



*First Gen*

Investors' Briefing

August 2006



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## 1H 2006 Financial and Operating Highlights

### Outlook for 2006



## 1H 2006 MOVEMENTS IN KEY VALUE DRIVERS

Despite the decrease in net income due to Deferred Income Taxes (DIT) provisioning, operating income is higher due to savings

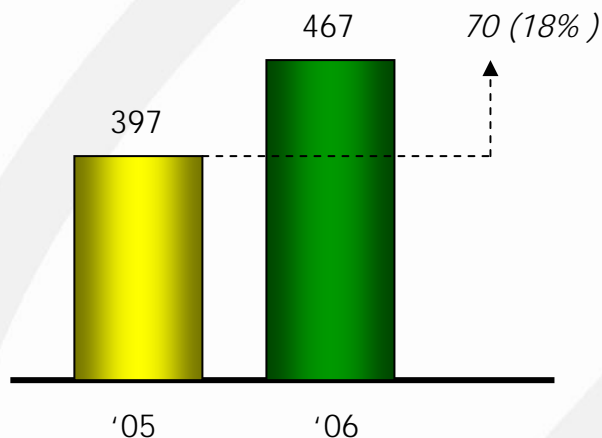
Key Value Drivers	Results		
	Sta. Rita	San Lorenzo	Bauang
As expected, slight drop in Net Dependable Capacity (MW), NDC still better than guaranteed	<p>1,003 '05, 995 '06 957 Guaranteed</p>	<p>503 '05, 498 '06 487 Guaranteed</p>	<p>236 '05, 238 '06 225 Guaranteed</p>
While dispatch of Santa Rita dropped slightly due to scheduled plant outages, this was offset by an increase in San Lorenzo dispatch	<p>80% '05, 75% '06</p>	<p>74% '05, 76% '06</p>	<p>3.2% '05, 2.7% '06</p>
Savings in admin expenses due to resolutions of disputes	<ul style="list-style-type: none"> <li>Admin expenses dropped significantly by 26% due mainly to lower professional fees (for dispute resolutions) and lower tax payments.</li> </ul>		
High interest income from cash holdings negates effect of interest expense of bond	<ul style="list-style-type: none"> <li>First Gen earned \$10.4 million in interest income, a 228.0% increase over the previous period's interest income.</li> <li>This negated the effect of \$3.9 million increase in the company's interest expense.</li> </ul>		
FGPC's Income Tax Holiday ends in May 2006	<ul style="list-style-type: none"> <li>FGPC provided for deferred income taxes due to USD/PHP differentials.</li> </ul>		



## 1H 2006 RESULTS OF OPERATIONS

Revenues grew by 18% to \$467 million, due mainly to fuel-related payments; pass-through nature of gas resulted in an increase in operating costs and expenses as well

Revenues  
(US\$ million)



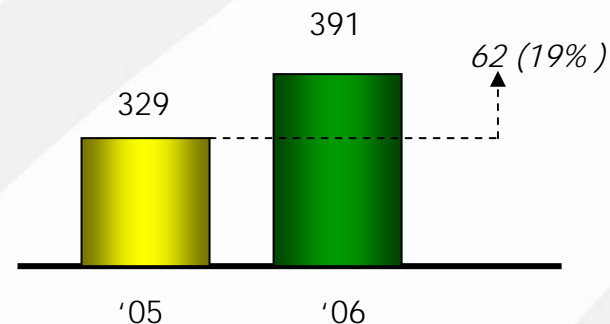
**Increase is mainly due to:**

- Higher fuel charge due to surging prices in the world market 50
- Increase in supplemental charges arising from Gas Payment Deferral Facility interest 23
- Others (3)

TOTAL 70

\* From US\$6.49/GJ in 2005 to US\$7.97/GJ in 2006

Operating Costs & Expenses  
(US\$ million)



**Increase is mainly due to:**

- Higher fuel charge due to surging prices in the world market and mandatory interest for the Gas ToP obligations 72
- Lower admin cost on lower professional fees & taxes paid and higher interest income (13)
- Others 3

