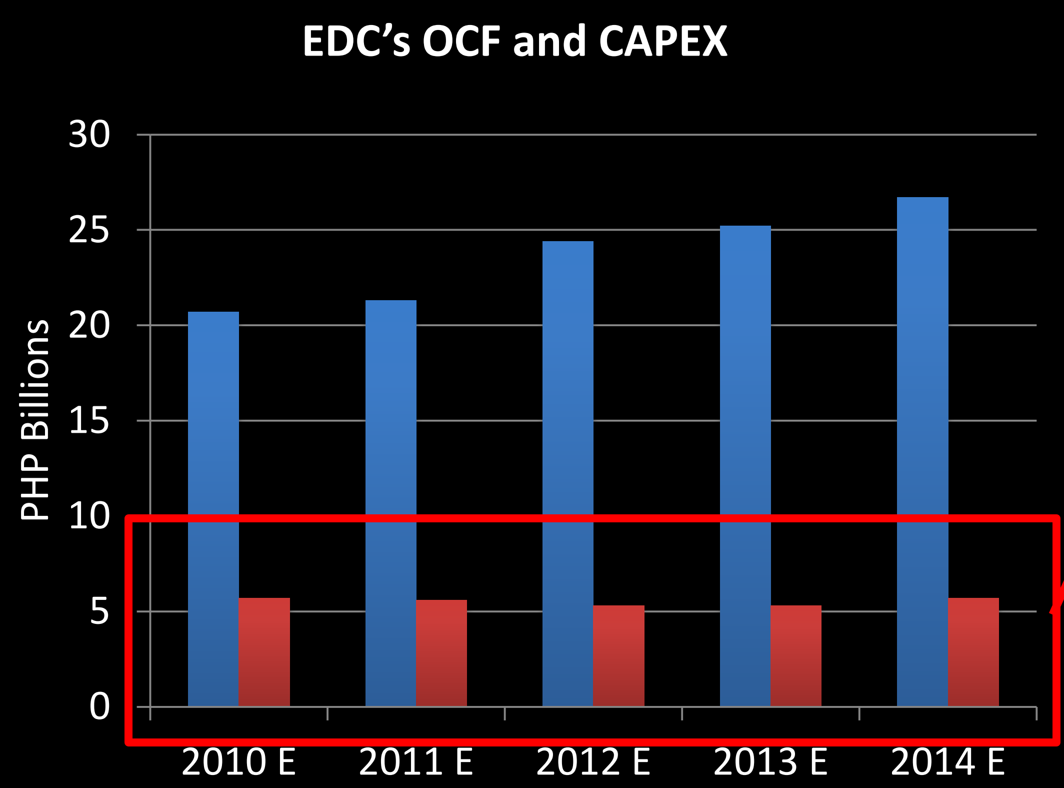


Source: Company Data

Available financing to support expansion activities

Vertical Integration Secures Dominance

Expansion Activities Address Shortage



Construction requires only 20% of OCF for new plants

EDC's Strategies

Industry Opportunities Maximized

Vertical Integration

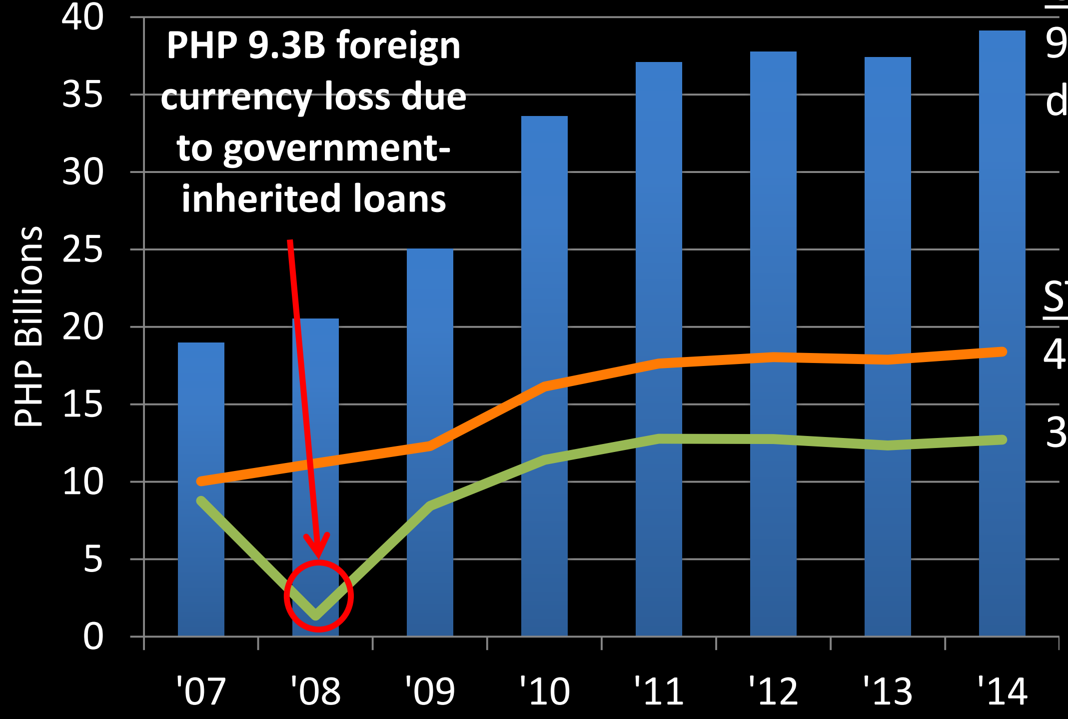
Open market

Expansion Activities

Power shortage
RE Law incentives

Financial Performance

Strong Financial Prospects Drive Upside
Manageable Risks Prove Resilience



GROWING REVENUES

9% revenue growth due to expansion

STABLE MARGINS

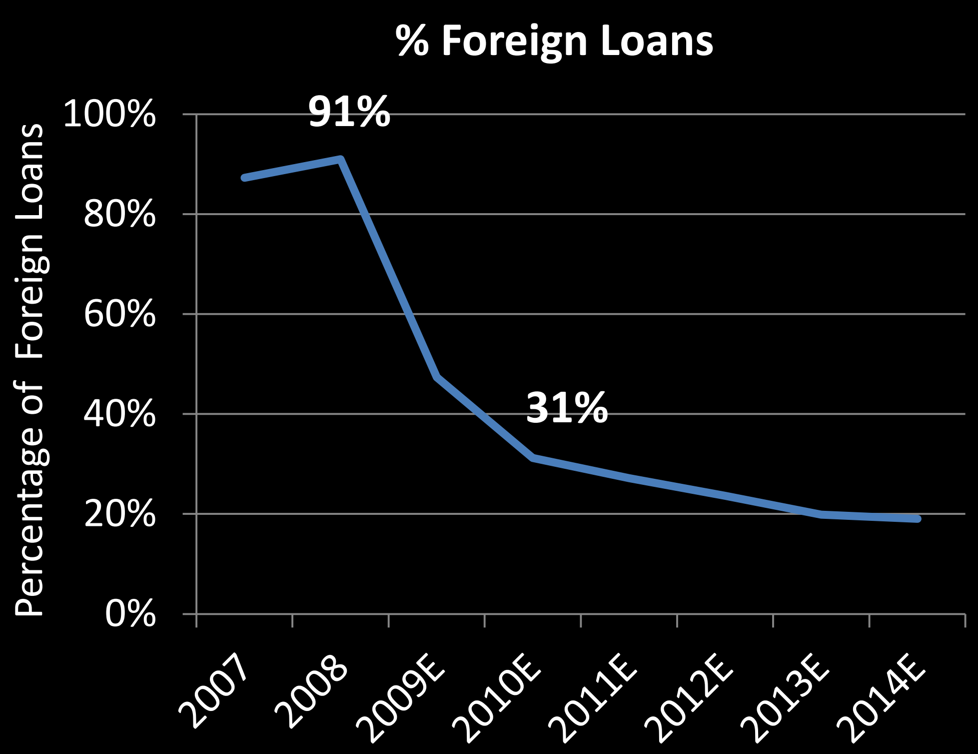
46% EBIT margins

33% net profit margins

Financial Performance

Strong Financial Prospects Drive Upside

Manageable Risks Prove Resilience



<u>IMPROVING BALANCE SHEET</u>

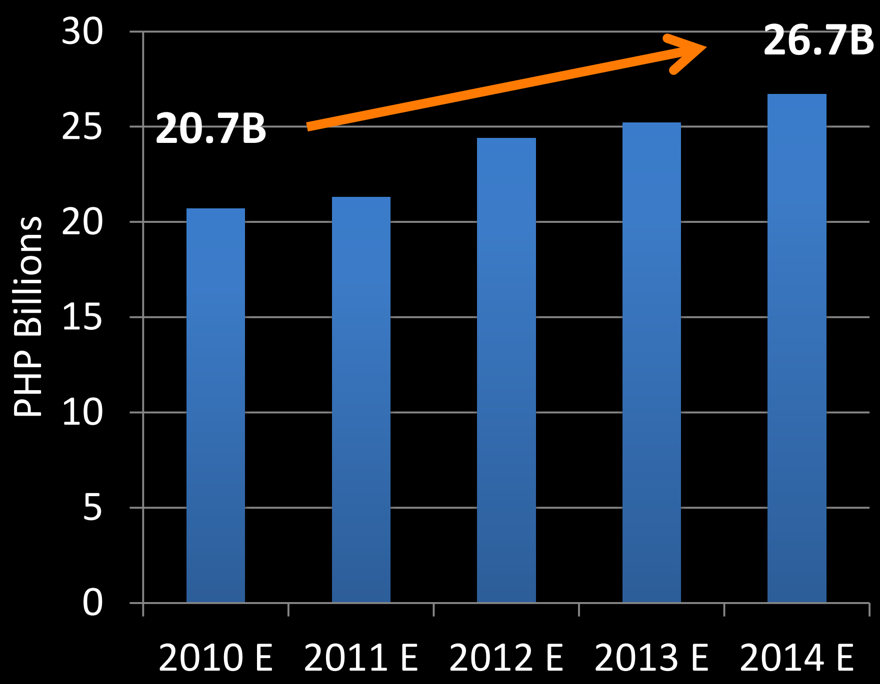
Refinancing foreign-currency denominated loans with Peso loans

Financial Performance

Strong Financial Prospects Drive Upside

Manageable Risks Prove Resilience

Operating Cash Flows

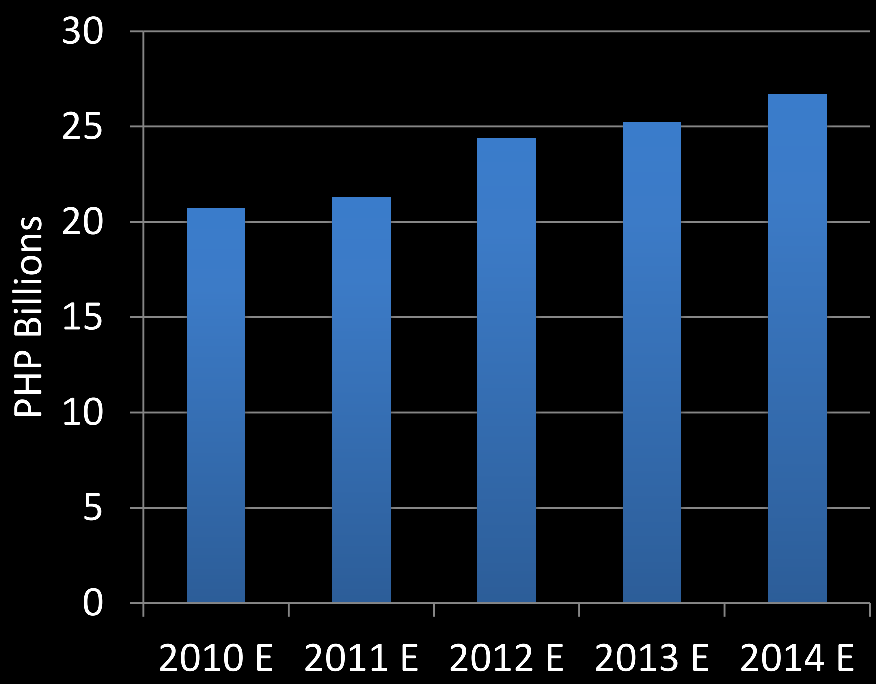


HEALTHY CASH GENERATION

Recurring streams of cash flows

Valuation

Operating Cash Flows



Projected until 2031 when rights over steam fields expire

PRIMARY ASSUMPTIONS

COST OF CAPITAL	
Cost of Debt	8.5%
Cost of Equity	13.9%
Risk-free Rate	9.25%
Market Return	12.86%
Beta	1.1
Debt Ratio	55%
WACC	10.9%

PRICE TARGET PHP 7.00

Strong Financial Prospects Drive Upside

Manageable Risks Prove Resilience

VALUE DRIVERS	FCFE
Value from Existing Plants	**PHP 3.40**
Preferential tax treatment	1.70
Lower royalty fees	0.40
Value of RE Law Savings on Old Plants	**PHP 2.10**
New plants in Northern Philippines	0.80
New plants in Central Philippines	0.50
New plants in Southern Philippines	0.20
Value from New Plants*	**PHP 1.50**
PRICE TARGET	**PHP 7.00**
UPSIDE	**46%**

**Net of additional RE Law savings thereon*

Strong Financial Prospects Drive Upside

Manageable Risks Prove Resilience

ASIA POWER UTILITIES	2010 P/E
Renewables	**20.6**
EDC	10.6
China Yangtze Power	18.5
Integrated Utilities	**13.7**
Aboitiz Power	11.7
Hongkong Electric	13.6
Independent Power Producers	**11.8**
Guangdong Electric	11.5
Huaneng Power	11.4

Source: Bloomberg

Strong Financial Prospects Drive Upside

Manageable Risks Prove Resilience

Risk Category	Sources of Risk	Mitigating Factors
Operational	Open market **increases competition**	Cost leadership
	Natural disasters **disrupt plant efficiency**	Geographically-dispersed plants
	Equipment failures require **more maintenance costs**	Continuous facility maintenance and upgrades

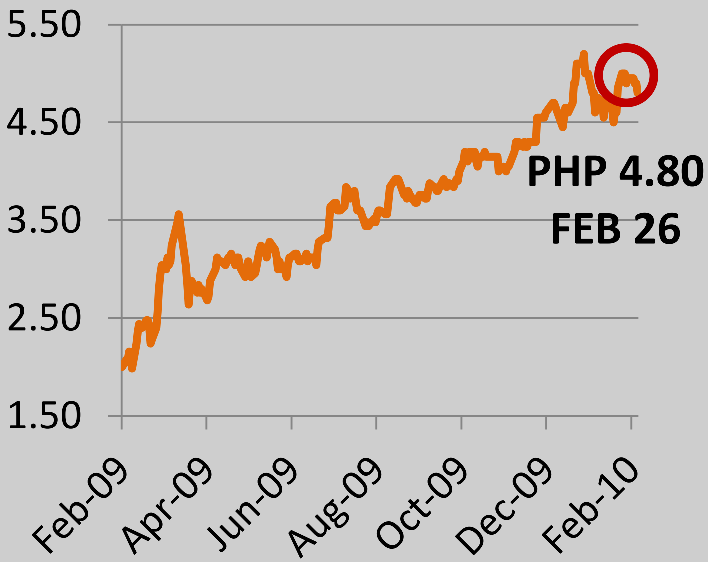
Strong Financial Prospects Drive Upside

Manageable Risks Prove Resilience

Risk Category	Sources of Risk	Mitigating Factors
Financial	Interest rate and exchange rate volatility causes **unpredictable cash outflows**	Fixed interest rates More Peso-denominated loans Triple A bond rating
Political	Government may attempt to put **a cap on energy rates**	Only deters private investments and worsens energy crisis

