



NATIONAL POWER CORPORATION  
2007 ANNUAL REPORT

# ON SOLID GROUND



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## COVER STORY

The year 2007 witnessed the National Power Corporation (NPC) benefiting from a strong fiscal year which allowed it to both reduce rates and increase profitability. The company's biggest achievement, however, are its loyal employees whose solidarity made the success of NPC happen.

The title for this year's annual report is entitled Growing on Solid Ground. The company's unprecedented growth comes from its strong and solid foundation, backed by 71 years of experience as the state power generator and provider.

Roots that support a sturdy tree is reflective of the company's solid foundation and strong growth. An power plant looming in the background strengthens the bond between the theme and NPC. The cover also provides a window for the future, highlighting the company's commitment to the environment.

## FINANCIAL HIGHLIGHTS 2007

(in million pesos)

	2007	2006
NET OPERATING REVENUE	187,423	175,118
OPERATING EXPENSES	149,868	141,716
NET OPERATING INCOME	37,555	33,402
NET INCOME	136,072	89,998
<b>RATE BASE</b>		
RETURN ON RATE BASE (%)	14.80	12.22
AVERAGE POWER RATES (P PER KWH)	P4.9870	P4.9281
<b>ASSETS, PROPRIETARY CAPITAL &amp; LIABILITIES</b>		
TOTAL ASSETS	1,083,004	1,117,552
UTILITY PLANT	283,252	297,995
ASSETS UNDER CAPITAL LEASE	480,637	505,593
OTHER ASSETS	319,115	313,964
TOTAL PROPRIETARY CAPITAL	179,963	55,648
TOTAL LIABILITIES	903,041	1,061,904



**Once we made our dramatic turnaround in 2005, we knew that we had weathered the storm. Now, we can truly say that we are standing on solid ground.**



## A MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

### OUR ACCOMPLISHMENTS FOR 2007

The National Power Corporation mirrored the solid performance of the Philippine economy in 2007, as it closed the year with an unprecedented net income of P136.07 billion.

Our 2007 bottom-line – which is the highest in our 71-year corporate history -- was P46.07 billion (roughly 51 percent) higher than our 2006 net income of P89.99 billion, and was a complete reversal from our original projection of a P12-billion net loss.

Among the highlights of our exceptional financial performance in 2007 was a higher Net Operating Income (NOI) amounting to P37.56 billion, up by P4.15 billion from the year-ago figure of P33.40 billion. Our interest income also rose by P979.66 million year-on-year, or from P3.25 billion to P4.23 billion, as a result of prudent cash management. Finally, the strong showing of the peso vis-à-vis the US dollar enabled us to realize forex fluctuation gains of P123.66 billion, up by P54.91 billion from the year-ago figure of P68.74 billion.

And while our 2007 net income was indeed impressive, we believe that the more interesting story is how we were able to attain this feat in the face of the daunting challenges that NPC and other key players in the power sector encountered last year. To recall, 2007 was the year when crude prices sky-rocketed from US\$56.68 per barrel as of end-2006 to US\$86.12 per barrel as of end-2007. Similarly, the tight supply of coal saw coal prices shooting up by almost 100 percent year-on-year across coal-producing countries like China (from US\$58 per metric ton to US\$100 per MT), Australia (from US\$49 per MT to US\$87 per MT) and Indonesia (from US\$44 to US\$83).

The situation of spiraling coal and oil prices was aggravated by the series of natural disasters that the country experienced in 2007, including a lingering dry spell that wreaked havoc on farmlands and practically dried up even our trusty hydroelectric power plants in Luzon during the first half of 2007. The dry spell was followed by four super typhoons (Bebeng, Egay, Ineng and Goring) that ravaged the country between July and October.

True to form, your National Power Corporation triumphed over these challenges, as reflected in the following financial and operational indices:

We promptly plowed back to our valued stakeholders the benefits of our improved fiscal position by remitting a total of P1.49 billion in taxes to the local government units (LGUs) where we operate. This consists of P594.35 million in real property taxes; P537.52 million in financial assistance to LGUs; P277.95 million as the LGUs' share in the national wealth; and P82.20 million in franchise taxes. The local taxes we paid in 2007 is roughly 80 percent higher than the P831.12 million we remitted in 2006.

Similarly, we turned over a total of P881.55 million in financial benefits to the communities that host our power plants and other facilities, as prescribed by Energy Regulation 1-94. With the said amount, we were able to energize small barangays; start livelihood projects like poultry-, hog- and cattle-raising initiatives; construct health centers and lying-in clinics; and build helpful footbridges and crucial farm-to-market roads. Our ER 1-94 remittances in 2007 are more than three times higher than the 2006 figure of P268 million, and are exclusive of other remittances that were directly paid by our power plants to the host-communities. We are pleased to report that as of December 2007, our total ER 1-94 remittances since the said directive took effect 13 years ago have already reached P2.24 billion.

In the area of electricity tariff, we continued to work towards reducing our power rates, as we sought to pass on to our customers the benefits of our improved fiscal position. Hence, in 2007, we brought down our effective rates in Luzon by a total of P1.59 per kilowatt-hour (kWh). In the Visayas, we were able to cut down our rates by P0.57 per kWh and in Mindanao, by P0.34 per kWh.

Relatedly, in September 2007, we signed a Memorandum of Agreement with our biggest customer, the Manila Electric Company, to reduce power rates in 10 industrial estates and three special economic zones by more than P1 per kWh. Specifically, NPC and Meralco agreed to lower their generation rate for industries from P4.69 per kWh to a flat rate P3.52 per kWh to enhance their competitiveness and reduce their operating costs.

We continued to fulfill our mandate of missionary electrification as we completed 3,625 kilowatts in new capacity in nine off-grid areas in Cebu, Masbate, Romblon and Surigao Del Norte. We also put up a total of 153.26 circuit-kilometers of 69-kilovolt transmission lines in Catanduanes, Occidental Mindoro and Masbate, as well as a 50-MVA (megavolt-ampere) substation in Calapan, Oriental Mindoro.

The strong showing of the over-all economy, coupled with our competitive rates, boosted our energy sales by 5.77 percent, from 35,534 gigawatt-hours in 2006 to 37,583 gWh. Similarly, our gross generation improved by 3.9 percent year-on-year, or from 39,147 gWh to 40,699 gWh. In terms of generation mix, coal continued to account for the biggest share at 31.37 percent, followed closely by geothermal with a 24.98 percent share. Natural gas and hydro contributed 19.24 percent and 16.34 percent, respectively, to the generation mix.

On the financial front, the year 2007 saw NPC and the Power Sector Assets & Liabilities Management Corporation (PSALM) successfully executing an unprecedented US\$300 million Principal Only Swap (POS) transaction with three international banks. It was the first-ever currency swap to be undertaken by a Government-Owned and -Controlled Corporation in the Philippines, and the longest in terms of time period among such transactions in Southeast Asia. The POS fixes US\$300 million of NPC obligations at an exchange rate of P44.788:US\$1 until they mature in 2028 for a competitive interest premium per annum. The transaction also serves as "liability insurance" as it synthetically transforms four percent of NPC's foreign-denominated debt into Philippine pesos, as envisioned by NPC and PSALM under Phase 1 of their joint Liability Management Program.

Also with PSALM, we made a major breakthrough in our privatization program with the sale of two big-ticket power plants in the early part of 2007: the 600-megawatt (MW) Calaca Coal-Fired Power Plant in Batangas and the 600-MW Masinloc Coal-Fired Power Plant in Zambales. In what is widely considered as the test case for the government's privatization blueprint, Masinloc was sold for US\$930 million to the Masinloc Power Partners Corporation, Ltd., while Calaca fetched US\$786 million and has since been awarded to Holdco Inc.

As in previous years, our power plants continued to reap honors and to bring pride to NPC. For instance, the Leyte Geothermal Power Plant won the Kabalikat Award (Industry Category) of the TESDA (Technical Education & Skills Development Authority), both in the provincial and regional level. The award was given to LGPP in recognition of its outstanding support and contribution to the development of middle-level workers in the country. Meanwhile, our Mak-Ban Geothermal Power Plant was given the ISO (International Organization for Standardization) 9001:2000 certification for Quality Management, making it the latest addition to our growing list of ISO-certified facilities.

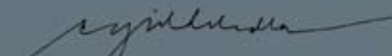
NPC's e-ODPS (Enhanced One-Day Power Sales) program also bagged the Bronze Award (Applications Category) in the 2007 M2M Value Chain Awards. The award was given by the Illinois-based M2M Magazine, which hailed the e-ODPS as "an impressive exercise in customer service".

Finally, on the environment front, NPC was able to significantly cut the gas emissions from its power generation plants by minimizing the use of its oil-based power plants and by sustaining the development of the watersheds under its jurisdiction. Specifically, NPC was able to bring down the emission levels for carbon dioxide, sulfur dioxide, nitric dioxide and carbon monoxide by close to 40 percent since 2003.

Barely three years ago, we were saddled with a net loss of P29 billion. Once we made our dramatic turnaround in 2005, we knew that there would be no looking back for us. We have weathered the storm, and now, we can truly say that we are standing on solid ground.



MARGARITO B. TEVES  
Secretary of Finance  
Chairman, National Power Board



CYRIL C. DEL CALLAR  
President

## OUTLOOK FOR 2008

The year 2008 promises to be a year of challenges for the National Power Corporation. For one thing, the Corporation would have to sustain the exceptional financial performance it had displayed since 2005. Then, too, the Corporation is expected to continue its mandate of supplying the country's electricity requirements even though several of its power plants have already been sold.

Knowing NPC, it will easily rise to these challenges. After all, with 71 years of experience behind it, it can do nothing less.

For 2008, NPC will continue its mandate of missionary electrification. Our Small Power Utilities Group has programmed the addition of 33,900 kilowatts in new capacity in off-grid areas throughout the country. Of this figure, a total of 16,890 kW or roughly 50 percent, will be installed in five provinces where we hope to encourage greater private sector participation, namely Mindoro, Palawan, Romblon, Basilan and Sulu. Outside of these key areas, SPUG will expand the capacity of its generating units in Luzon by 6,360 kW; in the Visayas by 3,420 kW; and in Mindanao by 7,230 kW.

Side by side with this, SPUG will also implement 100.18 kilometers of 138-, 69-, and 13.2-kilovolt transmission line projects in Catanduanes, Occidental Mindoro and Masbate, and 10- and 25-megavolt-ampere substation projects in the same provinces.

As of December 31, 2007, New Power Providers have entered into formal agreements (in the form of either an Energy Supply Agreement or a Power Supply Agreement) in eight of the 14 so-called "first-wave" or priority areas for privatization under SPUG. These are located in Bantayan Island; Oriental Mindoro; Mainland Palawan; Catanduanes; Marinduque; Tablas Island; Romblon; and Masbate. Hence for 2008, NPC will pursue the privatization of SPUG's operations in the six remaining first-wave areas, namely, Occidental Mindoro; Basilan; Jolo, Sulu; Bongao; Tawi-Tawi; Camotes Island; and Siquijor.

As for the privatization of NPC's remaining generation assets, we are confident that 2008 will be a banner year for the government, given the successful sale of two big ticket items (the Masinloc power plant in Zambales and the Calaca power plant in Batangas) in 2007. The Power Sector Assets & Liabilities Management Corporation – which has been tasked to privatize the government's generation and transmission assets – has set the ambitious target of selling at least ten more power plants this year. Based on PSALM's indicative genco sale schedule, the plants that will be placed on the auction block this year are the Bataan Thermal Power Plant in Limay; the Tiwi-MakBan geothermal power plants in Albay and in Laguna, respectively; the Amlan hydroelectric power plant in Negros Oriental; the Limay combined-cycle power plant in Bataan; the Palinpinon Geothermal Power Plant in Negros Oriental; the Panay diesel power plant in Iloilo; the Tongonan geothermal power plant in Leyte; the Bohol diesel power plant in Tagbilaran City; the BacMan geothermal power plant in Sorsogon; the Iligan Diesel 1 and 2 in Dalipuga; the Subic-Zambales Diesel II in Olongapo City; the Aplaya Diesel in Misamis Oriental; and the Gen San diesel power plant in South Cotabato.

As the country's premier power generator, NPC will continue to be in the forefront of the gargantuan task of supplying the Philippines' power requirements. Based on the latest Philippine Energy Plan, peak demand will grow by an average of 4.4 percent in Luzon; 6.1 percent in the Visayas; and 6.5 percent in Mindanao until the year 2014.

For 2008, the Department of Energy has placed system peak in Luzon at 6,783 megawatts in Luzon, still well within the grid's



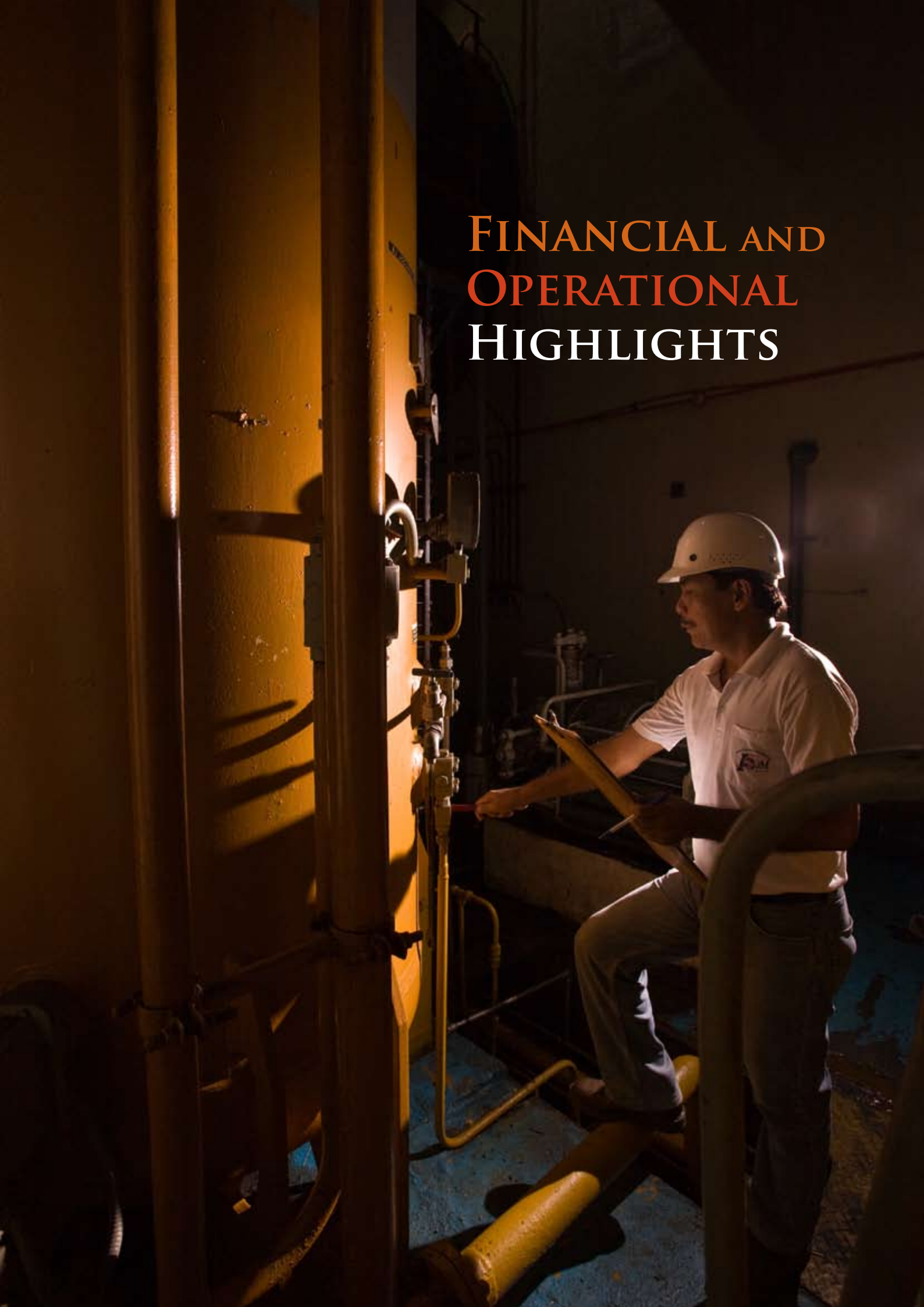
available capacity of 9,240 MW. Similarly, in Mindanao, the available capacity of 1,656 MW is enough to supply the forecast peak demand of 1,322 MW.

It is in the Visayas where we have some cause for concern, as the electricity demand in the grid had outpaced the available supply as early as 2007. According to the PEP, the peak demand in the grid will reach 1,162 MW vis-à-vis the available capacity of 1,277 MW, resulting in very thin power reserves. Admittedly, the completion of such crucial projects as the 200-MW Leyte-Cebu Interconnection Upgrading Project, the commissioning of seven units of the Panay Diesel Power Plant III and the Northern Negros Geothermal Power Plant, has not enabled the Visayas grid to meet the 23.4 percent peak reserve requirements.

When I took over the reins of the Department of Energy in 2007, I vowed to make it one of the most outstanding line agencies of the government. With the exemplary performance of NPC as one of the crucial members of the Energy Family, I have no doubt that this goal will be easily achieved.

HON. ANGELO T. REYES  
Secretary, Department of Energy  
Vice Chairman, National Power Board

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

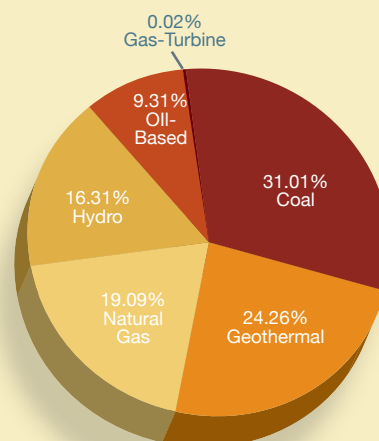




## Generation Mix, in GWh and in percent

The generation mix refers to the proportion of the different fuel types used by NPC in the production of electricity. In 2007, coal continued to account for the biggest chunk of our generation mix at 31.01 percent, followed by geothermal with 24.26 percent. The contribution of the natural gas plants to NPC's total generation stood at 19.09 percent, while the hydroelectric power plants accounted for 16.31 percent of the total generation mix.

	CY2007		CY2006	
	Gwh	%	Gwh	%
<b>Philippines</b>	40,703	100.00	39,147	100.00
Hydro	6,639	16.31	8,865	22.65
Oil-Based	3,790	9.31	3,115	7.96
Geothermal	9,873	24.26	10,094	25.78
Coal	12,623	31.01	11,400	29.12
Gas-Turbine	9	0.02	-	-
Natural Gas	7,769	19.09	5,673	4.49



## Gross Energy Generation by Grid and by Energy Source, in GWh

NPC generated a total of 40,703 gigawatt-hours (GWh) of electricity in 2007, or 4 percent higher than the year-ago level of 39,147 GWh. Of the total generation, 15,716 GWh were produced by NPC-owned and –operated power plants, while the other 24,987 GWh were contributed by NPC plants operated by Independent Power Producers or IPPs.

	CY 2007			CY 2006		
	NPC-Owned	NPC-IPP <sup>1/</sup>	Total	NPC-Owned	NPC-IPP <sup>1/</sup>	Total
<b>By Energy Source:</b>						
<b>Philippines</b>	15,716	24,987	40,703	17,567	21,580	39,147
Oil-based	981	2,809	3,790	832	2,283	3,115
Hydro	4,865	1,774	6,639	6,578	2,287	8,865
Geothermal	5,669	4,204	9,873	5,532	4,562	10,094
Coal	4,201	8,422	12,623	4,625	6,775	11,400
Natural Gas	-	7,769	7,769	-	5,673	5,673
Gas-turbine	-	9	9	-	-	-
<b>By Grid:</b>						
Luzon	8,774	18,051	26,825	10,348	15,705	26,053
Visayas	2,383	3,240	5,623	2,283	3,022	5,305
Mindanao	4,029	3,696	7,725	4,430	2,853	7,283
Small Islands	530	-	530	506	-	506

<sup>1/</sup>Includes all plants operated by independent power producers

## Average Rate, in ₱ per kWh

Despite the spiraling costs of fuel oil and coal, NPC's average rates only went up by a mere P0.05 per kilowatt-hour, or from P4.94 per kWh in 2006 to P4.99 per kWh in 2007. Rates remained cheapest in the Mindanao region, at P2.88 per kWh.

	Effective Rate		Average Rate	
	2007	2006	2007	2006
Luzon	5.82	5.76	5.82	5.75
Visayas	3.68	3.71	3.68	3.70
Mindanao	2.88	2.84	2.88	2.84
Total Main Grid	4.95	4.90	4.95	4.89
Small Island	7.82	7.62	7.82	7.62
<b>TOTAL</b>	<b>4.99</b>	<b>4.94</b>	<b>4.99</b>	<b>4.93</b>

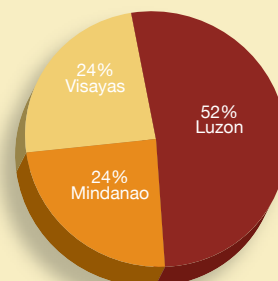


## Summary of Customers

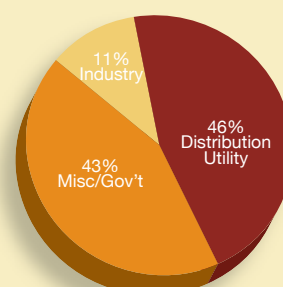
As of December 31, 2007, NPC had a total of 263 customers. Of this figure, 122 or 46 percent were distribution utilities, while another 113 or 43 percent were industrial customers. One hundred thirty-eight or 52 percent of our total customers are located in the Luzon grid.