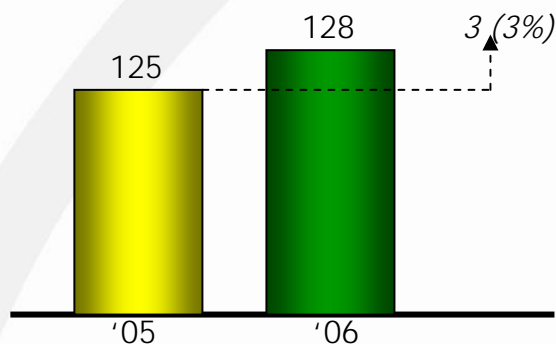
TOTAL 62



## 1H 2006 RESULTS OF OPERATIONS

EBITDA increased mainly due to savings in admin expenses. However, net income declined by US\$3 million as a result of deferred income taxes

**EBITDA\***  
(US\$ million)

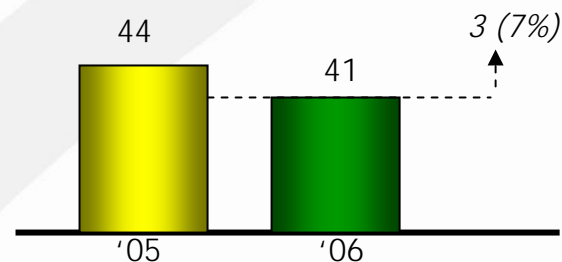


*Increase is mainly due to:*

• Lower admin cost on lower professional fees & taxes paid	6
• Higher staff costs due to new hires and salary alignments	(1)
• Others	(2)
<b>TOTAL</b>	<b>3</b>

\* Includes equity in net earnings & other income (charges)

**Net Income Attributable to Parent**  
(US\$ million)



*Increase is mainly due to:*

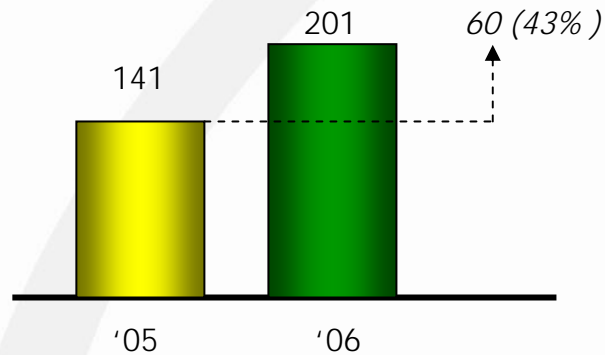
• Increase in EBITDA	3
• Decrease in interest expense - net	3
• Taxes	(13)
• Others	4
<b>TOTAL</b>	<b>3</b>



## 1H 2006 CASH FLOWS

Free cash flow has improved; with the IPO, total cash and cash equivalents now at US\$535 million

Free Cash Flow\*  
(US\$ million)

