

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2006**
2. SEC Identification Number **A1998-182603** BIR Tax Identification No. **202-464-633**
4. Exact name of issuer as specified in its charter **FIRST GEN CORPORATION**
5. Philippines
Province, Country or other jurisdiction of
incorporation or organization
6. (SEC Use Only)
Industry Classification Code:
7. **3rd Floor, Benpres Building, Exchange Road cor. Meralco Avenue, Pasig City 1600**
Address of principal office Postal Code
8. **(632) 449-6281**
Issuer's telephone number, including area code
9. Former name, former address, and former fiscal year, if changed since last report. **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (as of March 1, 2007)
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Common Stock	803,120,148
Bonds	Php 5,000,000,000

11. Are any or all of these securities listed on a Stock Exchange.
Yes No
If yes, state the name of such stock exchange and the classes of securities listed therein:
First Gen's common shares are listed with the Philippine Stock Exchange, Inc.

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes No

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes No

13. Aggregate Market Value of Voting Stock held by Non-Affiliates: **Php14.6 billion***

* As of close of trading on March 21, 2007.

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Business Development

First Gen Corporation (First Gen or the company) is the largest Filipino majority-owned and controlled Independent Power Producer (IPP) in the Philippines, with installed capacity of 1838.6 MW as of December 31, 2006. All of the company's power generation plants are operational, and, except for the Bauang plant, are majority-owned and -controlled by the company through its subsidiaries.

For 2006, First Gen's consolidated financial statements are presented in U.S. Dollars, the company's functional currency under Philippine Financial Reporting Standards. First Gen's consolidated net income and revenues for the year ended December 31, 2006 amounted to \$148.2 million and \$1,043.2 million, respectively, of which \$92.9 million is attributable to the equity holders of First Gen.

On February 10, 2006, First Gen successfully completed the Initial Public Offering (IPO) of 193,412,600 common shares, including the exercised greenshoe option of 12,501,700 common shares. Total proceeds from the IPO amounted to ₱9,090.4 million (US\$173.1 million). The common shares of First Gen are now listed and traded on the First Board of the Philippine Stock Exchange, Inc. (PSE).

First Gen has ownership stakes in the following companies:

1. FIRST GAS HOLDINGS CORPORATION

First Gas Holdings Corporation (FGHC) was incorporated on February 3, 1995 as a holding company for the development of gas-fired power plants and other non-power gas-related businesses. FGHC is 60% owned by First Gen and 40% owned by BG Consolidated Holdings (Philippines), Inc. FGHC wholly owns First Gas Power Corporation, the project company of the 1000 MW Santa Rita Power Plant.

2. FIRST GAS POWER CORPORATION

First Gas Power Corporation (FGPC) is the project company of the Santa Rita Power Plant. The company was incorporated on November 24, 1994 to develop the 1000 MW gas-fired cycle power plant located in Santa Rita, Batangas City. FGPC commenced full commercial operations on August 17, 2000. It generates electricity for the Manila Electric Company (Meralco) under a 25-year Power Purchase Agreement (PPA). In order to fulfill its responsibility to operate and maintain the power plant, FGPC has an existing agreement with Siemens Power Operations, Inc., a 100% subsidiary of Siemens AG, to act as the operator under an Operations & Maintenance Agreement. Net income and revenues for the year ended December 31, 2006 amounted to \$91.9 million and \$682.8 million, respectively.

3. UNIFIED HOLDINGS CORPORATION

Unified Holdings Corporation (UHC) was incorporated on March 30, 1999 as the holding company of First Gen's 60% equity share in FGP Corp., the project company of the 500 MW San Lorenzo Power Plant. First Gen owns 100% of UHC.

4. FGP CORP.

FGP Corp. (FGP) is the project company of the San Lorenzo Power Plant. The company was established on July 23, 1997 to develop a 500 MW gas-fired combined cycle power plant in Santa Rita, Batangas, adjacent to the 1000 MW Santa Rita Power Plant. FGP is 60% owned by UHC and 40% owned by BG Philippines Holdings, Inc. Most of the economic and structural features that made the Santa Rita project attractive were replicated in the San

Lorenzo project to preserve the innovative risk-mitigating structure. The economic and commercial benefits arising from its being located adjacent to the Santa Rita project were likewise optimized. The project's strategic location allows it to share common facilities such as the tank farm and jetty facilities, thus reducing the need to duplicate various operational facilities. Cost reductions associated with the operations and maintenance (O&M) of the power plant were also achieved through the pooling of O&M personnel and other expenses. Net income and revenues for the year ended December 31, 2006 amounted to \$48.2 million and \$333.7 million, respectively.

5. FIRST PRIVATE POWER CORPORATION

First Private Power Corporation (FPPC) was established on November 27, 1992 to engage in power generation as an IPP. FPPC is 40% owned by First Gen. FPPC currently owns a 93.25%-interest in Bauang Private Power Corporation.

6. BAUANG PRIVATE POWER CORPORATION

Bauang Private Power Corporation (BPPC) was incorporated on February 3, 1993. It operates the Bauang Power Plant in Bauang, La Union, a 225 MW diesel-fired power plant which has a Build-Operate-Transfer (BOT) agreement with the National Power Corporation (NPC) for a period of fifteen years from July 25, 1995. For the year ended December 31, 2006, BPPC's net income amounted to \$24.9 million. The company posted revenues of \$53.4 million.

7. FIRST GEN RENEWABLES, INC.

First Gen Renewables, Inc. (FGRI), formerly First Philippine Energy Corporation, was established on November 29, 1978. It is tasked to develop prospects in the renewable energy market. FGRI is transforming itself from a mere supplier of products and systems to a service provider in the countryside. First Gen owns 100% of FGRI. For the year ended December 31, 2006, FGRI recognized no net sales and a net loss of ₱11.7.

In June 2004, First Gen participated and won in the bidding for the 1.6 MW Agusan mini-hydro power plant conducted by the Power Sector Assets and Liabilities Management Corporation (PSALM) in connection with the privatization of NPC assets. In July 2004, First Gen entered into an Asset Purchase Agreement (APA) with PSALM for the purchase of the Agusan plant for a total consideration of \$1.5 million. In March 2005, all the closing conditions for the execution of the APA were satisfied and the purchase was completed. In October 2005, First Gen conveyed its rights and obligations relating to the Agusan plant to its wholly-owned subsidiary FG Bukidnon Power Corporation.

8. FG BUKIDNON POWER CORPORATION

FG Bukidnon Power Corporation (FG Bukidnon), a wholly-owned subsidiary of FGRI, was incorporated on February 9, 2005. It took over the operations and maintenance of the Agusan Plant from First Gen in October 2005. FG Bukidnon's full-year net income for 2006 amounted to ₱9.2 million. The company posted revenues of ₱33 million.

9. FIRST GAS PIPELINE CORPORATION

First Gas Pipeline Corporation (FGPipeline) was incorporated in November 1996 as a wholly-owned subsidiary of FGHC. FGHC's 25-year legislative franchise to construct, install, own, operate and maintain pipeline systems for the transportation and distribution of natural gas was transferred to FGPipeline in September 2005.

10. ALLIEDGEN POWER CORP.

AlliedGen Power Corp. (AlliedGen) was incorporated as a wholly-owned subsidiary of First Gen. Allied Gen is the holding company of the First Gen group's 60% equity interest in First NatGas Power Corp.

11. FIRST NATGAS POWER CORP.

First NatGas Power Corp. (FNPC) is the proposed operating company of the San Gabriel project, a 550 MW natural gas-fired power plant to be built on land adjacent to the Santa Rita and San Lorenzo power plants. In 2005, the company secured an Environmental Compliance Certificate (ECC) from the Department of Environment and Natural Resources (DENR), and an endorsement for power plant projects from the Department of Energy (DOE). As of December 31, 2006, FNPC has executed some pre-development work for the San Gabriel project.

12. FIRST GEN LUZON POWER CORP.

First Gen Luzon Power Corp. (FGLPC) was incorporated on May 26, 2005 as a wholly-owned subsidiary of First Gen. FGLPC is intended to be the operating company for generating facilities that will be acquired by First Gen. These generating facilities include NPC-owned power generation plants scheduled for privatization, and privately-owned power generation facilities that may be put up for sale by other power generation companies in the country.

13. FIRST NATGAS SUPPLY CORP.

On November 16, 2005, First Gen, through the directors of FGHC, incorporated First NatGas Supply Corporation (FNSC). FNSC will be engaged in the trading of natural gas.

14. FIRST GEN GEOTHERMAL POWER CORPORATION

Incorporated as a wholly-owned subsidiary of First Gen in March 2006, First Gen Geothermal Power Corporation (FG Geothermal) will be used by First Gen in its bid for geothermal assets of NPC in PSALM's ongoing privatization process.

15. FIRST GEN HYDRO POWER CORPORATION

First Gen Hydro Power Corp. (FG Hydro) was incorporated as a wholly-owned subsidiary of First Gen in March 2006. On September 8, 2006, FG Hydro emerged as the winning bidder for the 100 MW Pantabangan and 12 MW Masiway hydroelectric power plants (PMHEP). The 112 MW PMHEPP was transferred to FG Hydro on November 18, 2006, representing the first major generating assets of NPC to be successfully transferred to the private sector. PMHEPP assets transferred to FG Hydro include turbine runners, generators, generator buildings, transformers, a water treatment plant, warehouse buildings, main electrical controls, AND traveling goliath crane. FG Hydro's net income and revenues for the period November 18 to December 31, 2006 amounted to ₱383.9 million and ₱651.9 million, respectively.

16. FIRST GEN VISAYAS HYDRO POWER CORPORATION

Incorporated in September 2006 as a wholly-owned subsidiary of First Gen, First Gen Visayas Hydro Power Corporation (FG Visayas) will be engaged in the generation, transmission and/or distribution of energy derived from hydropower.

17. FIRST GEN MINDANAO HYDRO POWER CORPORATION

Incorporated in September 2006 as a wholly-owned subsidiary of First Gen, First Gen Mindanao Hydro Power Corporation (FG Mindanao) will be engaged in the generation, transmission and/or distribution of energy derived from hydropower.

18. FIRST GEN NORTHERN ENERGY CORP.

Incorporated on November 8, 2006 as a wholly-owned subsidiary of First Gen, First Gen Northern Energy Corp. (FGNEC) will be engaged in the generation, transmission and/or distribution of energy derived from hydropower.

19. FIRST GEN ENERGY SOLUTIONS, INC.

Incorporated on November 24, 2006, First Gen Northern Energy Solutions, Inc. (FGNES) will be engaged in the marketing, supply, delivery, purchase and sale of electricity.

Business of Issuer

1. FIRST GEN CORPORATION

First Gen is engaged in the business of power generation through the following operating companies: (i) FGPC which operates the 1000 MW Santa Rita power plant; (ii) FGP which operates the 500 MW San Lorenzo power plant; (iii) BPPC which constructed and operates the 225 MW Bauang power plant; (iv) FG Hydro which operates the 112 MW Pantabangan-Masiway hydroelectric power plants; and (v) FG Bukidnon which operates the 1.6 MW Agusan power plant.

