COVER SHEET

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S.E.C. Registration Number

TRANS-ASIA OIL AND ENERGY
DEVELOPMENT CORPORATION

(Company's Full Name)

LEVEL 11 PHINMA PLAZA 39 PLAZA
DRIVE ROCKWELL CENTER MAKATI

(Business Address: No. Street City/Town/Province)

MR. RAYMUNDO A. REYES, JR.
Contact Person

870-0100
Company Telephone Number

1	2		3	1
Month			Day	

Fiscal Year

17-Q
FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (2) (b) THEREUNDER

1. For the quarterly period ended **June 30, 2009**

2. Commission identification number **39274**

3. BIR Tax Identification No. **000-506-020-000**

4. Exact name of issuer as specified in its charter
TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

5. Province, country or other jurisdiction of incorporation or organization **Manila**

6. Industry Classification Code (SEC Use Only)

7. Address of issuer's principal office Postal Code
Level 11, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City 1200

8. Issuer's telephone number, including area code **(632) 870-0100**

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Section 8 and 12 of the Code, or Section 4 and 8 of the RSA

Number of shares of common stock outstanding	**1,662,603,069 shares**
Amount of debt outstanding as of March 31, 2009	**None**

11. Are any or all of the securities listed on a Stock Exchange?
Yes (**X**) No ( )

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes (**X**) No ( )

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes (**X**) No ( )

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Please refer to attached ANNEX "A."

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Please refer to attached ANNEX "B."

PART 11 – OTHER INFORMATION

Please refer to attached ANNEX "C"

Signatures

Pursuant to the requirements of Section 17 of the Securities Regulation 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 Makati on August 14, 2009.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

PONCIANO L. DIMAYUGA
Senior Vice-President

Raymundo A. Reyes Jr.
RAYMUNDO A. REYES, JR.
Vice-President - Exploration

ANNEX A

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
June 30, 2009 and December 31, 2008
And For the Semesters Ended June 30, 2009 and 2008

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 2009	December 2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 23)	**₱854,497,994**	₱909,531,281
Short-term investments (Note 23)	**–**	17,511,120
Investments held for trading (Notes 6 and 23)	**747,322,580**	544,686,420
Receivables - net (Notes 7 and 23)	**272,386,303**	183,915,101
Fuel and spare parts - at cost	**61,970,464**	50,723,464
Other current assets (Note 23)	**44,569,946**	16,378,189
Company's share in current assets of a joint venture (Note 12)	**175,957,170**	162,351,330
Total Current Assets	**2,156,704,457**	1,885,096,905
Noncurrent Assets		
Property, plant and equipment - net (Note 8)	**493,149,186**	620,140,932
Investments in associates - net (Note 9)	**627,522**	169,102,273
Available-for-sale investments (Notes 10 and 23)	**189,951,490**	206,428,819
Investment property - net (Note 11)	**95,822,825**	3,316,911
Intangible assets - net (Note 13)	**120,364,991**	144,245,029
Other noncurrent assets	**331,678**	331,678
Company's share in noncurrent assets of a joint venture (Note 12)	**253,761,963**	305,390,672
Total Noncurrent Assets	**1,154,009,655**	1,448,956,314
	₱3,310,714,112	₱3,334,053,219
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14 and 23)	**₱135,870,111**	₱214,550,040
Customers' deposits (Note 23)	**–**	27,385,096
Due to stockholders (Note 23)	**6,045,989**	6,272,367
Income and withholding taxes payable	**1,841,217**	968,699
Company's share in current liabilities of a joint venture (Note 12)	**107,683,727**	144,387,610
Total Current Liabilities	**251,441,044**	393,563,812

(Forward)

	June	December
	2009	2008
Noncurrent Liabilities		
Pension and other post-employment benefits	**₱11,439,148**	₱10,933,554
Deferred tax liabilities - net	**38,471,983**	53,455,041
Other noncurrent liabilities (Note 23)	**7,658,817**	7,474,921
Company's share in noncurrent liabilities of a joint venture (Notes 12)	**13,635,311**	10,750,516
Total Noncurrent Liabilities	**71,205,259**	82,614,032
Equity		
Capital stock (Note 15)	**1,662,603,069**	1,662,298,650
Additional paid-in capital (Note 15)	**54,693,308**	54,693,308
Unrealized fair value gains on available-for-sale investments (Note 10)	**38,118,868**	54,470,950
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture (Note 12)	**5,335,696**	8,759,105
Retained earnings (Note 15)	**1,231,240,737**	1,081,577,231
Parent Company shares of stock held by a joint venture (Note 12)	**(3,923,869)**	(3,923,869)
Total Equity	**2,988,067,809**	2,857,875,375
	₱3,310,714,112	₱3,334,053,219