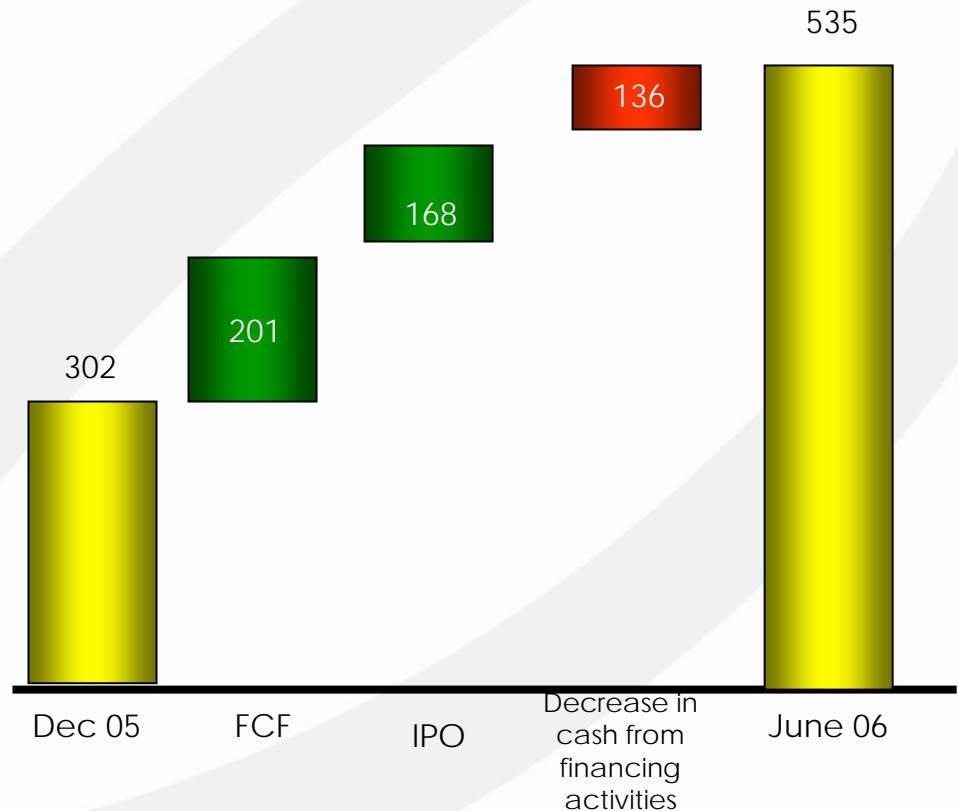


*Increase is mainly due to:*

- increase in cash EBIT 2
- Decrease in working capital 47
- Increase in interest income 7
- Decrease in investments 4

TOTAL 60

Movements in Cash and Cash Equivalents  
(US\$ million)



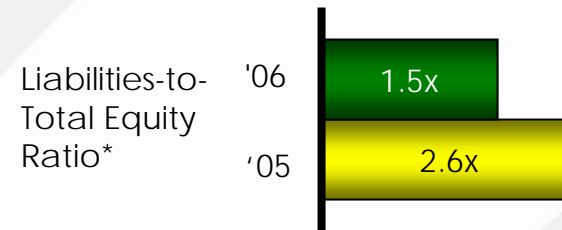
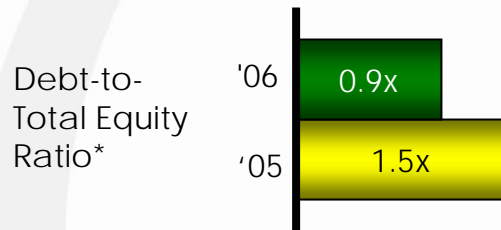
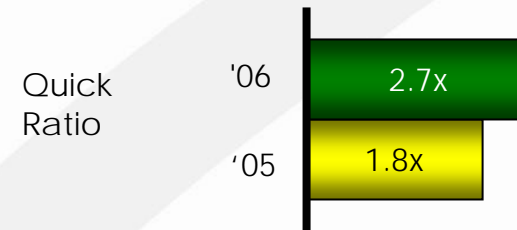
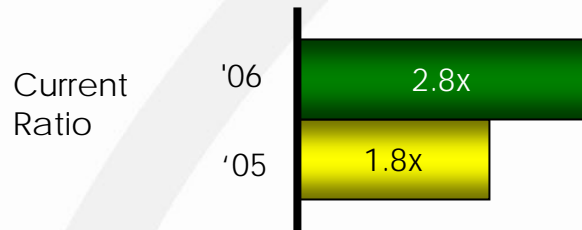
\* Net cash from operations – net cash used in investing activities – effects of forex on cash and cash equivalents



## 1H 2006 FINANCIAL CONDITION

Financial condition looks even better due to debt repayments, fundraising and resolution of major disputes