	DISTRIBUTION UTILITY	INDUSTRY	MISC./ GOV'T.	OVERALL TOTAL
<b>LUZON</b>	58	63	17	138
NORTHERN LUZON	19	9	2	30
CENTRAL LUZON	18	25	7	50
SOUTHERN LUZON	20	29	8	57
METRO MANILA	1	-	-	1
<b>VISAYAS</b>	32	22	8	62
<b>MINDANAO</b>	32	28	3	63
<b>TOTAL</b>	122	113	28	263

By Grid



By Customer Type

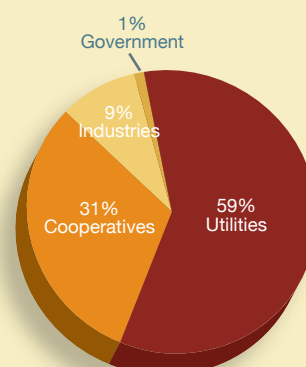


## Energy Sales by Grid and by Customer Type, in MWh

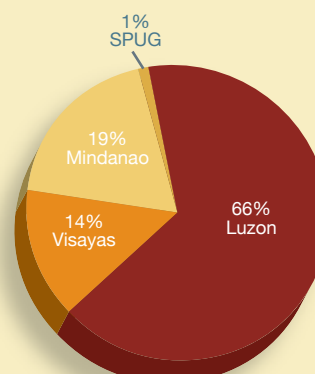
Energy sales by NPC grew by 5.77 percent year-on-year, or from 35,534 GWh in 2006 to 37,583 GWh in 2007. The higher sales were propelled by a stronger electricity demand from distribution utilities, cooperatives and industrial customers due to increased economic activity. Sales also improved across all grids.

	CY 2007	CY 2006
<b>Philippines</b>	37,582,614	35,534,311
Utilities	22,426,716	20,506,610
Cooperatives	11,566,890	11,301,212
Industries	3,327,372	3,456,975
Government	259,621	267,824
Others	2,015	1,690
<b>Luzon</b>	24,683,062	23,249,472
Utilities 1/	18,091,896	16,388,448
Cooperatives	4,840,685	5,002,300
Industries	1,508,661	1,606,445
Government	241,266	251,796
Others	554	483
<b>Visayas</b>	5,212,422	4,933,273
Utilities	1,911,211	1,785,038
Cooperatives	2,719,065	2,499,051
Industries	572,697	641,112
Government	9,439	8,066
Others	10	6
<b>Mindanao</b>	7,183,791	6,870,163
Utilities	2,423,609	2,333,124
Cooperatives	3,503,801	3,318,458
Industries	1,246,014	1,209,418
Government	8,916	7,962
Others	1,451	1,201
<b>SPUG</b>		
Cooperatives	503,339	481,403
1/ Meralco	15,428,584	14,413,236

2007 Energy Sales by Customer Type



2007 Energy Sales by Grid



## Financial Snapshot

The year 2007 posted NPC's best financial performance in a three-year upward trajectory. Effective cost reduction strategies as well as efficient management of finances and operations brought about a further 7.03 percent increase in Net Operating Revenues, recording a three-year high of P187 billion.

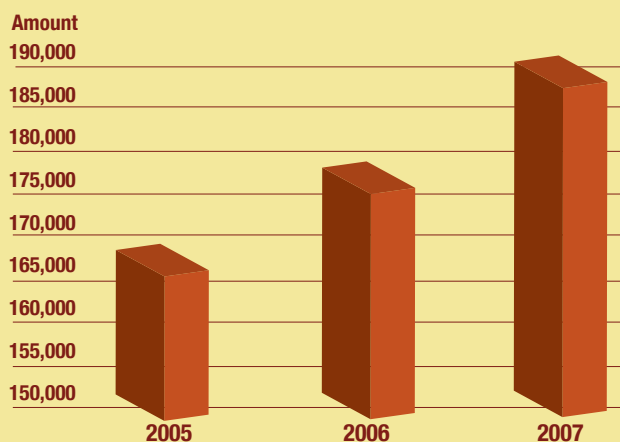
Meanwhile, despite the huge hike in fuel prices in the global market, Operating Expenses remained at manageable levels, increasing only by a marginal 5.7 percent, bringing forth NPC's best Operating Income of P33.4 billion.

The compounded effects of strategies and focused efficient management enabled the company to sustain profitable operations and to post a record three-year high Net Income of P136 billion, 91 percent of which were foreign exchange gains due to a strong peso in 2007.

	2005	2006	2007
Net Operating Revenue	165,443	175,118	187,423
Operating Expenses	143,558	141,716	149,868
Net Operating Income	21,885	33,402	37,555
Net Income	85,993	89,998	136,072

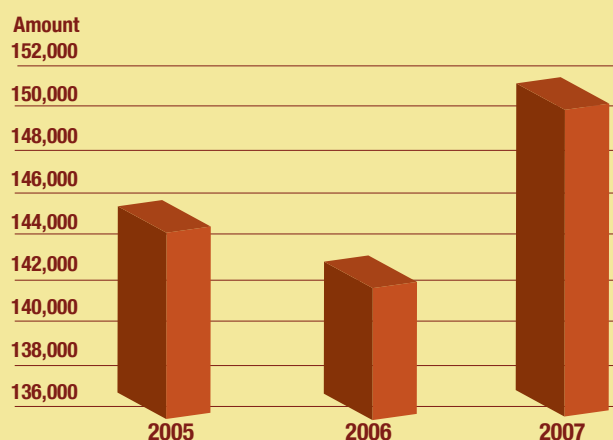
### Net Operating Revenue

(in Million Pesos)



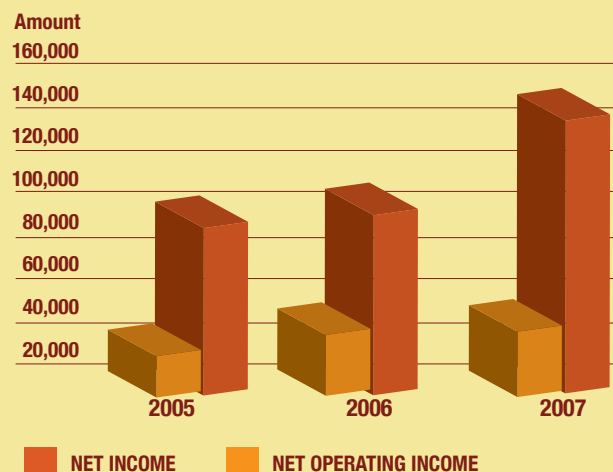
### Operating Expenses

(in Million Pesos)



### Net Income/Net Operating Income

(in Million Pesos)



# 2007 CORPORATE MILESTONES





# 2007 CORPORATE MILESTONES

## JANUARY



The Energy Regulatory Commission (ERC) gives its provisional authority to the Transition Supply Contract (TSC) signed in November 2006 by National Power and the Manila Electric Company, thus protecting the latter's customers against price fluctuations in the Wholesale Electricity Spot Market.

Under the said agreement, NPC guarantees Meralco and its industrial and residential customers an electricity supply of 6,600 gigawatt-hours per year, exclusive of other special programs such as the One-Day Power Sales Program and the Customer Choice Program.

## FEBRUARY



The Bureau of Internal Revenue names National Power Corporation as the top government taxpayer in Quezon City (South) in 2006.

With total internal revenue tax payments of P6.03 billion, NPC made an "invaluable contribution to the task of nation-building" the BIR said.

Among the taxes being paid by the National Power are real property taxes, franchise taxes, and local government taxes representing a Local Government Unit's share in the national wealth. These are paid to LGUs where National Power operates power plants.

## MARCH



NPC starts implementing the 7th GRAM (Generation Rate Adjustment Mechanism) and the 6th ICERA (Incremental Currency Exchange Rate Adjustment) rate adjustments provisionally approved by the ERC. The said adjustments resulted in a combined reduction of P0.0430 per kilowatt-hour (kWh) in Luzon, P0.3151 kWh in the Visayas and P0.0045 per kWh in Mindanao. The downward adjustments were due to higher-than-projected energy sales and to an improved foreign exchange rate.

## APRIL



NPC is given the Bayani Award by the Gawad Kalinga for fielding 60 volunteers to the Gawad Kalinga 1MB Bayani Challenge 2007, which aimed to build houses for victims of typhoon Reming in the Bicol Region. NPC was the only government agency, and the biggest contingent to the GK Bayani Challenge, which was held last April 9 to 13. With four teams of 15 members each, the NPC employees were able to build four houses for typhoon victims in Marinduque – two in Bgy. Banuyo in Gasan, and the other two, in Bgy. Poblacion 1 in Buenavista.

## MAY



NPC and the Metropolitan Manila Development Authority join hands to transform NPC's former MMRC (Metro Manila Regional Center) office in Port Area, Manila into the first-ever Gwapotel: Tulugan sa Bayan in the country. Designed to be a low-cost lodging place for urban and transient workers, the Gwapotel is equipped with 400 sturdy "double-deck" beds, coin-operated shower stalls, a modest lounge where guests can watch television, and a study area for working students. A 10-hour stay in the workers' inn costs only P25, affordable enough for the sidewalk vendors, traders, and construction workers who are employed in Metro Manila but who live in the suburbs or in the provinces.



- NPC deploys the 32-megawatt Power Barge (PB) 101 to Iloilo City, to address the growing electricity requirements of the city and of the rest of Panay Island. Moored in La Paz, PB 101 now operates side by side its "sister" barge, the 32-MW PB 102.
- NPC joins hands with the National Transmission Corporation, Manila Electric Company, and the National Electrification Administration in ensuring that there is sufficient power supply during the May 14 senatorial and local elections. Under the leadership of the Department of Energy, the 2007 Task Force Halalan was able to keep Election Day brownout-free. The Task Force was subsequently commended by then Energy Secretary Raphael P.M. Lotilla for a job well done.



## JUNE



NPC and Meralco sign a Memorandum of Agreement (MoA) allowing the Lopez-owned utility to continue availing of NPC's One-Day Power Sales Program (ODPS) while the Implementing Rules and Regulations (IRR) of the Enhanced One-Day Power Sales Program (e-ODPS) are being fine-tuned.

Under the MoA, NPC will send Meralco the week-ahead minimum price of the electricity supply available through the ODPS every Wednesday. This is an improvement over the old system, where NPC gave Meralco the firm ODPS floor price two weeks in advance. For its part, Meralco will submit to NPC the aggregate bids of its 36 embedded industrial customers (or those operating within the Meralco franchise) every Friday.

## JULY



NPC's e-ODPS (Enhanced One-Day Power Sales) program bags the Bronze Award (Applications Category) in the 2007 M2M Value Chain Awards. The award was given by the Illinois-based M2M Magazine, which hailed the e-ODPS as "an impressive exercise in customer service". Sharing the award with NPC is ePLDT, the IT subsidiary of the Philippine Long Distance Telephone Company, which developed the system for the e-ODPS.



- The 600-megawatt Masinloc Coal-Fired Thermal Power Plant is successfully bid out by the Power Sector Assets & Liabilities Management Corporation. Based on the results of the said bidding, Masinloc was eventually sold to the Masinloc – Power Partners Co. Ltd. for US\$930 million. As the first big-ticket power plant to be sold by PSALM, the sale of Masinloc is considered to be the test case for the government's privatization blueprint, and is expected to pave the way for the eventual privatization of NPC's other generation

## SEPTEMBER



The Leyte Geothermal Power Plant (LGPP) bags the 2007 Kabalikat Award (Industry Category), both in the Regional and Provincial Levels. Given by the Technical Education & Skills Development Authority (TESDA), the Kabalikat Awards honor TESDA's outstanding partners in the promotion and enhancement of its Technical Vocational Education and Training programs. Considered to be one of NPC's most-awarded power plants, LGPP also received the 2006 Asian Electricity Award for Best Asian Electricity Project in the Philippines, and made history when it became the first-ever power plant in the country to secure an ISO 9002:1994 for Quality Management Systems in 1997.



- NPC and Meralco sign a Memorandum of Agreement (MOA) to reduce power rates in 10 industrial estates and three special economic zones by more than P1 per kilowatt-hour (kWh), or from P4.69 per kWh to a flat rate of P3.52 per kWh. Covered by the MOA are some industrial estates operating within the Meralco franchise area, namely, Gateway Business Park; Laguna Technopark; Calamba Premier Industrial Park; Carmelray Premier Industrial Park I; First Philippine Industrial Park; Laguna Industrial Park; Light Industry Science Park land II; Food Terminal Inc., and First Cavite Industrial Estate. The three ecozones on the other hand are Amkor Anam Economic Zone; SCG, and MacroAsia Ecozone.

## NOVEMBER



For the third straight year, respected business publication BusinessWorld names NPC as the country's biggest corporation in terms of gross revenues and net income. With a topline of P266.587 billion and a net income of P89.999 billion in 2006, NPC bested Petron Corporation and the Manila Electric Company (in terms of gross revenues), and Philippine Long Distance Telephone Company and Smart Communication in terms of net income, according to BW's list of the Philippines' Top 1,000 Corporations. NPC also placed third in terms of net sales, after Petron and Meralco.

## OCTOBER



The Makiling-Banahaw (Mak-Ban) Geothermal Power Plant secures its ISO 9001:2000 certification, thus becoming the latest addition to NPC's prestigious roster of ISO-certified power plants. The certification was formally conferred to the 442-megawatt power plant by the ISO-certifying agency of AJA Registrars, Inc. last October 17.





**The incredible thing about Nanay Sita's 52-year existence is that she had never experienced what it's like to have electricity in her house until just a few months ago. Or more to the point, until a P7 Million electrification project funded through the Energy Regulation 1-94 remittances of NPC's Angat Hydroelectric Power Plant was completed in DRT last September 2007.**

# Energy Regula

## Touching Lives, Trans

**A**t the northernmost part of Bulacan lies the Municipality of Doña Remedios Trinidad (DRT) – the youngest and yet the largest in terms of land area among the 22 municipalities of the province. As a brief background, DRT was created by the late President Ferdinand Marcos in honor of his mother-in-law, Doña Remedios Trinidad. Because of its distant location and mountainous terrain, DRT is understandably classified as a second-class rural municipality.

Living in this highland municipality for 52 years now is Mrs. Teresita Leporada (or *Nanay Sita*, as she is called) a *Kagawad* at Sitio Duplas, Brgy. Kalawakan. The incredible thing about Nanay Sita's 52-year existence is that she had never experienced what it's like to have electricity in her house until just a few months ago. Or more to the point, until a P7-Million electrification project funded through the Energy Regulation 1-94 remittances of NPC's Angat Hydroelectric Power Plant was completed in DRT last September 2007.

All her life, Nanay Sita got by with just using an improvised torch for light. In fact, when she was just a kid, she would wake up in the morning with the tip of her nose blackened with soot from the smoke of the torch which she and her siblings used to study at night.

*"Pati itong mga anak at apo ko ay yun na rin ang dinanas,"* Nanay Sita said. Without electricity and approximately 30 kilometers away from the nearest urban center, Nanay Sita and her family, like the other DRT residents, lived as if they were disconnected or isolated from the rest of the world.

*"Nung makaraos na kami nang kaunti, nagkaroon na kami nung de-bateryang TV,"* Nanay Sita recalls. With this battery-operated TV, *Nanay Sita* and her nine children were happy just to be able to watch one TV show a day, sometimes at noon or at night.

But more than their TV-viewing habits changed when the NPC electrification project came.

*"Isang malaking tulong talaga ito, lalo na sa kabuhayan namin,"* said Nanay Sita, whose family makes a living by shredding bamboo canes. From the forest, her sons would gather a rare kind of bamboo called *"bukawe"*, while she and her daughters took charge of the shredding. Their finished products, bamboo shreds called *"lapat,"* are then delivered to the nearest market (estimated to be around 30 kms away) where workers would craft them into *abanikos* (folding fans), *bilaos* (winnowing baskets), and *banigs* (mats). The *lapats* are also sold to farmers who use them to tie plant seedlings.

With regular power supply, their family income has dramatically improved. *"Dati, kumikita lang kami ng isang libo (P1,000) sa isang buwan. Pero ngayon, kumikita na kami nang isang libo sa sampung araw para sa isang daang bungkos ng lapat na nagagawa namin,"* Nanay Sita proudly said. This improvement in their income became possible because, with electricity, they now have extra hours to shred the bamboos. Their efficiency in shredding the bamboo even during the nighttime has also improved.

Nanay Sita and her family are also now more in touch with the world. With their 21-inch, second-hand Aiwa TV, they can now watch not only their favorite telenovelas and sitcoms but also the daily news. As for her battery-operated TV, she has long sold it to a "neighbor" whose house was too far away to be connected to the electric posts that were built as part of the electrification project. *"Wala na yung lumang TV ko, binili na nung kapitbahay ko dooooooon,"* she says, gesturing to a distant hut that can barely be seen from her house. *"Hindi kasi siya makapagpakabit ng kuryente kasi masyadong malayo yung bahay niya dito sa mga poste. Eh, wala din naman siyang pambayad nung additional para sa koneksyon. Pinalitan na lang nga niya ng 20 sako ng uling yung TV."*

Today, Nanay Sita is a changed person, with a new life where day-to-day activities have been made faster, easier, and happier, by something that most of us take for granted – electricity. And she has something else to smile about – her very first electric bill, which she received last February, came to only P122.00.



# tion 1-94: forming People

Josie Santiago, a 36-year-old housewife and mother living in Angat, Bulacan had always dreaded giving birth. For one thing, the two nearest hospitals to Angat are 18 and 25 kilometers away. Also, her husband only earns a meager allowance of P1,000 per month working as a barangay tanod. Josie has therefore resigned herself to the fact that she will never be able to afford to give birth in a regular hospital, where she can be assured that a doctor will take care of her and her baby. *"Gustuhin ko mang magpa-ospital, eh wala naman kaming pera,"* Josie said, adding that she only experienced giving birth in a hospital with her first child, while babies #2 to #6 were born at home.

Thanks to the ER (Energy Regulation) 1-94 remittances of NPC's Angat Hydroelectric Power Plant, Josie's seventh child was born at the bigger and better Angat Municipal Health Center, which NPC built at a cost of P2.8 million. With the Health Center sporting a bigger ward and an improved delivery room, Josie and her baby were able to escape the risks associated with a home delivery, like infections due to the absence of the proper medical facilities and poor sanitation.

*"Maayos naman ang naging panganganak ko," she recalls happily. "Nandoon din yung mga nurses tsaka si Doc Emma para tulungan ako."*

Doc Emma is Dr. Guillerma A. Bartolome, the Municipal Health Officer of Angat, who relates that the newly-renovated Health Center now has a record of about six Normal Spontaneous Deliveries (NSD) per month, a marked improvement over the previous 0-2 NSDs per month. And where previously, the Health Center would allow a mother and her newborn baby to go home right after delivery, now it can accommodate patients for confinement, she adds.

Health services had also expanded, with the Center accommodating an average of 1,200 consultations every month – anything from child immunization to childbirth and, sometimes, even emergency cases like strokes. "People now come to the health center more often since they know they can be well-accommodated," says Dr. Abigail Macaraeg, the Health Center's Municipal Dentist. "Even the well-off ones come to visit and avail of our services."

Because of the spanking-new facilities, Doc Emma relates that the Health Center is now often mistaken for a real hospital by Angat residents. "People seem to think that our Health Center has been transformed into a hospital, because of the new two-storey building and the four ambulance services parked outside. As a result, sometimes serious cases would be brought here, like patients experiencing strokes. Since we don't have the proper equipment for serious cases like these, we just facilitated the patient's transport to the nearest hospital using our ambulance services," she said.

The Angat Health Center has indeed come a long way because of ER 1-94. Gone is the old, dilapidated and cramped one-storey building that was first built in 1952, and in its place is a Health Center that is operated 24/7 by a strong and motivated staff of nurses, and doctors, and where Angat residents can confidently run to in case of emergency.



**The Angat Health Center has indeed come a long way because of ER 1-94. Gone is the old, dilapidated and cramped one-storey building that was first built in 1952, and in its place is a Health Center that is operated 24/7 by a strong and motivated staff of nurses, and doctors, and where Angat residents can confidently run to in case of emergency.**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue  
Quezon City, Philippines

## STATE AUDITOR'S REPORT

The Board of Directors  
National Power Corporation  
Diliman, Quezon City

We have audited the accompanying financial statements of the National Power Corporation which comprise the balance sheet as of December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### Opinion

There were abnormal balances and unidentified items amounting to P6.817 billion and P2.824 billion, respectively, in various asset and liability account balances. Abnormal balances are details of amounts in the subsidiary ledgers that contradict the normal balance of the account, while unidentified items pertain to details in the subsidiary ledgers that lack necessary information to ascertain the validity of the recorded transactions such as work order reference in case of projects or name of claimants in case of payables.

We also noted variances between the balance per books and balance per count totaling P1.409 billion of Assets held In Trust by NPC-Independent Power Producers and MSE for Operations and Project Construction. The variances were mainly due to booking discrepancies arising from late recording of receipts and issuances.