The Philippine power industry is dominated by NPC, a government-owned and operated company. The generation sector can be broken down into the following main groups: (i) NPC-owned and operated generation facilities; (ii) NPC IPPs, which include plants operated by IPPs, as well as IPP-owned and operated plants, each of which supplies electricity to NPC; and (iii) IPP-owned and operated plants that supply electricity to customers other than NPC.

2. FIRST GAS POWER CORPORATION (Santa Rita Power Plant)

Under a 25-year PPA executed by FGPC and Meralco (Santa Rita PPA), Meralco is contractually obligated to take or pay for, and the Santa Rita power plant is obligated to generate and deliver, a minimum energy quantity (MEQ) of net electrical output from the Santa Rita power plant.

The Santa Rita power plant's turbines have been designed to run on a wide variety of fuels including natural gas. In January 1998, FGPC entered into a 22-year Gas Sale and Purchase Agreement (GSPA) with the Shell Consortium for the purchase of natural gas from the Malampaya gas field. Under the terms of the GSPA, FGPC is obligated to take or pay 43.0PJ of natural gas per year, which is consistent with the level of MEQ dispatch under the Santa Rita PPA. Although the Santa Rita power plant is intended to operate on natural gas, if delivery of natural gas is delayed or interrupted for any reason, the plant has the ability to run on liquid fuel for as long as necessary without adverse impact to its operation or revenues.

3. FGP CORP. (San Lorenzo Power Plant)

FGP, operator of the 500 MW San Lorenzo combined-cycle gas turbine power generating plant, executed a PPA with Meralco whereby Meralco will purchase power generated by the San Lorenzo power plant for a period of 25 years or up to 2027.

FGPC and FGP operate under the same business environment as other power generating companies in the country.

4. BAUANG PRIVATE POWER CORPORATION (Bauang Power Plant)

BPPC is a special purpose company established to construct, commission, operate and maintain the 225 MW diesel-engine power generating plant pursuant to an Accession Undertaking executed in relation to the 15-year BOT agreement dated January 1993 between NPC and FPPC.

BPPC sells power generated by the Bauang power plant exclusively to NPC. NPC pays BPPC capacity and energy fees on a monthly basis. Capacity fees are payable on a take-or-pay basis depending on the plant's nominated capacity and availability. Energy fee is variable and premised on actual power generated and delivered to NPC.

NPC provides the plant's major production input – bunker, diesel fuel, and start-up electricity. NPC directly transacts with the fuel suppliers and coordinates delivery and product specification of fuels as defined under a Fuel Supply Management Agreement.

BPPC operates under the same business environment as most of the NPC IPPs in the country.

5. FIRST GEN HYDRO POWER CORPORATION (Pantabangan-Masiway Power Plants)

The commercial operations of FG Hydro commenced in November 2006 upon the transfer to it of PMHEPP's operations and maintenance. The company earns its revenues from the Wholesale Electricity Spot Market (WESM) and other entities.

Under the current regulatory regime, generation rates charged by the company are not regulated but determined in accordance with the WESM Price Determination Methodology approved by the Energy Regulatory Commission (ERC). Likewise, generation rates charged by the company to various companies are not subject to regulation and are complete pass-through charges. WESM and FG Hydro's other customers have always settled these charges on time and have not missed any single payment.

The company has an O&M agreement with the National Irrigation Administration (NIA), as conformed to by NPC. Under the O&M agreement, NIA will manage, operate, maintain, and rehabilitate the non-power components of PMHEPP in consideration of a service fee based on actual cubic meters of water used by PMHEPP for power generation. FG Hydro is also required to provide a trust fund amounting to P100 million, payable in 24 monthly payments, which will be billed by NIA in addition to the service fee. The O&M agreement has a term of 25 years commencing on November 18, 2006, which term is renewable for another 25 years under terms and conditions as may be agreed upon.

Eight (8) Transition Supply Contracts (TSCs) attached to the APA were assigned to FG Hydro as the winning bidder of PMHEPP. FG Hydro is bound to service these TSCs for the remainder of their terms, which will end between June 2007 and 2010. The TSCs may be renewed subject to renegotiation and due process as stipulated by the ERC. FG Hydro started servicing the TSCs on December 26, 2006.

Description of Registrant

Principal products or services. Following is a summary of First Gen's products/services and their markets:

Company	Principal Products/Services	Market	Effective Contribution to Consolidated Sales/Revenues* <i>(amount in thousands)</i>
FGPC	Power generation	Meralco	US\$ 651,916
FGP	Power generation	Meralco	US\$ 325,344
BPPC	Power generation	NPC	Not part of revenues but shown as equity in net earnings amounting to

* Figures indicated pertain to revenues from sale of electricity as of December 31, 2006.

			US\$9,270
FG Bukidnon	Power generation	CEPALCO	₱ 33,027 or (USUS\$ 673)
FG Hydro	Power generation	WESM, electric cooperatives, private distribution utilities, other industrial users	₱ 651,918 or (USUS\$13.3 million)

Foreign Sales. All the above-listed entities operate in the Philippines and no revenue/net income is contributed by foreign sales.

Distribution Methods. FGPC's Santa Rita power plant supplies electricity to Meralco pursuant to a 25-year PPA dated January 9, 1997. Under the terms of the Santa Rita PPA, capacity and energy are delivered to Meralco at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the Santa Rita plant site. Meralco is responsible for contracting with the National Transmission Corporation (Transco) to wheel power from the delivery point to the Meralco grid system.

Like Santa Rita, FGP's San Lorenzo power plant supplies electricity to Meralco pursuant to a 25-year PPA. The 25-year term of the PPA commenced on October 1, 2002, the date of the plant's commercial operations. The terms of the San Lorenzo PPA are substantially similar to those of the Santa Rita PPA's.

Under the terms of BPPC's BOT Agreement with NPC pertaining to the Bauang power plant, NPC is obligated to purchase on a take-or-pay basis all the electricity generated by the Bauang power plant based on its nominated capacity. The power generated by the Bauang power plant is delivered to the Luzon grid through the plant's switchyard that is connected to the two 230kV high voltage transmission lines leading to the Bauang and Labrador circuits. Under the terms of the agreement, NPC is responsible for the transmission of power generated to the Luzon grid.

FG Bukidnon's Agusan mini-hydro plant is connected to the local Cagayan Electric Power & Light Company, Inc. (CEPALCO) distribution grid via the distribution line of Transco. On June 3, 2005, FG Bukidnon entered into an interim power supply agreement with CEPALCO in which CEPALCO guaranteed to take all electrical energy generated by the Agusan plant under such terms and conditions as may be agreed upon in a long-term power supply agreement to be executed by the parties.

FG Hydro's PMHEPP injects electricity into the Luzon grid to service the consumption of its customers which include WESM and TSC clients. This power will be delivered to the distribution systems of these customers through the Pantabangan and Cabanatuan substations which are owned, operated and maintained by Transco.

New Product/Service. First Gen also intends to expand into businesses that complement its power generation operations. In particular, the company expects to play a major role in the development of downstream natural gas transmission and distribution facilities, which is among the flagship projects of the DOE.

Natural gas pipeline. In January 2001, Republic Act No. 8997 was enacted, granting FGHC, First Gen's 60%-owned subsidiary, a 25-year legislative franchise to construct, install, own, operate and maintain pipeline systems for the transportation and distribution of natural gas throughout Luzon. The franchise is the only specific legislative franchise granted by the Philippine Congress for Luzon and is an important part of First Gen's strategy to enter the downstream natural gas transmission and distribution business.

FGHC signed a non-binding Memorandum of Agreement with United Coconut Chemicals, Inc. (Cocochem), the largest oleochemical plant in the country, for the installation and operation of a three-kilometer gas distribution pipeline system that will transport natural gas to Cocochem's facilities in San Pascual, Batangas. FGHC obtained the ECC for the project on August 1, 2005. Current initiatives are focused on negotiating key project activities, acquisition of the pipeline's rights-of-way, addressing technical requirements, and securing relevant project permits, among others. Cocochem has signified interest to switch to natural gas. The estimated cost for the pipeline project is \$4 million.

FGHC also has plans to construct a Batangas to Manila natural gas transmission pipeline system with an estimated cost of \$120 million.

In September 2005, FGHC assigned, transferred, and conveyed its franchise and all rights, title, interest, privileges, and obligations thereunder to FGPipeline, which will be tasked to take the lead in pursuing all gas pipeline-related projects of First Gen.

Competition. With the government committed to implement the privatization of majority of NPC-owned power generation facilities, and with the recent establishment of the Wholesale Electricity Spot Market (WESM), First Gen's generation facilities face competition from other power generation plants that supply the Luzon power grid. Competitors include the Aboitiz Power Corp. which recently purchased the 360 MW Magat hydroelectric power plant, and other entities which will successfully bid for NPC assets to be sold by PSALM. The Agusan plant also faces competition from local generation companies within the relevant provincial or regional grids, such as Mindanao Energy System and Hydro Electric Development Corporation.

First Gen will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing these activities. The performance of the Philippine economy and the potential shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers aspiring to explore opportunities in the development of electric power generation projects in the country.

Raw Materials and Suppliers. The Malampaya consortium (Shell Philippines Exploration B.V., Shell Philippines LLC, Chevron Malampaya, LLC, and PNO Exploration Corporation) supplies natural gas to the Santa Rita and San Lorenzo plants. NPC provides the Bauang plant its bunker and diesel fuel requirements. Water releases utilized by FG Hydro for PMHEPP are generally determined by the NIA. FG Bukidnon's plant is a run-of-river facility.

Customer. Both FGPC and FGP are dependent on their sole customer Meralco, with which separate PPAs have been executed. NPC is obligated to purchase on a take-or-pay basis all the electricity generated by the Bauang power plant based on its nominated capacity. FG Bukidnon and CEPALCO have an interim power supply agreement whereby CEPALCO guarantees to take all electrical energy generated by the Agusan plant under terms and conditions as may be agreed upon in a long-term power supply agreement. FG Hydro services the electricity requirements of its TSC customers and likewise earns revenues from its participation in the WESM.

Transactions with and/or Dependence on Related Parties. Both FGPC and FGP have separate PPAs with its affiliate Meralco as off-taker of power generated by the Santa Rita and San Lorenzo plants.

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions, and Royalty Agreements. Republic Act No. 8997 granted FGHC a 25-year legislative franchise to construct, install, own, operate and maintain pipeline systems for the transportation and distribution of natural gas throughout Luzon. The franchise has been transferred to FGPipeline.

Government Approvals. Pursuant to the provisions of the Electric Power Industry Reform Act of 2001 (EPIRA), each of FGPC, FGP, BPPC, and FG Bukidnon applied for, and was granted, a Certificate of Compliance (COC) for their respective power plants. The ERC issued the COC of

FGPC on November 5, 2003, BPPC on June 4, 2003, FGP on September 14, 2005, and FG Bukidnon on February 16, 2005. The COCs for FG Hydro's Pantabangan and Masiway plants were obtained as part of the APA, and are dated December 3 and 7, 2005, respectively. The COCs have a term of five years subject to renewal. FGPC, FGP, and BPPC are likewise the holders of Certificates of Registration from the Board of Investments (BOI), while FG Hydro's application for registration has already been approved by the BOI. ECCs have also been issued by the DENR in favor of FGPC, FGP, and BPPC.