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	April – June	April - June	First Semesters Ended June 30	
	2009	2008	**2009**	2008
REVENUES				
Trading revenue (Note 1)	**₱157,797,651**	₱95,101,241	**₱280,710,789**	₱160,608,597
Generation revenue (Note 1)	**32,288,874**	194,660,188	**130,507,885**	338,914,251
Interest and other financial income (Note 23)	**18,248,324**	9,577,695	**32,158,276**	18,166,244
Dividend income	**12,933,057**	2,089,007	**24,956,239**	2,107,397
Other income	**486,624**	541,690	**904,961**	1,065,380
Company's share in revenue of a joint venture (Note 12):				
Generation	**165,222,617**	148,656,092	**317,160,210**	314,140,706
Other income (charges)	**(864,366)**	(144,122)	**(447,393)**	399,919
	388,112,781	450,481,791	**785,950,967**	835,402,494
COSTS AND EXPENSES				
Trading cost (Note 17)	**134,536,605**	57,182,584	**149,169,749**	90,298,240
Cost of power generation (Notes 18, 20 and 21)	**35,120,277**	178,352,319	**109,908,672**	324,869,918
General and administrative expenses (Notes 19, 20 and 21)	**42,389,224**	43,442,146	**79,594,753**	69,735,897
Company's share in costs and expenses of a joint venture (Note 12):				
Cost of power generation	**88,140,653**	96,679,414	**191,713,341**	191,150,024
General and administrative expenses	**7,384,023**	7,067,359	**11,924,649**	13,780,304
OTHER EXPENSES (INCOME)				
Provision for impairment loss on property and equipment	**59,050,085**	–	**59,050,085**	–
Write-off of intangible assets	**27,544,996**	–	**27,544,996**	–
Net loss (gain) on derivatives (Note 23)	**(2,738,114)**	2,253,620	**(9,281,214)**	7,525,080
Foreign exchange loss (gain)	**1,567,942**	(34,514,913)	**(9,441,475)**	(39,913,167)
Interest and other financial charges (Note 23)	**157,984**	122,363	**514,187**	242,845
Equity in net loss (earnings) of associates (Note 9)	**15,194**	(925,064)	**(19,892)**	(4,455,581)
Loss (gain) on sale of:				
Investments in associates	**–**	–	**(24,790,491)**	–
Property and equipment	**(7,601,098)**	–	**(7,601,098)**	–
Available-for-sale investments	**(1,263)**	(46,468)	**5,235**	(43,261)
Others	**(285,551)**	(2,581,840)	**(814,033)**	(3,220,451)
	385,280,957	347,031,520	**577,477,464**	649,969,848
INCOME BEFORE INCOME TAX (Carried Forward)	**2,831,824**	103,450,271	**208,473,503**	185,432,646

	April - June	April - June	First Semesters Ended June 30	
	2009	2008	**2009**	2008
INCOME BEFORE INCOME TAX (Brought Forward)	**₱2,831,824**	₱103,450,271	**₱208,473,503**	₱185,432,646
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	**1,461,081**	–	**17,787,363**	5,321,103
Deferred	**(36,479,104)**	(2,607,408)	**(25,854,107)**	(4,758,762)
Company's share in income tax of a joint venture	**–**	–	**384,795**	(1,110,568)
	(35,018,023)	(2,607,408)	**(7,681,949)**	(548,227)
NET INCOME	**₱37,849,847**	₱106,057,679	**₱216,155,452**	₱185,980,873
Basic/Diluted Earnings Per Share (Note 22)			**₱0.130**	₱0.112

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 15 and 16)	Additional Paid-in Capital (Note 15)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 10)	Retained Earnings (Note 15)	Company's Share in Unrealized Fair Value Gains on Available-for-Sale Investments of a Joint Venture (Note 12)	Parent Company Shares of Stock Held by a Joint Venture (Note 12)	Total
Balance at January 1, 2009	**₱1,662,298,650**	**₱54,693,308**	**₱54,470,950**	**₱1,081,577,231**	**₱8,759,105**	**(₱3,923,869)**	**₱2,857,875,375**
Cash dividends - ₱0.04 per share	–	–	–	**(66,491,946)**	–	–	**(66,491,946)**
Issuance of stocks	**304,419**	–	–	–	–	–	**304,419**
	1,662,603,069	**54,693,308**	**54,470,950**	**1,015,085,285**	**8,759,105**	**(3,923,869)**	**2,791,687,848**
Decrease in fair value gains of available-for-sale investments	–	–	**(16,352,082)**	–	–	–	**(16,352,082)**
Share in decrease in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	**(3,423,409)**	–	**(3,423,409)**
Net income for the year	–	–	–	**216,155,452**	–	–	**216,155,452**
Total income (loss) for the year	–	–	**(16,352,082)**	**216,155,452**	**(3,423,409)**	–	**196,379,961**
Balance at June 30, 2009	**₱1,662,603,069**	**₱54,693,308**	**₱38,118,868**	**₱1,231,240,737**	**₱5,335,696**	**(₱3,923,869)**	**₱2,988,067,809**
Balance at January 1, 2008	₱1,657,585,092	₱54,693,308	₱77,866,896	₱1,059,408,694	₱16,252,343	(₱3,923,869)	₱2,861,882,464
Cash dividends - ₱0.04 per share	–	–	–	(66,308,161)	–	–	(66,308,161)
Issuance of stocks	4,713,558		–	–	–	–	4,713,558
	1,662,298,650	54,693,308	77,866,896	993,100,533	16,252,343	(3,923,869)	2,800,287,861
Decrease in fair value gains of available-for-sale investments	–	–	(22,228,088)	–	–	–	(22,228,088)
Share in decrease in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	(6,867,085)	–	(6,867,085)
Net income for the year	–	–	–	185,980,873	–		185,980,873
Total income for the year	–	–	(22,228,088)	185,980,873	(6,867,085)	–	156,885,700
Balance at June 30, 2008	₱1,662,298,650	₱54,693,308	₱55,638,808	₱1,179,081,406	₱9,385,258	(₱3,923,869)	₱2,957,173,561
Balance at January 1, 2008	₱1,657,585,092	₱54,693,308	₱77,866,896	₱1,059,408,694	₱16,252,343	(₱3,923,869)	₱2,861,882,464
Cash dividends - ₱0.04 per share	–	–	–	(66,308,161)	–	–	(66,308,161)
Issuance of stocks	4,713,558	–	–	–	–	–	4,713,558
	1,662,298,650	54,693,308	77,866,896	993,100,533	16,252,343	(3,923,869)	2,800,287,861
Decrease in fair value gains of available-for-sale investments	–	–	(23,395,946)	–	–	–	(23,395,946)
Share in decrease in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	(7,493,238)	–	(7,493,238)
Net income for the year	–	–	–	88,476,698	–	–	88,476,698
Total income (loss) for the year	–	–	(23,395,946)	88,476,698	(7,493,238)	–	57,587,514
Balance at December 31, 2008	₱1,662,298,650	₱54,693,308	₱54,470,950	₱1,081,577,231	₱8,759,105	(₱3,923,869)	₱2,857,875,375