LONG ISLAND INVESTMENTS

EDC'S 52-WEEK STOCK PRICE



Source: Philippine Stock Exchange

1-YEAR PRICE TARGET: PHP 7.00
46% UPSIDE BASED ON DCF-FCFF

INVESTMENT MERITS

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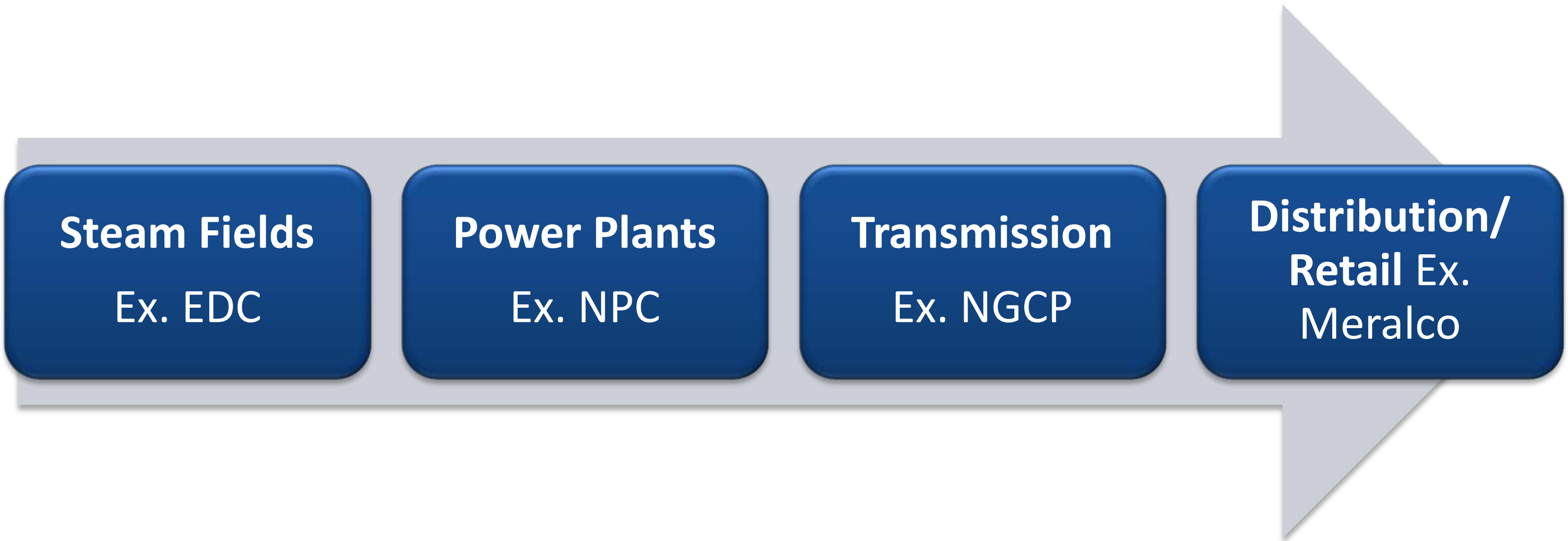
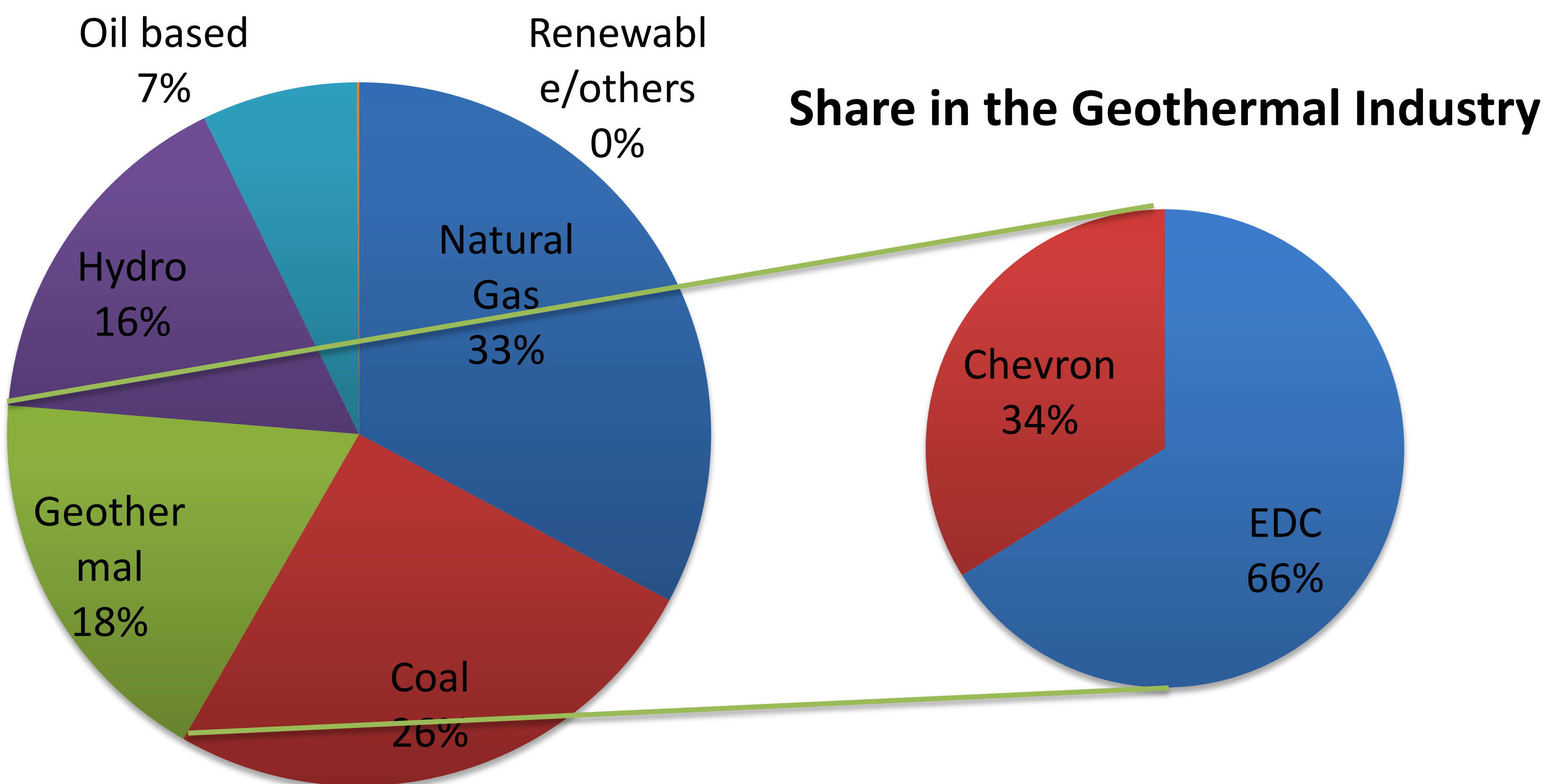
BUY RECOMMENDATION

Industry Information

The Geothermal Industry Value Chain



Philippine Energy Mix & The Role of Geothermal Energy



Philippine Energy Mix: Electricity Generated in GWh

- Geothermal energy accounts for 18% of the Philippine power mix – 66% of which is contributed by EDC

Top 5 Countries in Installed Geothermal Capacity in 2008

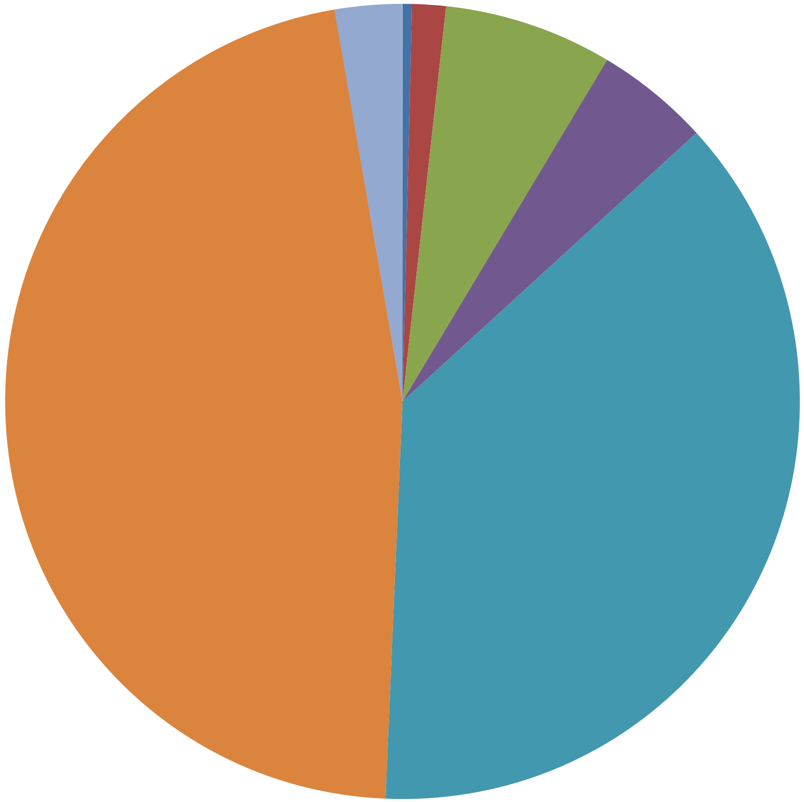
	Country	Geothermal Capacity in MW	Company
1	USA	2,687	Chevron – 1273 MW
2	Philippines	1,976	EDC – 1198 MW
3	Indonesia	992	
4	Mexico	953	
5	Italy	810	

Source: Geo Resources Council Bulletin

Geothermal Plant Development Costs

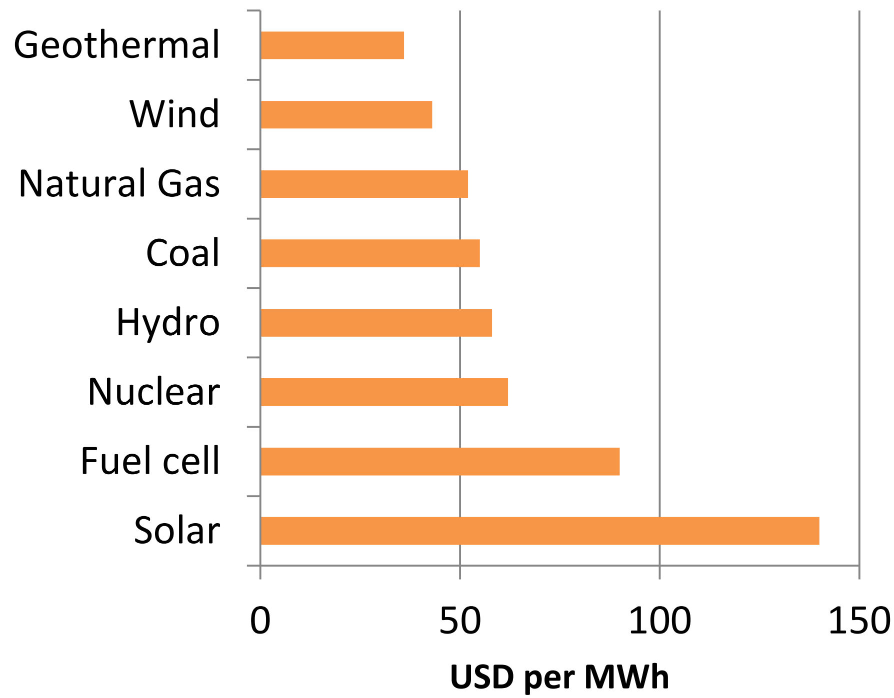
Developmental Stage	Cost ($ per kW installed)
Exploration Stage	14
Permitting	50
Steam Gathering	250
Exploratory Drilling	169
Production Drilling	1367
Plant Construction	1700
Total	3,550

Source: Geothermal Technologies Market Report, 2008



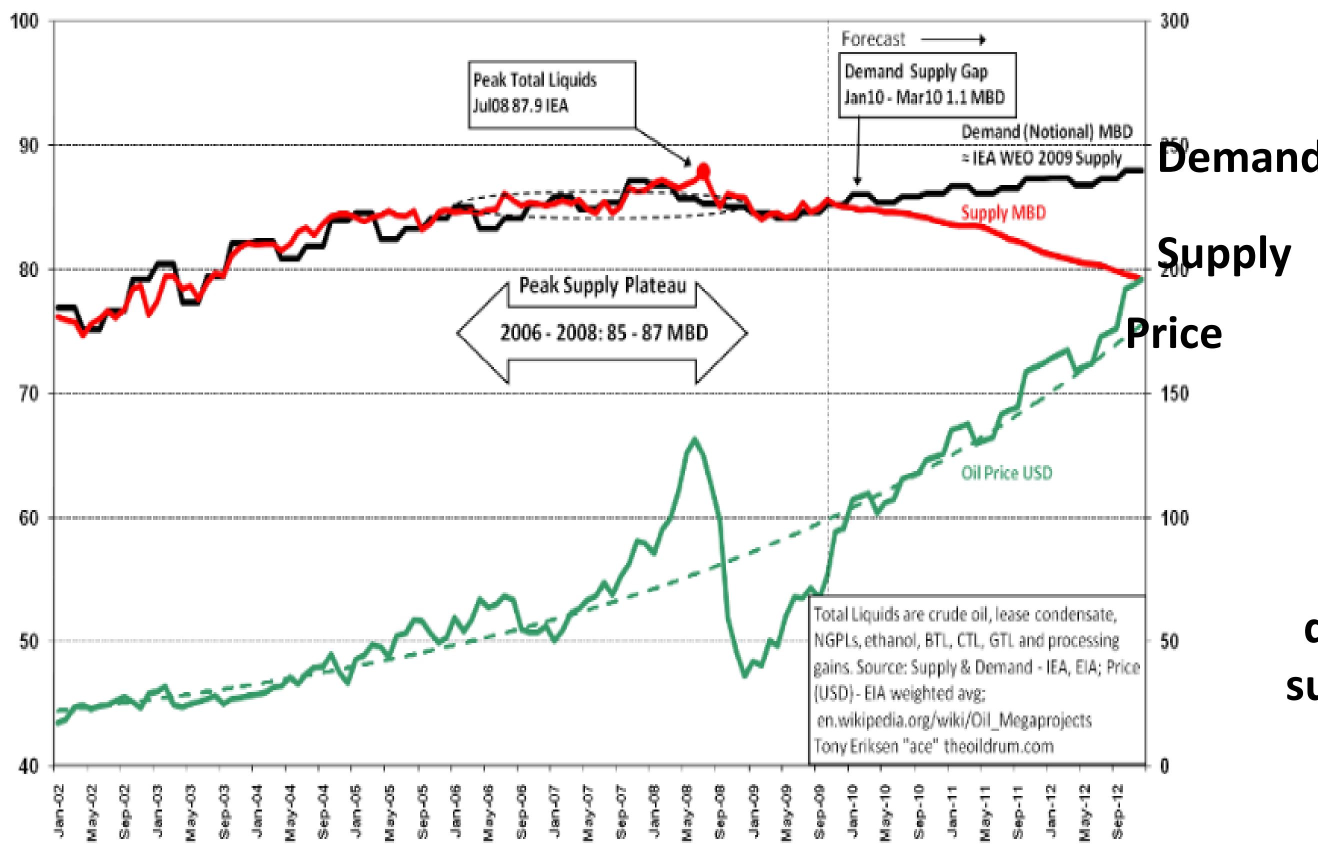
Levelized Cost of Electricity in 2009

Levelized cost of electricity refers to the average cost of power production over the life of a plant. It considers: (1) upfront capital investments, (2) operating and maintenance costs and (3) fuel costs for plants that rely on external fuel sources.