### Liquidity and Solvency Ratios



\* Equity includes minority interest



## 1H 2006 Financial and Operating Highlights

### Outlook for 2006



## First Gen is positioned for significant growth opportunities-- promising sector fundamentals provide growth potential

**+ Acquisition opportunities**

Privatization of PSALM plants  
Private sector opportunities

**+ Greenfield opportunities**

Leveraging on proven Santa Rita/San Lorenzo 'formula'

**+ Existing projects**

Enhance operational efficiencies  
and expand current capacity

**+ Renewables**

Focus on clean energy

**+ Natural gas pipeline**

Legislative franchise provides  
exclusive right to build gas  
pipeline on Luzon island



# First Gen has multiple opportunities to bid for PSALM assets that are only available now

**2006**

**2007**

**2008**

**July - Dec**

**Jan - June**

**July - Dec**

**Jan - June**

600 MW Calaca CFPP

112MW Pantabangan/  
Masiway HEPP

360 MW Magat HEPP

200MW Manila TPP

685 MW Tiwi/Makban CFPP

22 MW Bohol DPP

54 MW Cebu II DPP

246 MW Angat HEPP

192.5 MW Palinpinon GPP

114 MW Iligan I&II DFPP

620 MW Limay/Bataan GTPP

225 MW Bataan TPP

112.5 MW Tongonan GPP

22.3 MW Gen. Santos DPP

175 MW Ambuklao/Binga HEPP

850 MW Sucat TFPP

0.8 MW Amlan HEPP

310 MW Navotas/II DPP

150 MW Bacman

108 MW Aplaya DPP

146.5 MW Dingle DFPP  
- 110 MW Pinamucan  
- 36.5 MW Panay I



## Private acquisition opportunities are also available to First Gen



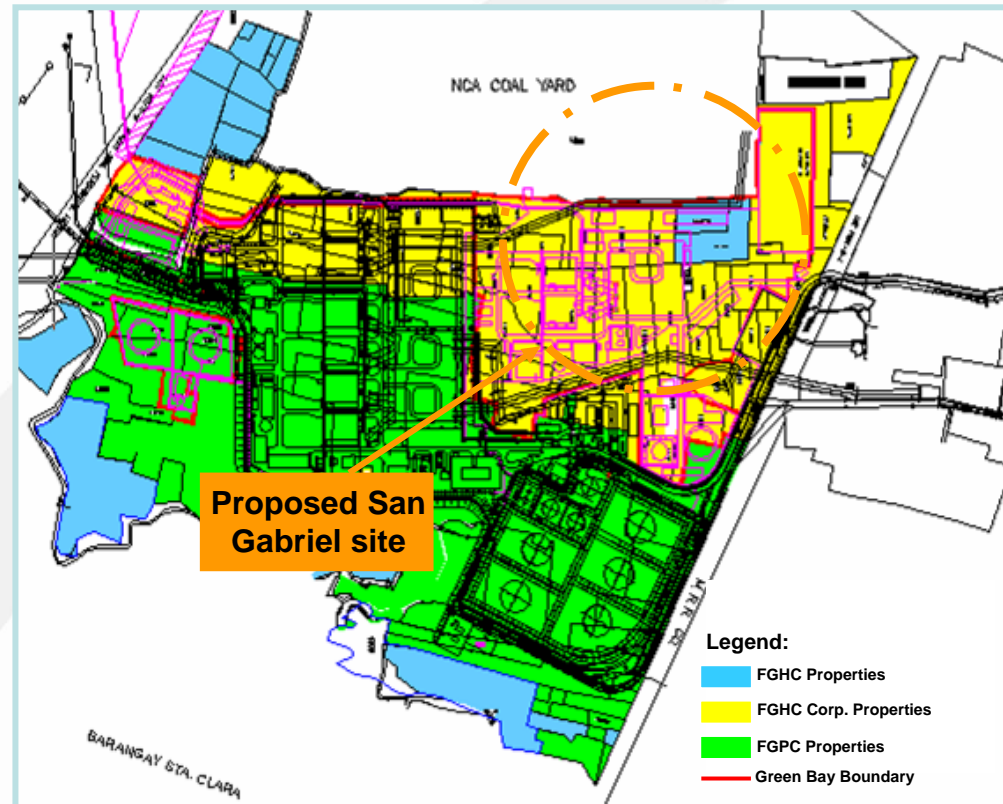
**CERTAIN PRIVATE POWER DEVELOPERS HAVE MADE RECENT ANNOUNCEMENTS THAT THEIR PLANTS ARE FOR SALE**