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	First Semesters Ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱208,473,503**	₱185,432,646
Adjustments for:		
Company's share in loss (income) before income tax of a joint venture	**(3,815,412)**	8,241,235
Provision for impairment loss on property and equipment	**59,050,085**	–
Interest and other financial income (Note 23)	**(32,158,276)**	(18,166,244)
Depreciation and amortization (Note 21)	**28,998,619**	33,403,416
Write-off of intangible assets	**27,544,996**	–
Dividend income	**(24,956,239)**	(2,107,397)
Foreign exchange gain	**(9,380,014)**	(39,913,167)
Net loss (gain) on derivatives (Note 23)	**(9,8281,214)**	7,525,080
Interest and other financial charges (Note 23)	**514,187**	242,845
Equity in net earnings of associates (Note 9)	**(19,892)**	(4,455,581)
Loss (gain) on sale of:		
Investment in associates	**(24,790,491)**	–
Property and equipment	**(7,601,098)**	–
Available-for-sale investments	**5,235**	(43,261)
Operating income before working capital changes	**212,583,989**	170,159,572
Increase in:		
Receivables	**(82,754,638)**	(38,165,333)
Fuel and spare parts	**(11,247,000)**	(43,556,419)
Other current assets	**(24,489,170)**	(5,733,540)
Increase (decrease) in accounts payable and other current liabilities	**(60,279,853)**	28,549,979
Net cash generated from operations	**33,813,328**	111,254,259
Interest received	**28,776,359**	22,617,262
Interest paid	**(6,730,345)**	(2,080)
Income taxes paid	**(7,954,990)**	–
Company's share in net cash flows provided by (used in) operating activities of a joint venture	**(12,192,833)**	3,169,631
Net cash provided by operating activities	**35,711,519**	137,039,072
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	**(855,410,091)**	(703,220,987)
Investment property	**(94,362,125)**	–
Property and equipment (Note 8)	**(13,599,650)**	(2,707,729)
Deferred exploration costs (Note 13)	**(3,664,958)**	(1,672,893)
Available-for-sale investments	**(13,276)**	(6,610,303)

(Forward)

	First Semesters Ended June 30	
	2009	2008
Cash dividends received	**₱24,956,239**	₱2,107,397
Proceeds from:		
Sale/redemption of investments held for trading	**654,309,364**	335,366,009
Sale of investment of associates	**193,285,135**	–
Sale of property and equipment	**62,000,000**	–
Termination of short-term investments	**17,511,120**	8,639,904
Settlement of currency forward contracts (Note 23)	**(3,976,400)**	25,098,820
Sale of available-for-sale investments	**133,288**	730,836
Company's share in net cash flows provided by (used in) investing activities of a joint venture	**15,951,398**	(64,315)
Net cash used in investing activities	**(2,879,956)**	(342,333,261)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividends	**(66,491,946)**	(66,308,161)
Increase (decrease) in:		
Customers' deposits	**(27,385,096)**	62,565
Other noncurrent liabilities	**505,607**	–
Due to stockholders	**304,419**	4,713,558
Proceeds from issuance of capital stock	**(226,378)**	(228,338)
Company's share in net cash flows provided by (used in) financing activities of a joint venture	**(9,050,000)**	8,380,000
Net cash used in financing activities	**(102,343,394)**	(53,380,376)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**9,187,109**	16,355.956
NET DECREASE IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURE	**(60,324,722)**	(242,318,609)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**916,460,628**	1,221,667,518
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱856,135,906**	₱979,348,909

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Trans-Asia Oil and Energy Development Corporation (TA Oil or “Parent Company”), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Renewable Energy Corporation (Renewable), Trans-Asia (Karang Besar) Petroleum Corporation, CIP II Power Corporation (CIPP) and Trans-Asia Gold and Minerals Development Corporation (TA Gold) (collectively referred to as “the Company”) are incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The Parent Company is involved in power generation and trading, oil and mineral exploration, exploitation and production. The Parent Company has an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the province of Guimaras using its 3.4 megawatt (MW) bunker C-fired diesel generator power station in the island. The other activities of the Company are investments in various operating companies and financial instruments. As of December 31, 2008, its largest investment is 50% interest in Trans-Asia Power Generation Corporation (TA Power). Its subsidiaries, TA Gold, Renewable and Karang Besar, on the other hand, have not yet started commercial operations. On December 28, 2006, the Parent Company acquired CIPP, a company registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna. On July 2, 2007, TA Gold was incorporated and registered with the SEC to primarily engage in the business of mining and mineral exploration within the Philippines and other countries.

The Energy Regulatory Commission (ERC) granted TA Oil a certificate of registration as a Wholesale Aggregator in November 2006, renewable every five (5) years, and a Retail Electricty Supplier’s (RES) license in December 2006. In October 2006, the Philippine Electricity Market Corporation (PEMC) approved TA Power’s application for registration as trading participant for both generation and customer categories in the Wholesale Electricity Spot Market (WESM).

The license authorizes TA Oil to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). As RES, TA Oil is allowed to supply electricity to the contestable market, pursuant to EPIRA.

Both TA Power and TA Oil obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC. This includes selling of excess generation to the WESM.

The registered office address of the Parent Company is 11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The direct and ultimate parent company of TA Oil is Philippine Investment-Management (PHINMA), Inc. TA Oil is also controlled by PHINMA under an existing management agreement. PHINMA is incorporated in the Philippines.

2. Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL), derivative assets and liabilities, and available-for-sale (AFS) investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, unless otherwise stated.

Statement of Compliance
The accompanying consolidated financial statements, which are prepared for submission to the SEC, have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its wholly-owned subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

In addition, the Company's share of each of the assets, liabilities, income and expenses of its jointly controlled venture, TA Power, is included as a separate line item in the consolidated financial statements based on the account grouping (see Note 12).