Source: Credit Suisse

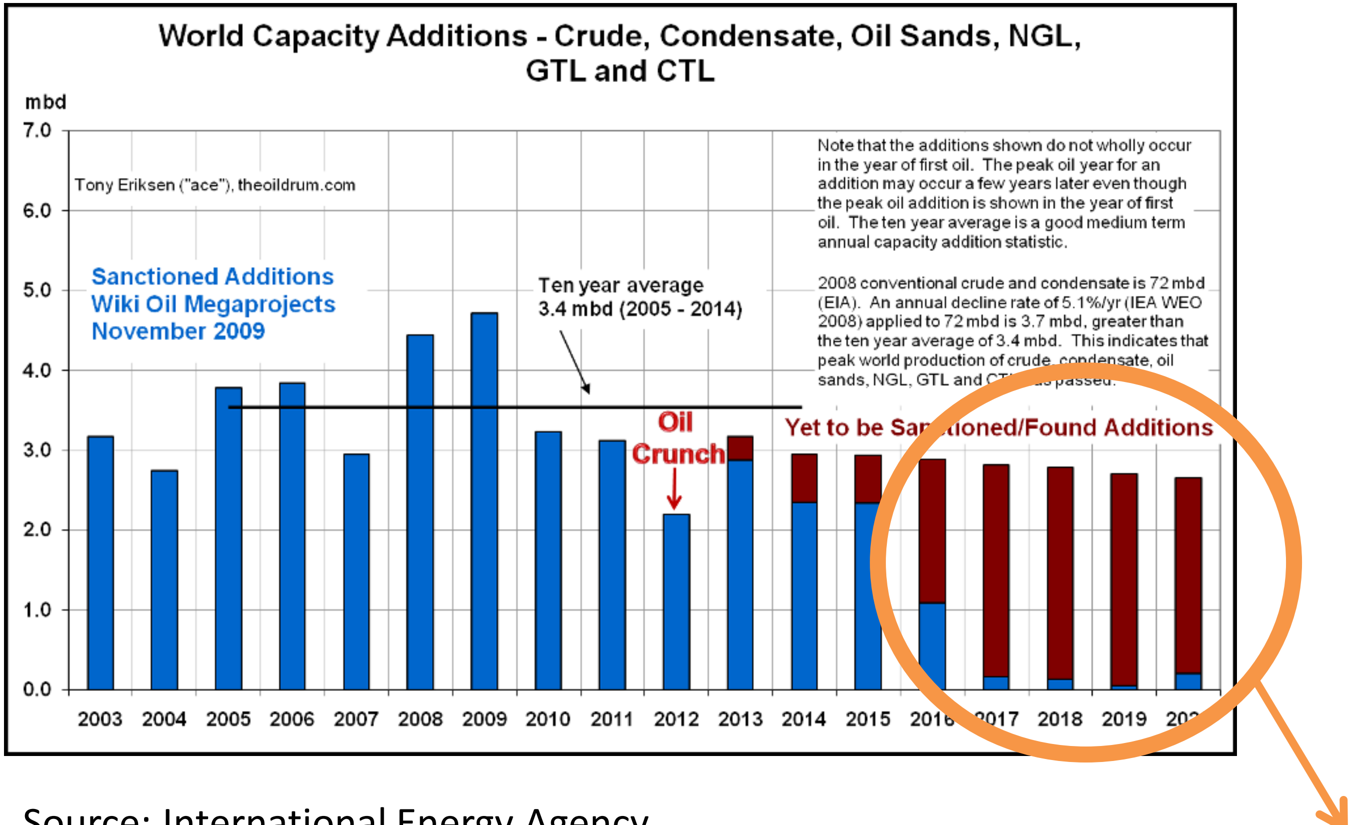
World Total Liquids Supply, Demand , Prices



Source: International Energy Agency

Oil prices are expected to rise steadily into the future as **world demand outpaces supply and capacity**

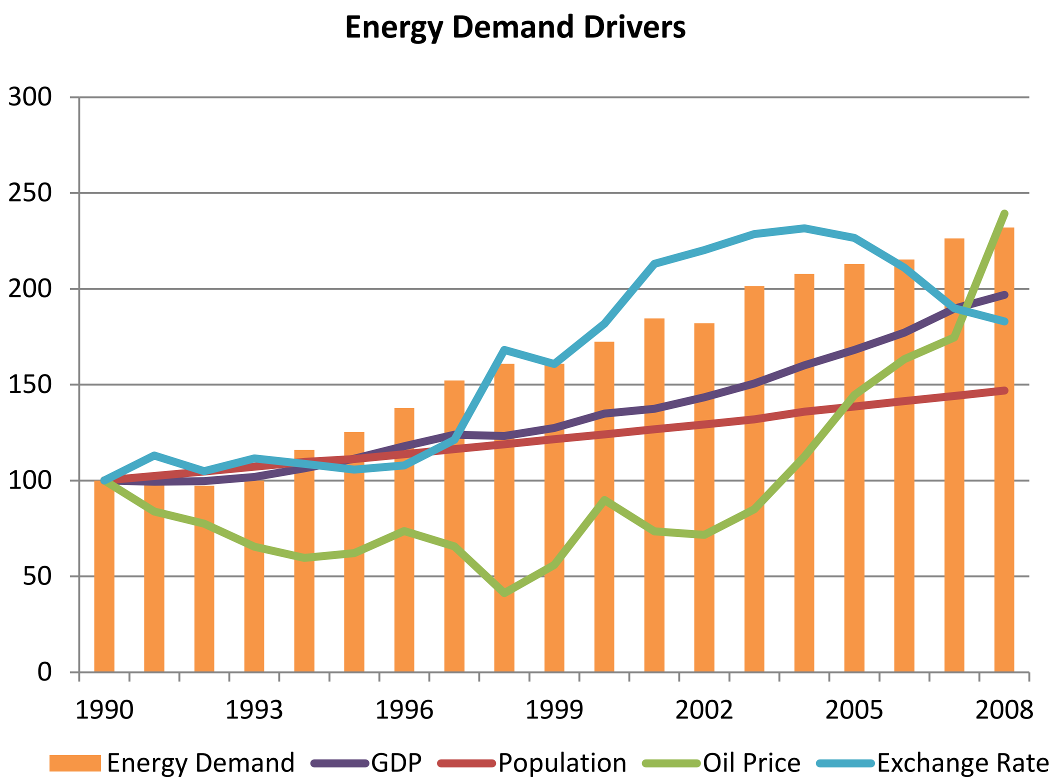
World Capacity Additions for Oil



Source: International Energy Agency

Insufficient investments due to more difficult/costly oil exploration/excavation

Energy Demand Drivers



Energy demand **rises with GDP and population growth** and is unaffected by oil prices and exchange rates

Low Generation Cost

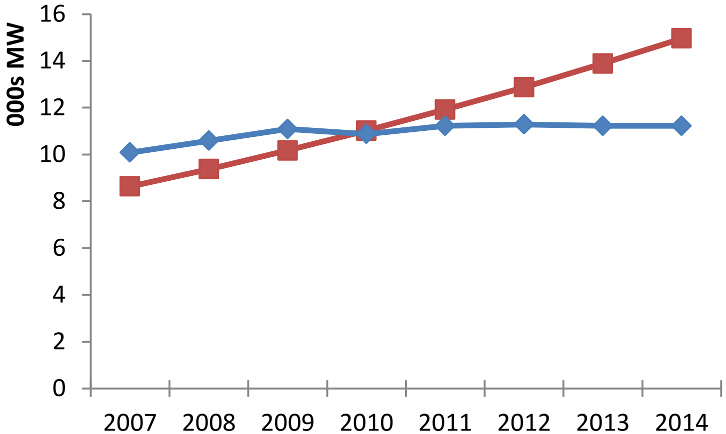
Energy Sources Ranked by Cost

Energy Source	Cost Estimate (Php per kWh)
Hydroelectric	2.72
Geothermal	3.47
Coal	4.23
Natural gas	4.36
Oil-based	5.82

Source: University of the Philippines College of Engineering

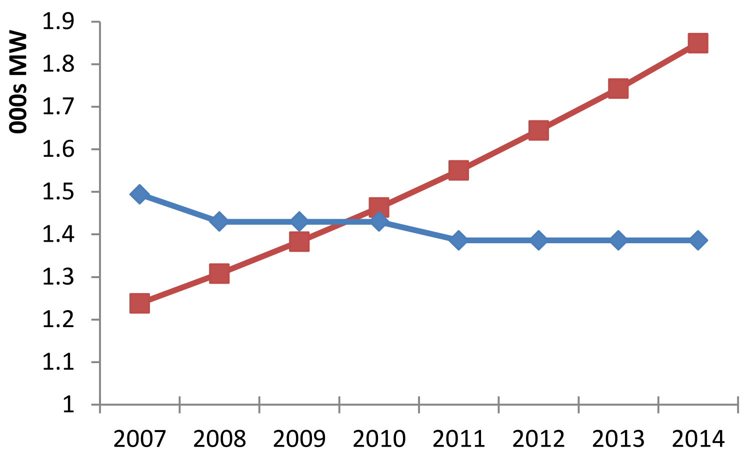
Geothermal energy having one of the **lowest generation costs is among the first to be dispatched**

Per-Grid Energy Situation

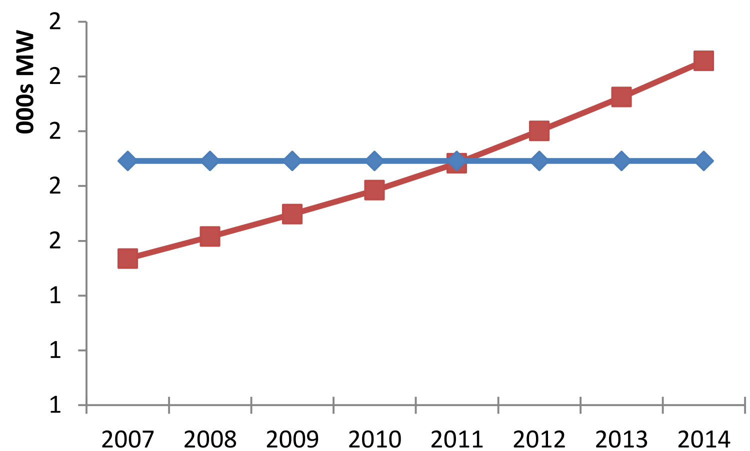


NORTHERN PHILIPPINES

The energy crisis in the country is prevalent **in all island grids** with a significant gap in Luzon and Visayas



CENTRAL PHILIPPINES



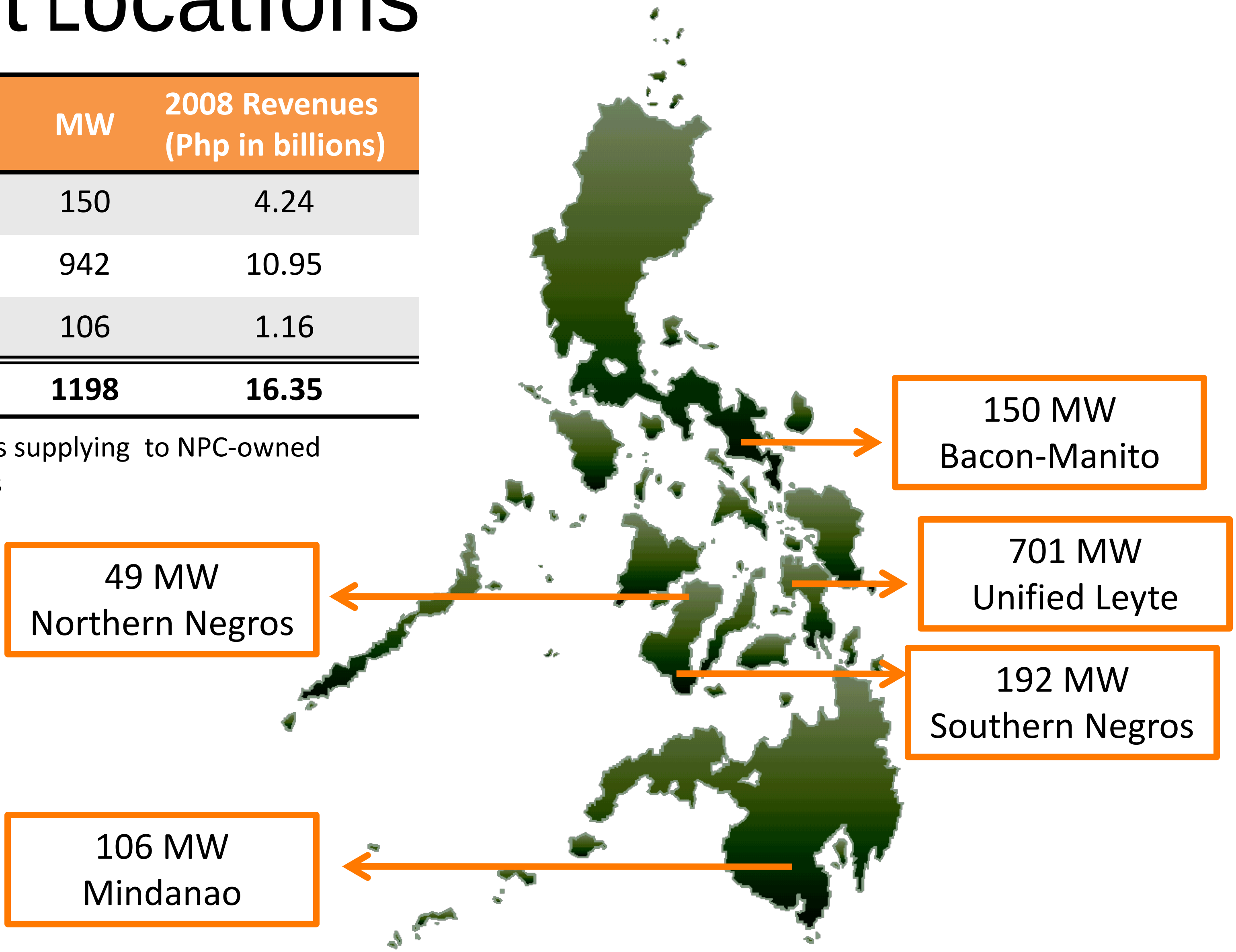
SOUTHERN PHILIPPINES

Company Information

Plant Locations

Island	MW	2008 Revenues (Php in billions)
Luzon	150	4.24
Visayas	942	10.95
Mindanao	106	1.16
Total	**1198**	**16.35**

*Steam fields supplying to NPC-owned power plants



7 New Geothermal Power Plants

Name	Location	Capacity (MW)	Target Start of Operations
Nasulo	Visayas	20	2013
Mindanao 3	Mindanao	50	2013
Dauin	Visayas	40	2015
Tanawon	Luzon	40	2017
Rangas	Luzon	40	2018
Kayabon	Luzon	40	2019
Southern Leyte	Visayas	50-80	2021
TOTAL		**280-310**	

Privatization of NPC-owned Geothermal Plants

Year	NPC asset	Capacity (in MW)	Winning Bidder
2007	Tiwi-Makban	747.5	Aboitiz
2009	Tongonan	112.5	EDC
2009	Palinpinon I & II	192.0	EDC
2010	BacMan I & II	150.0	-

Source: Power Sector Assets and Liabilities Management

EDC's Sales Contracts

Field or Plant	Present - 2012	2013 - 2022	2023-2024	2025 - 2031
Tongonan	Bilateral Contracts***			
Unified Leyte	Power Purchase Agreement*		Bilateral Contracts***	
Northern Negros	Electricity Sales Agreement**	Bilateral Contracts***		
Palinpinon I	Bilateral Contracts***			
Palinpinon II	Bilateral Contracts***			
BacMan I	Geothermal Resource Service Contract**			
BacMan II	Geothermal Resource Service Contract**			
Mindanao I	Power Purchase Agreement*		Bilateral Contracts***	
Mindanao II	Power Purchase Agreement*			Bilateral Contracts***