## San Gabriel is a new 550 MW Greenfield project that will be built adjacent to Santa Rita/San Lorenzo to fill the supply gap

- New 550 MW gas-fired plant to meet strong projected power demand
  - Joint development with BG
  - Total project cost approx. US\$400m
  - Project location adjacent to Santa Rita/San Lorenzo
  - Cost savings/synergies expected
- Expected to be a base load power plant
  - Gas from Malampaya field or imported LNG
- Ongoing talks with gas sellers





## First Gen will implement inlet air cooling technology and compressor blade upgrades to further boost NDC

### Compressor Blade Upgrades

<i>Total Capacity Additions</i>	At least 27MW
<i>Estimated Implementation Date</i>	Target is 2007.
<i>Estimated Cost</i>	US\$10 million for both Santa Rita and San Lorenzo. (20% of costs to be shouldered by Siemens)
<i>Financing</i>	Internally generated funds.

### Inlet Air Cooling

<i>Total Capacity Additions</i>	At least 18MW
<i>Estimated Implementation Date</i>	Target is 2006 for SL and 2007 for SR.
<i>Estimated Cost</i>	US\$2.5-\$3.5 million for both Santa Rita and San Lorenzo.
<i>Financing</i>	Internally generated funds.



**END OF PRESENTATION**

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## Balance Sheet Liability Method: Basic Illustration

	US\$ - Functional Currency, net of permanent reconciling items	PHP - Historical (Financial Base), net of permanent reconciling items	Temporary Reconciling Items	PHP - Historical (Tax Base)	US\$ - Converted using Current Rate	DIT, Current Year	
<b>Assets</b>							
Monetary	X (current rate)	Y (current rate)	Z	Y - Z (current rate)	A (current rate)	X (current rate) - A (current rate)	
Non-monetary	X (historical rate)	Y (historical rate)	Z	Y - Z (historical rate)	A (current rate)	X (historical rate) - A (current rate)	
<b>Liabilities</b>							
Monetary	X (current rate)	Y (current rate)	Z	Y - Z (current rate)	A (current rate)	X (current rate) - A (current rate)	
Non-monetary	X (historical rate)	Y (historical rate)	Z	Y - Z (historical rate)	A (current rate)	X (historical rate) - A (current rate)	
<b>Difference</b>						<b>C, current year</b>	--> to Balance Sheet
<b>Less: DIT, last year</b>						<b>C, last year</b>	
<b>Provision for Deferred Income Tax</b>						<b>Delta C</b>	--> to Income Statement



## Illustrative Example of Deferred Tax Computation

Assumptions	Year 1	Year 2	Year 3
Loan availment for acquisition of fixed asset	\$1,000	-	-
Exchange rate	Php50	Php56	Php53
Tax rate	32%	32%	32%

### *Other assumptions*

- *No change in carrying amount of fixed assets*
- *No payments of loan*



## Balance Sheet Liability Method: Example

	Balance sheet in USD	Tax Base in PHP (historical)	Spot Rate (PHP:US\$)	Tax Base Translated in USD at spot rate	Difference	Deferred tax asset (liability) @ 32% tax rate
<b>Fixed assets</b>						
Year 1	1,000	50,000	50	1,000	-	-
Year 2	1,000	50,000	56	893	107	-34
Year 3	1,000	50,000	53	943	57	-18
<b>Loans</b>						
Year 1	1,000	50,000	50	1,000	-	-
Year 2	1,000	50,000	56	893	107	34
Year 3	1,000	50,000	53	943	57	18