Government Regulations. The EPIRA and its Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, including: the unbundling of the generation, transmission, distribution and supply and other disposable assets of a company; creation of the WESM; and open and nondiscriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within five years from the effective date of the EPIRA. It provides cross-ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of the demand that a distribution utility can source from an associated company engaged in generation, except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically those pertaining to generation companies, which provide a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity; and VAT zero-rating of the sale of generated power.

Pursuant to Section 36 of the EPIRA, all electric power industry participants shall prepare and submit for approval of the ERC their respective Business Separation and Unbundling Plans (BSUP). The BSUP requires each industry participant to maintain separate accounts for, and structurally and functionally unbundle, their business activities.

Since each of FGP, FGPC, and BPPC is engaged solely in the business of power generation, to the exclusion of the other business segments of transmission, distribution, supply and other related business activities, compliance with the BSUP requirement on maintaining separate accounts is not reasonably practicable. As a result, FGP, FGPC, and BPPC filed their BSUP packages together with copies of their 2003 audited financial statements, and other relevant documents.

In compliance with the ERC's additional requirements for FGPC and BPPC, these companies submitted to the ERC certain additional documents. Thereafter, the ERC conducted a hearing for the approval of BPPC's BSUP. In March 2006, each of FGPC and BPPC received an order from the ERC requiring it to submit an undertaking to comply with the applicable provisions of the BSG and the Code of Conduct once it is promulgated by the ERC. BPPC and FGPC filed the required undertakings in April and May 2006, respectively. Based on the BSG, it appears that no further BSUP applications need be filed by BPPC, FGPC, and FGP Corp., until and unless any one of them will engage in a business other than generation.

Environmental Laws. First Gen's power generation operations are subject to extensive, evolving, and increasingly stringent safety, health, and environmental laws and regulations. These laws and regulations, such as the Clean Air Act (Republic Act No. 8749), address, among other things, air emissions; wastewater discharges; the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste; and workplace conditions and employee exposure to hazardous substances. Each of FGPC, FGP, and BPPC has incurred, and expect to continue to incur, operating costs to comply with such laws and regulations. In addition, First Gen has made and expects to make capital expenditures on an ongoing basis to comply with safety, health, and environmental laws and regulations. In relation to these laws and regulations, FGPC has incurred a total cost of \$0.03 million, FGP \$0.02 million, and BPPC \$0.02 million.

Management believes that each of the company's power generation facilities complies in all material respects with all applicable safety, health, and environmental laws and regulations.

Emissions of carbon dioxide, nitrous oxide, sulfur oxide, and particulate matter at the Santa Rita, San Lorenzo, and Bauang plants were all well below the standards fixed by the DENR. For Santa Rita and San Lorenzo, air and noise emission and effluent discharge levels are monitored by plant personnel and regularly validated by a group which includes the DENR. For Bauang, effluent discharges and noise levels are monitored by plant personnel, while air emission levels are measured by independent agency Berkman Systems, Inc. Compliance with environmental policies and guidelines are also regularly assessed as part of the conditions to the financing obtained for the Santa Rita and San Lorenzo plants.

The adoption of new safety, health, and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws, or other developments in the future may require First Gen to make additional capital expenditures or incur additional operating expenses in order to: (i) maintain the operations of its generating facilities at their current level; (ii) curtail power generation; or (iii) take other actions that may have a material adverse effect on the company's financial condition, results of operations, and cash flow.

Employees.

Company	Number of regular employees		Union Members	CBA Expiration
First Gen		11	None	NA
Vice President and up	1			
Senior Manager	3			
Manager	2			
Assistant Manager	0			
Supervisor	1			
Staff	4			
FGHC		18	None	NA
Assistant Vice President	5			
Senior Manager	1			
Manager	2			
Assistant Manager	1			
Supervisor	7			
Staff	2			
FGPC		47	None	NA
Vice-President and up	7			
Assistant Vice-President	2			
Senior Manager	11			
Manager	8			
Assistant Manager	2			
Supervisor	5			
Staff	12			
FGP		42	None	NA
Vice President and up	2			
Senior Manager	8			
Manager	6			
Assistant Manager	0			
Supervisor	6			
Staff	20			
FGHPC		59	None	NA
Senior Manager	1			
Manager	3			
Supervisor	22			
Staff	33			
FGBPC		10		
Assistant Manager	1			
Staff	9			
FGRI		3		
Senior Manager	1			
Staff	2			

BPPC		197		
Senior Vice President and up	2			
Assistant Vice President	3			
Senior Manager	8			
Manager	16			
Supervisor	43			
Staff	125		77	July 2010

Major Risks. To properly identify, assess, and manage the risks to which First Gen and its subsidiaries are exposed to, the company has put in place an enterprise risk management system. Following are some of the major risks involved in the operations of First Gen and its subsidiaries:

Meralco. Payments by a single offtaker, Meralco, to the generation subsidiaries account for most of the company's revenues. If Meralco experiences financial difficulties and is unable to meet its payment obligations to the generation subsidiaries, the company would be materially and adversely affected. The company earns substantially all of its total revenues from Meralco as its lone customer. Meralco is committed to pay the generation subsidiaries for capacity and energy from the Santa Rita and San Lorenzo power plants under long-term PPAs. The Santa Rita and San Lorenzo PPAs are due to expire on August 16, 2025 and September 30, 2027, respectively.

Competitive Energy Market. In recent years, the government has sought to implement measures designed to establish a competitive energy market. These measures include the privatization of approximately 70% of NPC-owned power generation facilities and of government-owned and -operated transmission facilities, as well as the establishment of the WESM. The move towards a more competitive environment may result in the emergence of new and numerous competitors. These competitors may have greater financial resources and more extensive operational experience and other capabilities, giving them the ability to respond to operational, technological, financial, and other challenges more quickly. The type of fuel that competitors use for their generation facilities may also allow them to produce electricity at a lower cost and sell electricity at a lower price. In addition, distribution utilities such as Meralco are now free to purchase electricity from other generation companies and the WESM. To the extent that Meralco agrees to purchase from other generation companies power that it would otherwise purchase from First Gen's subsidiaries above the MEQ, or from generation facilities that may be acquired or developed by the company, the ability of the generation subsidiaries to increase their revenues, and of the company to sell additional electricity to Meralco through new generation facilities, as the case may be, would be adversely affected.

EPIRA Amendments. Several bills have been filed in Congress proposing amendments to the EPIRA. These include: (i) cross ownership restrictions between generation and distribution sectors; (ii) restrictions on the amount (33%) of electric power that a distribution utility can source from a single generation company or from generation companies wholly-owned or controlled by the same interests; (iii) accelerated commencement of retail open access via amendment of conditions precedent, particularly the privatization of NPC generating assets from 70% to 50%; (iv) more stringent stranded cost recovery mitigation measures for bilateral contracts between affiliated companies; and (v) restrictions on the type of assets included in the rate base of a distribution utility. There is no assurance that these proposed amendments will be enacted in their current form or at all, or when any amendment to the EPIRA will be enacted. Proposed amendments to the EPIRA, including those discussed above, as well as other legislation or regulations, could have a material adverse impact on First Gen's business, financial condition, and results of operations.

Item 2. Properties

The company's head office is located at the 3rd Floor, Benpres Building, Exchange Road cor. Meralco Avenue, Pasig City. The premises are leased from INAEC Development Corporation, a subsidiary of FPHC. The following table sets out the status of land used for First Gen's power generation facilities:

Location	Area (hectares)	Owned/Leased	Parcels of Land	Title Status as of December 2006
Santa Rita	33	Owned	93	All are titled
San Lorenzo	24	Owned/Leased	62	30 are titled, with the remaining 32 parcels subject of titling proceedings
Bauang	22	(NPC is obligated to provide the land on which the Bauang plant is located and BPPC is granted use thereof pursuant to the terms of the BOT agreement)	78	4 titles have been transferred to NPC. The Regional Trial Court (RTC) issued in September 2006 an approval of the cadastral registration for the balance. However, The Land Registration Authority (LRA) could not issue the decree of title without the full technical descriptions of the lots. NPC filed a Motion for Issuance of Supplemental Order with the RTC to address this issue. No court decision has been issued as of December 31, 2006.
Agusan Mini-Hydro	1.1	Leased*	9	2 parcels are titled under the name of NPC. Application for registration of land title for 5 lots are pending with the RTC of Manolo Fortich. NPC is also finalizing registration of the sale and segregation survey of 2 remaining lots before transfer of title in NPC's name can be effected.

Liens and Encumbrances

The property, plant and equipment of FGPC, with net book value of US\$396.3 million as of December 31, 2006, have been used to secure FGPC's long-term debt. FGPC has also granted its creditors a first priority lien on most of its real and other properties, including revenues from the operations of the Santa Rita power plant. In addition, the shares of stock of FGPC held by FGHC were pledged as part of security to its lenders.

The property, plant and equipment of FGP, with net book value of US\$246.6 million as of December 31, 2006, have been used to secure FGP's long-term debt. FGP has also granted its creditors a first priority lien on most of its real and other properties, including revenues from the operations of the San Lorenzo power plant. In addition, the shares of stock of FGP held by UHC were pledged as part of security to its lenders.

The property, plant and equipment of BPPC, with net book value of US\$42.35 million as of December 31, 2006, have been used to secure BPPC's long-term debt. BPPC has also granted its creditors a first priority lien on most of its real and other properties, including revenues from the

* The Land Lease Agreement covers a total area of 10,581 square meters, which area includes the powerhouse and the administration and housing compound areas. Access to the non-power component areas is by virtue of an Operations and Maintenance Agreement with NPC.

operations of the Bauang power plant. In addition, the shares of stock of FPPC, which owns 93.25% of BPPC, have been pledged as part of security to its lenders.

Item 3. Legal Proceedings

(1) Engineering, Procurement and Construction (EPC) Contract

FGPC entered into a Turnkey EPC Contract with Siemens AG, Siemens Power Generation, and Siemens, Inc. (Siemens) for the construction of the 1000 MW Santa Rita power plant.

Arbitration proceedings were conducted to resolve a dispute between FGPC and Siemens in connection with its construction of Santa Rita. The dispute stemmed from delays incurred by Siemens and its subcontractors in the timely completion of Santa Rita. As a remedy available under the EPC Contract, FGPC withheld approximately \$94.2 million of milestone payments to Siemens to cover the corresponding liabilities that Siemens incurred as a result of its delays.

In December 2002, Siemens submitted a Request for Arbitration to the International Chamber of Commerce (ICC) in London against FGPC arising from alleged delays in the construction of Santa Rita. In its Request for Arbitration, Siemens claimed payment for certain milestones achieved in the construction of Santa Rita, which FGPC previously withheld. Siemens also claimed an additional sum of approximately \$64.0 million for prolongation cost and miscellaneous matters.