There were also non-moving balances in the Materials, Supplies and Equipment (MSE) in Transit account totaling P810.474 million which is more than fifty (50%) of the balance of the account. The account is used to record cost of imported MSE purchased and paid for but not yet received at the time payment, the in transit items should have been received after about six (6) months. It was noted that the main cause of the balances is the delay in the recording of receiving reports.

In our opinion, except for the effects on the various assets, liabilities and related accounts of the matters discussed in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial position of the National Power Corporation as of December 31, 2007 and its financial performance and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

**SABINIANO G. CABATUAN**  
Director IV

May 30, 2008

## FINANCIAL RATIOS

	2007	2006
<b>I. Measures of Profitability (%)</b>		
1.1 Net income to net operating revenue	72.60	51.39
1.2 Net income to net worth	115.51	525.74
1.3 Net income to total assets	12.37	8.20
1.4 Net income to rate base		
a. World Bank Formula	53.61	32.94
b. NPC Charter	50.01	31.02
1.5 Return on rate base		
a. World Bank Formula	14.80	12.22
b. NPC Charter	13.80	11.51
1.6 Net income to invested capital (earning on capital invested by long-term investor)	15.02	9.45
1.7 Net income to government equity	503.06	332.73
<b>II. Measures of Assets Use</b>		
2.1 Assets turnover (revenue generated by total assets)	0.17	0.16
2.2 Receivable turnover (risk of loss from uncollected accts.)	1.82	1.57
2.3 Inventory turnover (higher turnover indicates smaller investment requirements)	7.27	7.24
2.4 Fixed assets turnover ( revenue generated by net utility plant assets)	0.25	0.22
<b>III. Measures of Liquidity</b>		
3.11 Current ratio (including current portion of LTD & BOT)	1.21	1.27
3.12 Current ratio (excluding current portion of LTD & BOT)	1.67	1.93
3.21 Quick ratio (including current portion of LTD & BOT)	1.01	1.12
3.22 Quick ratio (excluding current portion of LTD & BOT)	1.40	1.70
3.3 Days sales in receivables collection period	197	230
3.4 Days funds held in stock	49	50
<b>IV. Measure of Use of Debt</b>		
4.1 Debt to equity ratio	83:100	95:100
<b>V. Measures of Long-term Financial Risks</b>		
5.1 Interest coverage	8.02	5.44
<b>VI. Measures of Long-term Financial Position</b>		
6.1 Fixed assets to long-term liabilities	1.06	0.90
6.2 Fixed assets to total proprietary capital	4.11	14.11
6.3 Fixed assets to total assets	0.67	0.71

**CONSOLIDATED BALANCE SHEET**

	Notes	2007	2006	Increase/(Decrease)
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Utility Plant - net	3a,3b & 4	256,403,127,535	275,424,527,779	(19,021,400,244)
Construction Work in Progress	5	27,398,580,511	22,888,840,140	4,509,740,371
Electric Plant under Capital Lease	6	480,636,623,204	505,592,982,684	(24,956,359,480)
Investment in Government and Other Corporation	7	8,352,303	9,860,922	(1,508,619)
Non-Utility Property - net	8	3,181,251,762	3,901,163,390	(719,911,628)
Non-Current Receivables - net	9	5,886,553,893	5,506,804,761	379,749,132
Deferred Charges	18	25,408,865,125	28,937,257,671	(3,528,392,546)
Contingent Assets	19	1,882,888,302	1,883,061,869	(173,567)
Other Non-Current Assets	10	74,344,361,084	71,061,960,325	3,282,400,759
<b>Total Non-Current Assets</b>		<b>875,150,603,719</b>	<b>915,206,459,541</b>	<b>(40,055,855,822)</b>
<b>Current Assets</b>				
Cash and Cash Equivalents	11	39,494,920,284	33,565,017,206	5,929,903,078
Power Customers Receivables - net	12	93,357,392,452	112,236,127,258	(18,878,734,806)
Other Receivables - net	13	41,132,870,571	32,725,169,437	8,407,701,134
Materials and Supplies for Operation	14	21,005,287,011	20,200,154,159	805,132,852
Advances	15	10,155,565,607	1,523,380,666	8,632,184,941
Prepayments	16	905,464,422	883,437,284	22,027,138
Court & Other Deposits	17	1,796,137,949	1,206,791,586	589,346,363
Cash Advances - Officers and Employees		6,656,891	5,528,511	1,128,380
<b>Total Current Assets</b>		<b>207,854,295,187</b>	<b>202,345,606,107</b>	<b>5,508,689,080</b>
<b>TOTAL ASSETS</b>		<b>1,083,004,898,906</b>	<b>1,117,552,065,648</b>	<b>(34,547,166,742)</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>		<b>179,963,354,954</b>	<b>55,647,722,392</b>	<b>124,315,632,562</b>
<b>Non-Current Liabilities</b>				
Long Term Debts (Net of Current Portion)	22	306,411,606,206	360,645,271,496	(54,233,665,290)
Lease Obligation - BOT	23	419,648,722,643	536,109,753,841	(116,461,031,198)
Deferred Credits	25	5,357,283,641	5,353,419,384	3,864,257
<b>Total Non-Current Liabilities</b>		<b>731,417,612,490</b>	<b>902,108,444,721</b>	<b>(170,690,832,231)</b>
<b>Current Liabilities</b>				
Accounts Payable and Accrued Expenses		111,198,060,306	91,648,992,046	19,549,068,260
Retention on Contract Payments		1,102,152,332	834,840,408	267,311,924
Deposits and Trust Funds	24	430,548,818	365,909,492	64,639,326
Dividends Payable		30,215,838	30,215,838	0
Lease Payable	23	33,479,044,865	38,919,821,896	(5,440,777,031)
Interest Payable		11,385,660,878	12,121,739,595	(736,078,717)
Current Portion of Long-Term Debts	22	13,998,248,425	15,874,379,260	(1,876,130,835)
<b>Total Current Liabilities</b>		<b>171,623,931,462</b>	<b>159,795,898,535</b>	<b>11,828,032,927</b>
<b>TOTAL EQUITY and LIABILITIES</b>		<b>1,083,004,898,906</b>	<b>1,117,552,065,648</b>	<b>(34,547,166,742)</b>

See accompanying Notes to Financial Statements.



## CONSOLIDATED INCOME STATEMENT

	Notes	2007	2006	Increase/(Decrease)
<b>OPERATING REVENUE</b>				
Utility Operating Income		144,764,097,861	136,721,314,294	8,042,783,567
Transmission Services Operating Income		33,699,312,365	29,568,486,671	4,130,825,694
Ancillary Service Charges		18,341,100,179	17,161,992,493	1,179,107,686
Universal Charge		1,340,006,757	1,340,000,866	5,891
Other Demand Energy Adjustment Income		(8,141,724,705)	(6,631,638,390)	(1,510,086,315)
Fuel Cost Adjustment Income		-	(310,867,698)	310,867,698
FOREX Adjustment	30	-	(6,178,133)	6,178,133
<b>Total Operating Revenues</b>		<b>190,002,792,457</b>	<b>177,843,110,103</b>	<b>12,159,682,354</b>
Power Factor Adjustment Income		(1,331,003,016)	(1,575,710,703)	244,707,687
Prompt Payment Discount		(1,170,461,874)	(1,149,516,903)	(20,944,971)
Voltage Discount		(78,259,995)	-	(78,259,995)
<b>Net Operating Revenues</b>	<b>26</b>	<b>187,423,067,572</b>	<b>175,117,882,497</b>	<b>12,305,185,075</b>
<b>OPERATING EXPENSES</b>				
Generation		100,955,598,140	94,799,293,909	6,156,304,231
Amortization of Electric Plant Under Capital Lease	28	25,112,713,083	24,263,326,881	849,386,202
Depreciation and Depletion	3a & 3b	14,143,598,455	15,195,996,981	(1,052,398,526)
Transmission and Distribution		3,001,981,096	2,671,934,479	330,046,617
Administrative and General Expenses		2,942,638,465	2,162,267,662	780,370,803
Bad Debts	3f	907,074,693	799,854,163	107,220,530
Other Operating Expenses	27	2,804,293,824	1,823,652,217	980,641,607
<b>Total Operating Expenses</b>		<b>149,867,897,756</b>	<b>141,716,326,292</b>	<b>8,151,571,464</b>
<b>OPERATING INCOME</b>		<b>37,555,169,816</b>	<b>33,401,556,205</b>	<b>4,153,613,611</b>
<b>OTHER INCOME</b>				
Gain on FOREX Fluctuation	29	123,657,432,658	68,743,643,281	54,913,789,377
Interest Income		4,231,273,544	3,251,610,063	979,663,481
FOREX Recovery	30	532,342,339	1,536,253,906	(1,003,911,567)
Gain on Diesel/Fuel Transfer		38,940,336	8,826,017	30,114,319
Gain on Retirement of Asset	31	31,951,139	6,371,783,087	(6,339,831,948)
Miscellaneous Income	32	450,191,989	1,883,419,254	(1,433,227,265)
<b>Total Other Income</b>		<b>128,942,132,005</b>	<b>81,795,535,608</b>	<b>47,146,596,397</b>
<b>INTEREST AND OTHER CHARGES</b>				
Interest Expense		19,390,664,253	20,279,499,386	(888,835,133)
Finance & Other Bank Charges		2,146,559,429	2,171,042,601	(24,483,172)
Depreciation-Other Plants/Property		1,726,030,561	1,758,757,305	(32,726,744)
Privatization & Subsidiarization Expense		7,628,653	3,187,902	4,440,751
Miscellaneous Expenses	33	503,588,543	986,036,494	(482,447,951)
<b>Total Interest and Other Charges</b>		<b>23,774,471,439</b>	<b>25,198,523,688</b>	<b>(1,424,052,249)</b>
<b>NET INCOME BEFORE TAX</b>		<b>142,722,830,382</b>	<b>89,998,568,125</b>	<b>52,724,262,257</b>
Income Tax Expense		6,650,915,050	-	6,650,915,050
<b>NET INCOME</b>		<b>136,071,915,332</b>	<b>89,998,568,125</b>	<b>46,073,347,207</b>

See accompanying Notes to Financial Statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	2007	2006	Increase/(Decrease)
<b>CAPITAL STOCK P100 par value</b>				
Authorized P50,000,000,000 divided into 500,000,000 shares Issued 270,488,708				
Balance, Beginning		27,048,870,789	27,048,870,789	0
Additions/Adjustments		-	0	0
<b>Balance, End</b>		<b>27,048,870,789</b>	<b>27,048,870,789</b>	<b>0</b>
<b>DONATED CAPITAL</b>				
Balance, Beginning	20	4,021,996,948	4,021,996,948	0
Additions/Adjustments		-	0	0
<b>Balance, End</b>		<b>4,021,996,948</b>	<b>4,021,996,948</b>	<b>0</b>
<b>RETAINED EARNINGS (DEFICIT)</b>				
Balance, Beginning	21	(118,020,243,912)	(198,154,400,405)	80,134,156,493
Net Income		136,071,915,332	89,998,568,125	46,073,347,207
Revaluation Surplus of Sold NPC & TransCo Assets		3,402,259,347	-	3,402,259,347
Correction of Prior Year's Income		(7,141,259,184)	(7,264,411,632)	123,152,448
Cash Dividend		-	(2,600,000,000)	2,600,000,000
<b>Balance, End</b>		<b>14,312,671,583</b>	<b>(118,020,243,912)</b>	<b>132,332,915,495</b>
<b>APPRAISAL CAPITAL</b>				
Balance, Beginning		140,714,036,698	143,789,793,313	(3,075,756,615)
Adjustments		(8,017,109,366)	(3,075,756,615)	(4,941,352,751)
<b>Balance, End</b>		<b>132,696,927,332</b>	<b>140,714,036,698</b>	<b>(8,017,109,366)</b>
<b>CONTINGENT SURPLUS</b>				
Balance, Beginning		1,883,061,869	1,883,061,869	0
Adjustments		(173,567)	-	(173,567)
<b>Balance, End</b>		<b>1,882,888,302</b>	<b>1,883,061,869</b>	<b>(173,567)</b>
<b>EQUITY</b>		<b>179,963,354,954</b>	<b>55,647,722,392</b>	<b>124,315,632,562</b>

See accompanying Notes to Financial Statements.

# CONSOLIDATED CASH FLOW STATEMENT

	2007	2006	Increase/(Decrease)
<b>Cash Flows from Operating Activities</b>			
<b>Cash Inflows</b>			
Cash Collected from Power Customers	208,769,844,905	184,181,257,045	24,588,587,860
Interest and Dividends Received	1,183,916,870	1,144,507,231	39,409,639
Cash Collected from Other Receivables	1,028,543,073	1,160,114,654	(131,571,581)
Cash Collected (Refund) from Deposits and Trust Funds	99,184,040	82,019,904	17,164,136
<b>Total Cash Inflows</b>	<b>211,081,488,888</b>	<b>186,567,898,834</b>	<b>24,513,590,054</b>
<b>Cash Outflows</b>			
Purchased Power Cost	41,261,038,571	41,410,826,529	(149,787,958)
Fuel Oil	19,452,399,091	14,690,774,260	4,761,624,831
Coal	13,942,378,943	13,714,498,062	227,880,881
Natural Gas	12,917,498,713	10,925,054,926	1,992,443,787
Steam	9,450,321,844	10,658,535,123	(1,208,213,279)
Deposits and Other Advances	8,622,314,147	209,893,919	8,412,420,228
Income Tax Including Surcharges, Interest & Compromise Penalty	7,371,801,158	-	7,371,801,158
Statutory Remittances	5,759,508,695	7,437,267,668	(1,677,758,973)
Personnel Cost	3,331,410,284	3,177,281,449	154,128,835
Financial Assistance	865,559,114	245,105,003	620,454,111
Share in the National Wealth	258,655,138	277,365,105	(18,709,967)
Taxes and Duties	120,430,762	111,132,393	9,298,369
Realty Tax	63,912,594	52,267,657	11,644,937
Franchise Tax	38,128,934	-	38,128,934
Interest	961,232	764,137	197,095
Other Operating Expenses	6,791,138,435	5,692,911,245	1,098,227,190
Other Expenses	302,545,506	1,583,270,284	(1,280,724,778)
<b>Total Cash Outflows</b>	<b>130,550,003,161</b>	<b>110,186,947,760</b>	<b>20,363,055,401</b>
<b>Net Cash from Operating Activities</b>	<b>80,531,485,727</b>	<b>76,380,951,074</b>	<b>4,150,534,653</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Interest Received on Investment	775,863,033	468,254,855	307,608,178
Proceeds from Sale of Assets	68,075,585	16,655,720	51,419,865
<b>Total Cash Inflows</b>	<b>843,938,618</b>	<b>484,910,575</b>	<b>359,028,043</b>
<b>Cash Outflows</b>			
Capital Expenditures	6,475,123,955	6,045,866,034	429,257,921
Purchase of General Equipment	709,140,698	711,332,253	(2,191,555)
Interest Paid on Loans for PMEC & Other Transmission Projects	10,578,088	13,825,860	(3,247,772)
<b>Total Cash Outflows</b>	<b>7,194,842,741</b>	<b>6,771,024,147</b>	<b>423,818,594</b>
<b>Net Cash Used in Investing Activities</b>	<b>(6,350,904,123)</b>	<b>(6,286,113,572)</b>	<b>(64,790,551)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Advances from the National Government	2,559,771,027	-	2,559,771,027
Collection From PEMC	7,756,186	-	7,756,186
Transfer from Restricted to Current Cash Account	467,659,158	720,430,039	(252,770,881)
Bond Flotation	-	34,910,065,000	(34,910,065,000)
Borrowings	-	98,562,597	(98,562,597)
<b>Total Cash Inflows</b>	<b>3,035,186,371</b>	<b>35,729,057,636</b>	<b>(32,693,871,265)</b>
<b>Cash Outflows</b>			
Payment of Dividends to Bureau of Treasury	-	2,600,000,000	(2,600,000,000)
Payment of Capacity Fees - BOT	32,275,549,837	34,186,179,698	(1,910,629,861)
Payment of Advances to Bureau of Treasury	1,317,766,839	2,196,000,000	(878,233,161)
Payment of Loans	14,453,481,331	16,418,153,458	(1,964,672,127)
Payment of Bonds	1,148,116,875	2,000,000,000	(851,883,125)
Payment of KEPCO Deposit	412,975,000	455,985,000	(43,010,000)
Payment of Guarantee Fees/Commitment Fees	6,936,888,121	70,373,682	6,866,514,439
Advances to SRMPP Non Power Components	183,948,378	601,948,179	(417,999,801)
Advances to PEMC	440,929	-	440,929
Transfer from Current to Restricted Cash Account	8,698,025	20,185,183,830	(20,176,485,805)
Interest Paid on Loans	14,352,978,521	13,647,401,561	705,576,960
<b>Total Cash Outflows</b>	<b>71,090,843,856</b>	<b>92,361,225,408</b>	<b>(21,270,381,552)</b>
<b>Net Cash Used in Financing Activities</b>	<b>(68,055,657,485)</b>	<b>(56,632,167,772)</b>	<b>(11,423,489,713)</b>
<b>Net Increase(Decrease) in Cash &amp; Cash Equivalents</b>	<b>6,124,924,119</b>	<b>13,462,669,730</b>	<b>(7,337,745,611)</b>
Effects of Foreign Exchange Rate Changes on Cash & Cash Equivalents	(195,021,041)	(87,509,800)	(107,511,241)
Cash & Cash Equivalents, Beginning of the Year	33,565,017,206	20,189,857,276	13,375,159,930
<b>Cash &amp; Cash Equivalents, End of the Year</b>	<b>39,494,920,284</b>	<b>33,565,017,206</b>	<b>5,929,903,078</b>

# NOTES TO FINANCIAL STATEMENTS

## 1. GENERAL

The National Power Corporation (NPC), a government-owned and controlled corporation, was created under Commonwealth Act No. 120 on November 3, 1936. Its Charter was then revised by virtue of Republic Act (R.A.) No. 6395, as amended.

**Primary Function** – Section 1 of its Charter provides that the corporation has the following declared policy: (1) the comprehensive development, utilization and conservation of Philippine water resources for all beneficial uses, including power generation; and (2) total electrification of the Philippines through the development of power from all sources to meet the needs of industrial development and dispersal and the needs of rural electrification are primary objectives of the nation which shall be pursued coordinately and supported by all instrumentalities and agencies of the government, including its financial institutions.

**Non-profit Character of the Corporation** – Section 13 of its Charter provides that *"the corporation shall be non-profit and shall devote all its returns from its capital investment as well as excess revenues from its operation, for expansion. To enable the corporation to pay its indebtedness and obligations and in furtherance and effective implementation of the policy enunciated in Section One of this Act, the Corporation, including its subsidiaries, is hereby declared exempt from the payment of all forms of taxes, duties, fees, imposts as well as costs and service fees including filing fees, appeal bonds, supersedeas bonds, in any court or administrative proceedings."* While NPC was subjected to VAT under Republic Act (R.A.) No. 9337, which took effect November 2005, its non-profit character and exemption from all other taxes including income tax under the Charter as affirmed by the Department of Finance's Ruling dated 20 January 2000, has not been affected. Moreover, the Corporation continuously performs its essential governmental function.

### The EPIRA Law

The Republic Act No. 9136 – Electric Power Industry Reform Act of 2001 was enacted to institute reforms in the electric power industry and provide a framework for the restructuring of the electric power industry, including the privatization of the generation assets, real estate, and other disposable assets as well as Independent Power Producer (IPP) contracts of NPC. Under this act, NPC shall remain as a National Government Owned and Controlled Corporation to perform the missionary electrification function through the Small Power Utilities Group (SPUG).

#### • National Transmission Corporation (TransCo)

Under Section 8 of the Act, TransCo was created to assume the authority and responsibility of NPC for planning, construction and centralized operation of and maintenance of its high voltage transmission facilities, including grid interconnections and ancillary services.

#### • Power Sector Assets and Liabilities Management (PSALM) Corporation

PSALM was created under Section 49 and 50 of the EPIRA Law to take ownership and manage the orderly sale, disposition, and privatization of all existing NPC generation assets, liabilities, IPP contracts real estate and all other disposable assets with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner.

#### • Full Powers

Before NPC's assets and Liabilities can be effectively transferred to PSALM, the creditors consent must be sought first.

Nonetheless, pending the actual transfer of the assets and liabilities to PSALM, the need to assume immediately certain functions which are being undertaken by NPC not only to ensure a smooth transition to PSALM of the performance of the functions once the creditors consents have been secured, but more importantly allow PSALM to make key decisions and develop and execute major plans relating to such functions, has given the way for the approval of the "FULL POWERS" by the PSALM Board on April 30, 2003 and by NPC Board on May 14, 2003 per Board Resolution No. 2003-60.

Some of the functions of NPC assumed by PSALM under the FULL POWERS are as follows:

- Loans Administration and Management & Treasury Planning
- Risk Management
- Controllershship Functions related to Fixed Assets and Loans Management. This function is inclusive of the Accounting, Pre-audit, Utilization and Debt Service of loans, analysis and reconciliation of related accounts, preparation of reports, updating of asset registry, approval and signing of all documents necessary to discharge the Controllershship functions assumed and all other functions in relation to the services assumed by PSALM under the Full Powers.
- Financial Planning and Information Systems related to Fixed Assets and Loans
- Universal Levy and Tariff
- Asset Management
- IPP Contract Management

## 2. STATUS OF OPERATION

### KEY ACCOMPLISHMENTS FOR 2007

#### National Power Corporation

- The National Power Corporation mirrored the solid performance of the Philippine economy in 2007, as it closed the year with an unprecedented net income of P136.07 billion.  
  