Net difference in the balance sheet

Movement of net difference in between periods goes to income statement

- Under PAS 21, in translating functional currency financial statements into presentation currency, prevailing spot rate should be used.
- Tax base of the loan is based on the spot rate on drawdown date.
- Deferred tax impact of fixed assets and loan will be zero at the initial recognition. However, because the depreciable life of fixed assets (25 years) is longer than the repayment period, First Gen Group is in net deferred tax liability position since the net difference of Liabilities < the net difference of Assets



## Balance Sheet Liability Method and First Gen

- Since the Company is in a net Asset position (i.e. net difference of liabilities < net difference of assets), we recognized a net Deferred tax liability of USD15.68M as of December 31, 2005;
- Every reporting date, the deferred tax asset (liability) should be revisited and any difference will be recognized in the income statement;
- Note that deferred tax assets (liabilities) should be measured at the tax rates that are expected to apply when the asset is realized or the liability is settled. Thus, current assets (specifically Cash) as of December 31, 2005 for Santa Rita used 0% tax rate in computing deferred income tax on the assumption that it will be realized during the ITH period;
- With the expiration of Santa Rita's ITH, a 35% tax rate was used for its monetary assets and liabilities. Thus, increasing the deferred tax liability by about \$8M for Santa Rita;
- All else being equal, the movement in DIT will correspond to the FX fluctuations;
- The provision for DIT is a non-cash item. This will not effect the current cash flows but will form part of the recurring net income

**FIRST GAS POWER CORPORATION**  
**COMPARATIVE SUMMARY**  
June 30-2006

Amounts in USD Millions	Per Books	Tax Base (a)	Difference	Tax Regime Allocation (Gross)		DIT Equivalent			DIT As 3-31-06	Movement
				35%	30%	35%	30%	Total		
<b>Assets</b>										
Cash	194.61	184.68	(9.94)	(9.94)		(3.48)	-	(3.48)	-	(3.48)
Accounts Receivables	76.09	74.50	(1.59)	(1.59)		(0.56)	-	(0.56)	-	(0.56)
Fuel Inventory	9.58	9.35	(0.23)	(0.23)		(0.08)	-	(0.08)	-	(0.08)
Other current assets	47.42	45.14	(2.28)	(2.28)		(0.80)	-	(0.80)	-	(0.80)
<b>Total current assets</b>	<b>327.69</b>	<b>313.66</b>	<b>(14.03)</b>	<b>(14.03)</b>	<b>0.00</b>	<b>(4.91)</b>	<b>0.00</b>	<b>(4.91)</b>	<b>0.00</b>	<b>(4.91)</b>
Othe investments	0.09	0.08	(0.02)	(0.02)		(0.01)	-	(0.01)	-	(0.01)
Due to/from	(0.06)	(0.07)	(0.01)	(0.01)	0.01	(0.00)	0.00	(0.00)	-	(0.00)
PPE	412.29	278.07	(134.22)	(17.52)	(116.70)	(6.13)	(35.01)	(41.14)	(37.76)	(3.38)
Other noncurrent assets	120.79	111.04	(9.76)	9.81	(19.57)	3.43	(5.87)	(2.44)	(1.35)	(1.09)
<b>Total Assets</b>	<b>860.81</b>	<b>702.77</b>	<b>(158.04)</b>	<b>(21.77)</b>	<b>(136.25)</b>	<b>(7.62)</b>	<b>(40.88)</b>	<b>(48.50)</b>	<b>(39.11)</b>	<b>(9.39)</b>
<b>Liabilities</b>										
Accounts payable & Accrued expenses	(53.60)	(52.41)	1.19	1.19		0.42	-	0.42	0.04	0.37
Taxes payable	(22.66)	(22.04)	0.62	0.62		0.22	-	0.22	-	0.22
Current loans payable	(76.50)	(56.31)	20.19	20.19		7.07	-	7.07	3.62	3.44
Other current liabilities	(26.13)	(23.56)	2.57	2.13	0.43	0.75	0.13	0.88	0.15	0.72
<b>Total current liabilities</b>	<b>(178.90)</b>	<b>(154.32)</b>	<b>24.57</b>	<b>24.14</b>	<b>0.43</b>	<b>8.45</b>	<b>0.13</b>	<b>8.58</b>	<b>3.82</b>	<b>4.76</b>
Long term debt	(297.65)	(221.15)	76.50	23.90	52.59	8.37	15.78	24.14	23.79	0.36
Other long term liabilities	(87.30)	(94.68)	(7.38)	(7.94)	0.56	(2.78)	0.17	(2.61)	0.17	(2.78)
<b>Total Liabilities</b>	<b>(563.84)</b>	<b>(470.15)</b>	<b>93.69</b>	<b>40.10</b>	<b>53.59</b>	<b>14.04</b>	<b>16.08</b>	<b>30.11</b>	<b>27.77</b>	<b>2.34</b>
<b>Net</b>	<b>296.97</b>	<b>232.62</b>	<b>(64.35)</b>	<b>18.33</b>	<b>(82.67)</b>	<b>6.42</b>	<b>(24.80)</b>	<b>(18.38)</b>	<b>(11.34)</b>	<b>(7.05)</b>