The Arbitral Tribunal considered both claims and liabilities of Siemens during hearings held in March and April 2005. In November 2005, the Arbitral Tribunal rendered its 2nd interim award in relation to Siemens' claim for extension of time and ruled that Siemens was entitled to an extension of time in respect of Block 1 and Block 2 completion of 32 days and 60 days, respectively, and accordingly, Siemens was saved from any liability during this time. However, notwithstanding its entitlement to an extension of time, the delays to the completion of Santa Rita for which Siemens was responsible meant that it also incurred the corresponding obligations in the aggregate amount of \$99.3 million. As FGPC had already withheld \$94.2 million in milestone payments to Siemens, only the balance of \$5.1 million was due to be paid to FGPC by Siemens, subject to any set-offs and counterclaims to be determined by the arbitral tribunal in its Final Award.

The withheld amount of approximately \$93.9 million of unpaid EPC milestone payments, net of applicable taxes, was recorded in 2005 as a reduction in the cost of the power plant. The balance of \$5.1 million, from the full \$99.3 million of Siemens' incurred liabilities, was recognized as part of the "Other income (charges)" account in the consolidated statement of income in 2005.

Hearings were held in September 2005 to consider Siemens' monetary claims against FGPC and FGPC's counterclaims against Siemens. In April 2006, the Arbitral Tribunal issued its 3rd interim award in which it was held that: [i] FGPC was entitled to an \$11.2 million award (inclusive of the \$5.1 million already recognized as other income in 2005) for its remaining counterclaims against Siemens; and [ii] Siemens was entitled to approximately \$8.5 million for its remaining claims against FGPC.

Following the 3rd interim award, in October 2006, FGPC and Siemens entered into a Settlement Agreement to conclude the arbitration and settle all outstanding matters between them. Siemens agreed to make an additional net payment to FGPC of \$10.5 million (inclusive of the \$5.1 million that was initially recognized as other income in 2005 and the \$1.5 million outstanding receivables of FGPC from Siemens).

In October 2006, FGPC received the net payment from Siemens of \$10.5 million. The net balance of \$3.9 million was recognized as part of the "Other income (charges)" account in the consolidated statement of income in 2006.

In December 2006, the Arbitral Tribunal issued its Final Award incorporating all previous awards and the agreement of the parties to settle all outstanding matters between them.

(2) Gas Sale and Purchase Agreements (GSPA)

GSPA of FGP. FGP has a GSPA with the consortium of Shell Philippines Exploration B.V., Shell Philippines LLC, Chevron Malampaya, LLC, and PNOG Exploration Corporation (Gas Sellers) for the supply of natural gas in connection with the operations of the San Lorenzo power plant. The GSPA, now on its 5th Contract Year, has a term of approximately 22 years.

Total cost of natural gas purchased amounted to \$196.7 million in 2006, \$169.2 million in 2005, and \$106.4 million in 2004.

Under the GSPA, FGP is obligated to consume (or pay for, if not consumed) a minimum quantity of gas for each Contract Year (which runs from December 26 to December 25), called the Take-Or-Pay Quantity (TOPQ). If the TOPQ is not consumed within a particular Contract Year, FGP incurs an Annual Deficiency for that Contract Year equivalent to the total volume of unused gas (i.e., the TOPQ less the actual quantity of gas consumed). FGP is required to make payments to the Gas Sellers for such Annual Deficiency after the end of the Contract Year. After paying for Annual Deficiency gas, FGP can make-up for such Annual Deficiencies by consuming the unused-but-paid-for gas (without further charge) within ten Contract Years after the Contract Year for which the Annual Deficiency was incurred, in the order that it arose.

FGP paid certain fees to the Gas Sellers in lieu of incurring certain Annual Deficiency payment obligations for the first Contract Year (2002) as a result of the failure to commence commercial operations of the power plant at the Start Date (July 2, 2002) in accordance with the GSPA. These fees amounted to \$9.8 million and have been booked as prepaid gas, net of adjustment, in the same manner as if the fees were paid for Annual Deficiencies incurred in Contract Year 2002.

FGP executed in March 2006 the Settlement Agreement (SA) and Payment Deferral Agreement (PDA) with the Gas Sellers to amicably settle their long-standing disputes under the GSPA. The disputes relate to the Gas Sellers' claim for Annual Deficiency payments totaling \$68 million from FGP for unconsumed gas volumes for Contract Years 2002 to 2004. Under the terms of the SA and the PDA, the claim has been reduced to \$32.7 million. An additional reduction of \$3.8 million is recognized under the SA and PDA to credit FGP for gas consumption in excess of the TOPQ for 2005. The remaining liabilities will be paid through quarterly principal payments until December 26, 2009 with interest at LIBOR plus margin. The SA and PDA allow FGP to prepay all or part of the outstanding balance and make up for the volume of gas up to the extent of the principal repayments made under the PDA for a longer period of time instead of the ten-Contract Year recovery period allowed under the GSPA.

In May 2006, all the conditions precedent set out in the SA and PDA were completely satisfied. Such conditions precedent includes an acknowledgment and consent by Meralco.

For Contract Year 2006, the Gas Sellers issued its Annual Reconciliation Statement (ARS) in December 2006. The Gas Sellers are claiming an Annual Deficiency payment for Contract Year 2006 amounting to \$3.9 million. FGP disagrees that any such Annual Deficiency payment is due. FGP has claimed relief for, among others, *force majeure* events arising from circumstances that affected the Transmission Facilities or the Transmission Company's ability to accept or transmit electric energy generated by the power plant. FGP's position is that the power plant actually consumed more than the TOPQ and is thus entitled to make-up for its Outstanding Balance of Annual Deficiencies. The GSPA provides a mechanism for the resolution of disputes arising from the GSPA.

Under the terms of the PPA with Meralco, all fuel and fuel-related payments are pass-through. The payment obligations of FGP under the SA, PDA, and GSPA are passed on to Meralco on a back-to-back and full pass-through basis.

GSPA of FGPC. FGPC also has a GSPA with the Gas Sellers for the supply of natural gas in connection with the operations of the power plant. The GSPA, now in its 6th Contract Year, has a term of approximately 22 years.

Total cost of natural gas purchased amounted to \$397.2 million in 2006, \$332.6 million in 2005, and \$236.5 million in 2004.

Under the GSPA, FGPC is obligated to consume (or pay for, if not consumed) a minimum quantity of gas for each Contract Year (which runs from December 26 to December 25) called the TOPQ. If the TOPQ is not consumed within a particular Contract Year, FGPC incurs an Annual Deficiency for that Contract Year equivalent to the total volume of unused gas (i.e., the TOPQ less the actual quantity of gas consumed). FGPC is required to make payments to the Gas Sellers for such Annual Deficiency after the end of the Contract Year. After paying for Annual Deficiency gas, FGPC can make-up for such Annual Deficiencies by consuming the unused-but-paid-for gas (without further charge) within ten Contract Years after the Contract Year for which the Annual Deficiency was incurred, in the order that it arose.

FGPC executed on March 22, 2006 the SA and PDA with the Gas Sellers to amicably settle their long-standing disputes under the GSPA. The disputes relate to the Gas Seller's claim for Annual Deficiency payments totaling \$163.4 million from FGPC for unconsumed gas volumes for Contract Years 2002 to 2004. Under the terms of the SA and the PDA, the claim has been reduced to \$115.3 million. An additional reduction of \$9.6 million is recognized under the SA and PDA to credit FGPC for gas consumption in excess of the TOPQ for 2005. The remaining liabilities will be paid through quarterly principal payments until December 26, 2009 with interest at LIBOR plus margin. The SA and PDA allow FGPC to prepay all or part of the outstanding balance and make up for the volume of gas up to the extent of the principal repayments made under the PDA for a longer period of time instead of the ten-Contract Year recovery period allowed under the GSPA.

In May 2006, all the conditions precedent set out in the SA and PDA were completely satisfied. Such conditions precedent includes an acknowledgment and consent by Meralco.

For Contract Year 2006, the Gas Sellers issued its ARS in December 2006. The Gas Sellers are claiming an Annual Deficiency payment for Contract Year 2006 amounting to \$5.4 million. FGPC disagrees that any such Annual Deficiency payment is due. FGPC has claimed relief for, among others, *force majeure* events arising from circumstances which affected the Transmission Facilities or the Transmission Company's ability to accept or transmit electric energy generated by the power plant. FGPC's position is that the power plant actually consumed more than the TOPQ and is thus entitled to make-up for its Outstanding Balance of Annual Deficiencies. The GSPA provides a mechanism for the resolution of disputes arising from the GSPA.

Under the terms of the PPA with Meralco, all fuel and fuel-related payments are pass-through. The payment obligations of FGPC under the SA, PDA, and GSPA are passed on to Meralco on a back-to-back and full pass-through basis.

Starting June 7, 2006 and on a quarterly basis thereafter, the pre-settlement interest, mandatory prepayments, and quarterly payments set forth in the respective SAs and PDAs of FGP and FGPC were paid in a timely manner. Upon payment of the principal amount, a corresponding prepaid gas is recognized to cover the principal portion paid to the Gas Sellers, and a corresponding credit to the unearned revenue is recognized for the principal portion that was already paid by Meralco.

As of December 31, 2006, the prepaid gas arising from the SA and PDA and the corresponding unearned revenue amounted to \$50.1 million.

(3) Land Titling Cases

As of December 31, 2006, there remains a number of land titling cases filed by FGP and FGPC. Management believes that the resolution of these cases will not materially affect the consolidated financial statements.

(4) FGPC Real Property Tax Case

In June 2003, FGPC received various Notices of Assessment and Tax Bills dated April 15 and 21, 2003 from the Provincial Government of Batangas, through the Office of the Provincial Assessor, imposing an annual real property tax (RPT) on steel towers, cable/transmission lines and accessories (T-Line) amounting to \$0.22 million (P12 million) per year. FGPC, claiming exemption from said RPT, appealed the assessment to the Provincial Local Board of Assessment Appeals (LBAA) on the ground that the T-Line does not constitute real property for RPT purposes, and even assuming that the T-Line is regarded as real property, FGPC cannot be held liable for RPT as it is NPC/Transco, a government-owned and-controlled corporation (GOCC) engaged in the generation and/or transmission of electric power, which has actual, direct and exclusive use of the T-Line.

FGPC was granted a preliminary injunction by the Regional Trial Court (RTC) of Batangas City to enjoin the Provincial Treasurer from collecting the RPT pending the decision of the LBAA. Despite the injunction, the LBAA issued an Order requiring FGPC to pay the RPT within 15 days. In October 2005, FGPC filed an appeal before the Central Board of Assessment Appeals (CBAA) assailing the validity of the LBAA order. In a Resolution rendered in December 2006, the CBAA set aside the LBAA Order and remanded the case to the LBAA, which was directed to proceed with the case on the merits without requiring FGPC to pay the RPT.

In a decision dated January 30, 2006, the RTC of Batangas City denied a 2nd motion to lift the injunction. The RTC court is scheduled to conduct a pre-trial of the main case for prohibition.

(5) BPPC

There are ongoing cases involving the assessment of RPT and Franchise Tax by the local government. BPPC believes that under the BOT agreement, any RPT and franchise tax that may be found due is for the sole account of NPC.