Its 2007 bottom-line – which is the highest in its 71-year corporate history -- was P46.07 billion (roughly 51 percent) higher than the 2006 net income of P89.99 billion, and was a complete reversal from the original projections of a P12 billion net loss.
- The Corporation remitted a total of P1.49 billion in taxes to the local government units where it operates. This consisted of P594.35 million in real property taxes; P537.52 million in financial assistance to LGUs; P277.95 million in the LGUs' share in the national wealth; and P82.20 million in

franchise taxes. The local taxes paid is roughly 80 percent higher than the P831.12 million remitted in 2006

- Energy sales rose by 5.77 percent, from 35,534 gigawatt-hours (gWh) in 2006 to 37,583 gWh. Similarly, gross generation improved by 3.9 percent year-on-year, or from 39,147 gWh to 40,699 gWh. In terms of generation mix, coal continued to account for the biggest share at 31.37 percent, followed closely by geothermal with a 24.98 percent share. Natural gas and hydro contributed 19.24 percent and 16.34 percent, respectively, to the generation mix.
- On the financial front, the year 2007 saw NPC and the PSALM successfully executing an unprecedented US\$300 million Principal Only Swap (POS) transaction with three international banks. It was the first-ever currency swap to be undertaken by a government owned and -controlled corporation in the Philippines, and the longest such transaction in Southeast Asia. The POS fixes US\$300 million of NPC obligations at an exchange rate of P44.788:US\$1 until they mature in 2028 for a competitive interest premium per annum. The transaction also serves as "liability insurance" as it synthetically transforms four percent of the NPC's foreign-denominated debt into Philippine pesos, as envisioned by NPC and PSALM under Phase 1 of their joint Liability Management Program.
- Also with PSALM, NPC made a major breakthrough in its privatization program with the sale of two big-ticket power plants in the early part of 2007: the 600-MW Calaca Coal-Fired Power Plant in Batangas and the 600-MW Masinloc Coal-Fired Power Plant in Zambales. In what is widely considered as the test case for the government's privatization blueprint, Masinloc was sold for US\$930 million to the Masinloc Power Partners Corporation, Ltd., while Calaca fetched US\$786 million and has since been awarded to Holdco Inc.
- On the environment front, NPC was able to significantly cut the gas emissions from its power generation plants by minimizing the use of its oil-based power plants and by sustaining the development of the watersheds under its jurisdiction. Specifically, NPC was able to bring down the emission levels for carbon dioxide, sulfur dioxide, nitric dioxide and carbon monoxide by close to forty percent since 2003.
- For the period covering January to December 2007, NPC has paid a total amount of P881 million in financial benefits to the communities that host power plants and other facilities, as prescribed by Energy Regulation 1-94. These funds are remitted to the DOE for purposes of electrification, development and livelihood, reforestation, watershed management, and health and/or environment enhancement of host regions, provinces, municipalities, barangays, and resettlement areas.

#### National Transmission Corporation (TransCo)

- TransCo substantially completed the rehabilitation of the South Luzon transmission facilities which were battered by super typhoons Milenyo and Reming. Over 160 damaged steel towers were replaced with new, more durable towers capable of withstanding greater wind speeds.

It also erected and energized the 159 circuit-km San Manuel-Concepcion 230-kV line boosting power reliability in Tarlac province.

In the Visayas, Schedule I of the Cebu-Negros Interconnection Upgrading Project (CNIUP) was completed which entailed the installation of an additional submarine cable and the expansion of the cable terminal stations.

With the targeted completion of the transmission line portion (Schedule 2) of CNIUP in August 2008, the interconnection system will be able to transmit an additional 80 megawatts of power from the Leyte geothermal plants to Negros Island to partly alleviate the power supply situation in Western Visayas.

- The year 2007 also saw a breakthrough in the social acceptance of the P3 billion Maramag-Bunawan transmission line project, which will further strengthen the Mindanao power grid and transport electricity to large power consumers in Southern Mindanao. With crucial help from the National Commission on Indigenous Peoples (NCIP), Mindanao business groups, and other allies, the affected indigenous cultural communities in Bukidnon, Davao City, and Cotabato finally gave their consent to the line construction. The project is now in full blast and is targeted for completion in 2009.
- The divestment of its sub-transmission assets continued to go in full swing. Vigorously pursuing the mandate of EPIRA, TransCo signed eight sales contracts with electric distributors raising overall divestment sales to almost P2.50 billion. Most notable is Meralco's P230 million acquisition of sub-transmission assets in Bulacan, Cavite, and Laguna which now stands as the biggest single sale package since the divestment program started in 2004. By year end, a total of 42 technically and financially qualified electric distributors have already benefited from this divestment program.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Financial Statement Preparation

The accompanying financial statements of NPC are prepared and presented in accordance with the accounting principles and standards presently accepted in the Philippines under the historical cost basis, except for property, plant and equipment, which are carried in the balance sheet at revalued amounts.

Pursuant to the provisions on the Scope and Authority, paragraph 7 of the Preface to Philippine Financial Reporting Standards, PFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Hence, NPC, being a GOCC of non-profit character, may not be subject to the full compliance with the same, in its strict sense. Nevertheless, the following PFRS/Philippine Accounting Standards (PAS), as appropriate, were adopted and made the basis, in the preparation of the Financial Statements in order to achieve the primary objective of fairly presenting the Corporation's financial condition, results of operation and cash flow, in so far as practicable and consistent with the standards and principles consistently applied pursuant to the former SFAS/IAS, which are now governed by PFRS/PAS.

### Application of Accounting Policies/Standards

#### a. Utility Plant and Depreciation

Utility Plant is carried in the books at appraised values except for additions during the year which are recorded at cost. These assets are revalued in consonance with NPC's loan covenants with creditor banks and in pursuance to Philippine Accounting Standards (PAS) No. 16, which permits revaluation of properties, plant and equipment. Land and landholdings, which include all the cost of



land and land rights used in connection with power generation and transmission are also included in the revaluation.

Regular annual maintenance, repairs and minor replacements are charged to expense as they are incurred, whereas major maintenance, which is done on periodic three-to five-year intervals, is deferred, amortized and charged to operations over the number of years interval. Rehabilitation expenditure which would result in improvement of the plant's efficiency beyond five years are capitalized and transferred to plant cost upon completion of work orders.

Depreciation of fixed assets is charged from the date of acquisition of the fixed assets or after the completion of works. Depreciation based on depreciable values is computed using the straight line (SL) method. Depreciating the assets based on the sound value over its remaining useful life, as ascertained by consultants, will result in amortizing the remaining cost of the assets reflective of its true physical state. The average remaining life employed in the revaluation was determined by subtracting the age of the asset from the estimated standard economic life (shown below) given by Resource Management International Inc., (RMII), NPC's last independent appraiser.

Type of Plant	Economic Life
1. Thermal Production a. Oil-fired b. Coal-fired	35
2. Hydraulic Production	40
3. Geothermal Production	30
4. Other Production a. Combined-cycl b. Diesel Plants and Barges c. Gas Turbine	30

Depletion expense shows the periodic provision for the depletion of extractable natural resources such as steam, natural gas, etc. The same straight-line method and remaining useful life are used in the computation of the expense.

Effective CY 2005, TransCo adopted a new set of standard economic lives per asset category based on the recommendation of the independent appraiser in the revaluation of TransCo assets as of CY 2004 from the previous composite life of 30 years. This was approved by the joint TransCo and PSALM Boards per TransCo Board Resolution No. TC 2005-036 dated 24 August 2005.

Moreover, a conventional depreciation has been applied to the expired portion of the asset class lives. A residual life of five (5) years has been assigned to most assets. For assets which have shorter asset lives, a residual life of one (1) year has been assigned.

Following are the recommended lives of TransCo assets adopted in CY 2005:

Category	Description	Life (years)	Notes
Transmission Lines			
	Lattice steel tower line	50	
	Wood pole line	25	
	Concrete pole line	50	
	Steel pole line	50	
Power cables			
	Submarine HVDC	50	
	Submarine HVAC	50	
	Underground HVAC	50	
Outdoor Substations –MEAs			
	Transformers 500 KV	45	N-1 security
	Transformers 230 KV	35	Without N-1 security
		45	With N-1 security
	Transformers 115 KV	35	Without N-1 security
		45	With N-1 security
	Reactors	35	
	Capacitor banks	40	
	Outdoor switchbays	40	500 kV, 230 kV, 138/115 kV, 69 kV outdoor assemblies (see Note 1)
	Substation establishment assets	50	See Note 2
Outdoor Substations- individual equipment			
	Circuit breakers	40	500 kV, 230 kV, 138/115 kV, 69 kV
Indoor GIS Substations			
	500 kV GIS switchbay	45	
	230 kV GIS switchbay	45	
	115 kV GIS switchbay	45	
Substations Secondary			
	Protective relays and controls	15	
	Metering equipment	30	
	RTUs, SCADA systems	15	
Communications			
	OPGW links	50	
	PLC links	35	
	Radio links	15	
System Operations		15	

Notes:

1. A switchgear bay includes the primary equipment, buswork, foundations, equipment supports and other structures, protective and control equipment and cabling directly associated with the bay
2. Substation establishment assets include earthworks, roads, fencing, drainage, earth grid, auxiliary AC and DC power supplies, batteries, cabling not specific to a bay, auxiliary mechanical services, protection and control equipment not specific to a bay

## b. Appraisal of Utility Plants

Electric Plants in Service are recorded at appraised values in compliance with ADB's and World Bank's loan covenants and in pursuance of PAS No. 16 which permits the appraisal of property, plant and equipment.

An independent appraiser conducts the review and appraisal of NPC's assets once every four years. In the interim, NPC undertakes the internal revaluation which is adjusted when there are variances between the internally appraised figures and those arrived at by the independent appraisers. The last external revaluation of NPC assets was done by Resource Management International Inc. (RMII) in 1996. In 1997 and 1998, NPC applied 6% and 8% trending factors, respectively, for the internal revaluation.

The 1996 external asset revaluation undertaken by RMII commenced in 1997 and was completed in 1998. In summary, the final values of NPC's operating assets as of 1996 price level are as follows:

- Revalued Cost New (RCN) P 333,171 million
- Sound Value (SV) P 164,528 million

The difference between the new over the old appraised values is recorded under the Appraisal Capital account. This account is treated as a permanent account and is not diminished by any depreciation charges.

The last revaluation of generation asset was made in 1996 and has not been updated to date. Considering the exemptions allowed under IFRS 1, paragraph 16-19, the Corporation may establish such revalued amounts of the generation assets as "deemed cost" in line with the ongoing privatization of the NPC's plants.

TransCo assets as of December 31, 2004 were revalued in compliance with the requirements of Article IV Section 4.6.1 of the Transmission Wheeling Rates Guidelines (TWRG). Sinclair Knight Merz (SKM), in association with PricewaterhouseCoopers (PwC) and Cuervo Appraisers Inc., conducted the revaluation in accordance with the requirements of the TWRG. Optimized Depreciated Replacement Cost using a combination of the suitable valuation techniques as provided in the TWRG i.e., indexation, absolute value by replacement cost analysis, and absolute value using MEA analysis, was adopted in the revaluation. The primary methodology that was applied to majority of the fixed network assets was the Modern Equipment Asset (MEA) approach.

The results of the revaluation were taken-up in the books following the approval of the SKM Report by the joint TransCo and PSALM Boards per TransCo Board Resolution No. TC 2005-036 dated 24 August 2005.

The 2004 revaluation increased the value of TransCo's Assets by P47,129 million. On the contrary, the accumulated depreciation went down by P1,006 million as a consequence of the increase in the asset lives of most assets as compared to the previous composite economic life of thirty (30) years applied to all fixed assets.

## c. Capitalization of Interest

Interests incurred on external borrowings which relate to capital projects in progress and prior to the commencement of operation are capitalized.

## d. Allocation of Support Group Expenses

Expenses of the Home Office Support Group are allocated between operation and construction. The allocation rate is based on the extent of support services rendered to operations and capital projects. The present ratio of operating expenses to capital expenses of NPC is 94/6 while that of TRANSCO is 30/70.

Cost Center services that cannot be clearly classified, as well as expenses identified as having no direct effect to projects, are treated as one hundred percent operating expenses.

## e. Investments

Investments are recorded at face value. Investments in foreign currency are recorded at the date of the transaction using standard booking rates equivalent to the Bangko Sentral ng Pilipinas (BSP) guiding rate on the last working day of the preceding year. Balances are then revalued at the end of each year using the BSP guiding rates.

Interest earnings on placements follow the accrual method of accounting; however, for short-dated placements of less than a month, the interest earnings are recognized in the books at maturity dates.

## f. Receivables and Allowance for Doubtful Accounts

Power and other receivables are stated net of allowance for doubtful accounts. Allowances are determined through the specific identification of uncollectible accounts.

## g. Materials and Supplies for Operation

Materials and supplies (M & S) for operation are categorized as fuel (and its related products) and non-fuel. The Fuel M & S are composed of the fuel oil, diesel, coal & thermal chemical stocks used by NPC plants for power generation. These inventories are valued using the weighted average method. The fuel M & S issued to NPC - Independent Power Producers as stipulated in the individual contracts are also valued using the weighted average method and are recorded under Asset in Trust. The change in accounting treatment for Fuel M & S, that is from Last-in-First-out (LIFO) to weighted average method has been made effective on January 1, 2006 in compliance with PAS 2 for "Inventories".

The non-Fuel M & S, on the other hand, are valued using the moving average method and can be further broken down into the non-fuel M & S of NPC plants and areas and those non-Fuel M & S assigned to private IPPs.

The non-Fuel M & S of NPC plants and areas represent basically the materials, supplies and equipment received by NPC property custodian for use in operations.

The non-Fuel M & S assigned to private IPPs included in the Asset in Trust account includes spares, materials and supplies transferred to private contractors as stipulated in the individual contracts.

## h. Deferred Taxes and Duties

By virtue of FIRB# 17-87 of the Department of Finance, the Corporation is exempt from payment of taxes and duties on local oil purchases. Oil suppliers bill NPC at gross selling price inclusive of taxes and duties. Fuel deliveries and consumption are recorded in the books net of taxes and duties. Said taxes and duties are recognized as Deferred Taxes and Duties representing claims from the Bureau of Internal Revenue and the Bureau of Customs. Upon receipt of Tax Credit Certificates (TCC), the refund is debited to Accounts Receivable-Others and a corollary entry is made by a debit to Other Expense and credit to Other Income.

However, with the enactment of RA # 9337, otherwise known as the Reformed Value-Added Tax (RVAT) Law of 2005, which took effect on November 1, 2005, NPC's purchases of fuel and purchased power as well as its sale of electricity are now subject to VAT specifically stated under Sec. 24(A) of R.A 9337 repealing Section 13 of R.A. No. 6395 on the exemption from VAT of the National Power Corporation. Effective February 1, 2006, the value-added tax rate increased from 10% to 12% pursuant to Revenue Memorandum Circular No. 7-2006 dated January 1, 2006.

**i. Accounting for Foreign Exchange Fluctuation**

Transactions denominated in foreign currencies are recorded at standard booking rate established on the last working day of the immediately preceding calendar year and then restated at the end of the year using the rate of exchange prevailing as at the balance sheet date. Foreign exchange differentials accruing on loans for projects under construction are recorded as project cost while differentials on the restatement of outstanding loans used for operating plants are debited outright to Gain/Loss on Foreign Exchange Fluctuations in compliance with the PAS 21, which was made effective January 1, 2005.

On the other hand, foreign exchange difference from restatement of working capital loans are also recorded as Gain/Loss on Forex Fluctuation. Payments of loans and interest thereof are recorded at prevailing exchange rate at date of transaction. Any difference thereof from the booking rate is likewise treated as Gain/Loss on Forex Fluctuation.

**j. Accounting for BOT Projects**

Total capacity fees for the duration of the cooperation period were recognized in the books of NPC as Asset under the account Electric Plant Under Capital Lease and with corresponding set up for Lease Obligation under the Long-Term-Debts. This is consistent with PAS 17 and International Accounting Standards (IAS) 17 – Leases. Hopewell Pagbilao and Sual Coal Fired Thermal Power Plants are amortized over 29 and 25 years, respectively, while the Kalayaan 2 and San Roque Power Plant are both being amortized over 40 years. The rest of the BOT assets are amortized over 20 years.

Lease Obligations denominated in foreign currencies are restated at year-end standard booking rates. Foreign exchange differentials on these restatements are debited outright to Gain/Loss on Forex Fluctuations in compliance with the PAS No. 21.

**k. Income Determination**

The Corporation uses the accrual method of accounting for income and expenses and an all inclusive concept of income determination wherein all ordinary and extraordinary items pertaining to current period are considered in computing net income while items applicable to prior periods are recorded as adjustment of prior years' income and are reflected in the Statement of Changes in Equity.

**l. Accounting for Taxes and Duties on Importation**

Taxes and duties on imported materials and equipment intended for projects are recorded as part of project costs, while taxes and duties on materials and equipment for operation are expensed as incurred.

**m. Composition of Rate Base**

Rate Base is the average value of the net fixed assets in operation at the beginning and at the end of each year. The value of net fixed assets in operation equals the gross value of the operating assets less the amount of accumulated depreciation.

Plants undergoing major rehabilitation/repair and which are out of operation for less than one calendar year are included in the computation of Rate Base.

The assets under capital lease are not classified under utility plant in service; hence, these are excluded in the computation of the rate base. For purposes of determining compliance to loan covenants relating to the minimum rate of return on rate base (RORB), the World Bank and Asian Development Bank agreed to exclude BOT plants from the computation of RORB.

Under the Loan Covenant with creditors, NPC is required to achieve a minimum RORB of either 7% or 8%. Considering that NPC could hardly meet the required RORB of its creditors, waivers or amendments to loan agreements with respect to such breaches were sought from all of the creditors. Some creditors have provided NPC with waivers such as the Asian Development Bank (ADB), while World Bank has agreed to delete, effective 2000, the RORB Covenant from the loan agreements. Certain other creditors, who have not provided NPC with waivers or amendments to such loan agreements, have continued to provide NPC with financing notwithstanding the defaults.

**4. UTILITY PLANT**

This account consists of the following electric plants in service:

	Steam Production Plant	Hydraulic Production Plant	Other Production Plant	Transmission Plant	Distribution Plant	Others	Total
Year Ended :December 31, 2006							
Cost:							
Beginning	166,560,200,917	91,901,320,489	59,965,042,804	220,956,273,114	365,141,232	42,265,034,258	582,013,012,814
Additions	605,614,712	156,935,197	245,701,481	1,268,940,032	0	1,138,222,099	3,415,413,521
Retirements	0	0	0	(144,594,079)	0	(32,257,265)	(176,851,344)
Adjustments	448,848,961	(10,325,411,953)	(2,685,819,590)	(6,719,257,733)	164,335,743	551,187,631	(18,566,116,941)
Ending	167,614,664,590	81,732,843,733	57,524,924,695	215,361,361,334	529,476,975	43,922,186,723	566,685,458,050
Accumulated Depreciation/Depletion							
Beginning	101,586,051,055	67,658,066,491	42,774,042,866	84,560,947,822	165,182,138	9,844,194,663	306,588,485,035
Additions	5,904,721,201	1,353,738,563	2,212,873,092	4,700,436,090	23,860,000	614,013,128	14,809,642,074
Retirements	0	0	0	(88,751,608)	0	(124,537)	(88,876,145)
Adjustments	31,087,307	(6,031,582,326)	(1,949,481,831)	(3,315,542,488)	(2,519,446)	241,118,335	(11,026,920,449)
Ending	107,521,859,563	62,980,222,728	43,037,434,127	85,857,089,816	186,522,692	10,699,201,589	310,282,330,515
<b>Ending net book value</b>	<b>60,092,805,027</b>	<b>18,752,621,005</b>	<b>14,487,490,568</b>	<b>129,504,271,518</b>	<b>342,954,283</b>	<b>33,222,985,134</b>	<b>256,403,127,535</b>

**5. CONSTRUCTION WORK IN PROGRESS (CWIP)**

This account consists of the following:

	2007	2006
Construction Work in Progress- Work Order	26,849,055,413	22,570,912,918
Construction Work in Progress- Materials & Supplies	549,525,098	317,927,222
	<b>27,398,580,511</b>	<b>22,888,840,140</b>

CWIP - Work Order refers to the costs of projects under construction while CWIP - Materials & Supplies represent stock inventory intended for projects but still in the custody and within the responsibility of project custodians and stock inventory still in transit.

The significant increase in the balance of the Construction Work in Progress was mainly due to the implementation of various projects of TransCo and the rehabilitation of the geothermal plants in preparation for the eventual sale of the same.