(a) Considering the current tax regulations on FCR, companies are still required to compute and pay their tax liabilities in Philippine pesos.

**FGP CORP.**  
**COMPARATIVE SUMMARY**  
June 30-2006

Amounts in USDMillions	Per Books	Tax Base (a)	Difference	Tax Regime Allocation (Gross)			DT Equivalent				DT As 3-31-06	Movement
				0%	35%	30%	0%	35%	30%	Total		
<b>Assets</b>												
Cash	42.94	42.69	(0.25)	(0.25)	0.00	0.00	-	-	-	-	-	-
Accounts Receivables	35.96	35.37	(0.59)	(0.59)	0.00	0.00	-	-	-	-	-	-
Fuel Inventory	3.65	2.14	(1.51)	(1.51)	0.00	0.00	-	-	-	-	-	-
Other current assets	34.10	33.43	(0.67)	(0.67)	0.00	0.00	-	-	-	-	-	-
<b>Total current assets</b>	<b>116.65</b>	<b>113.63</b>	<b>(3.03)</b>	<b>(3.03)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Other investments	0.00	0.00	0.00	0.00	0.00	0.00	-	-	0.00	0.00	-	0.00
Due to/from	(1.74)	(1.74)	(0.00)	(0.00)	0.00	(0.00)	-	-	(0.00)	(0.00)	-	(0.00)
PPE	247.02	224.01	(23.01)	(1.69)	(0.85)	(20.47)	-	(0.30)	(6.14)	(6.44)	(3.90)	(2.53)
Other noncurrent assets	62.82	54.68	(8.14)	(1.29)	5.90	(12.75)	-	2.06	(3.83)	(1.76)	(3.22)	1.46
<b>Total Assets</b>	<b>424.76</b>	<b>390.58</b>	<b>(34.18)</b>	<b>(6.00)</b>	<b>5.05</b>	<b>(33.22)</b>	<b>0.00</b>	<b>1.77</b>	<b>(9.97)</b>	<b>(8.20)</b>	<b>(7.12)</b>	<b>(1.08)</b>
										0.00		
<b>Liabilities</b>												
Accounts payable & Accrued expenses	(29.04)	(28.56)	0.48	0.44	0.04	0.00	-	0.01	-	0.01	0.01	(0.00)
Taxes payable	(9.33)	(9.16)	0.17	0.17	0.00	0.00	-	-	-	-	-	-
Current loans payable	(26.40)	(24.26)	2.14	2.14	0.00	0.00	-	-	-	-	-	-
Other current liabilities	(8.20)	(7.58)	0.62	0.58	0.01	0.03	-	0.00	0.01	0.01	0.01	(0.00)
<b>Total current liabilities</b>	<b>(72.96)</b>	<b>(69.56)</b>	<b>3.40</b>	<b>3.33</b>	<b>0.05</b>	<b>0.03</b>	<b>0.00</b>	<b>0.02</b>	<b>0.01</b>	<b>0.03</b>	<b>0.03</b>	<b>(0.00)</b>
Long term debt	(209.37)	(196.81)	12.56	3.16	1.68	7.72	-	0.59	2.32	2.90	1.12	1.78
Other long term liabilities	(27.04)	(29.93)	(2.89)	0.78	(7.00)	3.33	-	(2.45)	1.00	(1.45)	1.08	(2.53)
<b>Total Liabilities</b>	<b>(309.37)</b>	<b>(296.31)</b>	<b>13.07</b>	<b>7.27</b>	<b>(5.28)</b>	<b>11.08</b>	<b>0.00</b>	<b>(1.85)</b>	<b>3.32</b>	<b>1.48</b>	<b>2.23</b>	<b>(0.75)</b>
<b>Net</b>	<b>115.38</b>	<b>94.27</b>	<b>(21.11)</b>	<b>1.27</b>	<b>(0.24)</b>	<b>(22.14)</b>	<b>0.00</b>	<b>(0.08)</b>	<b>(6.64)</b>	<b>(6.72)</b>	<b>(4.89)</b>	<b>(1.83)</b>
										-	0.00	