The first case was filed by NPC with the LBAA of La Union in connection with the assessment of RPT by the Provincial Treasurer on BPPC's Machinery and Equipment from 1995 to 1999. Following the denial of NPC's petition for exemption by the LBAA and NPC's appeal to the CBAA, BPPC formally intervened in the CBAA case to further protect its interest. The CBAA affirmed the decision of the LBAA. Both NPC and BPPC filed their respective appeals to the Court of Tax Appeals (CTA), which denied the appeals. NPC elevated the matter directly to the Supreme Court (SC), while BPPC filed a Motion for Reconsideration with the CTA, which denied said motion in July 2006. BPPC then filed a Petition for Review on Certiorari with the SC on September 11, 2006, reiterating NPC's exemption from RPT. In a minute resolution dated October 4, 2006, the SC's First Division denied BPPC's petition on the ground that it failed to show that the CTA committed any reversible error as to warrant the exercise by the SC of its appellate jurisdiction. A Motion for Reconsideration filed by BPPC on December 12, 2006 was likewise denied by the SC in a resolution dated February 26, 2007.

The second case was filed by NPC, for itself and on behalf of BPPC, following issuance of a revised assessment of RPT on BPPC's Machinery and Equipment on July 15, 2003 by the Municipal Assessor of the Municipality of Bauang, La Union. Under the said revised Assessment, the maximum tax liability for the period 1995 to 2003 is about \$15.8 million (P775.1 million), based on the maximum 80% assessment level imposable on privately-owned entities and a tax rate of 2%. In addition, interest on the unpaid amounts (2% per month not exceeding 36 months) has reached a total amount of \$9.97 million (P489.0 million). The case remains pending with the LBAA of the Province of La Union.

BPPC believes that the dismissal by the SC of its Petition will not result in the immediate collection of the RPT. There are two other cases involving the very same issues also pending with the Third Division of the SC, which warrants a thorough review to squarely address a substantive and novel issue. Moreover, the outstanding preliminary injunction against collection of RPT by the Province of La Union is for the benefit of both BPPC and NPC, and the Province cannot collect the tax until the NPC Petition is also finally resolved. Any premature collection of RPT could subject the municipal treasurer and other officials of the Province to contempt of court for violation of the injunction.

In the event of a final adverse decision on the issue of RPT on Machinery and Equipment, NPC shall be directly responsible for the payment of all assessed taxes pursuant to the terms of the BOT agreement which specifically provides that NPC shall pay all real estate taxes and assessments in respect of the site and machinery, equipment and improvements of the power plant complex.

The third case was filed on October 19, 2005 by NPC, for itself and on behalf of BPPC, following receipt of a Statement of Account from the Municipal Treasurer dated August 5, 2005 for RPT on the Company's Buildings and Improvements from 2003 to August 2005 amounting to \$0.08 million (₱4.2 million). The case is pending with the LBAA of the Province of La Union. NPC paid all RPT on Buildings and Improvements directly to the local government from 1995 until 2003, when it stopped payment of the tax and claimed an exemption under the Local Government Code.

BPPC also filed a Petition for Certiorari and Prohibition in September 2004 to contest an assessment for Franchise Tax for the period 2000 to 2003 amounting to \$0.62 million (₱33.0 million), including surcharges and penalties, on the ground that BPPC is not a public utility required by law to obtain a legislative franchise before operating. The case is pending before the RTC of Bauang, La Union. BPPC believes that the BOT agreement with NPC allows BPPC to claim indemnity from NPC for any new imposition, including Franchise Tax, incurred by BPPC that was not originally contemplated when it entered into the BOT agreement.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

First Gen was incorporated in the Philippines on December 22, 1998. First Gen and its operating subsidiaries FGPC (Santa Rita power plant), FGP (San Lorenzo power plant), BPPC (Bauang power plant), FG Bukidnon (Agusan power plant), and FG Hydro (Pantabangan-Masiway power facility) are involved in power generation. All its subsidiaries are incorporated in the Philippines.

In September 2006, FG Hydro submitted the highest bid for the 112 MW Pantabangan-Masiway hydroelectric power facility in a bidding conducted by PSALM. The power plants were transferred to FG Hydro in November 2006.

First Gen likewise participated in the bidding for the 1.6MW Agusan mini-hydro power plant conducted by PSALM on June 4, 2004. In October 2005, First Gen conveyed its rights and obligations on Agusan to FG Bukidnon, a wholly-owned subsidiary of FGRI, which is in turn a wholly-owned subsidiary of First Gen. FG Bukidnon was incorporated on February 9, 2005.

Other subsidiaries of First Gen are:

- 1) AlliedGen Power Corporation - incorporated on February 14, 2005, the company is the holding company of First Gen's 60% equity interest in First NatGas Power Corporation.
- 2) First NatGas Power Corporation - incorporated on March 10, 2005, the company will be the operating company for the proposed 550MW San Gabriel project, a natural gas-fired power plant to be located on land adjacent to the FGP and FGPC plant sites.
- 3) First Gen Luzon Power Corp. - incorporated as a wholly-owned subsidiary of First Gen on May 26, 2005, the company will be used as the operating company for acquired generating facilities.
- 4) First NatGas Supply Corporation - incorporated on November 16, 2005, the company will be engaged in the trading of natural gas.
- 5) First Gen Geothermal Power Corp. – incorporated as a wholly-owned subsidiary of First Gen in March 2006, the company will be used by First Gen in its bid for geothermal assets of NPC in PSALM's ongoing privatization process.
- 6) First Gen Hydro Power Corp. - incorporated as a wholly-owned subsidiary of First Gen in March 2006, the company will be used by First Gen in its bid for hydro assets of NPC in PSALM's ongoing privatization process.
- 7) First Gen Visayas Hydro Power Corporation and First Gen Mindanao Hydro Power Corporation – incorporated in September 2006 as wholly-owned subsidiaries of First Gen, the companies will be engaged in the generation, transmission and/or distribution of energy derived from hydropower.
- 8) First Gen Northern Energy Corp. - incorporated on November 8, 2006 as a wholly-owned subsidiary of First Gen, the company will be engaged in the generation, transmission and/or distribution of energy derived from hydropower.
- 9) First Gen Energy Solutions Inc. – incorporated on November 24, 2006, the company will be engaged in the marketing, supply, delivery, purchase and sale of electricity.

MARKET INFORMATION

First Gen's common shares were listed with the Philippine Stock Exchange, Inc. on February 10, 2006. The high and low stock prices for each quarter are as follows:

2007	High	Low
February	63	51
2006		
December	56.5	51
September	50	47.5
June	47	41
March	45	41

The closing price of First Gen's common shares as of March 1, 2007 was ₱53.00 per share.

There were 329 stockholders of record as of February 28, 2007, and 803,120,148 common shares issued and outstanding as of March 1, 2007.

Following are the top 20 stockholders as of March 1, 2007:

Rank	Name and Address	Number of Shares	Percentage to Total
1	FIRST PHILIPPINE HOLDINGS CORPORATION	412,966,918.00	35.651057
		355,238,000.00	30.667372
		=====	=====
		=	=
		768,204,918.00	66.318428
		=====	=====
		=	=
2	PCD NOMINEE CORPORATION	232,192,628.00	20.044977
3	FGHC INTERNATIONAL LIMITED	123,238,400.00	10.639058
4	PCD NOMINEE CORPORATION	22,705,076.00	1.960108
5	SUMMIT GLOBAL MANAGEMENT II B.V.	5,774,840.00	0.498537
6	PETER D. GARRUCHO, JR.	857,196.00	0.074001
7	RICHARD B. TANTOCO	672,301.00	0.058039
8	PAUL GERARD B. DEL ROSARIO	540,000.00	0.046618
9	OSCAR M. LOPEZ	492,768.00	0.04254
10	FRANCIS GILES B. PUNO &/OR MA. PATRICIA D. PUNO	455,200.00	0.039297
11	FEDERICO R. LOPEZ	331,340.00	0.028604
12	FRANCIS GILES B. PUNO	240,001.00	0.020719
13	ELPIDIO L. IBANEZ	156,400.00	0.013502
14	JONATHAN RUSSELL	110,700.00	0.009557
15	DANIEL H. VALERIANO, JR.	107,784.00	0.009305
16	THE INSULAR LIFE ASSURANCE CO., LTD.	106,000.00	0.009151
17	PAUL ROSENBERG	100,000.00	0.008633
18	AUGUSTO A. LOPEZ	86,100.00	0.007433
19	RICARDO B. YATCO	81,528.00	0.007038
20	EMMANUEL P. SINGSON	80,000.00	0.006906

DIVIDENDS

For the years 2004 to 2006, First Gen declared the following cash dividends:

Cash dividends: In Thousands USD	2006	2005	2004
Preferred stock	-	36,191	-

Common stock	26,911	20,000	40,000
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On May 10, 2006, the board of directors of the Corporation approved the declaration of cash dividends in the amount of One Peso and Seventy-Five Centavos (₱1.75) on each outstanding common share in favor of stockholders of record as of June 2, 2006, in proportion to their shareholdings. Payment date was set at June 16, 2006.

In a letter dated May 23, 2005, the SEC noted and approved the Corporation's declaration of a 300% stock dividend payable to its stockholders as of April 4, 2005.

SALE OF UNREGISTERED / EXEMPT SECURITIES

Executive Stock Option Plan (ESOP). The Securities and Exchange Commission (SEC), in Resolution No. 445 dated August 29, 2002, held that the company's issuance of 452,285 shares of stock pursuant to its ESOP is exempt from the registration requirements under Section 10.2 of the Securities Regulation Code (SRC). On November 29, 2005, the SEC set aside Resolution No. 445 and issued Resolution No. 372 to reflect the adjustment of ESOP shares from 452,285 to 18,091,400.

Employee Stock Purchase Plan (ESPP). The SEC, in Resolution No. 272 dated August 30, 2005, held that the company's issuance of 113,071 shares of stock pursuant to its ESPP is exempt from the registration requirements under Section 10.2 of the SRC.

Item 6. Management's Discussion and Analysis or Plan of Operation.

The Management Report is hereto attached as **Exhibit "A"**.

Item 7. Financial Statements

The company's audited financial statements for the years ended December 31, 2006 and 2005 are hereto attached as **Exhibit "B"**.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

SyCip Gorres Velayo & Co. (SGV) is being recommended to the stockholders for appointment as external auditor for the current year. SGV has acted as the company's external auditors since its incorporation in December 1998. In compliance with SEC Memorandum Circular No. 8, series of 2003, SGV's handling partner for the company shall be rotated every five (5) consecutive years.

The company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period.

Representatives of SGV are expected to be present and respond to appropriate questions during the stockholders' meeting. They will also have the opportunity to make a statement if they so desire.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

- (1) The company's amended articles of incorporation provide for a 9-seat board of directors. The company is required to have at least 2 independent directors or such independent directors as shall constitute at least 20% of the members of such board, whichever is lesser, pursuant to the requirements of Section 38 of the SRC. The directors serve for a period of one year and until their successors shall have been duly elected and qualified.