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Short-term Investments
Short-term investments represent investments that are readily convertible to known amounts of cash with original maturities of more than three months to one year.

Financial Assets and Liabilities
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

The Company recognizes a financial asset or a finance liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instruments.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Company commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" profit amount.

The Company recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets and financial liabilities are classified into the following categories: Financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. Financial liabilities at FVPL and other financial liabilities. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- Financial Assets and Liabilities at FVPL

  Financial Assets or Financial Liabilities Designated at FVPL on Initial Recognition. Financial assets or financial liabilities classified in this category included those that are designated by management on initial recognition as at FVPL when any of the following criteria are met:

a. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

b. The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

c. The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities designated at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statement of income. Interest earned or incurred is recorded in interest and other financial income or charges, respectively, while dividend income is recorded according to the terms of the contract, or when the right of the payment has been established.

The Company has no financial asset or liability designated on initial recognition as at FVPL.

Financial Assets or Financial Liabilities Held for Trading. Financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as gain on investment held for trading under "Interest and other financial income" account. Interest earned or incurred is recorded in interest and other financial income or charges, respectively, while dividend income is recorded when the right to receive payment has been established.

The Company's investments in bonds and fixed treasury notes (FXTNs) and mutual and unit investment trust funds (UITFs) are classified as financial assets held for trading (see Note 6).

Derivatives Recorded at FVPL. The Company enters into short-term forward currency contracts to hedge its currency exposure. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

- Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

The Company's cash and cash equivalents, short-term investments and receivables are classified as loans and receivables (see Notes 5 and 4).

- HTM Investments

  Quoted nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Company has the positive intention and ability to hold to maturity. Such assets are carried at amortized cost using the effective interest method.

  Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. HTM investments are classified as current if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

  The Company did not classify any financial asset under HTM investments.

- AFS Investments

  AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income.

  For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.

  AFS investments are classified as current if they are expected to be realized within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

  The Company's investments in listed and unlisted equity securities and golf club shares are classified as AFS investments (see Note 11).

- Other Financial Liabilities

  Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

  After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

The Company's accounts payable and other current liabilities, due to stockholders and customers' deposits are classified as other financial liabilities (see Notes14).

- Embedded Derivatives

  An embedded derivative is separated from the host contract and accounted for as a derivative, if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL.

  Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

<u>Impairment of Financial Assets</u>
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessment of collectibility of financial assets considering the creditors' capacity to pay, history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Assets Carried at Cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments. For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Any such accrual is recorded as part of "Interest and other financial income" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired or have been transferred;

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liability. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet when there is a currently legal right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fuel and Spare Parts

Fuel and spare parts are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost of the fuel and spare parts.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depletion, depreciation and amortization and impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties (where applicable), borrowing costs incurred during the construction period and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are charged to income in the year the costs are incurred.

Under the component depreciation method, plant overhaul costs are segregated into two categories, that is: (a) costs that should be depreciated over the useful life of the plant; and, (b) parts that are replaced at periodic intervals. The cost of the initial overhaul that may be capitalized is depreciated over its estimated useful life, through the next overhaul, at which time the process is repeated. Under this method, repairs and maintenance are also expensed as incurred.

Depletion of wells, platforms and other facilities are provided on a field basis under the unit-of-production method based upon estimates of proven reserves. The depletion base includes the estimated future development cost of the undeveloped reserves.

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

Buildings and improvements	20–25 years
Land improvements	10 years
Machinery and equipment	9–20 years
Transportation equipment	3–5 years
Mining and other equipment	10 years
Office furniture, equipment and others	3–10 years

The useful lives and depletion, depreciation and amortization methods are reviewed periodically to ensure that the periods and methods of depletion, depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Construction in-progress is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Investments in Associates

The Company's investments in its associates are accounted for under the equity method of accounting. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The consolidated statement of income reflects the Company's share of the results of operations of the associates. Unrealized gains arising from transactions with associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

When the Company's accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances, the Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

Interest in a Joint Venture

The Company's interest in its joint venture is proportionately consolidated to the accounts of the Parent Company. This method involves presenting as separate line items the Company's share in the joint venture's assets, liabilities, income and expenses in the consolidated financial statements.

The joint venture's investment in the Parent Company's shares of stock is accounted for as "Parent Company shares of stock held by a joint venture" included and shown as a reduction in the equity section of the consolidated balance sheet.

Investment Property

Investment property is carried at cost, including transaction costs, net of accumulated depreciation. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 years.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Deferred Exploration Costs

The Company follows the full cost method of accounting for exploration costs determined on the basis of each service contract (SC)/geophysical survey and exploration contract (GSEC) area. Under this method, all exploration costs relating to each SC/GSEC are tentatively deferred to the extent that the capitalized costs do not exceed the value of those reserves, pending determination of whether the contract area contains oil and gas reserves in commercial quantities, net of an allowance for impairment losses.

Expenditures for mineral exploration and development work on mining properties are also deferred as incurred, net of any allowance for impairment losses. These expenditures are provided for with an allowance when there are indications that the exploration results are negative. These are written off against the allowance when the projects are abandoned or determined to be definitely unproductive. When the exploration work results are positive, the net exploration costs and subsequent development costs are capitalized and amortized from the start of commercial operations.

Deferred exploration costs are assessed for impairment when:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; or
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; or
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; or
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, impairment loss is measured, presented and disclosed in accordance with PAS 36.

Business Combinations

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Company reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and recognizes immediately in the consolidated statement of income any excess remaining after that reassessment.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Customer contracts acquired through business combinations are assessed to have finite useful life and amortized on a straight-line basis over the useful economic life of five years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Revenue
Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Trading Revenue. Revenue from the sale of electricity is recognized during the period when electricity is purchased from the spot market and sold to the end consumer.

Generation Revenue. Revenue from the sale of electricity is recognized during the period when electricity is generated. Revenue from take-or-pay arrangement is recognized in accordance with the terms of the ESA in relation to the electricity generated.