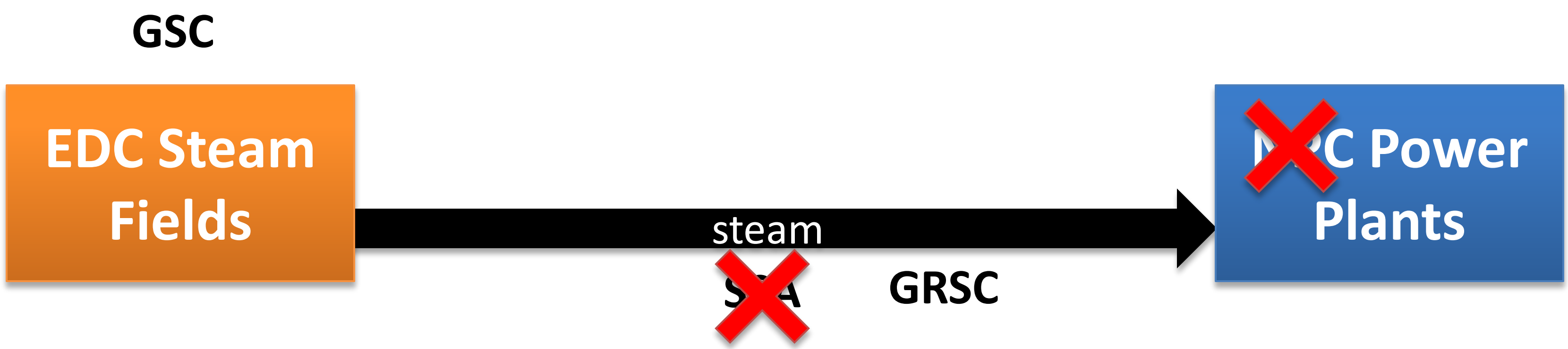
*With NPC

**With private cooperatives

***EDC's stated preference over spot sales in an open market

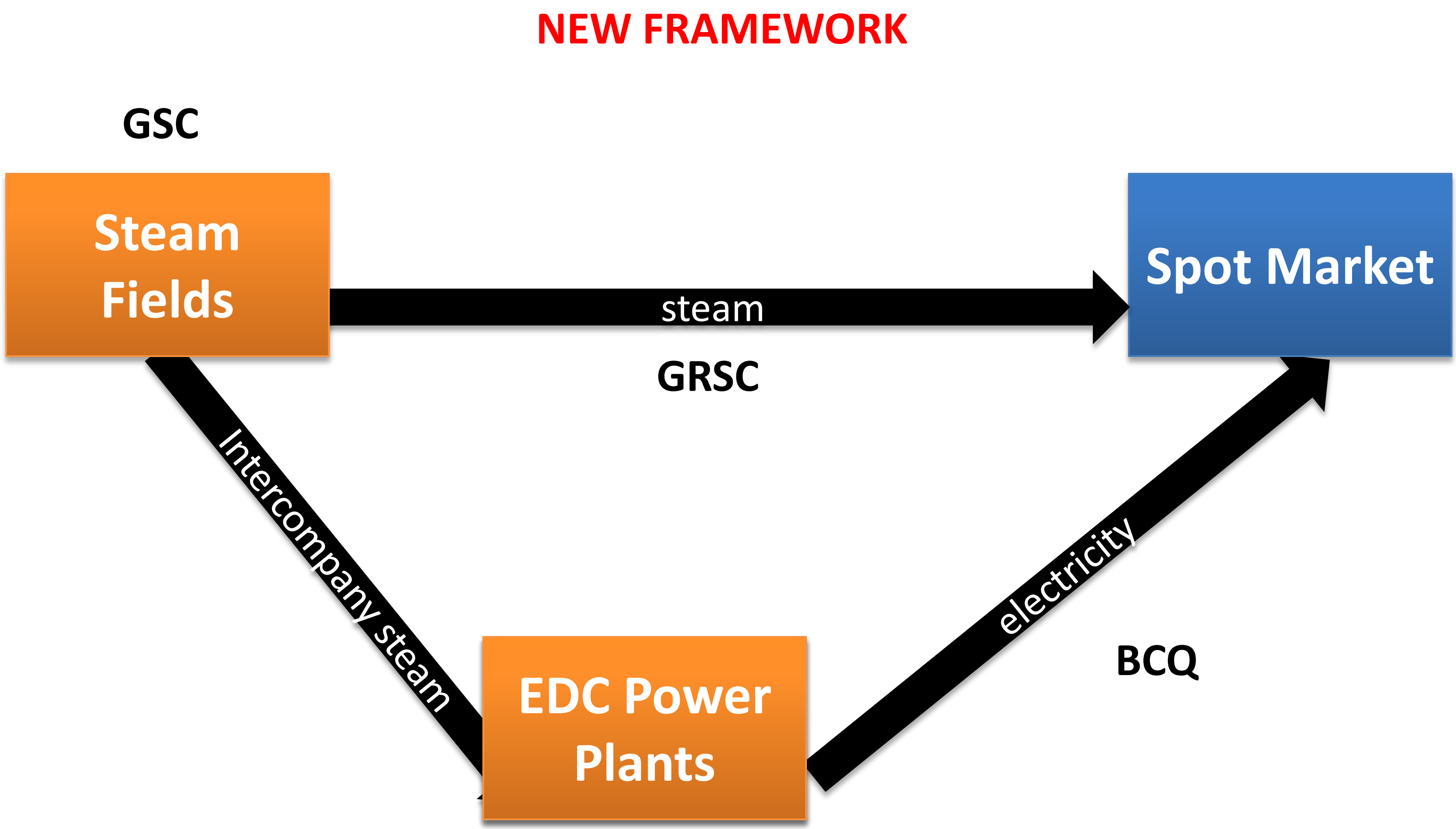
EDC's Contracts

NEW FRAMEWORK

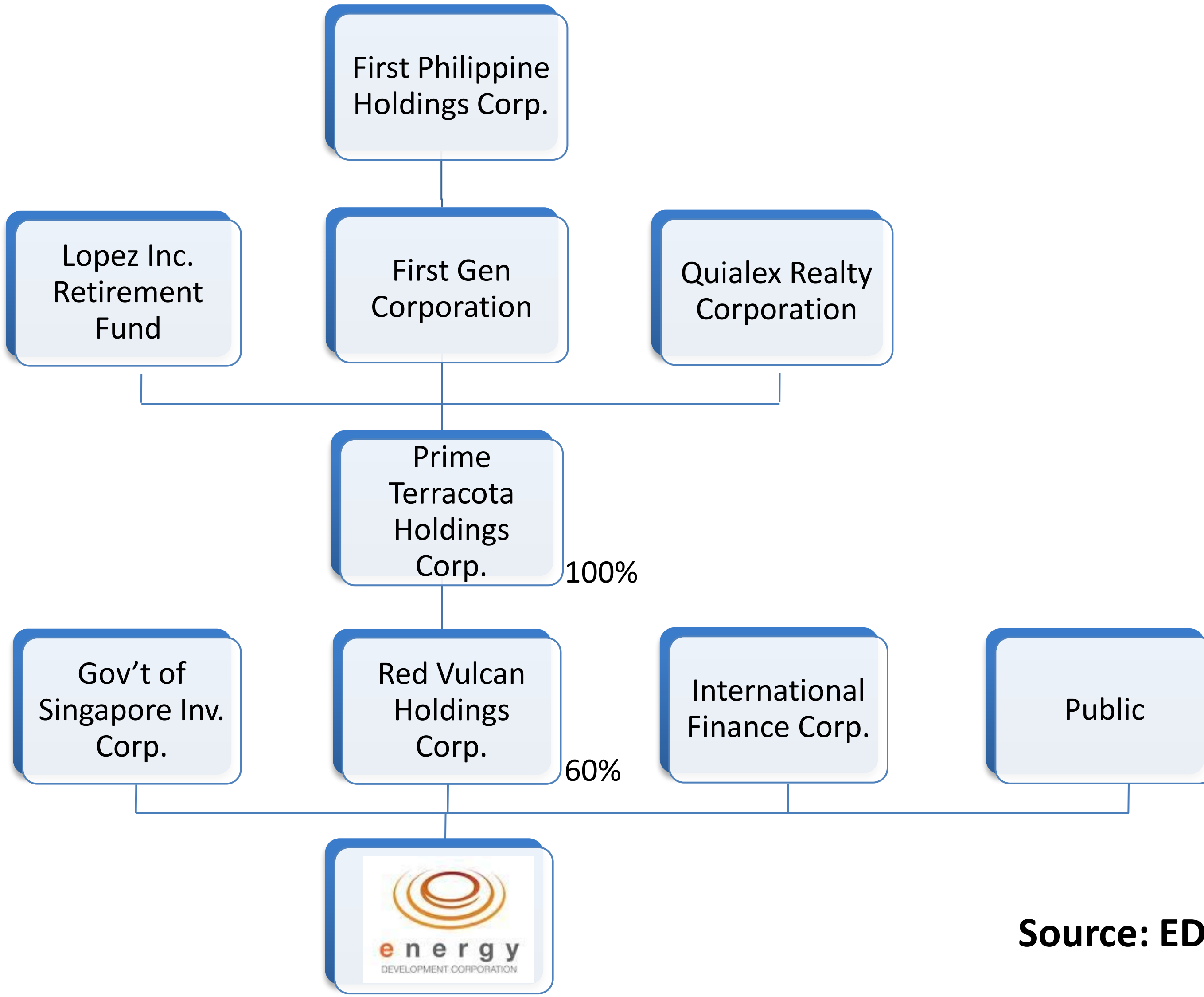


SSA	GRSC
75% of installed capacity, take-or-pay volume	No minimum volume
Pre-determined prices with escalation factor	Indexed to coal prices (Barlowe Jonker Index and Japanese Power Utilities Index)

EDC's Contracts



Ownership Structure



Source: EDC

Expiry of Service Concessions

	Prior to 2031	After 2031
Steam Field	✓	✗
Power Plants	✓	✓

High Level of Vertical Integration

Scope of Geothermal Operations: Leading Global Companies

<table>
<tr><th>R&D</th><th>Exploration</th><th>Drilling</th><th>Confirmation</th><th>Engineering</th><th>Construction</th><th>O&M</th></tr>
<tr><td colspan="7">EDC (PH), Ormat (US), Chevron (US), Enel (IT), Calpine (US)</td></tr>
<tr><td></td><td colspan="6">PT Pertamina (ID), Reykjavik Energy (IS)</td></tr>
<tr><td></td><td colspan="3">Boart Longyear (US), Halliburton (US)</td><td colspan="3">Sumitomo (JP), Shaw Group (US)</td></tr>
<tr><td colspan="2">Govt/Univ Labs (All)</td><td colspan="2" rowspan="4">Iceland Drilling Co. (IS), Baker Drilling (US), Parker Drilling (US), ThermaSource (US), GeothermEx (US)</td><td colspan="2">Siemens (DE), Enex (IS)</td><td></td></tr>
<tr><td></td><td></td><td rowspan="3">Mannvit (IS), Power Eng (US)</td><td rowspan="3">MHI (JP), GE (US), Fuji (JP), UTC</td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

Source: New Energy Finance, 2008

DE: Denmark | ID: Indonesia | IS: Iceland | IT: Italy | JP: Japan | PH: Philippines | US: United States

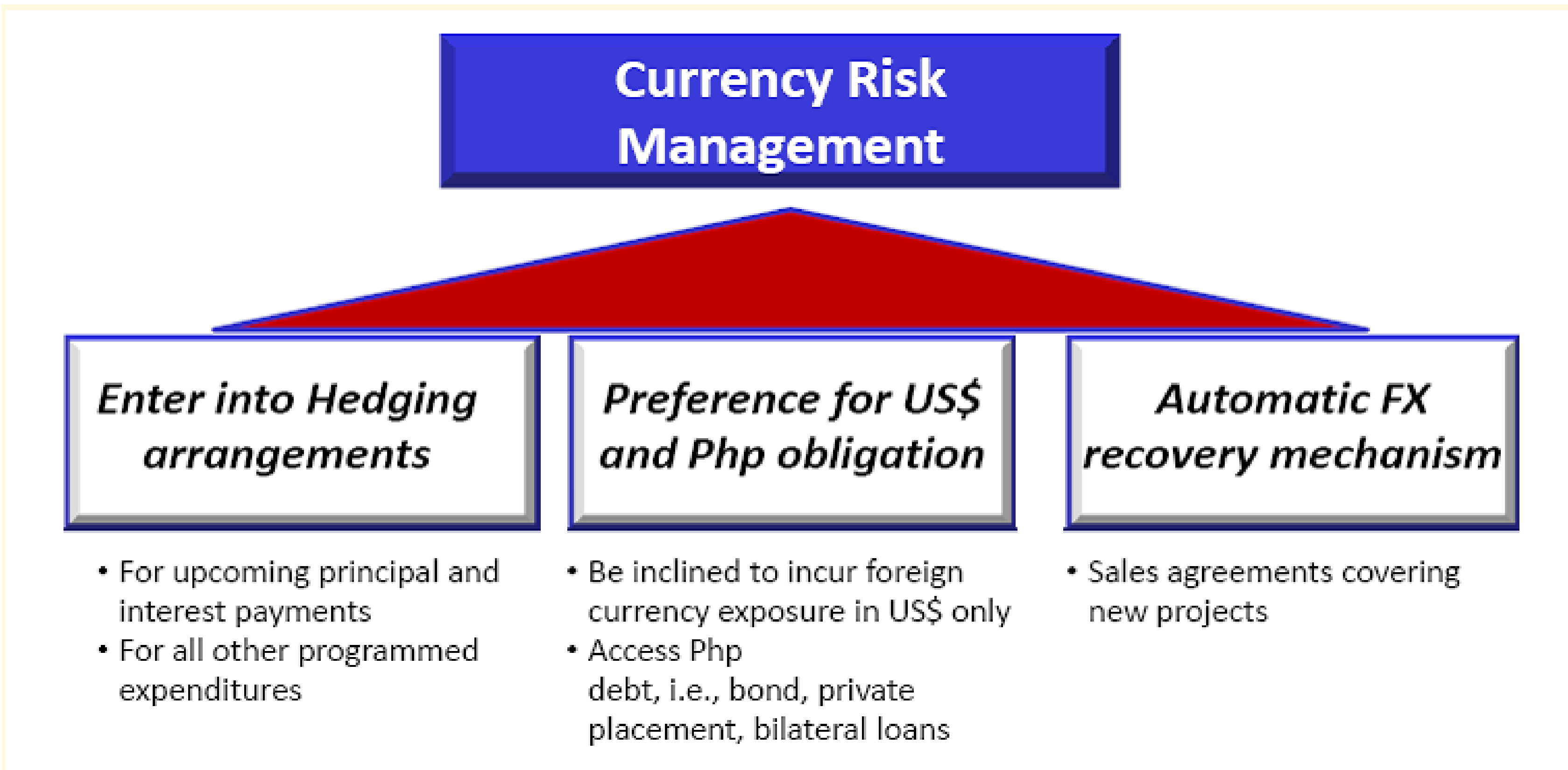
EDC's level of vertical integration allows it to span across the entire value chain – resulting in enhanced efficiency and cost savings vs. other energy producers

EDC's Maintenance and Upgrade

- Purchase of a brand new drilling rig in 2008 for delivery by November 2009
- On-going up rating program for Rigs 8,10, and 23 with the purchase of top drive, mud mixers, and other lifting equipment
- Upgrade of the Palinpinon plants to rehabilitate and bring it back to its rated capacity of 192.5 MW
- Upgrade of Tongonan plant to bring back to 112MW from the current utilization of 84MW

Source: EDC

Currency Risk Management



Source: EDC

Hedging Strategies **Source: EDC**

- Fully Hedged Miyazawa I
  - -JPY8 B using Range Bonus Forward
  - -JPY4 B and USD 118 M using a Plain Vanilla Forward
  - -Net gain of PHP95 M

Key Executives

CHAIRMAN	Mr. Oscar M. Lopez
PRESIDENT and CEO	Mr. Paul A. Aquino
DEPUTY PRESIDENT and CHIEF OPERATING OFFICER	Mr. Richard B. Tantoco
CHIEF FINANCIAL OFFICER	Ms. Ana Regina B. Go
EXECUTIVE PRESIDENT	Mr. Ernesto B. Pantangco

CHAIRMAN | Oscar M. Lopez

- Chairman of EDC since November 2007.