In meetings held by the company's board of directors and stockholders in August 2005, the company's by-laws were amended to provide for the nomination and election of independent directors. The SEC approved the amended by-laws in December 2005.

First Gen's board of directors is currently composed of the following:

Director	Nationality	Position	Age	Year Position was Assumed
Mr. Oscar M. Lopez	Filipino	Chairman of the board of directors	76	Chairman since 1998
Mr. Peter D. Garrucho, Jr.	Filipino	Vice Chairman of the board of directors and CEO	62	Director since 1998; Vice Chairman and CEO since 2002
Mr. Federico R. Lopez	Filipino	Director, President and COO	45	Director since 1998; President and COO since 2002
Mr. Elpidio L. Ibañez	Filipino	Director	56	Director since 1998
Mr. Francis Giles B. Puno	Filipino	Director, Senior Vice President and CFO	42	Director since 2005; Senior Vice President and CFO since 2000
Mr. Richard B. Tantoco	Filipino	Director and Senior Vice President	40	Director since 2005; Senior Vice President since 2000
Mr. Fiorello R. Estuar	Filipino	Director	68	Director since 2006
Mr. Tony Tan Caktiong	Filipino	Independent Director	54	Director since 2005
Mr. Cezar P. Consing	Filipino	Independent Director	47	Director since 2005

The incumbent directors named above have been nominated for reelection to the board. Mr. Tony Tan Caktiong and Mr. Cezar P. Consing were nominated for reelection as independent directors of the company.

Under the company's Manual on Corporate Governance, the entire board acts as the Nomination Committee for selecting directors and passing upon their qualifications. The Nomination Committee has passed upon the qualifications of the above persons nominated as directors by FPHC, and found no disqualifications as provided in the by-laws and the Manual on Corporate Governance. FPHC is a major stockholder of the company, being the registered owner of 51.4% of the company's common shares, and 100% of its voting preferred shares.

With respect to the nominees for independent directors Mr. Tan Caktiong and Mr. Consing, their nomination by FPHC and qualification by the Nomination Committee are in compliance with the company's by-laws, Manual on Corporate Governance, and SRC Rule 38. The Nomination Committee accordingly pre-screened and prepared the final list of candidates for independent directors. Mr. Tan Caktiong and Mr. Consing were found to possess all the qualifications and none of the disqualifications for independent directors. There are no existing relationships between FPHC on the one hand, and Mr. Tan Caktiong and/or Mr. Consing on the other.

Apart from the requirements of SRC Rule 38, the company's Manual on Corporate Governance provides that: [i] an independent director is a person other than an officer or employee of the Corporation, its parent or subsidiaries, or any other individual having a relationship with the Corporation that would tend to interfere

with the exercise of independent judgment in carrying out the responsibilities of a Director; and [ii] if the independent director becomes an officer or employee of the Corporation, he shall be automatically disqualified from being an independent director.

In accordance with SRC Rule 38, no further nominations shall be entertained or allowed on the floor during the annual meeting of stockholders, as the final list of candidates will be the basis for the election of the independent directors. Further, the Chairman of the meeting will inform the stockholders in attendance of the requirements for electing independent directors. In the event of failure to elect independent directors, the Chairman shall call a separate election during the same meeting to fill up the vacancy.

Following are the nominees for election to the board of directors of the corporation for the ensuing year, including the independent directors, as pre-screened by the Nomination Committee:

OSCAR M. LOPEZ
PETER D. GARRUCHO, JR.
FEDERICO R. LOPEZ
ELPIDIO L. IBANEZ
FRANCIS GILES B. PUNO
RICHARD B. TANTOCO
FIORELLO R. ESTUAR
TONY TAN CAKTIONG
CEZAR P. CONSING

The following sets forth the business experience of the nominees for directors, including independent directors, of the corporation:

Oscar M. Lopez, born April 19, 1930, Filipino, is Chairman of the corporation. He has been Chairman and Chief Executive Officer of FPHC since 1986, and Chairman of Benpres Holdings Corporation since 1993. Through these two assignments, Mr. Lopez serves as Chairman of the Lopez Group of Companies. He is also a member of the board of ABS-CBN Broadcasting Corporation. Mr. Lopez has led FPHC's efforts in other businesses aside from energy and power, including toll road construction, industrial park and real estate development, and electronics manufacturing. Mr. Lopez has a Masters degree in Public Administration from the Littauer School of Public Administration, Harvard University (1955). Mr. Lopez also earned his Bachelor of Arts degree (cum laude) from Harvard University (1951).

Peter D. Garrucho, Jr., born May 4, 1944, Filipino, is Vice Chairman and CEO of the corporation. He is also Managing Director for Energy of FPHC, and a member of the board of ABS-CBN. Mr. Garrucho serves as Vice Chairman and CEO of First Gas Holdings Corporation, First Gas Power Corporation, FGP Corp., First Gen Luzon Power Corp., First Gen Hydro Power Corp., First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Northern Energy Corp., First Gen Energy Solutions, Inc., FG Bukidnon Power Corp., AlliedGen Power Corp., Unified Holdings Corp., First NatGas Power Corp., FGLand Corp., First Gas Pipeline Corp., and Unified Holdings Corp. He is also President and CEO of First Private Power Corp. and Bauang Private Power Corp., and Vice Chairman of First Gen Renewables, Inc. Mr. Garrucho served in the government as Secretary of Tourism and Secretary for Trade & Industry during the administration of President Corazon C. Aquino. He was also Executive Secretary and Presidential Adviser on Energy Affairs under President Fidel V. Ramos. Mr. Garrucho has an AB-BSBA degree from De La Salle University (1966) and a Master of Business Administration degree from Stanford University (1971).

Federico R. Lopez, born August 5, 1961, Filipino, is President and Chief Operating Officer of the corporation, First Gas Holdings Corp., First Gas Power Corp., FGP Corp., First Gen Luzon Power

Corp., First Gen Geothermal Power Corp., First Gen Hydro Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Northern Energy Corp., First Gen Energy Solutions, Inc., AlliedGen Power Corp., Unified Holdings Corp., First NatGas Power Corp., FGLand Corp., First Gas Pipeline Corp., and Unified Holdings Corp. Mr. Lopez is also a Vice President of FPHC, member of the board of ABS-CBN Broadcasting Corporation, and President of First Philippine Conservation, Inc. Mr. Lopez is a graduate of the University of Pennsylvania with a Bachelor of Arts degree in Economics and International Relations (cum laude, 1983).

Elpidio L. Ibañez, born September 30, 1950, Filipino, is President and Chief Operating Officer of FPHC. As COO of FPHC, Mr. Ibañez monitors the company's affiliated companies in manufacturing, property development, and toll roads. He is also the Chief of Staff of Benpres Holdings Corporation and a member of the board of various Benpres-affiliated companies. Mr. Ibañez obtained a Masters degree in Business Administration from the University of the Philippines (1975) and a Bachelor of Arts degree major in Economics from Ateneo de Manila University (1972).

Francis Giles B. Puno, born September 1, 1964, Filipino, is Senior Vice President and Chief Financial Officer of the corporation, First Gas Holdings Corporation, First Gas Power Corporation, FGP Corp., First Gen Luzon Power Corp., First Gen Hydro Power Corp., First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Northern Energy Corp., First Gen Energy Solutions, Inc., FG Bukidnon Power Corp., AlliedGen Power Corp., Unified Holdings Corp., First NatGas Power Corp., FGLand Corp., First Gas Pipeline Corp., and Unified Holdings Corp. He led the corporation in the financing of the 1000MW Santa Rita and 500MW San Lorenzo power projects, in two major merger and acquisition deals with the entry of AIDEC FG Power Corporation Limited and Sumitomo Corporation as investors, as well as in the sale of Panay Power Corporation. Prior to joining the corporation, Mr. Puno worked as Vice President with the Global Power and Environmental Group of The Chase Manhattan Bank based in Singapore. Mr. Puno has a Master of Management degree from the Kellogg Graduate School of Management of Northwestern University (1990) and a Bachelor of Science degree in Business Management from Ateneo de Manila University (1985).

Richard B. Tantoco, born October 2, 1966, Filipino, is Senior Vice President for business development of the company, First Gas Holdings Corporation, First Gas Power Corporation, FGP Corp., First Gen Luzon Power Corp., First Gen Hydro Power Corp., First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Northern Energy Corp., First Gen Energy Solutions, Inc., AlliedGen Power Corp., Unified Holdings Corp., First NatGas Power Corp., FGLand Corp., First Gas Pipeline Corp., and Unified Holdings Corp. Mr. Tantoco is responsible for seeking opportunities to develop greenfield power projects as well as developing downstream natural gas transmission and distribution business. Mr. Tantoco led the negotiations of major project contracts that resulted in the development of the 1000MW Santa Rita and 500MW San Lorenzo power projects, and the 8-km. Tabangao-Santa Rita gas pipeline. Prior to joining the corporation, Mr. Tantoco worked with management consulting firm Booz, Allen and Hamilton, Inc. in New York and London. Mr. Tantoco has an MBA in Finance from the Wharton School of Business of the University of Pennsylvania (1993) and a Bachelor of Science degree in Business Management from Ateneo de Manila University where he graduated with honors (1988).

Fiorello R. Estuar, born July 27, 1938, Filipino, acts as consultant for the Lopez Group of Companies and C. Virata & Associates. He is also President and CEO of Maynilad; Vice-Chairman and CEO of First Balfour Inc.; member of the JBIC Advisory Committee; private sector representative in the Government Procurement Policy Board; and Chairman of Eastern Twin Star Foundation and the NAIA 3 Commission. He previously held the positions of Presidential Adviser and Secretary of the Department of Public Works and Highways (1987-91); Administrator of the National Irrigation Administration (1980-83); and President of PNCC (1984-87). He was also previously PEZA consultant, President of First Philippine Balfour Beatty Inc., and Chairman/member of the board of over 20 public and business corporations. Mr. Estuar obtained his Bachelor of Science degree in Civil Engineering at the University of the Philippines in 1959, and his Ph.D. in Civil Engineering at Lehigh University in Pennsylvania (1965).

Tony Tan Caktiong, born January 5, 1953, Filipino, is the Chairman and CEO of retail giant Jollibee Foods Corp. He is at the helm of Chowking, Greenwich, Delifrance, Red Ribbon Bakeshop, and Yonghe King. He is a member of the board of trustees of the Asian Institute of Management, St. Luke's Medical Hospital, and the Philippine Academy of Sakyas, and is an independent director of Sun Life Prosperity Dollar Abundance Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. He has received numerous awards including the World Entrepreneur of the Year award in 2004. Mr. Caktiong has a Bachelor of Science degree in Chemical Engineering from the University of Santo Tomas (1975) and has management tutoring certifications from Harvard University, Asian Institute of Management, University of Michigan Business School, and Harvard Business School.