Dividend. Dividend income is recognized when the Company's right to receive the payment is established.

Interest. Income is recognized as the interest accrues, taking into account the effective yield on the asset.

Rental. Income is accounted for on a straight-line basis over the lease term.

Pensions and Other Post-Employment Benefits
The Company has a defined benefit pension plan. The costs of providing benefits under the defined benefit plan are determined using the projected unit credit actuarial valuation method. The method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of the past service cost of the current period exceeding any increase in the present value of the economic benefits stated in the foregoing are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Stock Option
The Company had a stock option plan offered to qualified employees, officers and directors of the Company. As allowed under PFRS 1, "First Time Adoption of Philippine Financial Reporting Standards," the Company availed of the exemption from applying PFRS 2, "Share-based Payment," to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005. There are no stock options granted after November 7, 2002 which remained unvested as of January 1, 2005.

Stock option grants subsequent to January 1, 2005 will be accounted for in accordance with PFRS 2, that is, the cost of stock option awards will be measured by reference to the fair value at the date on which they are granted. The cost of such awards will be recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The cumulative expense that will be recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of the period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

Where the stock option is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the preceding paragraph.

Operating Leases

Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs, including foreign exchange differences arising from foreign currency-denominated borrowings, to the extent they are regarded as an adjustment to interest costs, are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depletion, depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Foreign Currency Transactions
Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date. Exchange gains or losses arising from the settlement or restatement of monetary items at rates different from those at which they were initially recorded during the year are credited or charged directly to current operations.

Income Tax

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Deferred Tax. Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Earnings Per Share (EPS)

Basic EPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted EPS is computed as if the stock options were exercised as of the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect and the Company does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted EPS is the same as basic EPS.

Segment Reporting

For purposes of financial reporting, the following are the Company's reportable segments: oil and mineral exploration and power generation. The investment activities are incidental to the Company's power generation activities arising from management of the Company's excess funds. There are no activities in the oil and mineral exploration segment except incurrence of exploration costs, shown as deferred exploration costs under "Intangible assets" account in the consolidated balance sheet.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

4. Significant Accounting Estimates and Judgments

The Company's consolidated financial statements prepared in conformity with PFRS require management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. In preparing the Company's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

The Company believes the following represents a summary of these significant estimates and judgments and related impact and associated risks in its consolidated financial statements.

Judgments

Determining Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the sale and cost of producing electricity.

Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease. TA Oil's ESA with Guimelco and TA Power's ESA with Holcim Philippines, Inc. (Holcim) qualify as lease on the basis that TA Oil sells all of its output to Guimelco and TA Power sells all or substantially all of its output to Holcim. These arrangements call for a take-or-pay arrangement where payment is made on the basis of the availability of the power plant and not on actual deliveries. These lease arrangements are determined to be operating leases where a significant portion of the risks and rewards of ownership are retained by TA Oil and TA Power. Accordingly, the power plant assets are recorded as part of the cost of property, plant and equipment and the fees billed to Guimelco and Holcim are recorded as operating revenues.

Fair Value of Financial Assets and Financial Liabilities. The fair value for financial instruments traded in an active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Where the fair values of financial assets and financial liabilities recorded on the consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility.

Estimates

Estimating Allowance for Doubtful Accounts. The Company maintains allowance for doubtful accounts based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the customer, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, past-due status and terms) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying value of receivables as of June 30, 2009 and December 31, 2008 is ₱272.4 million and ₱183.9 million, respectively (see Note 7).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that sufficient taxable income will be generated to allow all or part of the deferred tax assets to be utilized.

Estimating Useful Lives of Property, Plant and Equipment and Investment Property. The Company estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of June 30, 2009 and December 31, 2008 is ₱493.1 million and ₱620.1 million, respectively (see Note 8). The carrying value of investment property as of June 30, 2009 and December 31, 2008 is ₱95.8 million and ₱3.3 million, respectively (see Note 11).

Impairment of Deferred Exploration Costs. The carrying value of deferred exploration costs is reviewed for impairment when there are indications that the carrying amount exceeds the recoverable amount. The Company has written-off ₱104.2 million of deferred exploration costs as of June 30, 2009. The carrying value of deferred exploration costs is ₱120.4 million and ₱144.2 million as of June 30, 2009 and December 31, 2008, respectively (see Note 13).

Impairment of Property, Plant and Equipment, Customer Contracts and Investment Property. The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value in use of the cash-generating units. The Company provided provision for impairment losses of ₱59 million for its property, plant and equipment for the semester of June 30, 2009. There are no additional impairment losses provided for the first semester ended June 30, 2008. The carrying value of property, plant and equipment as of June 30, 2009 and December 31, 2008 is ₱493.1 million and ₱620.1 million, respectively. Details are disclosed in Note 8 to the consolidated financial statements. The carrying value of investment property as of June 30, 2009 and December 31, 2008 is ₱95.8 million and ₱3.3 million, respectively. Details are disclosed in Note 11 to the consolidated financial statements.

Impairment of Investments in Associates. The carrying value of investments in associates is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount. The carrying value of investments in associates as of June 30, 2009 and December 31, 2008 is ₱ 627 thousand and ₱169.1 million, respectively. Details are disclosed in Note 9 to the consolidated financial statements.

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% more of the original cost of investment, and "prolonged", greater than 6 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying value of AFS investments as of June 30, 2009 and December 31, 2008 is ₱189.9 million and ₱206.4 million, respectively. Details are disclosed in Note 10 to the consolidated financial statements

Pension and Other Post-employment Benefits. The determination of the Company's obligation and cost for pension and other post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. The assumptions described in Note 24 to the consolidated financial statements include among others, discount rates, expected returns on plan assets and rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. The carrying value of pension and other post-employment benefits as of June 30, 2009 and December 31, 2008 is ₱11.4 million and ₱10.9 million, respectively.