- He also serves as Chairman and Chief Executive Officer of the First Philippine Holdings Corp. (FPHC), and Chairman of Benpres Holdings Corporation (Benpres) and all member-companies of First Gen Corp. (First Gen) and First Gas groups of companies.

- Through his Chairmanship of FPHC and Benpres, Mr. Lopez serves as Chairman of the Lopez Group of Companies. He is also a member of the board of ABS-CBN Broadcasting Corporation.

- Mr. Lopez has led FPHC's efforts in other businesses aside from energy and power, including toll road construction, industrial park and real estate development, and electronics manufacturing.

- He holds a **Masters degree in Public Administration from the Littauer School of Public Administration in Harvard University (1955),** where he also earned his Bachelor of Arts degree, cum laude (1951).

PRESIDENT and CEO | Paul A. Aquino

- President and CEO since February 2004. He has been a Director of the Company since 2001.

- He is also a Director of the First Gen Hydro Power Corporation. He previously served as president to various companies, including Dynamic Computer Services, Corinthian Securities and Management Dynamics.

- Mr. Aquino was also a consultant for Sycip, Gorres & Velayo from 1967 to 1969. He also serves as an Honorary Consul of the Republic of Malta.

- He is an **electrical engineer by profession** and **has a master’s degree in business administration**.

COO | Richard B. Tantoco

• Elected Deputy President and Chief Operating Officer of EDC on February 24, 2009. He has been a Director of the Company since November 2007.

• He is also Executive Vice-President and Chief Operating Officer of First Gen, FGLuzon, FG Bukidnon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Energy Solutions, Inc., First Gen Northern Energy Corp., First Gen Premiere Energy Corp., Red Vulcan, Prime Terracota, First Gen Visayas Energy Inc., First Gen Prime Energy Corp., FGHC, FGPC, FGP, AlliedGen, Unified, FNPC, FGLand, and FGPipeline. He is also Senior Vice-President of FPHC.

• Mr. Tantoco worked previously with management consulting firm Booz, Allen and Hamilton, Inc. in New York and London.

• He has an **MBA in Finance from the Wharton School of Business of the University of Pennsylvania (1993)** and a Bachelor of Science degree in Business Management from the Ateneo de Manila University where he graduated with honors (1988).

EVP | Ernesto B. Pantangco

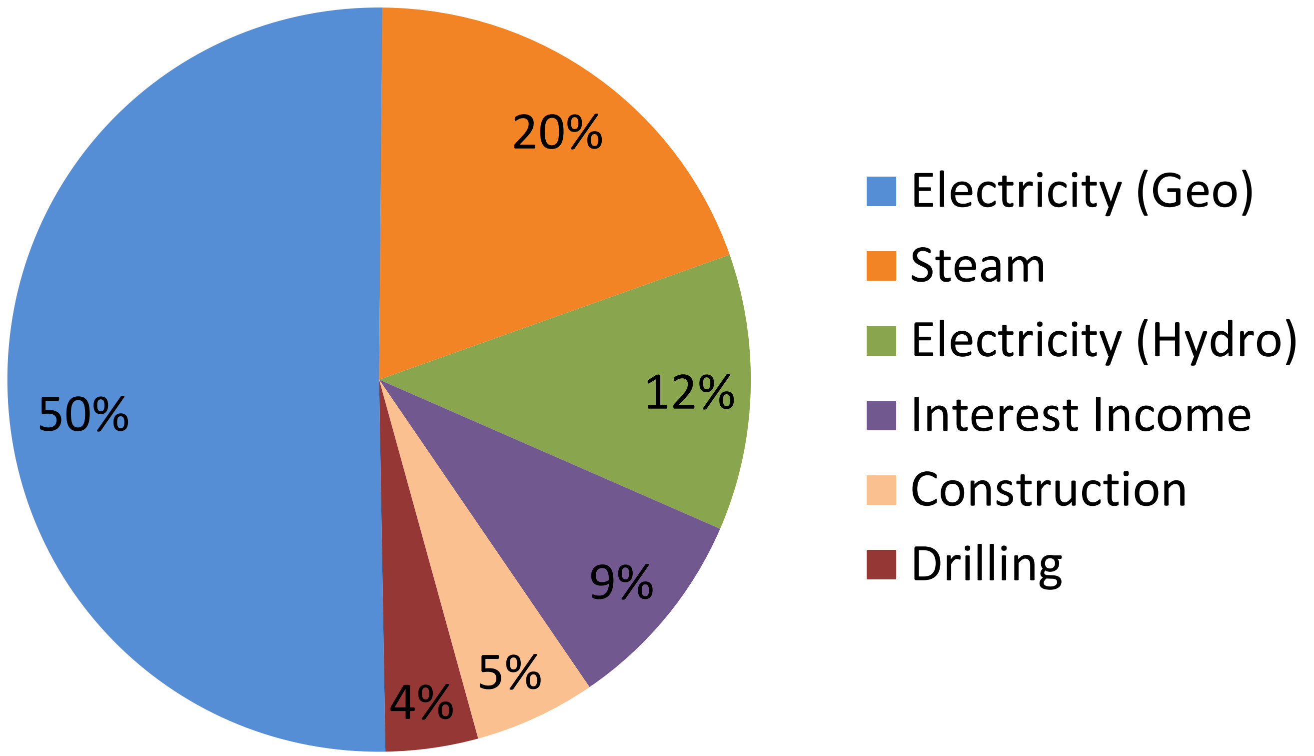
- Elected Executive Vice-President of EDC on May 21, 2008. He has been a Director of the Company since November 2007.

- He is Senior Vice- President of First Gen, and President and CEO of FPPC and BPPC. He also sits in the boards of First Gen, FGLuzon, FG Bukidnon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., and First Gen Northern Energy Corp. He is Senior Vice-President of FGLuzon, FGHPC, First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Northern Energy Corp. and Red Vulcan.

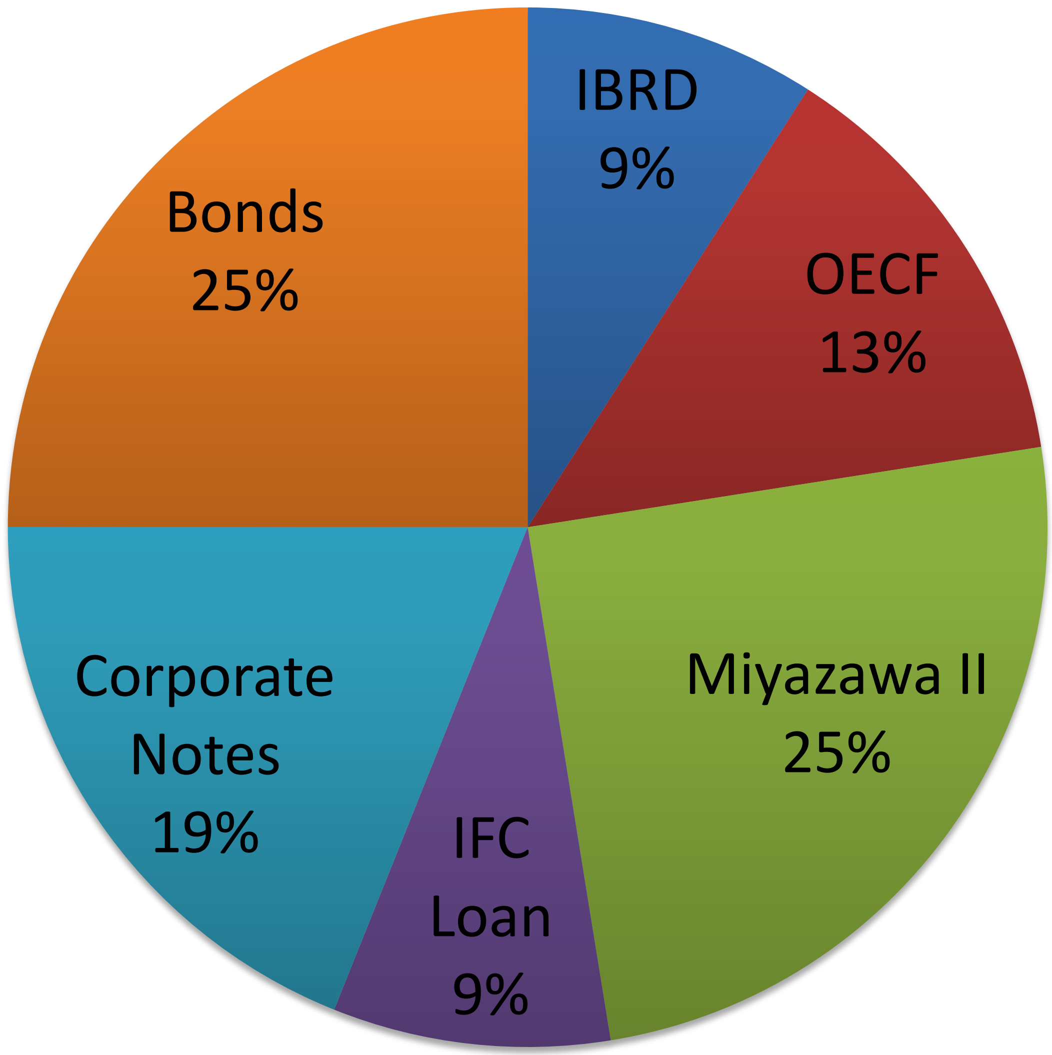
- Mr. Pantangco is also. **President of the Philippine Independent Power Producers Association (PIPPA)**

- He 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**.

2008 Revenue Breakdown



2009 Long-Term Debt Breakdown



Loan Availments in 2009

Loan	Principal (in Php Millions)	Period	Stated Rate	Issue Date
Short-term financing from other local banks	124.5			
IFC Loan	4,100	15yr w/ 3yr grace pd	5.6488%	
Fixed Rate Corporate Notes				
A	2,644	5yr + 1 day	8.3729%	3-Jul-09
B	4,856	7yr	9.4042%	3-Jul-09
C	1,500	5yr + 1 day	8.4321%	3-Sep-09
Bond -A	6,000	5.5yr	8.9938%	11-Nov-09
Bond -B	6,000	7yr	9.8375%	11-Nov-09
Total LT debt	**25,100**			

Loan Covenants **Source: EDC**

- Current ratio of not less than 1:1
- Debt-Equity ratio of not more than 70:30
- Debt service coverage ratio of at least 1.2x

Financial Analysis & Valuation

Key Assumptions

Factors in acquisition of Tongonan Palinpinon plants

PHP MILLIONS	2008	2009	2010E	2011E	2012E	2013E	2014E
REVENUES							
Electricity	12,518	14,504	**23,420**	24,397	25,042	28,194	29,002
Steam	4,242	4,850	**1,696**	3,196	3,424	1,227	1,301
Interest	2,108	1,970	**1,706**	1,556	1,449	1,336	1,216
Drilling	726	1,122	**1,412**	1,534	1,574	1,491	1,527
Construction	932	2,617	**5,373**	6,435	6,293	5,172	6,083
OPERATING COSTS							
Repairs & maintenance	1,895	2,170	**2,823**	3,068	3,149	2,983	3,055
Personnel costs	1,388	1,590	**2,001**	2,174	2,231	2,113	2,164
Materials and supplies	969	1,110	**1,444**	1,570	1,611	1,526	1,563
Royalty fees	590	355	**379**	407	436	427	453
Rent and insurance	272	311	**392**	426	437	414	424
Business expenses	137	157	**198**	215	221	209	214

Privatization of Bacon-Manito Plant Complex results in elimination of fixed agreements but eventual improvement in utilization rates

Repairs & maintenance expenses rise proportionately with movements in steam and electricity revenues

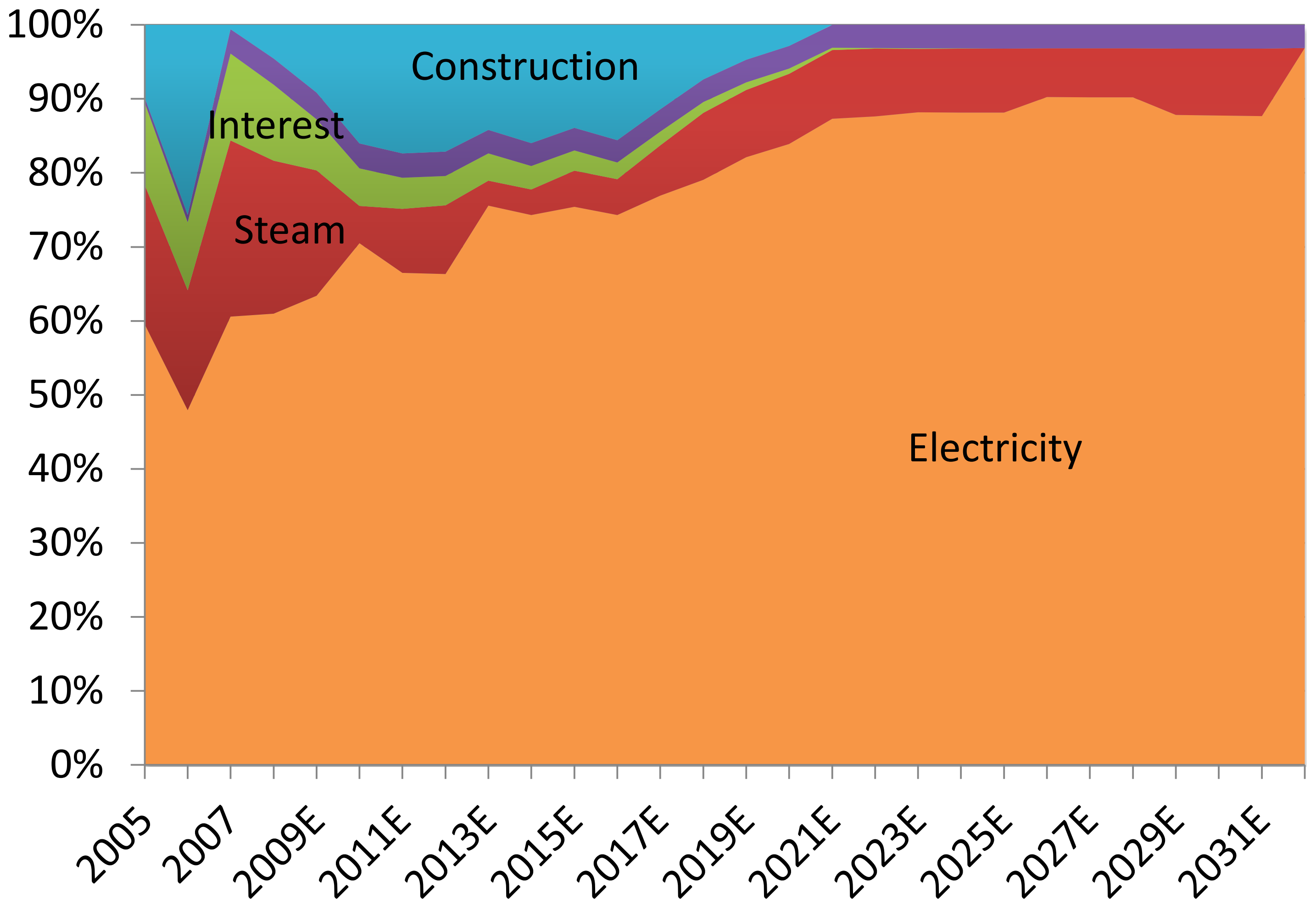
Other Revenue Assumptions - Price

IN VARIOUS UNITS	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Real GDP (Php T)	1.18	1.22	1.25	**1.28**	1.31	1.34	1.38	1.41
PHP to USD	41.40	47.49	48.97	**49.73**	50.33	50.96	51.50	51.90
PHP to JPY	0.36	0.52	0.55	**0.57**	0.59	0.62	0.64	0.67
Inflation: RP (%)	1.52	3.97	4.15	**4.12**	3.84	3.94	3.57	3.12
Inflation: US (%)	2.85	3.84	0.98	**2.54**	2.61	2.66	2.47	2.31
Inflation: Japan (%)	-0.79	-0.57	-0.38	**-0.31**	-0.30	-0.34	-0.46	-0.48
Japan Power Utilities	107.98	80.35	86.64	**92.92**	99.21	105.49	111.77	118.06
Barlow Jonker Index	128.08	94.45	103.00	**111.55**	120.10	128.65	137.20	145.75