Cezar P. Consing, born October 20, 1959, Filipino, is a Partner of the Rohatyn Group, a New York-headquartered independent investment management company that focuses on emerging markets. He has over twenty years' experience in international finance. Mr. Consing is also an independent director of Bumiputra Commerce Holdings Berhad, CIMB Group Sdn. Berhad, and CIMB-GK Pte Ltd. He is director and chairman of the executive committee of Premiere Bank, and board member of the Asian Youth Orchestra and FILGIFTS.com. He was a board director of Bank of the Philippine Islands from 1995-2000 and 2004-2006. Prior to joining the Rohatyn Group, Mr. Consing held several senior management positions at JP Morgan & Co. and JP Morgan Securities (Asia Pacific) Limited. Mr. Consing has a Bachelor of Arts degree in Economics (magna cum laude) from De La Salle University (1979) and a Master's Degree in Applied Economics from the University of Michigan (1980). Mr. Consing is based in Hong Kong. The Rohatyn Group has never rendered professional advisory services to the Corporation or any of its subsidiaries.

The corporate officers are as follows:

Officer	Nationality	Position	Age	Year Position was Assumed
Mr. Peter D. Garrucho, Jr.	Filipino	Vice Chairman of the board of directors and CEO	62	Director since 1998; Vice Chairman and CEO since 2002
Mr. Federico R. Lopez	Filipino	Director, President and COO	45	Director since 1998; President and COO since 2002
Mr. Ernesto B. Pantangco	Filipino	Senior Vice President	56	2000
Mr. Francis Giles B. Puno	Filipino	Director, Senior Vice President and CFO	42	Director since 2005; Senior Vice President and CFO Since 2000
Mr. Richard B. Tantoco	Filipino	Director and Senior Vice President	40	Director since 2005; Senior Vice President since 2000
Mr. Nestor H. Vasay	Filipino	Vice President and Comptroller	53	2005
Mr. Victor B. Santos, Jr.	Filipino	Vice President and Compliance Officer	39	2005
Mr. Daniel H. Valeriano, Jr.	Filipino	Vice President	57	2001
Mr. Emmanuel P. Singson	Filipino	Vice President	41	2006
Ms. Rachel R. Hernandez	Filipino	Assistant Corporate Secretary	39	2005

Ernesto B. Pantangco, born September 24, 1950, Filipino, is Senior Vice President of the Corporation and Executive Vice President and Chief Operating Officer of First Private Power Corporation and its major asset, Bauang Private Power Corporation. He was responsible for the development, financing, construction and operation of the 225MW Bauang and 72MW Panay power plants. Mr. Pantangco is also President of the Philippine Independent Power Producers Association (PIPPA). Mr. Pantangco has a Bachelor of Science in Mechanical Engineering degree from De La Salle University (1973) and Master of Business Administration degree from the Asian Institute of Management, dean's list (1976). He is a registered mechanical engineer and placed 6th in the 1973 board exams.

Nestor H. Vasay, born October 5, 1953, Filipino, is Vice President and Comptroller of the Corporation, First Gas Holdings Corporation, First Gas Power Corporation, FGP Corp., First Gen

Luzon Power Corp., First Gen Hydro Power Corp., First Gen Geothermal Power Corp., First Gen Visayas Hydro Power Corp., First Gen Mindanao Hydro Power Corp., First Gen Northern Energy Corp., First Gen Energy Solutions, Inc., FG Bukidnon Power Corp., AlliedGen Power Corp., Unified Holdings Corp., First NatGas Power Corp., FGLand Corp., First Gas Pipeline Corp., and Unified Holdings Corp. He is also Comptroller of First Gen Renewables, Inc. As Comptroller, Mr. Vasay is responsible for loan administration and financial controls. Mr. Vasay previously worked as Assistant Vice President and Head of Credit Review for International Exchange Bank. He was also connected with the Manila Branch of Chase Manhattan Bank, N.A. as Second Vice President and Manager for Credit Administration. Mr. Vasay is a Certified Public Accountant and holds a Bachelors Degree in Business Administration from Angeles University (1976).

Victor B. Santos, Jr., born September 7, 1967, Filipino, is Vice President and Compliance Officer of the company. He is also Vice President of First Gen Energy Solutions, Inc. and FPHC. Prior to joining the Corporation, Mr. Santos worked with Enron Corp. in various capacities in Houston, Texas, and Singapore. Mr. Santos has a Master of Business Administration degree from Fordham University (1995) and a Bachelor of Science degree in Management of Financial Institutions from De La Salle University (1989).

Daniel H. Valeriano, Jr., born June 1, 1949, Filipino, is Vice President for Technical Services of the corporation. The Energy Regulatory Commission (ERC) appointed him Vice Chairman of the Grid Management Committee and Chairman of the Rules Revision Subcommittee, positions he held from 2002-2006. Mr. Valeriano has a Bachelor of Science degree in Electrical Engineering from the University of the Philippines (1971) and has earned credits for a Master of Science degree in Industrial Engineering from the University of the Philippines during the years 1976-1978. He is a registered electrical engineer.

Emmanuel P. Singson, born December 31, 1965, Filipino, is Vice President and Investor Relations Officer of the company. He is primarily involved in the fund-raising activities of the First Gen group. Prior to his current post, Mr. Singson was connected with the Investment Banking group of the Chase Manhattan Bank. Mr. Singson obtained his Bachelor of Science degree in Business Management from Ateneo de Manila University (1987).

Rachel R. Hernandez, born April 24, 1967, Filipino, is Assistant Corporate Secretary of the corporation, First Private Power Corp., Bauang Private Power Corp., First Gen Luzon Power Corp., First Gen Energy Solutions, Inc., First Gen Visayas Hydro Power Corporation, and First Gen Mindanao Hydro Power Corporation. She is Corporate Secretary of First Gen Renewables, Inc., FG Bukidnon Power Corp., First Gen Geothermal Power Corp., First Gen Hydro Power Corp., and First Gen Northern Energy Corp. Prior to joining the Corporation, she was connected with CalEnergy International Services, Inc., a subsidiary of MidAmerican Energy Holdings Corp. Ms. Hernandez obtained her Bachelor of Laws degree from the University of the Philippines (1992) and is licensed to practice law in the Philippines and New York.

(2) Significant Employees

The corporation considers the collective efforts of all its employees as instrumental to the overall success of the Corporation's performance.

(3) Family Relationships

Oscar M. Lopez is the father of Federico R. Lopez; Ernesto B. Pantangco is the cousin-in-law of Oscar M. Lopez; and the wives of Federico R. Lopez and Francis Giles B. Puno are sisters.

(4) Involvement in Certain Legal Proceedings

To the best of the company's knowledge, as of the date of this annual report, there has been no occurrence during the past five (5) years of any of the following events which are

material to an evaluation of the ability or integrity of any director, nominee for election as director, or executive officer of the corporation:

- a. Any bankruptcy petition filed by or against any business of which a director, person nominated to become a director, or executive officer of the corporation, was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
- b. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- c. Any order, judgment or decree not subsequently reversed, suspended or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of a director, person nominated to become a director, or executive officer, in any type of business, securities, commodities or banking activities; or
- d. Any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, that any director, person nominated to become a director, or executive officer, has violated a securities or commodities law.

Item 10. Executive Compensation

- (1) Certain officers of the corporation, including the top five members of senior management listed in the table below, are seconded from FPHC and some of the corporation's subsidiaries and affiliates, and receive their salaries from FPHC or the relevant investee company of the corporation, as the case may be.

Name and Position	Year	Salary	Bonus/Other Income
Peter D. Garrucho, Jr. Vice Chairman and CEO			
Federico R. Lopez President and COO			
Ernesto B. Pantangco Senior Vice President			
Francis Giles B. Puno Senior Vice President and CFO			
Richard B. Tantoco Senior Vice President			
CEO and the four most highly compensated officers named above	2005	P68,248,344	P60,244,578
	2006	P79,716,106	P65,702,824
	2007 (estimate)	P87,687,716	P72,273,107
Aggregate compensation paid to all officers and directors as a group unnamed	2005	P94,379,568	P81,348,549
	2006	P108,846,306	P104,160,848
	2007 (estimate)	P120,963,431	P110,945,168

- (2) Standard Arrangements

The directors receive standard per diems of P50,000 for attendance at each board meeting.

- (3) Employment Contracts, Termination of Employment, Change-in-Control Arrangements

The company does not have any compensatory plan or arrangement that results or will result from the resignation, retirement, or any other termination of an executive officer's employment with the company or its subsidiaries, or from a change in control of the company, or a change in an executive officer's responsibilities following a change in control, except for such rights as may have already vested under the company's Retirement Plan.

(4) Warrants and Options Outstanding: Repricing

Executive Stock Option Plan (ESOP)

Under the corporation's ESOP, senior managers and executives of the corporation, senior managers and executives of companies of which more than 30% of the voting stock is effectively owned, directly or indirectly and legally or beneficially, by the corporation, senior managers and executives of such other companies in which the corporation owns shares as may be determined by the board of directors, and directors, officers or employees of FPHC and its affiliates, who are nominated and awarded as such, may acquire the corporation's common shares.

The following table sets out the persons to whom options have been granted pursuant to the ESOP and the number of shares relating to each such person as of March 1, 2007:

Name and Position	Date of Grant	Total Options Granted	Vested and Unexercised	Unvested	Exercise Price/Share	Market Price/Share*
Peter D. Garrucho, Jr. Vice Chairman and CEO						
Federico R. Lopez President and COO						
Ernesto B. Pantangco Senior Vice President						
Francis Giles B. Puno Senior Vice President and CFO						
Richard B. Tantoco Senior Vice President						
Aggregate number of shares granted to the above-named officers	July 1, '03	6,167,720	1,447,832	3,700,632	Php13.20	Php48.88
Aggregate number of shares granted to all officers and directors as a group unnamed	July 1, '03	15,102,352	2,350,396	9,032,352	Php13.20	Php48.88

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record & Beneficial Owners

The equity securities of the company consist of common and preferred shares, both of which have voting rights.

As of March 1, 2007, the corporation knows of no one who is directly or indirectly the record or beneficial owner of more than 5% of the corporation's capital stock except as set forth below:

* Average market price from listing date to March 1, 2007.

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage to Class
Common	First Philippine Holdings Corporation (FPHC) 4 th Floor Benpres Building Exchange Road cor. Meralco Avenue, Pasig City, stockholder	FFHC is the record and beneficial owner of the shares indicated. Oscar M. Lopez has been appointed proxy of FPHC to represent it and vote its shares at the shareholders' meeting	Filipino	412,966,918	51.4%
Common	FGHC International Ltd. Uglan House, P.O. Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies, stockholder	FPHC is the beneficial owner of the shares indicated. (FGHC International Ltd. is a wholly-owned subsidiary of FPHC.)	Cayman Islands	123,238,400	15.4%
Common	PCD Nominee Corp (Foreign)	Various		232,192,628	28.9%

	Owner of more than 5% under PCD Nominee Corp.				
Common	Hongkong and Shanghai Banking Corp. Ltd. Clients' Account ¹ 33 rd Floor West Tower, Tektite Bldg. Exchange Road, Pasig City	Various	Foreign	115,084,755	14.3%
	Standard Chartered Bank ² 6756 Ayala Avenue Makati City	Various	Foreign	84,414,860	10.5%

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Voting Preferred Shares	FPHC 4 th Floor Benpres Building Exchange Road cor. Meralco Avenue, Pasig City, stockholder	FPHC is the record and beneficial owner of the shares indicated. Oscar M. Lopez has been appointed proxy of FPHC to represent it and vote its shares at the shareholders' meeting.	Filipino	355,238,000	100.00%

¹ HSBC Clients' Account is a participant of Philippine Central Depository, Inc. (PCD). None of its clients holds more than 5% of the company's securities. Its clients have the power to decide how their shares are to be voted.