5. Cash and Cash Equivalents

	June 2009	December 2008
Cash on hand and in banks	**₱42,153,762**	₱45,129,307
Short-term deposits	**812,344,232**	864,401,974
	₱854,497,994	₱909,531,281

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of the following at December 31:

	June 2009	December 2008
Cash and cash equivalents of venturer	**₱854,497,994**	₱909,531,281
Share in cash and cash equivalents of a joint venture (see Note 12)	**1,637,912**	6,929,347
	₱856,135,906	₱916,460,628

6. Investments Held for Trading

	June 2009	December 2008
Investments in bonds and FXTNs	**₱386,212,981**	₱274,776,637
Investments in UITFs and mutual funds	**351,109,599**	269,909,783
	₱747,322,580	₱544,686,420

The Company's unrealized gain (loss) from changes in fair value of investments held for trading (included in net gains on investments held for trading under "Interest and Other Financial Income" account in the consolidated statement of income) amounted to ₱4 million gain, and ₱5.3 million loss as of June 30, 2009 and December 31, 2008, respectively.

7. Receivables

	June 2009	December 2008
Trade	**₱54,417,249**	₱129,197,431
Due from related companies	**36,983,728**	62,616,074
Others	**184,255,692**	18,904,328
	275,656,669	210,717,833
Less allowance for doubtful accounts	**3,270,366**	26,802,732
	₱272,386,303	₱183,915,101

Trade receivables represent receivables from Guimelco, in accordance with the terms of the ESA between the Parent Company and Guimelco, Holcim Philipppines, Inc. and CIPP's receivables from locators in CIP II. Trade receivables are noninterest-bearing and are generally on a 30-day credit term.

Due from related companies includes a long-outstanding receivable of ₱23.5 million from a company under common control of PHINMA, which was written-off as of June 30, 2009. This was fully provided with allowance for doubtful accounts as of December 31, 2008.

Other receivables include interest receivable of ₱11.7 million and ₱8.5 million as of June 30, 2009 and December 31, 2008, respectively.

The Parent Company extended a loan to Guimelco with face value amounting to ₱532,382 with interest of 12.7% per annum and a monthly amortization of ₱18,726 beginning May 2005 up to February 2008. The monthly amortization is offset against the monthly rental of ₱20,000 under the lease contract between Guimelco and TA Oil.

The outstanding balance of the loan receivable as of December 31, 2007 is ₱36,865. The amount due within the next twelve months after year end of 2007 totaled ₱36,865 and is included as part of other receivables. The loan receivable was fully collected in February 2008.

Due from related companies amounting to ₱23.5 million was written-off thus the allowance for doubtful accounts decreased by the same amount as of June 30, 2009. Other receivables amounting to ₱3.3 million were impaired and fully provided with an allowance as of June 30, 2009 and December 31, 2008. There was no movement in the allowance for doubtful accounts in the first semester of ended June 30, 2008.

As of June 30, the aging analysis of past due but not impaired receivables are as follows:

	June 2009						
		Neither Past Due nor	**Past Due but not Impaired**				**Past Due and**
	Total	**Impaired**	**<30 Days**	**30–60 Days**	**61–90 Days**	**91–120 Days**	**Impaired**
				(In Thousands)			
Trade	**₱54,417**	**₱46,082**	**₱1,660**	**₱5**	**₱9**	**₱6,661**	**₱–**
Due from related companies	**36,984**	**36,984**	**–**	**–**	**–**	**–**	**–**
Others	**184,256**	**180,985**	**–**	**–**	**–**	**–**	**3,271**
Total	**₱275,657**	**₱264,051**	**₱1,660**	**₱5**	**₱9**	**₱6,661**	**₱3,271**

	December 2008						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	91–120 Days	Impaired
				(In Thousands)			
Trade	₱129,198	₱104,006	₱9,991	₱6,543	₱1,764	₱6,894	₱–
Due from related companies	62,616	39,084	–	–	–	–	23,532
Others	18,904	15,627	–	–	–	6	3,271
Total	₱210,718	₱158,717	₱9,991	₱6,543	₱1,764	₱6,900	₱26,803

8. **Property, Plant and Equipment**

	Land	Buildings and Improvements	Machinery and Equipment	Wells, Platforms and Other Facilities	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Total
Cost:								
At January 1, 2008	₱57,983,000	₱97,640,394	₱552,398,223	₱20,346,661	₱14,101,769	₱7,759,271	₱26,855,814	₱777,085,132
Additions	–	470,728	–	–	244,281	9,911,957	1,354,211	11,981,177
Disposals	–	–	–	–	(1,682,674)	–	–	(1,682,674)
At December 31, 2008	57,983,000	98,111,122	552,398,223	20,346,661	12,663,376	17,671,228	28,210,025	787,383,635
Additions	–	–	–	–	951,785	12,243,269	404,596	13,599,650
Disposals	–	–	(53,163,490)	–	–	(11,366,580)	–	(64,530,070)
At June 30, 2009	**57,983,000**	**98,111,122**	**499,234,733**	**20,346,661**	**13,615,161**	**18,547,917**	**28,614,621**	**736,453,215**
Accumulated depreciation and impairment:								
At January 1, 2008	–	24,363,464	48,448,071	20,346,661	4,287,388	1,691,653	14,513,205	113,650,442
Depreciation	–	7,478,128	39,678,031	–	2,464,813	1,129,481	3,957,357	54,707,811
Disposals	–	–	–	–	(1,115,550)	–	–	(1,115,550)
At December 31, 2008	–	31,841,592	88,126,102	20,346,661	5,636,651	2,821,134	18,470,563	167,242,703
Depreciation (see Note 21)	–	3,773,083	18,900,092	–	1,274,493	1,149,938	2,044,803	27,142,409
Impairment loss	–	–	59,050,085	–	–	–	–	59,050,085
Disposals	–	–	(9,545,210)	–	–	(585,958)	–	(10,131,168)
At June 30, 2009	**–**	**35,614,675**	**156,531,070**	**20,346,661**	**6,911,144**	**3,385,114**	**20,515,366**	**243,304,029**
Net book value:								
At June 30, 2009	**₱57,983,000**	**₱62,496,447**	**₱342,703,664**	**₱–**	**₱6,704,017**	**₱15,162,803**	**₱8,099,255**	**₱493,149,186**
At December 31, 2008	57,983,000	66,269,530	464,272,121	–	7,026,725	14,850,094	9,739,462	620,140,932
At January 1, 2008	57,983,000	73,276,930	503,950,152	–	9,814,381	6,067,618	12,342,609	663,434,690