**6. ELECTRIC PLANT UNDER CAPITAL LEASE**

This account represents the total computed capacity fees of Build Operate and Transfer (BOT) Projects for the duration of the cooperation period, as follows:

	2007	2006
Electric Plant under Capital Lease	676,485,711,533	676,329,357,929
Accumulated Amortization	(195,849,088,329)	(170,736,375,245)
	<b>480,636,623,204</b>	<b>505,592,982,684</b>

Existing BOT plants as of December 31, 2007 are the following:

PLANT	COMMISSIONING DATE	COOPERATION PERIOD (YRS.)	TOTAL CAPACITY FEE (in Peso)
PAGBILAO I (350 MW)	March 1996	29	71,839,467,000
PAGBILAO II (350 MW)	May 1996	29	71,839,467,000
ILIJAN NAT GAS (1200 MW)	June 2002	20	107,387,216,364
CBK-KALAYAAN 2 Unit 3 (177.5 MW)	February 2003	25	17,387,881,744
CBK-KALAYAAN 2 Unit 4 (177.5 MW)	February 2003	25	17,387,881,744
ENRON SUBIC (108 MW)	February 1994	15	11,629,081,483
BAUANG (FFPC) (215 MW)	October 1994	15	16,190,349,336
SAN ROQUE MULTI-PURPOSE PLT (345 MW)	May 2003	25	92,954,875,257
SUAL I (500 MW)	October 1999	25	96,734,389,479
SUAL II (500 MW)	October 1999	25	96,734,389,479
BAKUN I (35 MW)	March 2001	25	24,500,769,930
BAKUN II (35 MW)	October 2000	25	24,500,769,930
STEAG/ MINDANAO COAL FIRED I (100 MW)	September 2006	24	13,738,656,531
STEAG/ MINDANAO COAL FIRED 2 (100 MW)	November 2006	24	13,660,516,256
<b>TOTAL</b>			<b>676,485,711,533</b>

**7. INVESTMENTS IN GOVERNMENT AND OTHER CORPORATIONS**

This account mainly consists of the purchase price of investment in securities such as Special Stock Subscription Agreement with Meralco.

**8. NON-UTILITY PROPERTY**

Non-utility property account consists of the following:

	Non-Utility Plants	Non-Utility Lands	Total
Year Ended, Dec. 31, 2007			
Cost:			
Beginning	51,006,751,568	604,133,362	51,610,884,930
Additions	0	0	0
Retirements	(5,327,836)	0	(5,327,836)
Adjustments	1,866,638,486	(862,232)	1,865,776,254
Ending	52,868,062,218	603,271,130	53,471,333,348
Accumulated Depreciation			
Beginning	47,709,721,540	0	47,709,721,540
Additions	814,197,351	0	814,197,351
Retirements	(4,783,535)	0	(4,783,535)
Adjustments	1,770,946,230	0	1,770,946,230
Ending	50,290,081,586	0	50,290,081,586
Ending net book value	2,577,980,632	603,271,130	3,181,251,762

**9. NON-CURRENT RECEIVABLES**

This account consists of:

	2007	2006
Non-Current Receivables	<b>4,942,233,624</b>	4,973,609,991
Non-Current Power Receivables	<b>1,984,139,535</b>	1,343,948,998
	<b>6,926,373,159</b>	6,317,558,989
Allowance for Bad Debts	<b>(1,039,819,266)</b>	(810,754,228)
	<b>5,886,553,893</b>	5,506,804,761

Non-Current Receivables include the P.694 billion royalty fees paid to PNOOC-EDC for the unutilized geothermal energy from July 1996 to December 1998, which together with other unresolved issues with the later are subject to arbitration with the Office of the Government Corporate Counsel. The account also includes P3.133 billion receivables from Metropolitan Waterworks and Sewerage System (MWSS) for their utilization of Angat Dam pursuant to the optimization project of the government from 1992 to 1997. There is an on-going negotiation with MWSS for the settlement of the amount.

Non-current power receivable consists of restructured customers' accounts with deferred payment terms from two (2) to twelve (12) years.

**10. OTHER NON-CURRENT ASSETS**

Other assets substantially consist of the following:

	2007	2006
Stored Fuel – Ilijan	<b>44,794,135,249</b>	39,578,788,314
Advances to San Roque Multi Purpose Project	<b>21,732,063,480</b>	23,029,629,270
Stored Energy – Leyte A & B	<b>5,823,343,304</b>	5,823,343,304
Restricted Cash	<b>1,562,657,716</b>	2,165,837,668
Investment in Maintenance Eng'g Ctr.	<b>209,709,363</b>	209,709,363
Stock for Disposal	<b>222,451,972</b>	254,652,406
	<b>74,344,361,084</b>	71,061,960,325

The stored fuel amount represents the difference between the actual gas lifted and that of the contracted fuel with Shell Philippines Exploration B.V. (SPEX) for the Ilijan Natural Gas Power Plant in the amount of P 44.794 billion.

The San Roque Multi Purpose Projects (SRMP) pertains to the construction of the Non-Power components such as Watershed management, water quality, flood control and irrigation of the project. The Memorandum of Agreement (MOA) covering this said project provides that NPC shall be reimbursed by Department of Agriculture/National Irrigation Administration, Department of Environment and Natural Resources (DENR) and Department of Public Works and Highways (DPWH) in the amount and terms specified in the MOA, through the Department of Finance (DOF).

Stored energy represents advance payments made to PNOOC-EDC for the cost of contracted energy for Leyte A & B in the amount of P2.250 billion and P3.573 billion, respectively.

The Restricted Cash account pertains to the funds intended for purposes other than current operations and, therefore, not immediately available to management for any disbursement transactions other than its specified purpose.

**11. CASH AND CASH EQUIVALENTS**

This account is composed of the following:

	2007	2006
Cash in Bank	<b>3,640,868,142</b>	2,849,791,336
Cash on Hand	<b>33,357,012</b>	51,491,111
Funds with the Bureau of Treasury	<b>157,802,301</b>	157,802,301
Working Fund	<b>33,936,488</b>	61,744,729
Temporary Investments	<b>35,628,956,341</b>	30,447,187,729
	<b>39,494,920,284</b>	33,565,017,206

Temporary investments are short term placements with Development Bank of the Philippines, Land Bank of the Philippines and Philippine National Bank which are readily convertible to cash within the current period. These are intended for general funding requirements for NPC's operations.

**12. POWER CUSTOMER RECEIVABLES**

Receivables from power customers consist of the following:

	2007	2006
Power Receivables	<b>76,310,403,376</b>	74,912,779,667
Due from Other Agencies	<b>16,325,075,981</b>	19,159,560,399
Accrued Utility Revenue	<b>10,126,570,635</b>	27,166,063,986
Restructured Power Receivables	<b>1,054,048,296</b>	1,061,705,254
	<b>103,816,098,288</b>	122,300,109,306
Allowance for Bad Debts	<b>(10,458,705,836)</b>	(10,063,982,048)
	<b>93,357,392,452</b>	112,236,127,258

The Power Receivables account includes receivables from Meralco on the minimum charges on consumptions below contracted demand/energy in the amount of P36.1 billion for the period covering December 25, 2001 to December 31, 2004. These charges are based on a ten-year supply contract. However, NPC and Meralco agreed to settle this issue by means of a settlement agreement which was submitted to the Energy Regulatory Commission (ERC) for a decision with an objective of providing least cost of electricity to the consuming public that will reduce the outstanding receivables to P27.5 billion.

At present, NPC and Meralco are still awaiting for the ERC decision to finally settle this outstanding account.

Meanwhile, the increase in Power Receivable in CY 2007 was on account of the following:

1. Increase in revenue due to increased demand of electricity and increase revenue of TransCo.
2. Unsettled disputed accounts which are still litigated in local courts and at the Energy Regulatory Commission (ERC).
3. Accounts under receivership, rehabilitation and with stay order from the courts.

The account Due from Other Agencies consists of receivables from PSALM on the energy traded at the Wholesale Electricity Spot Market (WESM). PSALM traded IPP plants' energy capacity of NPC at the WESM starting the billing period June 2006. It also consists of the receivable from TransCo as a result of the unbundling of power tariffs, where the ancillary services rate has been included in the power bills of TransCo pursuant to Energy Regulatory Commission's decision on ERC Case No. 2001-901 entitled "In the Matter of Application for the Approval of the Revised Unbundled Power Rates."

The Accrued Utility Revenue account includes the accruals made on the following Deferred Accounting Adjustments (DAA):

- a. Approval by the ERC (Case No. 2007-099RC) on December 17, 2007 on NPC's application for the recovery/refund of fuel and IPP costs under the 8th GRAM. The total amount to be refunded is P1,757,672,711.00 for the billing period February 2006 to June 2006.
- b. Approval by the ERC (Case No. 2007-100RC) on December 17, 2007 of NPC's application for the adoption of the Incremental Currency Exchange Rate Adjustment (7th ICERA). Total amount to be recovered is P1,185,093,674.00 for the billing period February 2006 to June 2006.
- c. Approval by the ERC (Case No. 2006-073RC) on June 12, 2007 on NPC's application for the recovery of fuel and IPP costs under the 7th GRAM & RORB. The total amount to be recovered is P865,148,856.15 and P1,002,574,691.76, respectively, for the billing period November 2005 to January 2006.
- d. Approval by the ERC (Case No. 2006-072RC) on June 12, 2007 of NPC's application for the adoption of the Incremental Currency Exchange Rate Adjustment (6th ICERA). Total amount to be recovered is P313,856,060.63 for the billing period November 2005 to January 2006.
- e. Approval by the ERC (Case No. 2006-013RC) on July 14, 2006 and July 17, 2006 (partial decisions) on NPC's application for the recovery of fuel and IPP costs under the 6th GRAM & RORB. The total amount to be recovered is P3,206,180,797 and P463,487,588, respectively, for the billing period April 2005 to October 2005.
- f. Approval by the ERC (Case No. 2006-012RC) on July 12, 2006 of NPC's application for the adoption of the Incremental Currency Exchange Rate Adjustment (5th ICERA). Total amount to be recovered is P862,664,117.00 for the billing period April 2005 to October 2005.
- g. Approval by the ERC (Case No. 2005-040RC) on November 23, 2005 of NPC's application for the recovery of fuel and IPP costs under the 5th GRAM. Total amount to be recovered is P2,834,937,128.54 for the billing period October 2004 to March 2005.
- h. Approval by the ERC (Case No. 2005-039RC) on November 23, 2005 of NPC's application for the adoption of the Incremental Currency Exchange Rate Adjustment (4th ICERA). Total amount to be recovered is P225,893,374.44 for the billing period October 2004 to March 2005.

**13. OTHER RECEIVABLES**

This account consists of the following:

	2007	2006
Receivables from PSALM	<b>12,883,593,127</b>	3,504,936,888
Output Tax Receivable	<b>9,276,454,395</b>	6,192,507,097
Interest	<b>6,351,117,741</b>	6,202,043,985
Input Tax on Non-Depreciable Capital	<b>5,582,164,576</b>	5,395,259,744
Receivables from National Government	<b>3,946,177,352</b>	3,873,552,699
Receivables from Private Companies	<b>2,337,005,868</b>	6,973,291,286
Input Tax on Depreciable Capital	<b>242,589,650</b>	91,663,581
Receivable from Fuel Oil Suppliers	<b>133,489,877</b>	128,328,033
Rent	<b>23,101,035</b>	90,050,300
Receivable from Officers & Employees	<b>18,891,185</b>	14,787,688
Tax Credit Certificates	<b>9,308,891</b>	9,308,891
Others	<b>1,113,077,503</b>	993,112,822
	<b>41,916,971,200</b>	33,468,843,014
Allowance for Bad Debts	<b>(784,100,629)</b>	(743,673,577)
	<b>41,132,870,571</b>	32,725,169,437

Receivables from PSALM is composed of the total unremitted proceeds from the sale of NPC assets and various expenses incurred by PSALM advanced by NPC amounting to P11.706 billion amounting to P1.178 billion.



The increase in output tax receivables was mainly due to the increased revenue and in part to the increase in rate from 10% to 12% effective February 1, 2006 pursuant to Revenue Memorandum Circular No. 7-2006.

The Receivables from the National Government account includes the amount due as a result of the transfer of the Philippine Nuclear Power Plant to the National Government. It also includes advances of NPC for the preservation and maintenance of the plant.

Decrease in Receivables from Private Co. includes mainly the amount due from First Generation Hydro Power Corporation for the sale of the Pantabangan HEPP amounting to P 3.856 billion which was transferred to Receivables from PSALM.

Other receivables consist of amounts due from power customers, government bodies and institutions and other third parties.

#### 14. MATERIALS AND SUPPLIES FOR OPERATION

Details of the account are as follows:

	2007	2006
Materials, Supplies and Equipment	9,268,193,566	7,671,971,922
Asset in Trust for Private Power Contractors	6,299,061,768	4,944,097,781
MSE in Transit-Operating Plants	1,610,907,312	2,085,882,363
Stock Transfer Clearing Accounts	1,103,583,726	996,958,699
Fuel Oil	883,492,427	1,299,800,098
Diesel	677,235,965	759,831,564
Materials, Supply Temporary Adjustments	542,197,020	954,725,343
Coal	357,690,020	1,138,683,780
Fuel Temporary Adjustment	78,510,888	145,618,002
Thermal Chemicals	52,384,956	48,045,894
Aviation Fuel & Other Oil Products	39,338	103,498
Stock for Transshipment	(124,569)	77,138
Gasoline	3,761,676	19,596,900
Other Oil Products	128,352,918	134,761,177
	21,005,287,011	20,200,154,159

Asset in Trust for private power contractors are fuel and non-fuel M & S transferred to private Independent Power Producers (IPPs) as stipulated in their individual contracts. Fuel M & S is liquidated within thirty (30) days after receipt of the IPP of the stocks supported by a report of fuel consumption, while non-fuel M&S is closed upon receipt of the payments/replacement stocks from the IPP.

#### 15. ADVANCES

Advances consist of the following:

	2007	2006
Advances to Gov't Bodies & Institutions	9,422,288,202	454,945,082
Advances to Contractors	639,439,094	931,232,507
Advances to Philippine Geothermal Inc.	93,838,311	137,203,077
	10,155,565,607	1,523,380,666

Increase in Advances to Government Bodies & Institutions was mainly due to the payments under protests to the Bureau of Internal Revenue for (a) the Value Added Tax (VAT) imposed on the sale of Pantabangan-Masiway and Magat Hydro Electric Power Plant amounting to P 5.489 billion and the (b) Final Withholding Tax (FWT) imposed using tax rate of 10% on the interest expense paid to various non-resident foreign creditors covering taxable years 2005 up to the first three quarters of 2007 amounting to P3.813 billion.

Advances to Contractors pertain to NPC and TransCo's advances for the mobilization of projects.

Advances to Philippine Geothermal Inc., consists of the peso and dollar cash call equivalent to 55% of the total monthly expenditures of PGI.

#### 22. LONG-TERM DEBTS

This account consists of the following:

CREDITOR / PROJECT		MATURITIES	INTEREST RATES	2007	2006
<b>Asian Development Bank</b>					
1288-PHI	Power Transmission Project	1997 to 2013	Cost of Qualified Borrowings	2,694,315,547	3,570,958,654
1398-PHI	Northern Luzon Generation Project	2000 to 2019	Cost of Qualified Borrowings	5,359,765,719	6,626,384,348
1474-PHI	Leyte-Mindanao Interconnection Project	2000 to 2011	Cost of Qualified Borrowings	94,350,311	133,768,649
1590-PHI	Power Trans Reinforcement Project	2002 to 2017	Cost of Qualified Borrowings	1,352,829,625	1,695,729,801
1662-PHI	Power Sector Restructuring Program	2002 to 2013	Cost of Qualified Borrowings	2,070,050,000	2,456,600,000
1984-PHI	Electricity Market & Trans Devt Project	2009 to 2022	LIBOR + 0.60%	737,455,656	219,007,607
SPIA	Special Project Implementation Agreement	1991 to 2026	FIXED at 9.65%	1,178,250,310	1,398,270,434
#624P	Mindanao Power Project	1999 to 2011	FIXED at 7%	26,394,547	40,272,225
914-PHI	14th Power Project	1993 to 2008	Cost of Qualified Borrowings + 0.40%	548,916,481	1,187,327,470
985-PHI	15th Power Project	1994 to 2009	Cost of Qualified Borrowings + 0.40%	1,347,749,516	2,188,344,984
1042-PHI	Masinloc Thermal Power Plant	1996 to 2015	Cost of Qualified Borrowings + 0.40%	5,024,568,964	6,146,924,063
<b>International Bank for Reconstruction and Development</b>					
2969-1-PH	Bacon-Manito Geothermal	1994 to 2008	Cost of Qualified Borrowings + 0.50%	230,113,716	526,310,241
3163-0-PH	Energy Sector Loan	1995 to 2010	Cost of Qualified Borrowings + 0.50%	2,106,068,870	3,373,403,120
3626-PH	Power Transmission Project	1999 to 2013	Cost of Qualified Borrowings + 0.50%	1,114,256,238	1,491,709,023
3700-0-PH	Leyte-Cebu Geothermal	1999 to 2014	Cost of Qualified Borrowings + 0.50%	2,975,943,669	3,941,149,454
3700-A-PH	Leyte-Cebu Geothermal	1999 to 2014	Cost of Qualified Borrowings + 0.50%	292,716,674	387,647,091
3746-0-PH	Leyte-Luzon Geothermal	1999 to 2014	Cost of Qualified Borrowings + 0.50%	2,077,769,727	2,753,362,591
3746-A-PH	Leyte-Luzon Geothermal	1999 to 2014	Cost of Qualified Borrowings + 0.50%	236,813,316	313,793,529
3996-0 PH	Trans Grid Reinforcement Project	2001 to 2016	Cost of Qualified Borrowings + 0.50%	964,971,128	1,241,108,621
3997-0 PH	Trans Grid Reinforcement Project	2001 to 2016	LIBOR + 0.50%	3,103,468,896	4,006,891,777

#### 16. PREPAYMENTS

Prepayments consist of the following:

	2007	2006
Marginal & Guaranty Deposits	881,746,604	864,328,889
Prepaid Charges	23,717,818	19,108,395
	905,464,422	883,437,284

#### 17. COURT AND OTHER DEPOSITS

This account includes the amounts deposited with the provincial, municipal or city courts and with other entities as a guaranty for the fulfillment of obligation and for other purposes.

#### 18. DEFERRED CHARGES

Deferred charges include:

	2007	2006
Discount on NPC Bonds Payable	14,063,769,120	19,451,038,541
Deferred Taxes & Duties	4,127,491,176	4,127,491,176
Other Deferred Debits	4,085,915,703	2,202,264,229
Preliminary Surveys & Investigation	2,611,279,128	2,608,293,507
Deferred Financial Assistance	519,224,607	528,987,188
Others	1,185,391	19,183,030
	25,408,865,125	28,937,257,671

The substantial decrease in the Discount on Bonds Payable represents the amortization of Bond Discount.

The Deferred Taxes and Duties pertain to the tax and duty exemption privileges of the Corporation in its purchase of petroleum products which are paid by the Corporation at gross prior to the implementation of R-VAT Law in November 1, 2005. Such taxes and duties shall become refundable by tax collecting agencies such as BIR and the Bureau of Customs.

The increase in the other Deferred Debits account is due to the payment under protest to the Bureau of Internal Revenue for the penalties and surcharges imposed for the late payment of the Income Tax of TransCo amounting to P1.911 billion.

The Preliminary Surveys & Investigation account pertains to all expenditures related to preliminary surveys, studies, investigations and other related undertakings to determine the feasibility of a project for development.

#### 19. CONTINGENT ASSETS / SURPLUS

The account consists of disallowances in COA post-audit, as well as claims for unrelieved losses of NPC properties and claims for all established inventory shortages of Property Custodians. The contra account for these Contingent Assets is Contingent Surplus which is presented as part of the capital accounts in the balance sheet.

#### 20. DONATED CAPITAL

These are grants received from foreign governments and lending institutions, which were used to finance the implementation of various projects of NPC.

#### 21. RETAINED EARNINGS

Retained Earnings were appropriated for Bond Sinking Fund equivalent to 5% of Net Operating Income as provided for by the NPC Charter.

On December 2006, the Corporation has remitted to the National Government, the CY 2005 dividends amounting to P2.6 Billion pursuant to Malacañang Executive Order No. 599, "Adjusting the Dividend Rate of National Power Corporation on its 2005 Net Earnings Pursuant to Section 5 of Republic Act No. 7656." For CY 2007, NPC requested from the Honorable Secretary of the Department of Finance to exempt NPC from the remittance of dividends on account of negative retained earnings in year 2006.