These assumptions serve as the **basis to adjust for prices of energy sold** through fixed, contractual agreements

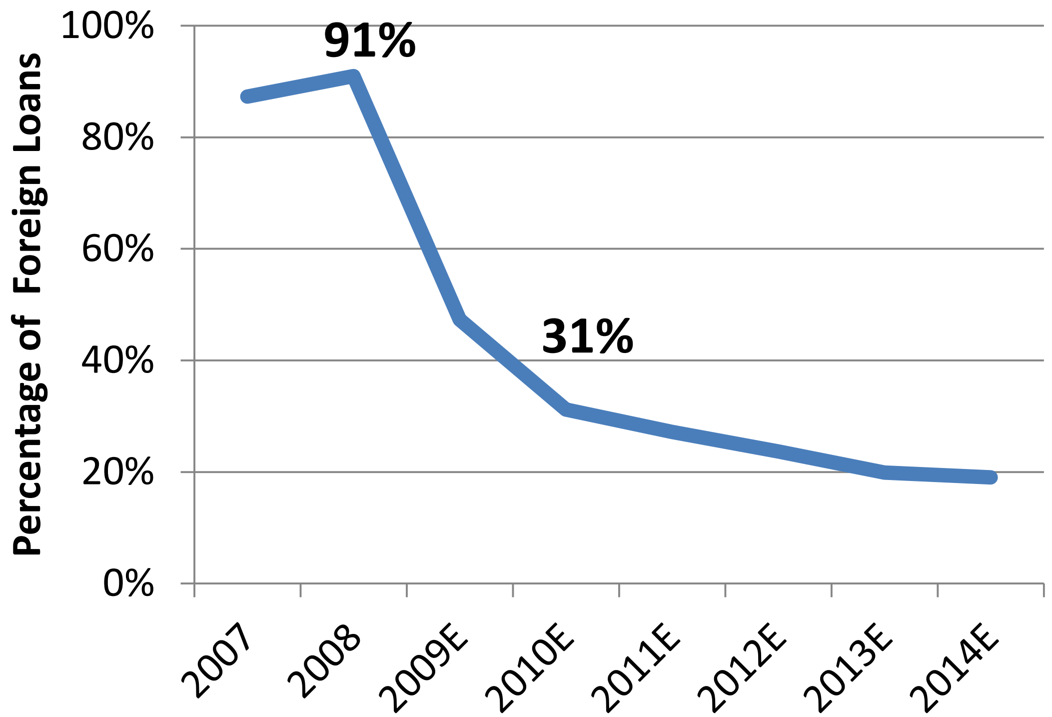
Contracted revenues **are partly tied to foreign exchange rates**, which manages EDC's remaining exposure through dollar & yen denominated loans

Revenue Mix



100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Construction
Interest
Steam
Electricity
2005
2007
2009E
2011E
2013E
2015E
2017E
2019E
2021E
2023E
2025E
2027E
2029E
2031E

Long-Term Debt Mix



Refinancing its government-inherited foreign-currency denominated loans with Peso loans reveals prudence in financial management

Income Statement

Php millions	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Electricity	11,509	12,518	14,504	18,848	19,651	20,202	20,772	21,348
Steam	4,521	4,242	4,850	1,696	3,196	3,424	1,227	1,301
Interest	2,237	2,108	1,970	1,706	1,556	1,449	1,336	1,216
Drilling	625	726	1,122	1,171	1,284	1,320	1,228	1,256
Construction	109	932	911	1,337	1,040	632	-	-
REVENUES	**19,001**	**20,527**	**23,357**	**24,758**	**26,727**	**27,026**	**24,563**	**25,121**
Service costs	(3,111)	(1,524)	(1,440)	(1,351)	(1,481)	(1,522)	(1,416)	(1,449)
Construction	(101)	(804)	(837)	(1,228)	(956)	(581)	-	-
Operations	(3,079)	(5,046)	(6,524)	(6,951)	(7,588)	(7,870)	(7,408)	(7,641)
Administration	(2,426)	(1,313)	(2,762)	(2,636)	(2,738)	(2,845)	(2,944)	(3,036)
EBITDA	**10,283**	**11,841**	**11,794**	**12,592**	**13,963**	**14,208**	**12,794**	**12,996**
Depreciation	(244)	(657)	(687)	(1,323)	(1,458)	(1,474)	(1,467)	(1,456)
EBIT	**10,039**	**11,183**	**11,107**	**11,270**	**12,506**	**12,734**	**11,327**	**11,540**
Int. income	650	333	333	333	333	333	333	333
Int. expense	(1,600)	(2,153)	(2,334)	(3,473)	(3,143)	(3,276)	(3,692)	(3,944)
Forex losses	3,996	(9,357)	(939)	(335)	(265)	(243)	(206)	(172)
Other line items	(148)	2,646	-	-	-	-	-	-
PRETAX PROFIT	**12,937**	**2,653**	**8,166**	**7,795**	**9,430**	**9,547**	**7,762**	**7,758**
Income tax	(4,168)	(1,308)	(2,450)	(2,339)	(2,829)	(2,864)	(2,329)	(2,327)
NET PROFIT	**8,768**	**1,345**	**5,717**	**5,457**	**6,601**	**6,683**	**5,434**	**5,430**

Balance Sheet

Php millions	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Cash	3,297	957	3,504	1,238	1,336	2,547	3,684	3,768
Receivables	42,022	40,108	38,838	33,882	32,608	30,796	28,170	26,084
Inventories	1,141	1,563	1,908	1,912	1,923	1,919	1,912	1,911
Intangibles	11,329	11,883	23,132	27,082	26,984	26,621	25,626	24,632
Net PPE	4,712	5,280	5,923	6,047	6,327	6,061	5,710	5,546
Exploration costs	1,172	1,000	1,348	1,071	3,564	9,928	14,784	20,639
Other assets	8,317	8,555	6,757	6,757	6,757	6,757	6,757	6,757
TOTAL ASSETS	**71,990**	**69,346**	**81,410**	**77,989**	**79,499**	**84,628**	**86,644**	**89,338**
Trade dues	4,243	3,065	4,136	8,563	4,792	4,958	4,651	4,793
Royalty fees	1,734	1,688	1,755	982	802	611	427	453
Long term debt	25,733	32,229	48,594	37,707	39,892	43,470	45,153	47,621
Other liabilities	5,748	3,628	1,628	1,628	1,628	1,628	1,628	1,628
TOTAL DEBT	**37,457**	**40,610**	**56,113**	**48,880**	**47,114**	**50,666**	**51,859**	**54,494**
Retained profits	13,172	9,978	6,717	10,332	13,439	14,934	15,715	15,771
Minority interest	3,345	1,484	1,307	1,503	1,673	1,754	1,797	1,800
Other equities	18,015	17,273	17,273	17,273	17,273	17,273	17,273	17,273
TOTAL EQUITIES	**34,532**	**28,735**	**25,297**	**29,109**	**32,385**	**33,962**	**34,785**	**34,844**
TOTAL CAPITAL	**71,990**	**69,346**	**81,410**	**77,989**	**79,499**	**84,628**	**86,644**	**89,338**

Statement of Cash Flows

Php millions	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Cash revenues	21,857	24,244	23,722	25,029	26,961	28,206	27,189	27,207
Cash expenses	(10,396)	(18,300)	(10,949)	(12,670)	(12,557)	(12,817)	(12,196)	(11,937)
ST financing	(1,058)	(1,508)	(2,043)	2,167	(5,137)	(4,036)	(2,031)	(1,995)
CORE CFO	**10,403**	**4,436**	**10,730**	**14,525**	**9,266**	**11,353**	**12,962**	**13,275**
Exploration costs	462	264	(348)	277	-	143	143	145
Net PPE	(183)	(1,073)	(941)	(454)	(620)	(92)	-	(178)
Intangibles	(109)	(932)	(10,747)	(277)	-	(143)	(143)	(145)
CORE CFI	**170**	**(1,741)**	**(12,035)**	**(454)**	**(620)**	**(92)**	**-**	**(178)**
Loan principals	(9,843)	(528)	13,421	(11,158)	(2,019)	(1,589)	(3,422)	(3,583)
Dividends	(1,485)	(5,303)	(9,155)	(1,644)	(3,325)	(5,105)	(4,611)	(5,371)
Interest	(1,170)	(1,825)	(2,334)	(3,473)	(3,143)	(3,276)	(3,692)	(3,944)
CORE CFF	**(12,498)**	**(7,656)**	**1,932**	**(16,275)**	**(8,488)**	**(9,971)**	**(11,725)**	**(12,897)**
Forex effect	(8)	2	122	(62)	(60)	(79)	(100)	(117)
Other line items	(4,770)	2,619	1,798	-	-	-	-	-
CASH INC (DEC)	**(6,703)**	**(2,339)**	**2,546**	**(2,266)**	**98**	**1,210**	**1,138**	**84**

Key Financial Ratios

KEY FINANCIAL RATIOS	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Turnover								
Receivables (X)	4.01	3.90	4.03	3.91	3.95	3.76	3.49	3.67
Fixed Assets (X)	1.26	1.16	0.96	0.77	0.78	0.79	0.75	0.80
Total Assets (X)	0.25	0.29	0.31	0.31	0.34	0.33	0.29	0.29
Profitability								
EBITDA Margin (%)	54.12	57.68	50.49	50.86	52.24	52.57	52.09	51.73
EBIT Margin (%)	52.84	54.48	47.55	45.52	46.79	47.12	46.12	45.94
Net Profit Margin (%)	46.15	6.55	24.47	22.04	24.70	24.73	22.12	21.62
Return on Assets (%)	13.44	15.83	14.73	14.14	15.73	15.38	13.23	13.12
Return on Equity (%)	28.33	4.25	21.16	20.06	21.47	20.14	15.81	15.60
Solvency								
Total Debt Ratio (%)	52.03	58.56	68.93	62.68	60.02	59.87	59.85	61.00
Long-term Debt Ratio (%)	35.74	46.48	59.69	48.35	44.31	40.73	35.96	30.92
Liquidity								
Interest Coverage (X)	6.27	5.20	4.76	3.25	3.98	3.89	3.07	2.93
Current Ratio (X)	1.33	0.87	0.92	1.17	1.61	1.69	1.83	1.42
Acid Test Ratio (X)	0.74	0.41	0.58	0.67	0.95	1.05	1.15	0.90
Per Share Data								
Total Earnings (Php)	0.47	0.07	0.49	0.61	0.63	0.65	0.65	0.67
Recurring Earnings (Php)	0.25	0.57	0.35	0.31	0.37	0.37	0.30	0.30
Dividends (Php)	0.08	0.28	0.49	0.09	0.18	0.27	0.25	0.29
Book Value (Php)	1.84	1.53	1.35	1.55	1.72	1.81	1.85	1.85

EDC vs. Aboitiz – DuPont Analysis

	FY06		FY07		FY08	
	EDC	**ABOITIZ**	**EDC**	**ABOITIZ**	**EDC**	**ABOITIZ**
Return on Equity	18.5%	22.5%	18.2%	15.6%	20.3%	14.4%
Operating Margins	39.7%	27.2%	52.8%	42.3%	54.5%	41.2%
Interest / Tax	49.6%	80.2%	62.5%	89.3%	52.2%	87.7%
Asset Turnover	33.2%	70.7%	26.4%	31.3%	29.6%	25.9%
Financial Leverage	282.7%	146.2%	208.5%	132.2%	241.3%	154.0%

Valuation Summary

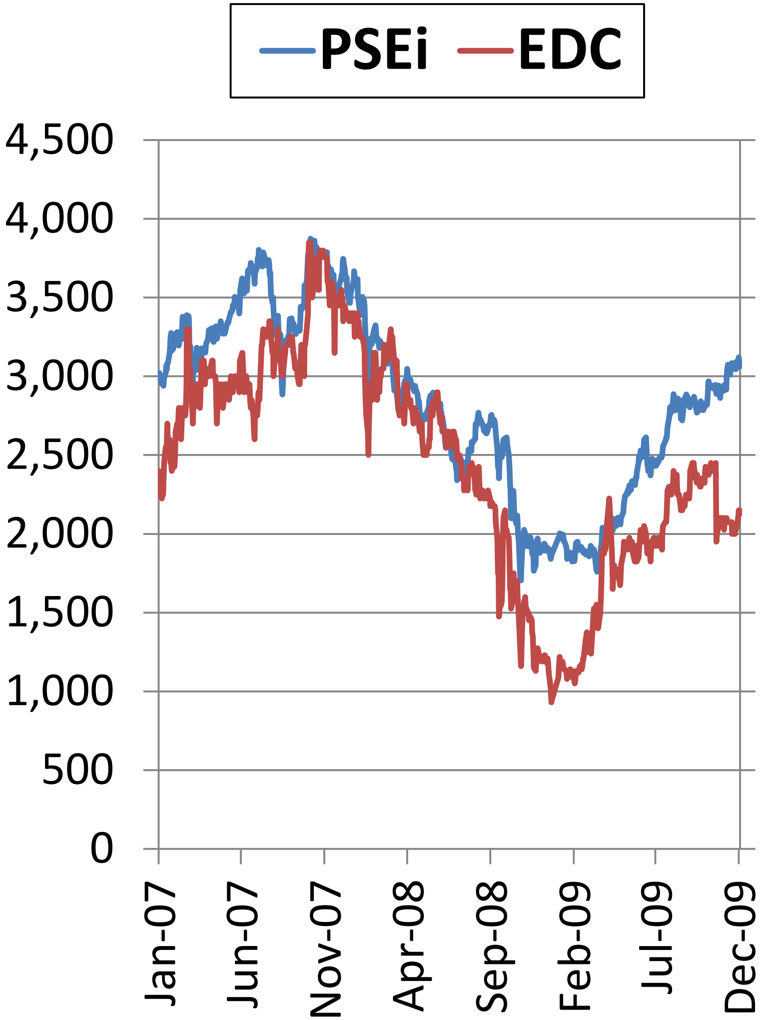
PHP BILLIONS	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2019E**	**2024E**	**2031E**
Operating Cash Flow	21.95	20.46	24.58	25.42	26.91	28.06	29.23	30.98
Capital expenditures	-5.72	-5.64	-5.32	-5.31	-5.80	-2.60	-0.33	-0.20
Free Cash Flow to Firm	**16.23**	**14.82**	**19.26**	**20.11**	**21.11**	**25.46**	**28.89**	**30.78**
Payments to lenders	-14.64	-5.57	-5.59	-7.87	-8.18	-5.60	-8.92	-3.68
Free Cash Flow to Equity	**1.59**	**9.25**	**13.67**	**12.24**	**12.93**	**19.86**	**19.98**	**27.10**
Of which dividends	3.43	8.60	10.75	12.38	12.65	19.49	19.47	26.91