Included under “Mining and other equipment” is a wind tower constructed in Sual, Pangasinan. Construction of the wind tower was completed on December 21, 2005. The Company has not operated the wind tower as the result of wind measurement in Sual, Pangasinan has not reached the required level to operate the wind tower commercially. In August 2007, the wind tower was transferred in San Lorenzo, Guimaras. Test run is on-going as of February 16, 2009.

9. **Investments in Associates**

The details and movements of investments in associates accounted for under the equity method are as follows:

	June 2009	December 2008
Acquisition costs:		
Balance at beginning of year	**₱207,334,913**	₱207,334,913
Disposal	**(180,600,000)**	–
Return of capital	**–**	–
Balance at end of year	**26,734,913**	207,334,913
Accumulated equity in net losses:		
Balance at beginning of year	**(36,673,389)**	(45,325,321)
Equity in net earnings for the year	**19,892**	8,651,932
Disposal	**12,105,357**	
Balance at end of year	**(24,548,140)**	(36,673,389)
	2,186,773	170,661,524
Less accumulated impairment:		
Balance at beginning of year	**1,559,251**	1,559,251
Reversal	**–**	**–**
Balance at end of year	**1,559,251**	1,559,251
	₱627,522	₱169,102,273

The percentage of ownership and the carrying values of investments in associates which are accounted for under the equity method are as follows:

	Percentage of Ownership	**June 2009**	December 2008
Bacnotan Industrial Park Corporation (BIPC)	30.00	**₱-**	₱168,460,744
Asia Coal Corporation (Asia Coal)*	28.18	**627,522**	641,529
Union Aggregates Corporation (UAC)*	31.25	–	–
		₱627,522	₱169,102,273

** Ceased operations*

Information with regard to the Company's significant associates is shown below:

<u>BIPC</u>

	December 2008
Cash and cash equivalents	₱15,829,571
Investments in UITFs and mutual fund	–
Installment contract receivables	84,473,289
Input tax and other current and noncurrent assets	1,727,487
Land and development costs	351,864,878
Property and equipment - net	134,111,614
Other noncurrent assets	14,259,075
Total (Carried Forward)	602,265,914

	December 2008
Total (Brought Forward)	₱602,265,914
Accounts payable and accrued expenses	(11,703,376)
Deferred gross profit	(2,271,990)
Estimated liability for land development	(2,271990)
Deposits for construction costs	(2,246,773)
Income and other taxes payable	(1,845,079)
Long-term debt	(20,390,893)
	(40,730,101)
Net assets	₱561,535,813

Revenue	₱99,933,093
Costs and expenses	(79,787,916)
Other income	4,875,183
Benefit from (provision for) income tax	3,952,866
Net income	₱28,973,226

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On January 17, 2008, the Company, together with the other shareholders of BIPC, entered into a Memorandum of Agreement (MOA) with Phoenix Petroleum Philippines, Inc. (Phoenix) for the sale of all the issued and outstanding common shares of BIPC to Phoenix. As of March 10, 2009, signed a Share Purchase Agreement with Phoenix whereby the Company sold to Phoenix all of the Company's 30% equity interest in BIPC for a consideration payable approximately 18% down payment, the balance in monthly installments over a period of five (5) years.

10. **Available-for-Sale Investments**

	June 2009	December 2008
Shares of stock:		
Listed	**₱67,224,505**	₱80,841,834
Unlisted	**101,586,985**	101,586,985
Golf club shares	**21,140,000**	24,000,000
	₱189,951,490	₱206,428,819

AFS investments are stated at fair value as of June 30, 2009 and December 31, 2008, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Loss from change in fair value recognized directly in equity in the first semesters ended June 30, 2009 and 2008 amounted to ₱17.5 million and ₱21.9 million, respectively. No impairment loss was recognized in the first semesters ended June 30, 2009 and 2008.

11. **Investment Property**

	June 2009	December 2008
Cost:		
Balance at beginning of the year	**₱4,893,663**	₱4,893,663
Addition	**94,362,125**	–
	₱99,255,788	₱4,893,663
Less accumulated depreciation:		
Balance at beginning of the year	**1,576,752**	1,576,752
Depreciation	**1,856,211**	260,149
Balance at end of year	**3,432,963**	1,576,752
	₱95,822,825	₱3,316,911

Investment property is stated at cost less accumulated depreciation and any impairment losses.

12. **Interest in a Joint Venture**

The Company has a 50% interest in TA Power, which is engaged in power generation.