In compliance with PAS 16, all revaluation surplus of retired, disposed of or derecognized assets may be transferred directly to Retained Earnings. Transfers from revaluation surplus are not made through profit and loss

CREDITOR / PROJECT		MATURITIES	INTEREST RATES	2007	2006
296-PHI	Bataan Thermal 2	1982 to 2022	Service Charge at 0.75%	180,381,224	228,827,723
3996-A-PH	Trans Grid Reinforcement Project	2001 to 2016	Cost of Qualified Borrowings + 0.50%	730,274,659	897,723,444
<b>Overseas Economic Cooperation Fund (OECF)</b>					
PH-029	Power Plant Barge Project 1	1989 to 2009	FIXED at 3.25%	186,539,598	352,642,815
PH-031	Tongonan Geothermal	1990 to 2010	FIXED at 3.0%	399,338,565	634,139,115
PH-043	Mindanao Trans Line Project	1991 to 2011	FIXED at 3.0%	280,263,190	408,719,901
PH-048	Extra High Voltage TL Project 1	1992 to 2012	FIXED at 3.0%	2,037,824,649	2,825,089,691
PH-057	Extra High Voltage TL Project 2	1993 to 2013	FIXED at 3.0%	693,949,594	918,311,386
PH-065	Power Plant Barge Project 2	1993 to 2013	FIXED at 4.0%	991,106,201	1,311,542,102
PH-076	Calaca 2 Coal-Fired Thermal Project	1997 to 2017	FIXED at 4.0%	6,825,610,596	8,516,270,486
PH-100	Palimpinon II Geothermal Project	1999 to 2019	FIXED at 5.70%	364,942,017	449,936,571
PH-C8	Extra High Voltage TL Project 1&2	1989 to 2004	FIXED at 3.50%	1,952,638,554	2,214,813,253
PH-129	Palimpinon II Geothermal Project	2003 to 2023	FIXED at 5.50%	847,688,199	1,023,537,212
PH-130	Calaca I Environmental Project	2003 to 2023	FIXED at 4.90%	822,536,231	993,167,584
PH-139	Tiwi Geothermal	2004 to 2024	FIXED at 3.0%	1,919,792,164	2,305,648,249
PH-140	Makban Geothermal	2004 to 2024	FIXED at 3.0%	1,681,200,373	2,019,102,260
PH-141	Calaca II Coal-Fired Thermal Project	2004 to 2024	FIXED at 4.90%	1,559,626,043	1,873,092,892
PH-143	Substation Expansion Project	2004 to 2024	FIXED at 4.90%	368,153,027	442,147,540
PH-144	Environmental Expt Proj for Pwr Plts	2004 to 2024	FIXED at 4.90%	64,588,685	77,570,266
PH 161	Improvement in Power Grid Project	2005 to 2025	FIXED at 2.70%	436,904,518	523,097,789
PH 177	Leyte-Bohol Interconnection Project	2007 to 2027	FIXED at 2.70%	2,553,644,387	3,045,072,089
PH 177*	Leyte-Bohol Interconnection Project	2007 to 2027	FIXED at 2.30%	113,474,158	135,325,247
PH 178	Luz Grd Trans Proj. Asso. w/ Priv Pwr Proj	2007 to 2027	FIXED at 2.70%	3,107,024,435	3,704,935,603
PH 178*	Luz Grd Trans Proj. Asso. w/ Priv Pwr Proj	2007 to 2027	FIXED at 2.30%	101,386,724	120,910,362
PH-009	Cagayan Electrification	2002 to 2012	FIXED at 3.20%	155,826,965	216,027,005
PH-013	Abulog River Hydro Electric Power	2002 to 2012	FIXED at 3.20%	18,817,861	26,087,692
PH-029	Power Plant Barge Project 1	2002 to 2012	FIXED at 3.20%	199,078,446	275,987,665
PH-031	Tongonan Geothermal	2002 to 2012	FIXED at 3.20%	181,581,612	251,731,346
PH-043	Mindanao Trans Line Project	2002 to 2012	FIXED at 3.20%	94,169,252	130,549,301
PH-048	Extra High Voltage TL Project 1	2002 to 2012	FIXED at 3.20%	437,367,111	606,333,483
PH-057	Extra High Voltage TL Project 2	2002 to 2012	FIXED at 3.20%	60,933,833	84,474,168
PH-065	Power Plant Barge Project 2	2002 to 2012	FIXED at 3.20%	148,410,483	205,745,342
<b>Japan Bank for International Cooperation</b>					
	Small Barge Mounted	2000 to 2007	FIXED at 2.50%	-	316,946,844
	Electricity Market & Trans Dev't Project	2009 to 2022	Tokyo Swap Reference Rate + 1.25%	500,259,928	567,428,270
	Leyte-Cebu Intercon Uprating Project	2006 to 2015	FIXED at 3.69%	1,769,240,573	2,257,640,188
<b>Eximbank of Japan</b>					
ESPL	Energy Sector Loan	1995 to 2010	Long-Term Prime Rate	491,256,667	780,131,048
	Masinloc Coal-Thermal Project	1998 to 2015	Long-Term Prime Rate + 0.20%	2,941,466,555	3,753,634,153
	Leyte-Luzon Interconnection Project	1999 to 2014	Long-Term Prime Rate + 0.20%	903,410,530	1,182,417,836
	Northern Luzon Gen & Trans Project	2000 to 2019	Long-Term Prime Rate + 0.20%	4,035,342,115	4,958,767,627
	Makban 5 & 6	2000 to 2007	FIXED at 6.30%	-	97,091,006
	Batangas Coal I	2000 to 2007	FIXED at 6.30%	-	398,726,388
Series A	San Roque Multi-Purpose Project	2004 to 2014	Long-Term Prime Rate + 0.20%	4,977,902,353	6,452,881,427
Series B	San Roque Multi-Purpose Project	2004 to 2014	LIBOR + 0.90%	5,352,279,879	7,259,203,868
<b>Kreditanstalt für Wiederaufbau</b>					
8765224	Sucat 1&4 Rehabilitation Project	1998 to 2018	FIXED at 6.50%	747,742,075	873,679,138
8865164	Various Spare Parts	1999 to 2019	FIXED at 3.50%	392,920,757	448,177,686
9165432	Sucat 2&3 Rehabilitation	2002 to 2032	FIXED at 9.0%	1,492,511,756	1,657,182,694
	Sucat 2&3 Rehabilitation (Additional)	2006 to 2036	FIXED at 7.0%	370,434,210	408,994,142
9165861	Sucat/Sta.Mesa/Blntwk Trans Project	2006 to 2023	FIXED at 9.0%	858,215,934	974,622,934
9165861	Sucat/Sta.Mesa/Blntwk Trans Project	2006 to 2033	FIXED at 9.0%	1,754,546,587	1,945,183,011
	Northern Luzon Gen & Trans Project	2010 to 2035	FIXED at 7.50%	1,380,976,323	1,473,254,710
	Northern Luzon Gen & Trans Project	2006 to 2025	FIXED at 7.50%	2,795,468	3,114,389
	Energy Sector Loan	2008 to 2035	FIXED at 7.0%	793,253,481	881,989,378
	Sucat Armta/Sta. Mesa Trans Project	1997-2007	FIXED at 4.510%	-	29,146,862
	Sucat-Armta Transmission Project	1997-2007	FIXED at 5.880%	-	61,028,720
<b>Natixis/Credit National</b>					
1528	Navotas Gas Turbine	1997 to 2016	FIXED at 5.45%	498,521,822	590,926,232
1543	Sucat Gas Turbine	1999 to 2019	FIXED at 5.45%	153,710,892	178,755,182
467-OA1	Pielstick for Diesel Power Plant	2000 to 2022	FIXED at 3.0%	138,836,844	159,181,555
467-OB1	Bataan Gas Turbine	1999 to 2020	FIXED at 3.0%	267,317,178	309,801,518
747-OD1	Northern Luzon 230KV Trans Line	2001 to 2016	FIXED at 3.10%	51,413,995	61,740,819
747-OE1	Central Luzon 230KV Trans Line	2001 to 2016	FIXED at 3.10%	52,485,565	63,019,217
	Phil. Rural Elect'n Small Island Project	2016 to 2031	FIXED at 0.40%	207,368,544	-
<b>Instituto de Credito Oficial</b>					
	Palawan Backbone Trans Line	2003 to 2013	FIXED at 2.0%	418,544,399	587,010,423
	200MW Mindanao Barge	2003 to 2023	FIXED at 1.25%	791,667,905	998,218,441
<b>Nordic Investment/Development Fund</b>					
	Leyte-Cebu HV Interconn Project	2005 to 2034	Service Charge at 0.75%	238,296,610	259,628,789
PIL95/1	Leyte-Cebu HV Interconn Project	2000 to 2014	LIBOR + 0.85%	195,884,965	265,672,537
	Leyte-Cebu HV Interconn Project	2000 to 2010	LIBOR + 0.65%	258,756,250	429,905,000
<b>Eximbank of Korea</b>					
94-2063	Trans & Substation Project in Luzon	2004 to 2018	FIXED at 3.50%	202,028,715	265,423,105
	Mindanao Power Transmission	2002 to 2017	FIXED at 3.50%	217,558,221	288,441,852
<b>National Government</b>					
	New Money Bond (B)	1997 to 2009	LIBOR + 0.8125%	24,231,177	43,133,965
	Prncpl Collateralized Int Reduction Bond (B)	2017	FIXED at 6.50%	202,036,880	239,764,160
	Interest Reduction Bond (A)	1999-2007	LIBOR + 0.8125%	-	53,328,454
	Interest Reduction Bond (B)	1999 to 2008	LIBOR + 0.8125%	13,119,516	46,708,154
	New Money Bond (B)	1997 to 2009	LIBOR + 0.8125%	140,087,737	249,370,449
	Prncpl Collateralized Int Reduction Bond (A)	2018	FIXED at 6.50%	68,642,858	81,460,856
	Prncpl Collateralized Int Reduction Bond (B)	2017	FIXED at 6.50%	2,543,801,643	3,018,817,476

CREDITOR / PROJECT		MATURITIES	INTEREST RATES	2007	2006
<b>Deutsche Bank</b>					
	Leyte Interconnection Project	2009	FIXED at 9.75%	4,140,100,000	4,913,200,000
	General Funding Requirements	2011	LIBOR + 4.25%	12,420,300,000	14,739,600,000
	General Funding Requirements	2011	LIBOR + 4.25%	4,140,100,000	4,913,200,000
	General Funding Requirements	2016	FIXED at 6.875%	20,700,500,000	24,566,000,000
	General Funding Requirements	2010	FIXED at 9.875%	5,175,125,000	6,141,500,000
	General Funding Requirements	2010	FIXED at 9.875%	15,525,375,000	18,424,500,000
<b>Citibank</b>					
	General Funding Requirements	2010	FIXED at 9.467%	12,420,300,000	14,739,600,000
	General Funding Requirements	2010	FIXED at 10.09%	16,560,400,000	19,652,800,000
	General Funding Requirements	2015	FIXED at 4.65%	4,370,400,000	4,957,200,000
<b>Bank of Tokyo-Mitsubishi UFJ</b>					
	Various Transmission Projects	2009	LIBOR + 1.60%	9,906,240,000	11,236,320,000
	Various Transmission Projects	2009	FIXED at 3.78%	7,575,360,000	8,592,480,000
<b>Bank of New York/JP Morgan Chase Manhattan</b>					
	General Funding Requirements	2016	FIXED at 8.40%	6,624,160,000	7,861,120,000
	General Funding Requirements	2028	FIXED at 9.625%	12,420,300,000	14,739,600,000
	General Funding Requirements	2022	FIXED at 3.55%	9,079,876,854	10,300,591,839
<b>US Bank</b>					
	General Funding Requirements	2008 to 2018	FIXED at 5.40%	10,350,250,000	12,283,000,000
<b>Banque Paribas</b>					
	Phil. Rural Electrification Small Island Proj	2009 to 2019	FIXED at 5.09%	54,576,468	-
	Various Projects	2000-2007		-	24,058,585
<b>Bureau of Treasury</b>					
	General Funding Requirements	2009	MART + 0.50%	3,752,000,000	3,752,000,000
	General Funding Requirements	2011	MART + 0.625%	8,800,000,000	8,800,000,000
	General Funding Requirements	2012	FIXED at 9.875%	11,000,000,000	11,000,000,000
	General Funding Requirements	2010	FIXED at 9.125%	2,061,000,000	2,061,000,000
	General Funding Requirements	2012	FIXED at 10.375%	3,000,000,000	3,000,000,000
	General Funding Requirements	2011	FIXED at 5.25%	3,680,000,000	3,680,000,000
	General Funding Requirements	2016	FIXED at 5.875%	6,320,000,000	6,320,000,000
<b>Caliraya-Botocan-Kalayaan Power Corporation</b>					
	General Funding Requirements	2006 to 2016		1,319,482,991	1,879,051,375
<b>Erste Bank Österreich</b>					
	Agus 1 Hydro Electric Power Rehabilitation	2005 to 2013	EUR LIBOR + 0.50%	293,085,183	369,518,458
<b>Kanbutsu-CXZ Association</b>					
	500KW Diesel-Fired Gensets	2006 to 2010	FIXED at 4.50%	238,055,750	395,512,600
<b>Kepeco Philippines Corporation</b>					
	General Funding Requirements	1998 to 2008		600,314,500	1,154,602,000
<b>Shell Philippines Exploration</b>					
	Ilijan GSPA/Take or Pay	2000	LIBOR + 2.00%	-	14,537,503,079
<b>Artigiancassa MCA</b>					
	Bacon-Manito Geothermal	2001 to 2010	FIXED at 1.50%	925,079,610	1,463,765,290
<b>Sojitz Corporation/Nichimen Corporation</b>					
	Various Spare Parts of SPUG (Contract A)	2006-2007	FIXED at 4.0%	-	143,725,866
	Various Spare Parts of SPUG (Contract B)	2008	FIXED at 4.0%	126,712,565	143,725,866
<b>US Agency for International Development</b>					
492-H-032	Tiwi Geothermal 1&2	1985 to 2015	FIXED at 3.0%	41,755,383	55,362,311
492-H-032	Tiwi Geothermal 1&2	2002 to 2012	FIXED at 3.0%	6,705,021	9,725,322
<b>Banco de Oro/Development Bank of Phils.</b>					
	Leyte-Cebu Interconnection Upgrading Proj	2006 to 2012	FIXED at 11.32%	450,000,000	550,000,000
<b>Department of Energy (DOE)</b>					
	Gas Sale and Purchase Agreement			27,831,591,135	13,006,303,271
<b>Gruppo Industrie Elettro</b>					
	Kalayaan Pumped Storage	2000-2007	FIXED at 5.45%	-	80,348,422
<b>Kleinwort Benson</b>					
	Batangas Coal I	2000-2007	LIBOR + 0.100%	-	1,948,229
<b>Eximbank of USA</b>					
	Batangas Coal I	2000-2007	FIXED at 2.82%	-	30,599,101
<b>Marubeni America</b>					
	Malaya Thermal	2000-2007	LIBOR + 0.100%	-	7,898,252
<b>Interbanca</b>					
	Various Projects	2000-2007	FIXED at 5.45%	-	10,035,546
	Various Projects	2000-2008	FIXED at 5.45%		344,183
	Various Projects	2000-2009	FIXED at 5.45%		3,442,152
<b>Efibanca</b>					
	Magat 1 & 4	2000-2007	FIXED at 5.45%	-	11,247,182
<b>Mitsubishi Corporation</b>					
	Tongonan Geothermal	2000-2007	Long-Term Prime Rate + 0.10%	-	22,996,104
	Makban BOP 3&4	2000-2007	Long-Term Prime Rate + 0.10%	-	12,030,375
	Makban ME 3&5	2000-2007	Long-Term Prime Rate + 0.10%	-	12,942,442
<b>Mitsui &amp; Company</b>					
	Tiwi BOP/EWO 1&2	2000-2007	Long-Term Prime Rate + 0.10%	-	7,158,364
	Tiwi BOP 3&4	2000-2007	Long-Term Prime Rate + 0.10%	-	11,125,766
	Tiwi ME 3&4	2000-2007	Long-Term Prime Rate + 0.10%	-	11,784,268
<b>Marubeni Corporation</b>					
	Tiwi 5&6	2000-2007	Long-Term Prime Rate + 0.10%	-	51,124,714
<b>Kanematsu-Gosho</b>					
	Agus 7	2000-2007	Long-Term Prime Rate + 0.10%	-	2,129,981
	Aplaya-Kabawe Transmission Line	2000-2007	Long-Term Prime Rate + 0.10%	-	6,106,648



CREDITOR / PROJECT	MATURITIES	INTEREST RATES	2007	2006
Luzon Priority Transmission Line	2000-2007	Long-Term Prime Rate + 0.10%	-	6,524,539
Palimpon Geothermal	2000-2007	Long-Term Prime Rate + 0.10%	-	87,544,245
<b>Toyo Menka Kaisha Ltd.</b>				
Masiway Hydro	2000-2007	Long-Term Prime Rate + 0.10%	-	4,181,822
<b>International Bank for Aussenhandel</b>				
Pulangi 4	2000-2007	FLOAT at 0.600%	-	24,527,987
Naga II Coal Fired	2000-2007	FLOAT at 0.600%	-	121,803,642
<b>O. Kontrollbank</b>				
Agus 1	2000-2007	FLOAT at 0.600%	-	70,884,981
<b>Creditanstalt</b>				
Magat 1&4	2000-2007	FLOAT at 0.600%	-	16,417,565
Pulangi 4	2000-2007	FLOAT at 0.600%	-	6,341,709
<b>Lahmeyer International</b>				
Chico 4		FIXED at 8.60%	-	475,006
Chico 4		FIXED at 8.60%	-	179,960
Agus 4 & 5		FIXED at 8.60%	-	1,867,942
<b>TOTAL</b>			<b>320,409,854,631</b>	<b>376,519,650,756</b>
<b>Less: Current Portion</b>			<b>13,998,248,425</b>	<b>15,874,379,260</b>
			<b>306,411,606,206</b>	<b>360,645,271,496</b>

There was no bond issuance for CY 2007 and additional prepayment on Nomura Bonds made to PSALM.

#### PRINCIPAL-ONLY SWAP (POS)

On July 18, 2007, PSALM and NPC successfully executed the unprecedented US\$ 300 million Principal-Only Swap (POS) transaction with three international banks. This transaction is the first currency swap undertaken by the government owned and controlled corporation (GOCC) in the Philippines and the longest currency swap transaction ever in Southeast Asia. The POS fixes US\$ 300 million of NPC obligations at a dollar to peso rate of USD1 to Php 44.788 until the maturity year in 2028 for a competitive interest premium per annum. The transaction serves as "liability insurance" as it synthetically transforms 4% of the foreign-denominated debt into peso, an objective PSALM/NPC has set under Liability Management Program Phase-1 (LMP-1).

The account payable to DOE of P27,832 million representing the share of the government from the net proceeds or Quarterly Assigned Petroleum Amount from Malampaya covering January 2002 to December 2007. Said amount was utilized to offset the amount of NPC's payables to SPEX for the Take or Pay Quantity Obligation of NPC pursuant to the Support Assigned and Payment Agreement (SAPA) entered into by the government (through DOE), NPC and Shell Exploration B.V. & Occidental Philippines, Inc.

Foreign Loans are restated at year-end based on the following BSP guiding rates on foreign currencies :

		BSP Guiding Rates	
		12-28-07	12-29-06
Dollar	USD 1	41.4010	49.1320
Yen	JPY 1	0.3642	0.4131
Franc	CHF 1	36.3326	40.2161
Euro	EUR 1	60.5572	64.6037
Won	KRW 1	0.0441	0.0529

#### 23. LEASE OBLIGATION - BOT

Total capacity fees for BOT Plants for the duration of the cooperation period are recorded as Electric Plant Under Capital Lease account with a corresponding credit to Lease Obligations. Estimated capacity fees payable the following year are set-up to Current Liabilities under the Lease Payable account.

	2007	2006
Lease Obligation	<b>453,127,767,508</b>	575,029,575,737
Less: Current Portion	<b>33,479,044,865</b>	38,919,821,896
	<b>419,648,722,643</b>	536,109,753,841

The decrease in the account was mainly due to revaluation of Lease Obligation which amounted to P83.587 billion and payments amounting to P38.314 billion. The lower set-up to current portion was due to lower translation of foreign currencies to peso.

#### 24. DEPOSITS AND TRUST FUNDS

Deposits and Trust Funds account mainly includes amounts received and segregated for the execution of specific projects or contracts. It also includes the amounts deposited/advanced by power customers to the Corporation.

#### 25. DEFERRED CREDITS

Deferred credits mainly include net advances of the Bureau of Treasury to NPC for the debt servicing of foreign loans and various payments to Independent Power Producers.

#### 26. OPERATING REVENUE

Net Operating Revenue of P187.423 billion includes energy output traded in the Wholesale Electricity Market amounting to P23.242 billion and the amount of P1.340 billion for the Universal Charges for Missionary Electrification in CY2007. It also includes the Net Operating Revenue of TransCo amounting to P32.248 billion.

#### 27. OTHER OPERATING EXPENSES

Other Operating expenses consist of:

	2007	2006
Local Government Taxes	<b>954,506,342</b>	355,839,641
Insurance Expense	<b>755,312,606</b>	639,218,801
Financial Assistance	<b>537,520,421</b>	475,285,893
WESM Charges	<b>265,201,826</b>	64,982,764
Job Order	<b>156,012,425</b>	145,883,499
Taxes and Duties	<b>105,197,359</b>	109,793,877
Cost of Audit Services	<b>30,542,845</b>	32,647,742
	<b>2,804,293,824</b>	1,823,652,217

The Local Government Code has empowered the Local Government Units (LGUs) to create their own sources of revenue and to levy taxes. Pursuant to this, effective January 1992, the payment of realty, franchise tax and Local Government Unit's share in the national wealth became a contracted obligation of NPC to the LGU's. The increase in Local Government Taxes was due to the payment of Franchise Tax of TransCo amounting to P82 million and the accrual of Real Property Taxes on Machineries of IPP plants amounting to P530 million. The payment of Real Property Taxes (RPT) is in pursuance to Board Resolution No. 2007-24 dated June 2007, where the National Power Board authorized the incumbent President of the National Power Corporation to settle, with prejudice all pending RPT liabilities involving NPC - IPP power plants at the assessment rate of 10% conditioned on the waiver by LGUs of the interest, surcharges and penalties incurred subject to concurrence by the Office of the Solicitor General (OSG).