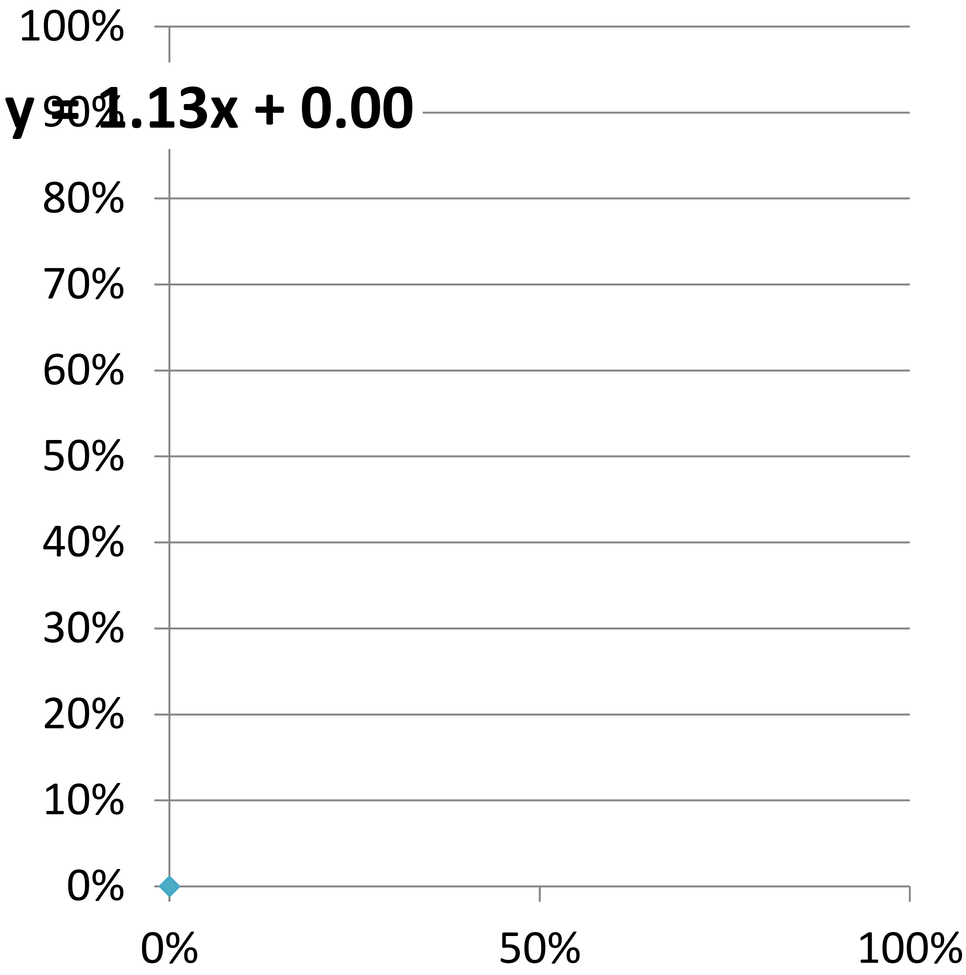
IN PERCENT	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2019E**	**2024E**	**2031E**
Effective tax rate	9.75	9.72	9.72	8.88	8.90	8.39	9.17	10.00
Cost of debt	7.53	6.76	7.31	8.14	8.47	9.40	8.15	8.34
Cost of equity	**13.85**	**13.88**	**13.85**	**13.90**	**13.88**	**13.91**	**13.87**	**13.85**
Cost of capital	**10.38**	**9.95**	**10.26**	**10.73**	**10.91**	**11.43**	**10.73**	**10.83**

Cost of Capital

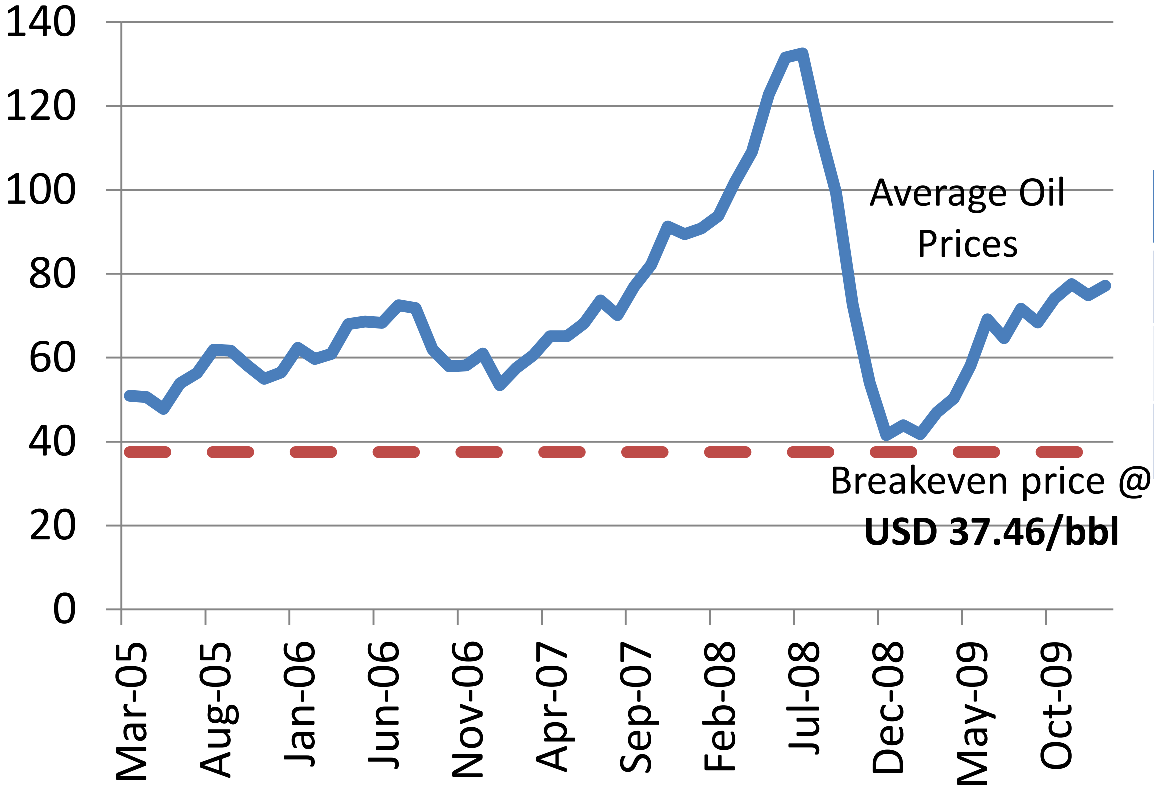
VARIABLE	VALUE	REFERENCE
Levered beta	**1.13**	Calculations using market data - Jan 2007 to June 2009
Riskfree return	**9.25%**	03 Nov 2009 auction for 25-year on-the-run T-Bond
Market return	**12.86%**	Calculations using market data - Jan 1987 to June 2009
Terminal growth	**4.40%**	IMF, Citigroup, CAGR from 1999 to 2008
Pretax cost of debt	**9.33%**	12 Nov 2009 prospectus for 7-year Fixed Rate Bonds
New tax rate	**10.00%**	RA 9513 - Renewable Energy Act of 2008
Historical tax rate	**30.00%**	PD 1158 - National Internal Revenue Code of 1997
Debt to equity	**1.22**	30 Sep 2009 3Q Report - Note 34 Capital Management

Levered Beta Calculation





Breakeven Price of Oil



Assumptions	
Breakeven (Php/kwh)	P 3.02
USD to PHP exch rate	P 0.02
Capacity (kwh/bbl)	575.12

Source: International Energy Agency

Sensitivity Analysis – WACC & Terminal Growth

		TERMINAL GROWTH RATE					
		2.90%	3.40%	3.90%	4.40%	4.90%	5.40%
	9.40%	9.07	9.21	9.37	9.56	9.79	10.07
	9.90%	8.26	8.36	8.47	8.59	8.73	8.90
	10.40%	7.56	7.62	7.69	7.76	7.84	7.90
WACC	10.90%	6.92	6.96	6.98	**7.00**	7.03	7.08
	11.40%	6.36	6.38	6.39	6.40	6.41	6.45
	11.90%	5.75	5.75	5.77	5.80	5.82	5.84
	12.40%	5.30	5.31	5.32	5.34	5.36	5.36

Worst Case

Base Case

Best Case

Sensitivity Analysis
Other Risk Factors

VARIABLE	SHOCK	UPSIDE (Php)	DOWNSIDE (Php)
Spot market shares	5%	---	(0.70)
Plant capacity factors	10%	+0.50	(0.70)
Peso-dollar rate	Php2.00	+0.40	(0.60)
AAA credit spread	100bps	---	(0.40)
Sovereign bond rating	100bps	+0.60	(0.80)
Offsetting effect	---	(0.70)	+1.00
COMBINED EFFECT	**---**	**+1.50**	**(2.20)**

Price Relative Estimates

	2010E
P/E	Php 6.50
P/S	Php 7.20
P/CF	Php 6.90
P/BV	Php 6.10

Source: Long Island estimates

Consensus Analyst Estimates

ACROSS TIME:

- 30 Apr 07 – Php 7.60 (31%)
- 02 Nov 07 – Php 8.60 (13%)
- 12 Feb 08 – Php 7.90 (36%)
- 08 Aug 08 – Php 6.80 (51%)
- 19 Jun 09 – Php 5.80 (51%)
- 29 Oct 09 – Php 5.60 (35%)

ACROSS THE MARKET:

- JP Morgan – Php5.60 (16%)
- Citisec – Php6.50 (35%)
- UBS – Php4.90 (2%)
- PEP – Php6.20 (29%)
- Long Island – Php7.00 (46%)

Market & Macro Economic Information

EDC's Stock Price Movement

The spike in late March can be attributed to the cash dividends…

On March 30, 2009, the BOD of the Parent Company approved the following cash dividends in favor of all stockholders of record as of April 16, 2009 which were paid on May 11, 2009:

- cash dividend of PHP0.0008 per share on the preferred shares
- regular cash dividend of PHP0.125 per share on the common shares.

Source: EDC

EDC Stock Information

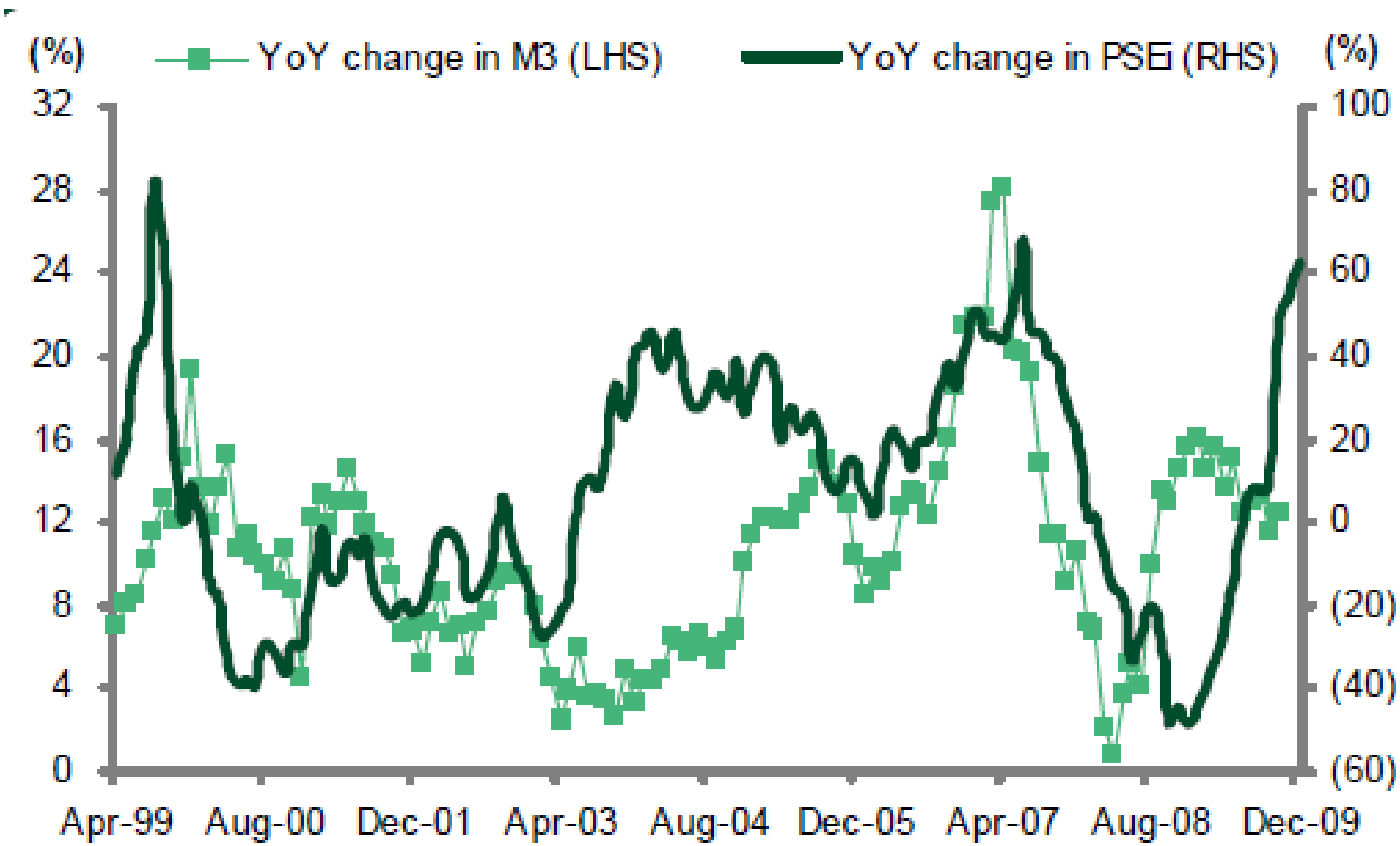
Boar Lot	1,000
Par Value	1.00
Listed Shares	18,750,000,000
Outstanding Shares	18,750,000,000
Free Float Level	60%
Market Capitalization	90,937,500,000
Foreign Limit (Percent)	40
YearEnd EPS (End: 31-Dec-2008)	0.087
Interim EPS (Period: 9mos Sep 2009)	0.068
Current P/E Ratio	54.59770115
52 Week High	5.30
52 Week Low	2.44