(a) Considering the current tax regulations on FCR, companies are still required to compute and pay their tax liabilities in Philippine pesos.



## Why deferred income tax?

- PAS 12, "Income Taxes" prescribes the accounting treatment for current and deferred income taxes.
  - This standard accounts for the proper treatment for the current and future tax consequences due to:
    1. The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's balance sheet; and (e.g. payment of loans or a sale of an asset)
    2. Transactions and other events of the current period that are recognized in an entity's financial statements. (e.g. expiration of Santa Rita's ITH)
  - If it is probable that the recovery or settlement of that carrying amount will make future tax payments either larger or smaller as compared to having no tax consequences, this accounting standard **requires** an entity to recognize a deferred tax liability (deferred tax assets).
  - Deferred tax is provided in full and is computed using the **balance sheet liability method**, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.



## What are Temporary Differences??

- Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base<sup>1</sup>. These temporary differences may be either:
  - **taxable temporary differences** = these are differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered (e.g. through sale/disposal) or settled (e.g. upon payment of loans); or
  - **deductible temporary differences** = these are differences that will be deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled (e.g. unrealized foreign exchange loss/gain)
- <sup>1</sup> The **tax base** of an asset or liability is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the Company when it recovers or settles the carrying amount of the asset or liability (e.g. the historical Php balances converted to spot rate).



## Balance sheet liability method takes into account the difference in the tax bases of assets and liabilities and their carrying amounts in the financial statements

- Under the **balance sheet liability method**, the difference in assets and liabilities of the (a) functional currency balance sheet and (b) tax base balance sheet (mainly on account of foreign exchange differences) is accounted for either as a Deferred Tax Asset or Deferred Tax Liability.
  - E.g. = the balance sheet of First Gen for reporting purposes is under the USD functional currency while the tax base balance sheet is still based on the historical Peso balances converted to spot rate (as per the current BIR regulations).
- **Deferred Tax Assets (prepaid tax benefits)** = are amounts of income taxes recoverable in future periods
  - Income has not yet been recognized in the Income Statement but has already been taxed.
  - Expense has been deducted in the Income Statement but has not yet been deducted for tax purposes.
  - Arises if the net difference of Liabilities > the net difference of Assets, thus resulting to a Net Liability position
- **Deferred Tax Liabilities (future tax liabilities)** = are amounts of income taxes payable in future periods in respect of *taxable* temporary differences
  - Income has been recognized in the Income Statement but not yet taxed.
  - Expense has not yet been deducted in the Income Statement but has been deducted for tax purposes.
  - Arises if the net difference of Liabilities < the net difference of Assets, thus resulting to a Net Asset position