The increase in insurance was due to increase in insurance premium from GSIS.

WESM charges pertain to the Market transaction fees paid as a registered WESM trading participant. This is in relation with the implementation of the Wholesale Electricity Spot Market (WESM) pursuant to Section 30 of R.A. No. 9136, and the ERC approval on the imposition of Market transaction fees to all registered WESM trading participants. The sharp increase was mainly due to the full blast operation in CY2007 of the WESM.

#### 28. AMORTIZATION OF ELECTRIC PLANTS UNDER CAPITAL LEASE

Amortization of capacity fee consists of the following:

	2007	2006
Iljan Nat Gas	<b>4,295,488,654</b>	4,295,488,655
Sual Coal Fired Power Plant I	<b>3,869,375,579</b>	3,869,375,579
Sual Coal Fired Power Plant II	<b>3,869,375,579</b>	3,869,375,579
Pagbilao 1	<b>2,477,223,000</b>	2,477,223,000
Pagbilao 2	<b>2,477,223,000</b>	2,477,223,000
San Roque Power Corp.	<b>2,323,871,881</b>	2,323,871,881
Bakun Plant Unit 1	<b>1,225,038,497</b>	1,225,038,497
Bakun Plant Unit 2	<b>1,225,038,497</b>	1,225,038,497
Bauang	<b>809,517,467</b>	809,517,467
Subic - Enron	<b>581,454,074</b>	581,454,074
NMPC 2	-	13,042,605
Kalayaan Unit 3 & 4	<b>869,394,087</b>	869,394,087
STEAG Unit 1	<b>546,419,189</b>	159,372,263
STEAG Unit 2	<b>543,293,579</b>	67,911,697
	<b>25,112,713,083</b>	24,263,326,881

#### 29. GAIN (LOSS) ON FOREX FLUCTUATION

This account consists of:

	2007	2006
Revaluation:		
Loans Payable	<b>38,058,914,447</b>	22,305,873,035
Lease Obligation - BOT	<b>83,587,441,812</b>	46,163,936,918
Foreign Currency Deposits	<b>(288,756,641)</b>	(165,668,549)
Total Revaluation	<b>121,357,599,618</b>	68,304,141,404
Gain on Foreign Transactions	<b>2,299,833,040</b>	439,501,877
	<b>123,657,432,658</b>	68,743,643,281

**30. FOREX RECOVERY**

For proper matching of cost and revenue, recovery from ICERA 1, which is a recovery of peso fluctuation on principal repayments, is reported as other income, while recovery from ICERA II, which is a recovery of foreign-denominated other operating expenses, is recorded as part of operating revenue.

Effective August 26, 1994, the Corporation included in the customer's power bills Foreign Exchange Adjustment charges intended to recover the Corporation's foreign exchange losses arising from the servicing of its principal indebtedness (FOREX 1 or ICERA 1) and related foreign operating expenses (FOREX 11 or ICERA 2).

**31. GAIN ON RETIREMENT OF ASSET**

The Gain on Retirement of Asset in CY 2006 mainly pertains to the gain on sale of the Pantabangan HEPP.

**32. MISCELLANEOUS INCOME**

This account consists of the following:

	2007	2006
Management Fee-EPZA	143,183,293	157,405,973
Supplier's Discount/Income from Liquidated Damages	50,684,902	24,144,697
Rental Income	13,503,936	10,527,068
Bid Related Income	7,428,975	11,751,232
Waived Amortization of Security Deposit of CBK Power Company	0	1,384,246,581
Others <sup>1</sup>	235,390,883	295,343,703
	450,191,989	1,883,419,254

<sup>1</sup> Consists of sale of scrap materials and used fuel and fly ash, penalty for the excess downtime of Island Power Corporation and fuel cost differentials

**33. MISCELLANEOUS EXPENSES**

Miscellaneous expenses consist mainly of expenses incurred in the housekeeping/maintenance of decommissioned plants.

**34. INCOME TAX**

The National Transmission Corporation, with the recent assessment by the Bureau of Internal Revenue, is now subject to the corporate income tax beginning 2007. Meanwhile, it is also stated that under the "Regulatory Reset for the National Transmission Corporation (TransCo) for 2006-2010 Final determination" issued by the Energy Regulatory Commission (ERC) dated June 13, 2006 under ERC Case Number 2005-041, TransCo was allowed to collect the allocation for the payment of corporate income tax as part of the transmission charges. Such income tax allocation and collection was allowed by ERC starting 2007.

**35. NPC- PNOC-EDC ARBITRATION AGREEMENT ON OUTSTANDING CLAIMS**

National Power Board Resolution No. 2007-62 dated November 14, 2007 approved the agreements entered into between NPC and PNOC-EDC dated October 26, 2007 and the arbitration agreement dated November 5, 2007 subject to all applicable laws, rules and regulations. Likewise, said Board Resolution also gives authority to the President of the Corporation, or his duly designated representative, to submit the remaining issues for arbitration with the Office of the Government Corporate Counsel (OGCC). This aims to finally settle all related claims as well as payables to PNOC-EDC.

**36. PENDING CASES**

The Corporation has contingent claims in several lawsuits amounting to P759 million while its contingent liabilities amounted to a total of P16,850 million. The total number of pending cases as of year end CY 2007 had reached to 1,402 cases.

**37. ASSET AND DEBT TRANSFER****Asset Transfer**

On December 21, 2001, separate Deeds of Transfer covering all of NPC's generation, transmission, real estate, disposable assets, contracts, liabilities and obligations required under EPIRA to be assumed by PSALM Corp. and TransCo, was executed by and between NPC and PSALM, on one hand and NPC and TransCo on the other hand, subject to certain terms and conditions contained therein. To date, there are still conditions precedents that have yet to be completed/satisfied to effect the actual transfer of these assets, which include obligation transfer process: creditors consent solicitation, review of transfer and amendment agreement by Bangko Sentral ng Pilipinas (BSP), clearance from the Inter-Agency Committee (IAC) and the final Monetary Board Approval.

Relative to the foregoing Transfer Agreement, PSALM and NPC shall execute a General Framework Agreement (GFA) now on its finalization stage, which will provide the terms and conditions for the following services which shall be undertaken by NPC on behalf of PSALM:

- IPP contracts management;
- Operation, maintenance and management of PSALM's generation assets;
- Operation, maintenance and management of the Agus and Pulangui complexes in Mindanao; and
- Corporate services.

Under the GFA, it was agreed that PSALM shall provide NPC funds necessary in the performance of the above services. Consequently, all income generated and assets acquired from the implementation of the GFA shall subsequently be remitted and transferred to PSALM.

The GFA, together with its Supplemental Agreements, shall become effective beginning the date of transfer until such time that said assets were disposed by PSALM.

**Debt Transfer**

To execute the transfer to PSALM, consents are being obtained from almost 36 creditors comprising bondholders, bilateral and multilateral lenders, and commercial creditors. A large portion of NPC's

obligations are bilateral loans which require control of only one creditor. In general, these syndicated facilities require the consent of banks holding 66 2/3% of the outstanding loans. Advanced discussion with each creditor was made to obtain the necessary consent and to move forward with the privatization.

PSALM already completed the consent solicitation relating to the transfer of two bonds issued by NPC. These consisted of dollar and yen-denominated bonds where transfer requires the consent of the IBRD and ADB, respectively. In addition, an exchange offer was conducted to facilitate transfer of Yankee bonds to PSALM, of which 98 3/5% of the principal amount outstanding was exchanged. Moreover, on October 23, 2003, the consent solicitation for the Euro bonds of NPC was launched. It requires the passing of Extraordinary Resolution among the bondholders necessary to meet 75% of the outstanding principal amount being represented in person or by proxy. Majority vote of those voting is necessary to effect the Resolution.

**38. Tariff's Significant Development in 2007****Approved Deferred Accounting Adjustments:**

- On February 7, 2007, ERC issued the provisional authority (PA) for Seventh Generation Rate Adjustment Mechanism (7th GRAM) and Sixth Incremental Currency Exchange Rate Adjustment (6th ICERA) under ERC Cases No. 2006-073RC and 2006-072RC, respectively. The decision, which is based on a test period November 2005 to January 2006, granted rate adjustments in P/kWh of (0.0430), (0.3151) and (0.0045) for Luzon, Visayas and Mindanao, respectively, effective March 2007 billing month. Final decision for the two (2) applications issued in June 12, 2007 stated that the PAs granted in February 7, 2007 are made permanent.
- On September 5, 2007, ERC issued the provisional authority (PA) for the Eight Generation Rate Adjustment Mechanism (8th GRAM) and Seventh Incremental Currency Exchange Rate Adjustments (7th ICERA) under ERC Cases No. 2006-099RC and 2006-100RC, respectively. The decision, which is based on a test period February 2006 to June 2006, granted rate adjustments in P/kWh of (0.5326), (0.2549) and (0.0637) for Luzon, Visayas and Mindanao, respectively, effective October 2007 billing month.

**Pending Application with ERC:**

- On November 19, 2007, NPC filed for an authority from ERC to recover the costs of the Purchase Power Agreement of Caliraya Botocan Kalayaan (CBK) Build-Rehabilitate-Operate-Transfer (BROT) which if approved by ERC will give additional revenue to NPC.

**39. PRIVATIZATION UPDATE**

There are 31 generation assets identified for privatization with an aggregate capacity of 5,914.1 MW (including decommissioned or retired plants). These do not include the Agus and Pulangui hydroelectric power complexes in Mindanao which cannot be privatized earlier than 10 years from the effectivity of the EPIRA (2001). The total operating capacity of the generating plants is 5,914.1 MW. However, the total capacity required for Open Access and Retail Competition (OARC) in the Luzon-Visayas Grid is 4,355.70 MW.

**List of Generation Assets for Privatization**

FUEL TYPE	PLANT NAME	RATED CAPACITY (in MW)	LOCATION
	Calaca*	600	Calaca, Batangas, Luzon
Coal	Masinloc*	600	Masinloc, Zambales, Luzon
	Limay/Bataan Combined Cycle	620	Limay, Bataan, Luzon
Diesel	Navotas I & II	210 & 100	Navotas, Metro Manila, Luzon
	Panay I	36.5	Tinocuan, Dingle, Iloilo, Visayas
	Iligan I & II	114	Mapalad, Iligan City, Mindanao
	Bohol	22	Tagbilaran City, Bohol, Visayas
Diesel/Bunker	Panay III	110	Dingle, Iloilo, Visayas
Geothermal	Makban	410	Laguna & Batangas, Luzon
	Tiwi	275	Tiwi, Albay, Luzon
	Bac-Man	150	Manito, Albay & Bacon, Sorsogon, Luzon
	Palinpinon	192.5	Valencia, Negros Oriental, Visayas
	Tongonan/Leyte	112.5	Lim-ao, Kananga, Leyte, Visayas
Hydro	Magat*	360	Ramon, Isabela, Luzon
	Angat	246	Norzagaray, Bulacan, Luzon
	Binga*	100	Tinongdan, Itogon, Benguet, Luzon
	Pantabangan*	100	Pantabangan, Nueva Ecija, Luzon
	Ambuklao*	75	Bokod, Benguet, Luzon
	Masiway*	12	Pantabangan, Nueva Ecija, Luzon
	Barit*	1.8	Buhi, Camarines Sur, Luzon
	Cawayan*	0.4	Sorsogon City, Sorsogon, Luzon
	Amlan	0.8	Amlan, Negros Oriental, Visayas
	Agusan*	1.6	Manolo Fortich, Bukidnon, Mindanao
	Loboc*	1.2	Loboc, Bohol, Visayas
	Talomo*	3.5	Tugbok, Davao City, Mindanao
<b>Generation assets that have been retired</b>			
	Bataan Thermal	225	Limay, Bataan, Luzon
	Manila Thermal	200	Isia del Provisor, Ermita, Manila, Luzon
	Sucat Thermal	850	Sucat, Muntinlupa City, Luzon
	Cebu II Diesel	54	Talavera, Toledo City, Cebu, Visayas
	Aplaya Diesel	108	Aplaya, Jasaan, Misamis Oriental, Mindanao
<b>Decommissioned Plant</b>			
	General Santos Diesel	22.3	Gen. Santos City, South Cotabato, Mindanao
	Total Capacity	5,914.1	

\*Successfully bid out as of December 2007

Of the 31 plants identified for privatization, PSALM has successfully bid out twelve (12) generating plants. Of this number, ten (10) have a total rated capacity of 1,850.40 MW representing about 43% of capacities in the Luzon and the Visayas grids. As per Section 47-i of the EPIRA, the 70% privatization requirement for Open Access and Retail Competition (OARC) initially covers the interconnected grids of Luzon and Visayas only. Thus, the Mindanao plants, Agusan and Talomo, are not included in the OARC requirement.

The privatization level is significantly accounted for by the successful bids for two (2) coal-fired thermal power plants held in 2007. PSALM awarded the 600-MW Masinloc plant to the consortium of Masinloc Power Partners Co. Ltd. (MPPCL) which was bid out on 26 July 2007. MPPCL posted an offer of USD930 Million for the Zambales-based power facility. The Notice of Award and Certificate of Effectivity were issued in August 2007. On 16 October 2007, the 600-MW Calaca coal-fired thermal power plant fetched an offer of USD786.53 million from the consortium of Calaca Holdco Inc.. The consortium is wholly owned by Suez-Tractebel through its wholly-owned subsidiary, Belgelectric Finance B.V. The Notice of Award and Certificate of Effectivity were issued on 09 November 2007.

Eight (8) hydroelectric plants were turned-over to private owners. These include the 100-MW Pantabangan and the 12-MW Masiway plants bid out as one package in September 2006 and the 360-MW Magat plant bid out in December 2006. Talomo, Agusan, Barit, Cawayan and Loboc were turned over to the winning bidders in 2005 and Pantabangan-Masiway in 2006. Magat was formally turned over to the winning bidder, SN Aboitiz Power Corp. (SNAP), on 25 April 2007. On 31 October 2007, SNAP made the full payment totaling USD 530 million.

SN Aboitiz Power Hydro Inc. (SNAP Hydro) was declared the highest bidder for the 75-megawatt (MW) Ambuklao and 100-MW Binga hydroelectric power facilities bid out on 28 November 2007. SNAP offered USD325 million for the Benguet-based power facilities.

The following generation assets have been sold:

No.	Year Sold/ Privatized	Power Plant	Rated Capacity (in MW)	Location	Winning Bidder	Winning Bid Price (US\$M)	Price (US\$M/MW)
1	2004	Talomo Hydroelectric Power Plant	3.5	Davao	Hydro Electric Development Corporation	\$1.37	0.39
2	2004	Agusan Hydroelectric Power Plant	1.6	Agusan	First Generation Holdings	\$1.53	0.93
3	2004	Barit Hydroelectric Power Plant	1.8	Camarines Sur	People's Energy Services, Inc.	\$0.48	0.27
4	2004	Cawayan Hydroelectric Power Plant	0.4	Sorsogon	Sorsogon II Electric Cooperative, Inc	\$0.41	1.02
5	2004	Loboc Hydroelectric Power Plant	1.2	Bohol	Sta. Clara International Corporation	\$1.42	1.18
6-7	2006	Pantabangan-Masiway Hydroelectric Power Plant	112	Nueva Ecija	First Gen Hydropower Corporation	\$129	1.15
8	2006	Magat Hydroelectric Power Plant	360	Isabel	SN Aboitiz Power Corporation	\$530	1.47
9	2007	Masinloc Coal-Fired Thermal Power Plant	600	Zambales	Masinloc-Power Partners Co. Ltd.	\$930	1.55
10	2007	Calaca Coal-Fired Thermal Power Plant	600	Batangas	Calaca Holdco Inc.	\$787	1.31
11-12	2007	Ambuklao-Binga Hydroelectric Power Complex	175	Benguet	SN Aboitiz Power Hydro Inc.	\$325	1.86

The operation of TransCo was bid out last 12 December 2007. The consortium of Monte Oro Grid Resources Corp., Calaca High Power Corp. and State Grid Corp. of China was declared the highest bidder for the 25-year concession of TransCo. Monte Oro Grid offered USD3.950 Billion for the concession contract. PSALM has signed and sent out to the winning bidder the Direct Agreement on the privatization of the TransCo.

The remaining NPC's generating assets Indicative Sale Schedule (2008-2010) is as follows: (The plant line up may be subject to change and individual plants may be considered for pairing or grouping as may be viable)

No.	Month	Power Plants
<b>CY 2008</b>		
1-2	May	289 MW Tiwi – 457.73 MW Makban
3	June	0.8 MW Amlan
4-5		192.5 MW Palipinon – 146.5 MW Panay
6	July	620 MW Limay (NPC-IPP)
7-8	August	112.5 MW Tongonan - 22 MW Bohol
9		150 MW Bacman
10-11	September	114 MW Iligan I & II
12	November	116 MW Subic Zambales (NPC-IPP)
<b>CY 2009</b>		
1	February	55 MW Naga LBGT 1 & 2 (NPC-IPP)
2	March	246 MW Angat
3	April	210 MW Navotas I / 100 MW Navotas II
4	May	100 MW PB 117 (NPC-IPP)
5	June	100 MW PB 118 (NPC-IPP)
	July	Start of preparations for the sale of Agus and Pulangui Hydro Complex
6	November	650 MW Malaya (NPC-IPP)
<b>CY 2010</b>		
1	April	235.2 MW Bauang Diesel (NPC-IPP)

The decommissioned plants' Indicative Sale Schedule (CY 2008-2009) is as follows:

No.	Month	Power Plants
<b>CY 2008</b>		
1	February	200 MW Manila Thermal
2	April	225 MW Bataan Thermal
3-4	December	108 MW Aplaya - 22.3 MW Gen. Santos
<b>CY 2009</b>		
1	March	54 MW Cebu II
2	August	800 MW Sucat

#### 40. DATE OF AUTHORIZATION FOR ISSUE OF FINANCIAL STATEMENTS

The Financial Statements were approved and authorized for issue by the National Power Board on May 15, 2008.

No events occurred between balance sheet date and the date on which the financial statements were approved by the board of directors that would require adjustment to or disclosure in the financial statements.