² Standard Chartered Bank is a participant of Philippine Central Depository, Inc. (PCD). None of its clients holds more than 5% of the company's securities. Its clients have the power to decide how their shares are to be voted..

(2) Security Ownership of Management as of March 1, 2007

Following is the security ownership of directors and executive officers*:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Class
Common	Oscar M. Lopez	492,768 - direct	Filipino	0.0613567%
Common	Peter D. Garrucho, Jr.	945,796 – direct	Filipino	0.1177652%
Common	Federico R. Lopez	331,440 - direct	Filipino	0.0412690%
Common	Elpidio Ibañez	156,400 – direct	Filipino	0.0194740%
Common	Francis Giles B. Puno	977,201 – direct	Filipino	0.1216756%
Common	Richard B. Tantoco	722,301 – direct	Filipino	0.0899369%
Common	Fiorello R. Estuar	100 – direct	Filipino	0.0000125%
Common	Tony Tan Caktiong	40 - direct	Filipino	0.0000050%
Common	Cezar P. Consing	40 - direct	Filipino	0.0000050%
Common	Ernesto B. Pantangco	0 - direct	Filipino	0.0000000%
Common	Daniel H. Valeriano, Jr.	107,784 - direct	Filipino	0.0134207%
Common	Nestor H. Vasay	120,000 - direct	Filipino	0.0149417%
Common	Victor B. Santos, Jr.	234,544 - direct	Filipino	0.0292041%
Common	Emmanuel P. Singson	80,000 - direct	Filipino	0.0099612%
Common	Rachel R. Hernandez	2,000 - direct	Filipino	0.0002490%

As of March 1, 2007, the aggregate amount of common shares registered in the names of the directors and officers of the Corporation is 4,170,414.

(3) Voting Trust Holders of 5% or more

The Corporation knows of no person holding 5% or more of the corporation's shares under a voting trust or similar agreement.

(4) Changes in Control

There are no existing provisions in the corporation's amended articles of incorporation or amended by-laws which will delay, defer, or in any manner prevent a change in control of the corporation. However, FPHC is the sole holder of the corporation's voting preferred shares. Under the corporation's amended articles of incorporation, holders of voting preferred shares are entitled to full voting rights. Further, the voting preferred shares can only be transferred to Philippine citizens or corporations at least 60% of the outstanding equity capital is beneficially owned by Philippine citizens and which, in either case, is not in competition with FPHC or any of its affiliates. The voting preferred shares constitute more than 30% of the corporation's outstanding capital stock. As a result, FPHC's combined ownership of the corporation's voting preferred shares and common shares will allow it to control the corporation even if its ownership of the common shares falls below 51%.

Item 12. Certain Relationships and Related Transactions

To the best of the corporation's knowledge, there has been no material transaction during the past two (2) years, nor is there any material transaction presently proposed, to which the corporation was or is to be a party, in which any of its directors, executive officers, nominee for election as a director, or any individual owning, directly or indirectly, significant voting power of the corporation,

* Inclusive of lodged shares.

or any close family members of such individuals, had or is to have a direct or indirect material interest except as provided hereunder.

Related Party Transactions

In addition to the PPAs entered into by each of FGPC and FGP with Meralco, which are more thoroughly described in the audited financial statements of the corporation, the corporation and its subsidiaries have also entered into other agreements with affiliates, its controlling shareholders, FPHC, and other members of the Lopez Group of Companies. Unless stated otherwise, as of March 7, 2007, the material transactions with related parties are as follows:

- (1) Advances representing non-interest-bearing US\$ and Philippine peso-denominated loans are made by stockholders and affiliates for the purpose of meeting working capital and investment requirements.
- (2) Management services are rendered by First Gen to BPPC.
- (3) The corporation leases the premises on which its corporate offices are located from INAEC Development Corporation, a subsidiary of FPHC.
- (4) FGPC has a Transmission Line Maintenance Agreement with Meralco Industrial Engineering Services Corporation or MIESCOR, a subsidiary of Meralco, for the maintenance of the 230 kV transmission line from the Santa Rita plant to the Calaca Substation in Batangas.
- (5) The corporation manages and supervises the operations of First Philippine Industrial Corporation (FPIC), a subsidiary of FPHC which is engaged in the fuel supply business.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

First Gen believes that compliance with the principles of good corporate governance begins with the board of directors. It is the board's duty and responsibility to foster the long-term success of the company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibilities, which must be exercised in the best interests of the company, and in proper cases, its shareholders.

The corporation's board of directors is composed of individuals of proven competence, integrity, and probity. These individuals determine the company's purposes, vision and mission, and strategies to carry out its objectives, ensure compliance with all relevant laws, regulations and codes of best business practices, adopt a system of internal checks and balances, and install a process of selection to ensure a mix of competent directors and officers.

To ensure the corporation's compliance with the principles of good corporate governance, the board members have been selected as members of the standing committees constituted pursuant to the corporation's Manual on Corporate Governance (Manual). These are the Nomination Committee, Audit Committee, and Compensation and Remuneration Committee.

As part of corporate measures to ensure compliance with the principles and policies embodied in the Manual, the board of directors designated Mr. Victor B. Santos, Jr., Vice President for Regulatory, as the company's Compliance Officer. Mr. Santos is responsible for, among others, determining and measuring compliance with the Manual; appearing before the SEC upon

summons on matters relating to the Manual; identifying, monitoring, and controlling compliance with corporate governance matters; and recommending to the board of directors the review of the Manual. Mr. Santos works closely with the board of directors, top management, and board committees to evaluate and monitor compliance with the Manual. Specifically, he determines the level of compliance and accordingly recommends the adoption of measures to improve such compliance. Likewise, the various board committees perform oversight duties and functions to assure proper compliance with the Manual and other corporate policies. The company also submits governance reports required by the SEC and the PSE to determine compliance with their rules and regulations, the Manual, and the Code of Corporate Governance.

To further improve and ensure the effectiveness of the company's governance system, First Gen approved and commenced the implementation of an Enterprise Risk Management (ERM) system in 2006. The objective of the ERM project is to establish a corporate risk management system applicable to every phase of the company's business activities, from business/project development to facility operations and asset management, and across the whole organization. The program involves risk identification, measurement and characterization; and risk driver analysis and risk inter-relationship modeling to be able to identify the critical risks of the company. The program also entails the formulation of risk management strategies and actions plans, and implementation and monitoring of action plans. With the ERM project in place, the company is confident that risk management will evolve from being individual-based to a system more reliant on formal and well-defined policies, processes, and standards implemented on an enterprise-wide basis across all levels of organization. Going forward, the ERM team will continue to work closely with the Compliance Officer, the company's board of directors, and top management to monitor, further implement and improve the program, and align the same with the company's aspirations on good corporate governance.

As a result of the ERM program's implementation and corporate measures and practices undertaken during the year, Mr. Santos reported to the SEC in January 2007 that the corporation, its directors, officers, and employees have complied with the practices and principles on good corporate governance as embodied in the Manual.

In line with First Gen's aspirations for growth and development, the company continues to work towards enhancing its adherence to the principles and best practices of good corporate governance.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(1) Exhibits

Exhibit "A"	-	Management Report
Exhibit "B"	-	Audited Financial Statements for the Years Ended December 31, 2006 and 2005
Exhibit "C"	-	SRC Rule 68.1-M (Schedules)

(2) Reports on SEC Form 17-C

The company filed the following reports on SEC Form 17-C during the period June to December 2006:

June 29, 2006	Listing of 2,630,036 common shares representing stock options availed of and fully paid for pursuant to the company's ESOP, which shares are part of the 18,091,400 common shares previously listed with the PSE to cover the ESOP.
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August 14, 2006	Press statement on the results of the company's unaudited consolidated financial statements for the periods ending June 30, 2006 and 2005.
September 8, 2006	Press statement on the results of the bidding conducted by PSALM for PMHEPP, in which FG Hydro submitted the highest bid at \$129 million.
October 3, 2006	Issuance by PSALM of a Notice of Award to FG Hydro as the winning bidder for PMHEPP.
October 6, 2006	Press statement clarifying that First Gas plants Santa Rita and San Lorenzo will continue to deliver power during the scheduled maintenance of the Malampaya natural gas pipeline from November 18 to December 12, 2006.
October 9, 2006	Settlement of all outstanding matters under the arbitration proceedings between FGPC and the Siemens consortium relating to the construction of the 1000MW Santa Rita power plant in Batangas City.
October 13, 2006	Posting by FG Hydro of a \$2.58 million performance bond in compliance with its obligations under the APA covering PMHEPP, which amounts represents 2% of the \$129 million bid.
November 14, 2006	Press statement on the results of the company's unaudited consolidated financial statements for the periods ending September 30, 2006 and 2005.
November 17, 2006	Formal turnover of PMHEPP from PSALM to FG Hydro following FG Hydro's payment of the upfront fee of \$51.6 million representing 40% of the \$129 million bid, and issuance of an irrevocable standby letter of credit for \$8.3 million representing the 1 st of 14 equal deferred semi-annual payments for the remaining 60% of the purchase price of PMHEPP.
December 18, 2006	Ceremonial turnover of PMHEPP from PSALM to FG Hydro, with ceremonies held at the PSALM offices in Makati City.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig, this ___ day of April 2007.

FIRST GEN CORPORATION

Issuer

By:

(Sgd.)
Peter D. Garrucho, Jr.
Vice Chairman & CEO

(Sgd.)
Nestor H. Vasay
Vice President & Comptroller

(Sgd.)
Federico R. Lopez
President & COO

(Sgd.)
Carmina Z. Ubaña
Principal Accounting Officer

(Sgd.)
Francis Giles B. Puno
SVP & CFO

(Sgd.)
Rachel R. Hernandez
Asst. Corporate Secretary

SUBSCRIBED AND SWORN to before me this 16th day of April 2007, affiants exhibiting to me their Community Tax Certificates as follows:

NAME	CTC NO.	DATE OF ISSUE	PLACE OF ISSUE
Peter D. Garrucho, Jr.	07570978	January 9, 2007	Quezon City
Federico R. Lopez	18141826	January 22, 2007	Pasig
Francis Giles B. Puno	18148639	January 23, 2007	Pasig
Nestor H. Vasay	18191342	February 23, 2007	Pasig

Carmina Z. Ubaña	18191339	February 23, 2007	Pasig
Rachel R. Hernandez	18133194	January 17, 2007	Pasig

(sgd.)
Atty. Delfin R. Agcaoilli, Jr.
Notary Public

Doc. No. 462_;
Page No. _93_;
Book No. _14 ;
Series of 2007.