Source:
Philippine Stock Exchange

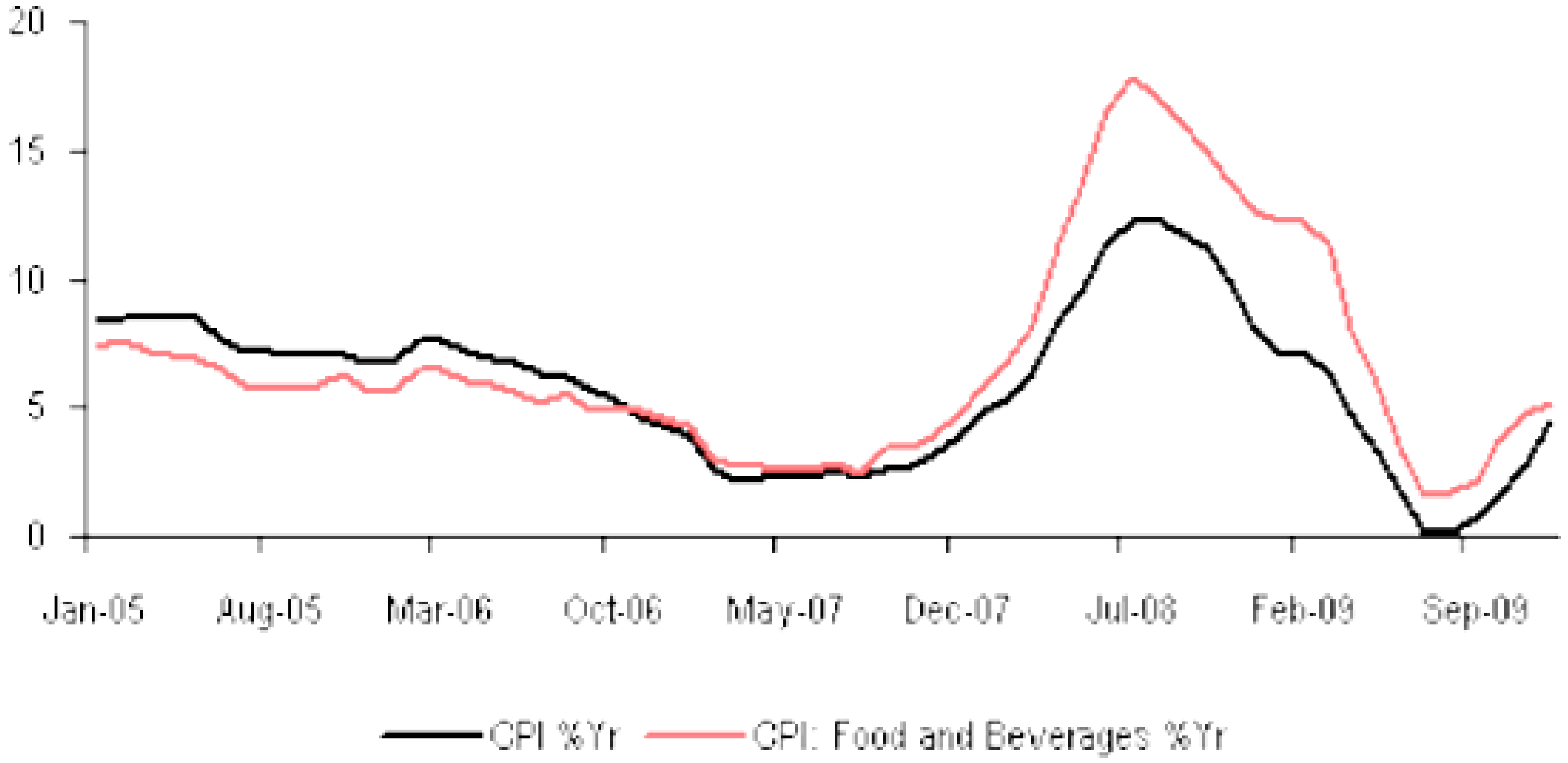
MONEY SUPPLY (M3)

COMMENT: Strong liquidity to remain as world economy rebounds.

REFERENCE: Bloomberg



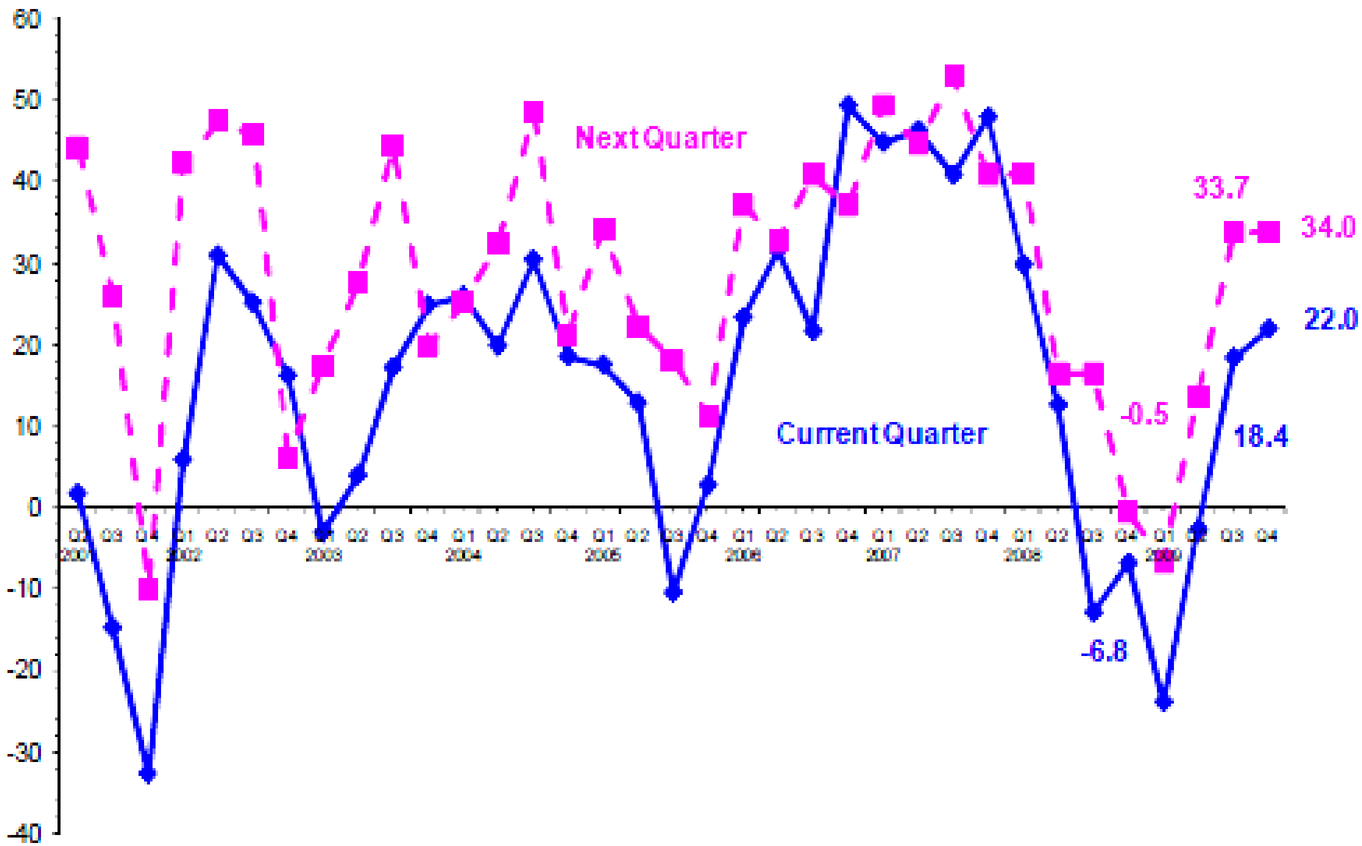
INFLATION (CPI)
COMMENT: Inflation may rise to 5.1% from 3.3%
REFERENCE: BSP



BUSINESS CONFIDENCE (CI)

COMMENT: Business outlook positive behind improving economy.

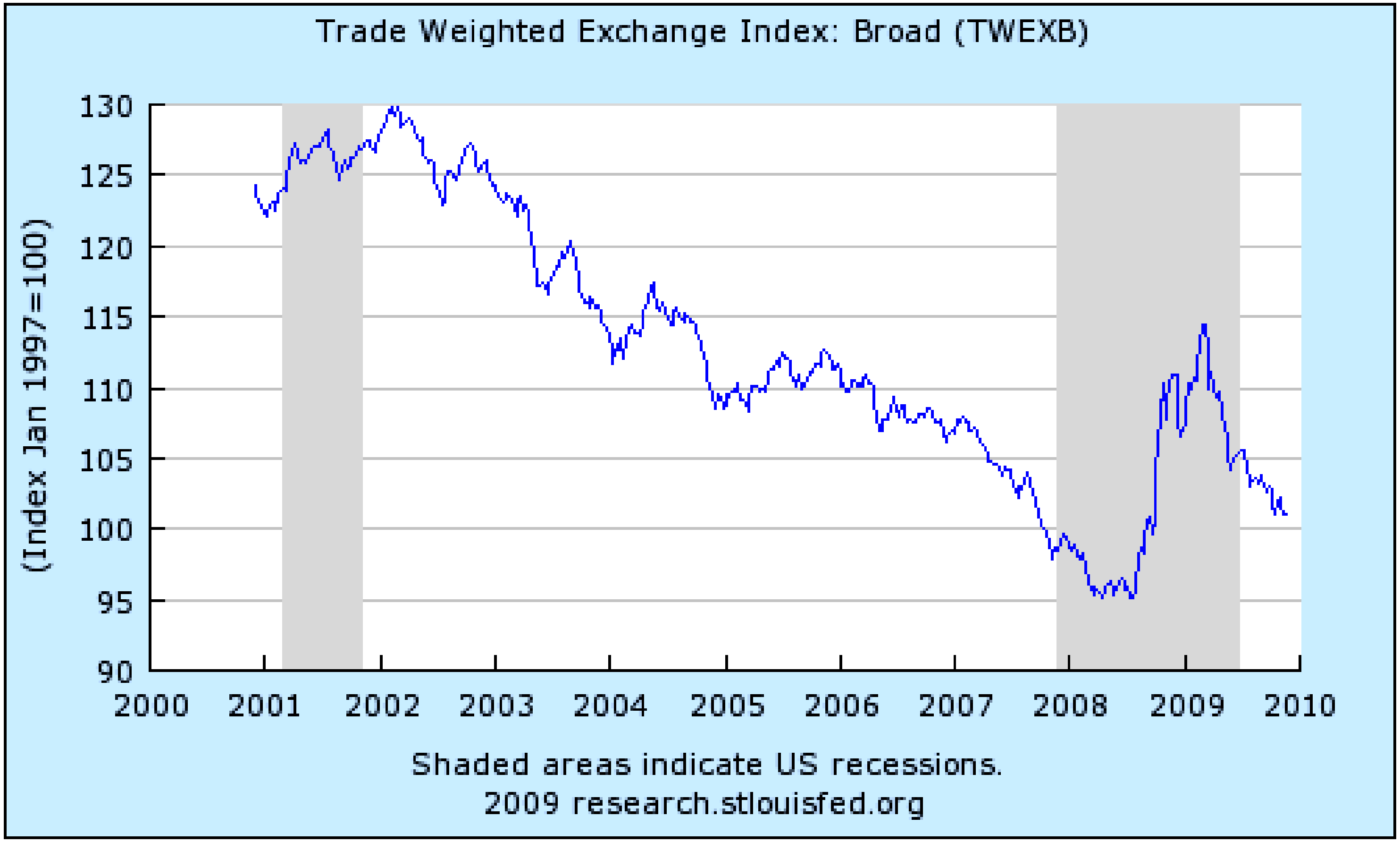
REFERENCE: BSP



US DOLLAR (1997 = 100)

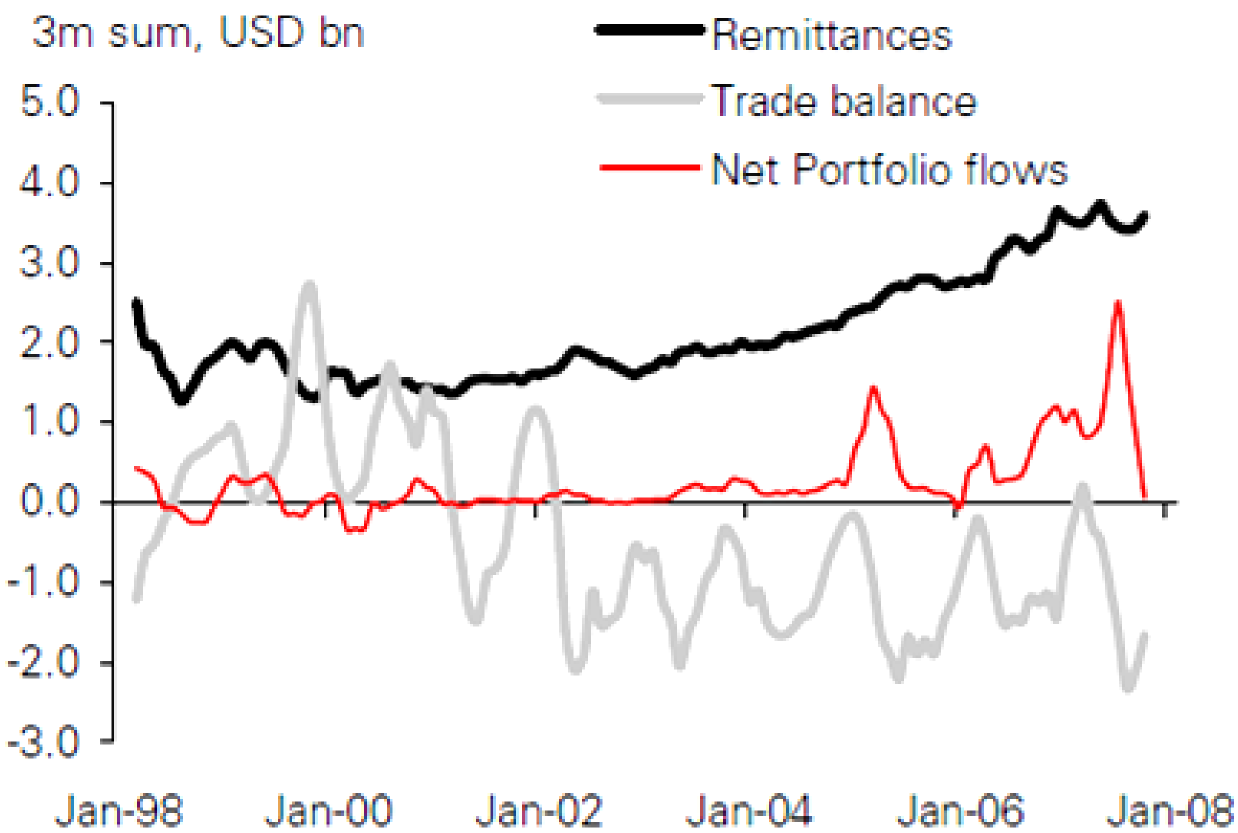
COMMENT: Long-term BOP deficit precludes dollar recovery.

REFERENCE: Federal Reserve



BALANCE OF PAYMENTS

COMMENT: Remittances cushion BOP fuelling steady appreciation.
REFERENCE: BSP



COMMODITIES

COMMENT: Gold sets off US dollar but moves with other currencies.

REFERENCE: Bloomberg

EQUITIES
COMMENT: No. 1 dividend yield among utilities and No. 3 overall
REFERENCE: Philippine Stock Exchange

Top 11 Composite Firms in Terms of Dividend Yields

	Dividend/ Share	Shares (in M)	Total Dividends (in M)	Price/Share	Div. Yield
MEG	0.27	25,638	6,897	1.42	18.9%
GLO	114.00	132	15,087	890.00	12.8%
EDC	0.35	18,750	6,563	4.25	8.2%
TEL	207.00	187	38,667	2,590.00	8.0%
GMA7	0.35	3,361	1,176	7.80	4.5%

ASIAN EQUITIES

COMMENT: Philippine stocks one of best buys in the region.

REFERENCE: Bloomberg

	PER	PEG
India	21.3	1.09
Indonesia	13.6	1.08
Malaysia	17.7	1.05
Singapore	15.9	1.03
Hong Kong	14.8	0.96
Thailand	11.9	0.88
Philippines	12.4	0.82