# NATIONAL POWER MANAGEMENT COMMITTEE



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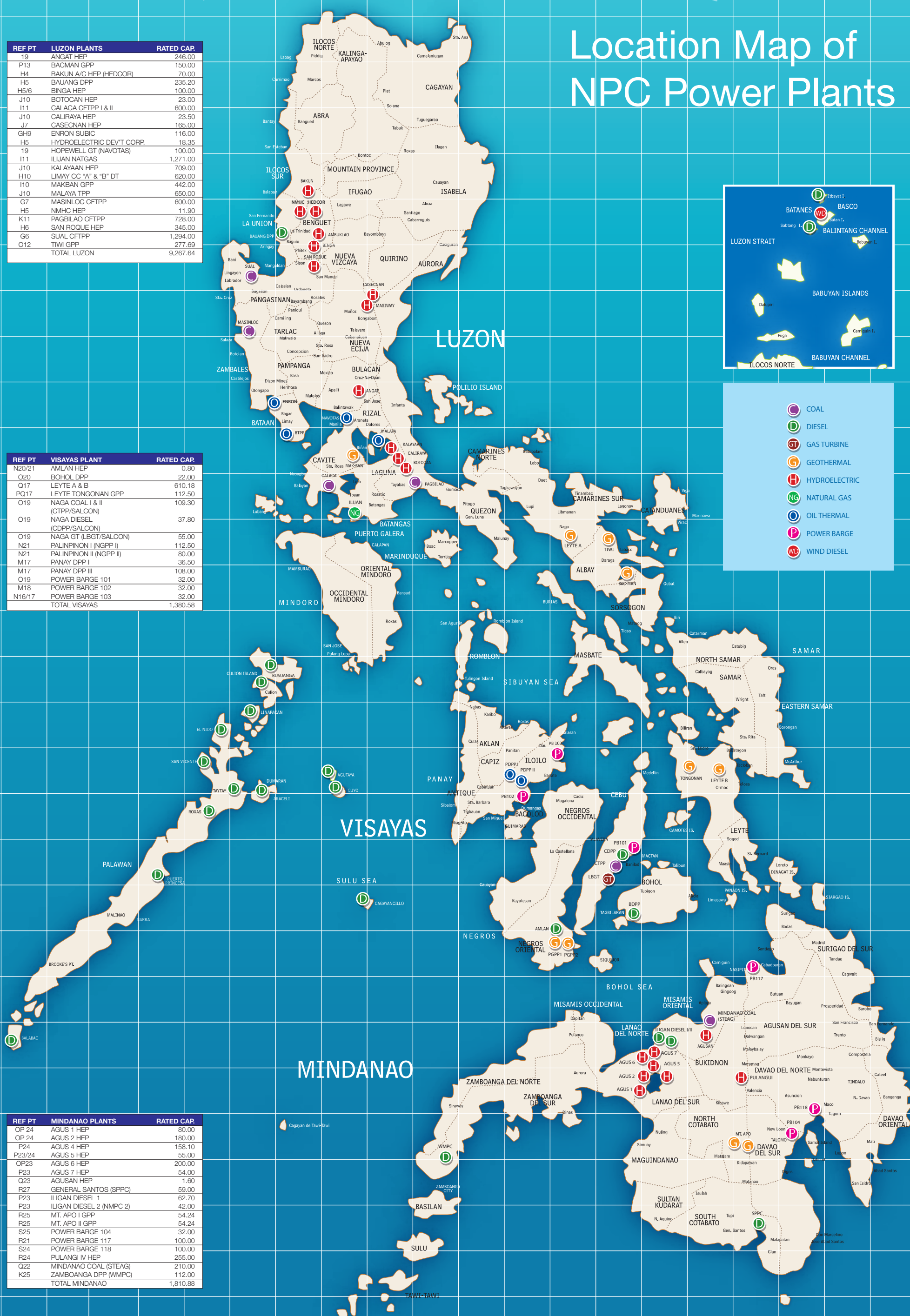


# Location Map of NPC Power Plants

REF PT	LUZON PLANTS	RATED CAP.
P19	ANGAT HEP	246.00
P13	BACMAN GPP	150.00
H4	BAKUN A/C HEP (HEDCOR)	70.00
H5	BAUANG DPP	235.20
H5/6	BINGA HEP	100.00
J10	BOTOCAN HEP	23.00
I11	CALACA CFTPP I & II	600.00
J10	CALIRAYA HEP	23.50
J7	CASECNAN HEP	165.00
GH9	ENRON SUBIC	116.00
H5	HYDROELECTRIC DEV'T CORP.	18.35
P19	HOPEWELL GT (NAVOTAS)	100.00
I11	ILIJAN NATGAS	1,271.00
J10	KALAYAAN HEP	709.00
H10	LIMAY CG "A" & "B" DT	620.00
I10	MAKBAN GPP	442.00
J10	MALAYA TPP	650.00
G7	MASINLOC CFTPP	600.00
H5	NMHC HEP	11.90
K11	PAGBILAO CFTPP	728.00
H6	SAN ROQUE HEP	345.00
G6	SUAL CFTPP	1,294.00
O12	TIWI GPP	277.69
	TOTAL LUZON	9,267.64

REF PT	VISAYAS PLANT	RATED CAP.
N20/21	AMLAN HEP	0.80
O20	BOHOL DPP	22.00
Q17	LEYTE A & B	610.18
PQ17	LEYTE TONGONAN GPP	112.50
O19	NAGA COAL I & II (CTPP/SALCON)	109.30
O19	NAGA DIESEL (CDPP/SALCON)	37.80
O19	NAGA GT (LBGT/SALCON)	55.00
N21	PALINPINON I (NGPP I)	112.50
N21	PALINPINON II (NGPP II)	80.00
M17	PANAY DPP I	36.50
M17	PANAY DPP III	108.00
O19	POWER BARGE 101	32.00
M18	POWER BARGE 102	32.00
N16/17	POWER BARGE 103	32.00
	TOTAL VISAYAS	1,380.58

REF PT	MINDANAO PLANTS	RATED CAP
OP 24	AGUS 1 HEP	80.00
OP 24	AGUS 2 HEP	180.00
P24	AGUS 4 HEP	158.10
P23/24	AGUS 5 HEP	55.00
OP23	AGUS 6 HEP	200.00
P23	AGUS 7 HEP	54.00
P23	AGUSIAN HEP	1.60
Q23	GENERAL SANTOS (SPPC)	59.00
P23	ILIGAN DIESEL 1	62.70
P23	ILIGAN DIESEL 2 (NIMPC 2)	42.00
R25	MT. APO I GPP	54.24
R25	MT. APO II GPP	54.24
S25	POWER BARGE 104	32.00
R21	POWER BARGE 117	100.00
S24	POWER BARGE 118	100.00
R24	PULANGI IV HEP	255.00
Q22	MINDANAO COAL (STEAG)	210.00
K25	ZAMBOANGA DPP (WMPCC)	112.00
	TOTAL MINDANAO	1 810.80



# LIST OF NPC POWER PLANTS

(As of December 2007)

## NPC-OWNED & -OPERATED PLANTS

Plant Name	No. & Unit Size (MW)	Location	Rated Cap. (MW)
<b>LUZON</b>			<b>2,414.5</b>
BINGA	4 X 25	Itogon, Benguet	100.00
ANGAT HEP (TOTAL)		Norzagaray, Bulacan	246.0
<b>TOTAL HYDRO</b>			<b>346.0</b>
TIWI GPP (TOTAL)	6 x 55	Tiwi, Albay	275.7
MAK-BAN GPP (TOTAL)	2 x 55	Bitin, Laguna	442.8
BAC-MAN GPP (TOTAL)	2 x 55	Bacon, Sorsogon	150.0
<b>TOTAL GEOTHERMAL</b>			<b>868.5</b>
CALACA CFTPP I & II	2 x 300	Calaca, Batangas	600.0
MASINLOC CFTPP I & II	2 x 300	Masinloc, Zambales	600.0
<b>TOTAL COAL</b>			<b>1,200.0</b>
<b>VISAYAS</b>			<b>570.5</b>
AMLAN	2 x 0.4	Amlan, Negros Oriental	0.8
<b>TOTAL HYDRO</b>			<b>0.8</b>
PALINPINON GPP I (NGPP I)	3 x 37.5	Valencia, Negros Oriental	112.5
PALINPINON II (NGPP II)	4 x 20	Valencia, Negros Oriental	80.0
LEYTE TONGONAN GPP (LGPP I)	3 x 37.5	Kananga, Leyte	112.5
<b>TOTAL GEOTHERMAL</b>			<b>305.0</b>
BOHOL DPP	4 x 5.5	Dampas, Tagbilaran City	22.0
PANAY DPP I	5 x 7.3	Dingle, Iloilo	36.5
PANAY DPP III	2x12.93; 2x14.63	Dingle, Iloilo	110.2
POWER BARGE #101	4 x 8.0	Lapu-Lapu, Cebu City	32.0
POWER BARGE #102	4 x 8.0	Bo. Obrero, Iloilo City	32.0
POWER BARGE #103	4 x 8.0	Estancia, Iloilo	32.0
<b>TOTAL OIL (Bunker C)</b>			<b>264.7</b>
<b>MINDANAO</b>			<b>1,076.8</b>
ILIGAN DIESEL	12 x 5.7	Dalipuga, Iligan City	62.7
<b>TOTAL DIESEL</b>			<b>62.7</b>
POWER BARGE #104	4 x 8.0	Brgy. Ilang, Davao City	32.0
<b>TOTAL OIL (Bunker C)</b>			<b>32.0</b>
AGUS 1	2 x 40	Marawi City, Lanao Sur	80.0
AGUS 2	3 x 60	Saguiaran, Lanao Sur	180.0
AGUS 4	3 x 52.7	Baloi, Lanao Norte	158.1
AGUS 5	2 x 27.5	Ditucalan, Iligan City	55.0
AGUS 6 (U1 & U2)	2 x 25	Fuentes, Iligan City	200.0
AGUS 6 (U3 to U5)	3 x 50	Fuentes, Iligan City	
AGUS 7	2 x 27	Fuentes, Iligan City	54.0
PULANGUI IV	3 x 85	Maramag, Bukidnon	255.0
<b>TOTAL HYDRO</b>			<b>982.1</b>
<b>TOTAL PHILIPPINES</b>			<b>4,061.8</b>

NOTE: Inclusive of all plants that were operational at anytime of 2007.



## NPC-OWNED PLANTS OPERATED BY IPPs

Plant Name	Contract Type	Location	Rated Cap. (MW)
<b>LUZON</b>			<b>1,670.50</b>
CALIRAYA	BROT-PPA	Lumban, Laguna	23.50
BOTOCAN	BROT-PPA	Majayjay, Laguna	23.00
KALAYAAN 1-2 UNITS PUMPED STORAGE	BROT-PPA	Kalayaan, Laguna	354.00
<b>TOTAL HYDRO</b>			<b>400.50</b>
MALAYA TPP 1 & 2	ROM-ECA	Pililia, Rizal	650.00
LIMAY CC "A" & "B"	BTO-OMR	Limay, Bataan	620.00
<b>TOTAL OIL</b>			<b>1,270.00</b>
<b>VISAYAS</b>			<b>202.10</b>
NAGA COAL I & II (CTPP/Salcom)	ROMM-ECA	Colon, Naga, Cebu	109.30
<b>TOTAL COAL</b>			<b>109.30</b>
NAGA DIESEL (CDPP I/Salcom)	ROMM-ECA	Colon, Naga, Cebu	37.80
NAGA GT LAND-BASED (LBGT/Salcom)	ROMM-ECA	Naga, Cebu	55.00
<b>TOTAL OIL</b>			<b>92.80</b>
<b>MINDANAO</b>			<b>200.00</b>
POWER BARGE 117	BTO-ESOM	Nasipit, Agusan del Norte	100.00
POWER BARGE 118	BTO-ESOM	Compostela, Davao del Norte	100.00
<b>TOTAL OIL (Bunker C)</b>			<b>200.00</b>
<b>TOTAL PHILIPPINES</b>			<b>2,072.60</b>

ROM-ECA (Rehabilitate-Operate-Maintain/Energy Conversion Agreement)

ROMM-ECA (Rehabilitation-Operation-Maintenance and Management Agreement/Energy Conversion Agreement)

BROT-PPA (Build-Rehabilitate-Operate-Transfer/Power Purchase Agreement)

BTO-ESOM (Build-Transfer-Operate/Electricity Supply, Operation and Maintenance Agreement)

BTO-OM (Build-Transfer-Operate/Operation and Maintenance Agreement)

BTO-OMR (Build-Transfer-Operate/Operation-Maintenance-Repair Agreement)

Plant Name	Location	Political Region	Type of Contract	Rated Capacity (MW)
<b>LUZON</b>				<b>4,609.45</b>
HYDRO ELECT. DEVT CORP	Banengbeng, Benguet	CAR	BOO-EPSA	18.35
NMHC	Bakun, Benguet	CAR	BOO-EPSA	11.90
BAKUN A/C HEP (HEDCOR)	Benguet & Ilocos Sur	CAR, I	BOT-PPA	70.00
CASECNAN (NIA)	Quirino	II	BOT-PPA	165.00
KALAYAAN 3-4 UNITS PUMPED STORAGE	Kalayaan Laguna	IV-A	BROT-PPA	355.00
SAN ROQUE MULTI-PURPOSE	San Manuel, Pangasinan	I	BOT-PPA	345.00
<b>TOTAL HYDRO</b>				<b>965.25</b>
ENRON-SUBIC II	Olongapo, Zambales	III	BOT-ECA	116.00
BAUANG LA UNION DPP (BPPC)	Bauang, La Union	I	BOT-ECA	235.20
<b>TOTAL OIL (Bunker C)</b>				<b>351.20</b>
PAGBILAO COAL Unit 1-2	Pagbilao, Quezon	IV	BOT-ECA	728.00
SUAL COAL FTTP	Sual, Pangasinan	I	BOT-ECA	1,294.00
<b>TOTAL COAL</b>				<b>2,022.00</b>
ILIJAN NAT GAS	Batangas	IV	BOT-ECAS, GSPA	1,271.00
<b>TOTAL NGAS</b>				<b>1,271.00</b>
<b>VISAYAS</b>				<b>610.18</b>
Leyte A & B	Leyte	VIII	BOO-PPA	610.18
<b>TOTAL GEOTHERMAL</b>				<b>610.18</b>
<b>MINDANAO</b>				<b>512.48</b>
ZAMBOANGA DIESEL PP (WMPC)	Zamboanga del Sur	IX	BOO-ECA	113.00
GEN SANTOS DIESEL PP (SPPC)	General Santos City	XI	BOO-ECA	59.00
<b>TOTAL OIL (Bunker C)</b>				<b>172.00</b>
Mt. Apo GPP I	Kidapawan, N. Cotabato	XII	BOO-PPA	54.24
Mt. Apo GPP II	Kidapawan, N. Cotabato	XII	BOO-PPA	54.24
<b>TOTAL GEOTHERMAL</b>				<b>108.48</b>
Mindanao Coal (STEAG)	Villanueva, Mis. Or.		BOT	232.00
<b>TOTAL COAL-THERMAL</b>				<b>232.00</b>
<b>TOTAL PHILIPPINES</b>				<b>5,732.11</b>

BOO-ECA (Build-Operate-Own/Energy Conversion Agreement)

BOO-EPSA (Build-Operate-Own/Electric Power Supply Agreement)

BOO-PPA (Build-Operate-Own/Power Purchase Agreement)

BOT-ECA (Build-Operate-Transfer/Energy Conversion Agreement)

BOT-ECA, GSPA (Build-Operate-Transfer/Energy Conversion Agreement/Gas Sale and Purchase Agreement)

BOT-PPA (Build-Operate-Transfer/Power Purchase Agreement)

BROT-PPA (Build-Rehabilitate-Operate-Transfer/Power Purchase Agreement)

NOTE: Inclusive of all plants that were operational at anytime of 2007.

## SMALL ISLAND GRIDS

(Existing Generating Plants as of December 2007)

LUZON - NPC-OWNED			
PLANT NAME	LOCATION	RATED (MW)	DEP.CAP (MW)
BASCO DPP	BATANES	2.771	1.920
SABTANG DPP	BATANES	0.163	0.160
ITBAYAT DPP	BATANES	0.326	0.320
CALAYAN DPP	CAGAYAN	0.326	0.300
LUBUAGAN DPP	KALINGA	0.450	0.425
KABUGAO DPP	APAYAO	0.643	0.440
PALANAN DPP	ISABELA	0.423	0.417
CASIGURAN DPP	AURORA	1.935	1.860
MARINAWA DPP	CATANDUANES	3.448	2.050
POWER BARGE 110	CATANDUANES	2.240	1.350
VIGA DPP	CATANDUANES	2.240	1.800
RAPU-RAPU DPP	ALBAY	1.209	1.113
BATAN DPP	ALBAY	0.326	0.300
BOAC DPP	MARINDUQUE	3.672	3.600
TORRIJOS DPP	MARINDUQUE	0.500	0.500
PB 120	MARINDUQUE	7.200	6.550
POLILIO DPP	QUEZON	1.960	1.320
JOMALIG	QUEZON	0.163	0.150
PATNANUNGAN	QUEZON	0.326	0.326
PULANG-LUPA DPP	OCC. MINDORO	1.700	1.600
PB 106	OCC. MINDORO	12.600	10.200
LUBANG DPP	OCC. MINDORO	1.850	0.450
CALAPAN	OR. MINDORO	22.500	21.400
MAMBURAO DPP	OCC. MINDORO	7.500	7.000
TINGLOY DPP	BATANGAS	0.683	0.625
PUERTO PRINCESA DPP	PALAWAN	5.000	5.000
EL NIDO DPP	PALAWAN	0.423	0.400
ROXAS DPP	PALAWAN	1.280	1.000
TAYTAY DPP	PALAWAN	0.943	0.580
SAN VICENTE DPP	PALAWAN	0.423	0.420
BUSUANGA DPP	PALAWAN	1.620	1.580
CUYO DPP	PALAWAN	0.910	0.760
CULION DPP	PALAWAN	0.423	0.400
LINAPACAN DPP	PALAWAN	0.108	0.100
ARACELI DPP	PALAWAN	0.326	0.160
BALABAC DPP	PALAWAN	0.326	0.300
CAGAYANCILLO	PALAWAN	0.217	0.214
AGUTAYA DPP	PALAWAN	0.217	0.200
MASBATE DPP I	MASBATE	11.250	10.000
PB 105	MASBATE		
TICAO DPP	MASBATE	3.248	2.180
GINAWAYAN DPP	MASBATE	0.035	0.035
GILOTONGAN DPP	MASBATE	0.090	0.090
NABUCTOT DPP	MASBATE	0.025	0.025
PENA DPP	MASBATE	0.090	0.090
CHICO DPP	MASBATE	0.035	0.035
TABLAS DPP	ROMBLON	3,120	2,100
PB 109	ROMBLON		
ROMBLON DPP	ROMBLON	2.200	1.540
PB 114	ROMBLON	0.560	0.470
SIBUYAN DPP	ROMBLON	2.506	2.230
BANTON DPP	ROMBLON	0.326	0.320
CORCUERA DPP	ROMBLON	0.826	0.795
CONCEPCION DPP	ROMBLON	0.326	0.320
SAN JOSE DPP	ROMBLON	0.576	0.400
	<b>TOTAL OIL</b>	<b>93.083</b>	<b>77.130</b>
BALONGBONG MHEP	CATANDUANES	1.800	1.800
	<b>TOTAL HYDRO</b>	<b>1.800</b>	<b>1.800</b>
<b>TOTAL LUZON</b>		<b>94.883</b>	<b>78.930</b>

VISAYAS - NPC-OWNED			
PLANT NAME	LOCATION	RATED (MW)	DEP. CAP (MW)
BANTAYAN DPP	CEBU	4.000	3.600
GUINTARCAN DPP	CEBU	0.263	0.263
DOONG DPP	CEBU	0.326	0.326
CAMOTES DPP	CEBU	2.748	2.600
PILAR DPP	CEBU	0.556	0.520
SIQUIJOR DPP	SIQUIJOR	1.500	1.280
PB 113	SIQUIJOR	1.120	0.650
PB 116	SIQUIJOR	2.800	1.750
GIGANTES DPP	ILOILO	0.326	0.326
CALUYA DPP	ANTIQUE	0.326	0.326
MARIPIPI DPP	LEYTE	0.326	0.318
LIMASAWA DPP	LEYTE	0.326	0.326
ZUMARRAGA DPP	W. SAMAR	0.686	0.480
TAGAPUL-AN DPP	W. SAMAR	0.326	0.326
ALMAGRO DPP	W. SAMAR	0.217	0.217
COSTA RICA DPP	W. SAMAR	0.040	0.040
LUNANG DPP	W. SAMAR	0.060	0.060
BIASONG DPP	W. SAMAR	0.060	0.060
STO. NIÑO DPP	W. SAMAR	0.326	0.326
CABUNGAAN DPP	W. SAMAR	0.040	0.040
ILIJAN DPP	W. SAMAR	0.040	0.040
TAKUT DPP	W. SAMAR	0.100	0.100
SAN ANTONIO DPP	N. SAMAR	0.489	0.489
CAPUL DPP	N. SAMAR	0.326	0.326
SAN VICENTE DPP	N. SAMAR	0.326	0.326
BIRI DPP	SAMAR	0.326	0.326
	<b>TOTAL OIL</b>	<b>17.979</b>	<b>15.441</b>
<b>TOTAL VISAYAS</b>		<b>17.979</b>	<b>15.441</b>

MINDANAO - NPC-OWNED			
PLANT NAME	LOCATION	RATED (MW)	DEP. CAP (MW)
BASILAN DPP	BASILAN	4.172	2.070
PB 119	BASILAN	7.200	5.900
BONGAO	TAWI-TAWI	0.896	
POWER BARGE 108	TAWI-TAWI	7.200	6.000
BALIMBING	TAWI-TAWI	0.326	0.300
CAGAYAN DE TAWI-TAWI	TAWI-TAWI	0.520	0.500
MANUK-MANGKAW DPP	TAWI-TAWI	0.163	0.150
SIBUTU DPP	TAWI-TAWI	0.326	0.300
SITANGKAY DPP	TAWI-TAWI	0.054	
WEST SIMUNUL DPP	TAWI-TAWI	0.368	0.350
TANUBAS DPP	TAWI-TAWI	0.108	0.100
DINAGAT DPP	DINAGAT PROV.	2.422	1.700
HIKDOP DPP	SURIGAO DEL NORTE	0.326	0.320
LORETO DPP	SURIGAO DEL NORTE	0.940	0.820
KALAMANSIG DPP	SULTAN KUDARAT	2.080	0.725
PB 111	SULTAN KUDARAT	1.680	0.650
NINOY AQUINO DPP	SULTAN KUDARAT	0.326	0.320
ABAD SANTOS DPP	DAVAO DEL SUR	0.423	0.410
BALUT	SARANGANI	0.326	0.320
TALICUD DPP	DAVAO DEL NORTE	0.326	0.160
JOLO DPP	JOLO ISLAND, SULU	5.400	4.550
LUUK DPP	SULU	0.229	0.225
SIASI DPP	SULU	1.640	0.750
	<b>TOTAL OIL</b>	<b>35.811</b>	<b>23.575</b>
<b>TOTAL MINDANAO</b>		<b>35.811</b>	<b>23.575</b>

IPP-OWNED POWER PLANTS			
PLANT NAME	LOCATION	RATED (MW)	DEP.CAP (MW)
FICELCO DPP	CATANDUANES	2.36	
RENTED GENSETS	CATANDUANES	3.500	2.800
RENTED GENSETS	MARINDUQUE	2.000	2.000
PARAGUA POWER	PALAWAN	16.000	13.000
RENTAL	TABLAS	3.450	2.700
RENTAL	MASBATE	11.250	10
GE MODULAR GENSET	OR. MINDORO	17.000	17.000
DULANGAN NHPP	OR. MINDORO	1.600	1.200
MIRANT (PINAMALAYAN)	OR. MINDORO	7.500	7.000
15 MW MODULAR (IPP)	PALAWAN	15.000	10.000
RENTED GENSETS	JOLO ISLAND, SULU	2.500	2.300
KUMALARANG	BASILAN	0.680	0.480
BALAGTASAN	BASILAN	0.270	
<b>TOTAL IPPS</b>		<b>83.110</b>	<b>63.680</b>
<b>TOTAL SMALL ISLAND GRIDS</b>		<b>231.783</b>	<b>181.626</b>





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