The Company's proportionate share in the assets and liabilities of TA Power as of June 30, 2009 and December 31, 2008 and income and expenses for the first semesters ended June 30, 2009 and June 30, 2008, before elimination of intercompany transactions and balances, are as follows:

	June 2009	December 2008
Current assets	**₱177,312,797**	₱163,456,890
Noncurrent assets*	**253,761,963**	305,390,672
	431,074,760	468,847,562
Current liabilities	**(137,242,282)**	(177,907,084)
Noncurrent liabilities	**(13,635,311)**	(10,750,516)
	(150,877,593)	(188,657,600)
Net assets	**₱280,197,167**	₱280,189,962

* *Net of investment in shares of stock of the Parent Company of ₱3.9 million both in June 30, 2009 and December 31, 2008.*

	June 2009	June 2008
Revenue	**₱329,667,117**	₱319,863,883
Cost of power generation	**(312,702,035)**	(313,808,817)
General and administrative expenses	**(12,936,450)**	(14,893,199)
Other income (charges) - net	**(213,221)**	596,898
Income (loss) before income tax	**3,815,411**	(8,241,235)
Benefit from (provision for) income tax	**(384,795)**	1,110,568
Net income (loss)	**₱3,430,616**	(₱7,130,667)

Details of the Company's share in the current and noncurrent assets and current and noncurrent liabilities of the joint venture as of June 30, 2009 and December 31, 2008, after elimination of intercompany balances, are as follows:

	June 2009	December 2008
Current assets:		
Cash and cash equivalents	**₱1,637,912**	₱6,929,347
Trade and other receivables	**91,242,997**	77,985,999
Fuel and spares - at cost	**54,467,584**	51,015,876
Prepaid expenses and other current assets	**28,608,677**	26,420,108
	₱175,957,170	₱162,351,330
Noncurrent assets:		
Property, plant and equipment - net	**₱229,220,590**	₱261,679,763
Available-for-sale investments	**24,541,373**	43,710,909
	₱253,761,963	₱305,390,672
Current liabilities:		
Trade and other payables	**₱77,913,832**	₱102,652,792
Interest-bearing loans and borrowings	**27,875,000**	36,925,000
Due to related parties	**1,321,460**	1,736,383
Derivative liability	**573,435**	573,435
Provisions	**–**	2,500,000
	₱107,683,727	₱144,387,610
Noncurrent liabilities:		
Deferred tax liability - net	**₱13,445,961**	₱10,561,166
Other noncurrent liabilities	**189,350**	189,350
	₱13,635,311	₱10,750,516

Details of the Company's share in the cost of power generation and general and administrative expenses of the joint venture for the first semesters ended June 30, 2009 and June 30, 2008, after elimination of intercompany transactions, are as follows:

	June 2009	June 2008
Cost of power generation:		
Fuel	**₱135,527,159**	₱130,029,682
Depreciation and amortization	**31,950,811**	31,709,895
Repairs and maintenance	**10,558,410**	5,937,700
Labor	**6,817,767**	6,221,191
Taxes and licenses	**4,147,467**	4,797,197
Insurance	**1,509,430**	1,475,211
Security, janitorial and professional fees	**598,687**	534,465
Cost of power purchased	**–**	9,867,073
Others	**603,610**	577,610
	₱191,713,341	₱191,150,024

	June 2009	June 2008
General and administrative expenses:		
Management and professional fees	**₱6,042,530**	₱6,729,887
Salaries and directors' fees	**2,834,818**	3,187,301
Taxes and licenses	**1,050,013**	1,177,271
Depreciation and amortization	**241,929**	441,050
Employee benefits	**219,814**	148,375
Transportation and travel	**64,361**	259,613
Entertainment, amusement and recreation	**3,709**	21,487
Others	**1,467,475**	1,815,320
	₱11,924,649	₱13,780,304

In order to optimize the capacity and profitability of TA Power's power plant especially with the rising price of bunker fuel, TA Power started to participate in the WESM in January 2007. As such, engines have been subjected to frequent start and stop operations which increases the wear and tear rate of the engines.

Consequently, the remaining useful life of the power plant was shortened from 11 years to 6 years in 2007. This increased the annual depreciation of TA Power by ₱56.5 million in 2007.

13. Intangible Assets

	June 2009	December 2008
Deferred exploration costs	**₱120,364,991**	₱144,245,029
Customer contracts	**–**	–
	₱120,364,991	₱144,245,029

Following are the details and movements of intangible assets:

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Cost:					
At January 1, 2008	₱290,679,948	₱9,628,881	₱300,308,829	₱59,082,665	₱359,391,494
Additions	599,658	5,509,549	6,109,207	–	6,109,207
Write-off	(85,554,844)	–	(85,554,844)	–	(85,554,844)
At December 31, 2008	205,724,762	15,138,430	220,863,192	59,082,665	279,945,857
Additions	1,576,476	2,088,482	3,664,958	–	3,664,958
Write-off	(104,163,159)	–	(104,163,159)	–	(104,163,159)
At June 30, 2009	**103,138,079**	**17,226,912**	**120,364,991**	**59,082,665**	**179,447,656**

(Forward)

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Allowance for impairment loss and amortization:					
At January 1, 2008	₱162,173,007	₱–	₱162,173,007	₱11816,533	₱173,989,540
Amortization (see Note 21)	–	–	–	47,266,132	47,266,132
Write-off	(85,554,844)	–	(85,554,844)	–	(85,554,844)
At December 31, 2008	76,618,163	–	76,618,163	59,082,665	135,700,828
Amortization (see Note 21)	–	–	–	–	–
Write-off	(76,618,163)	–	(76,618,163)	–	(76,618,163)
At March 31, 2009	–	–	–	**59,082,665**	**59,082,665**
Net book value:					
At March 31, 2009	**₱103,138,079**	**₱17,226,912**	**₱120,364,991**	**₱–**	**₱120,364,991**
At December 31, 2008	129,106,599	15,138,430	144,245,029	–	144,245,029
At January 1, 2008	128,506,941	9,628,881	138,135,822	47266,132	185,401,954

Deferred Exploration Costs

The balance of the deferred oil exploration costs consists of expenditures incurred in the following production-sharing petroleum projects:

	June 2009	December 2008
SC No. 6 (Northwest Palawan)	**₱63,297,532**	₱113,297,532
SC No. 51/GSEC No. 93 (East Visayas)	**32,545,030**	32,545,030
GSEC No. 94 (Offshore West Palawan)	**–**	28,228,563
Offshore North Mindoro-West Batangas	**–**	17,290,300
GSEC No. 91 (Southwest Palawan)	**–**	8,103,315
SC No. 55 (Offshore West Palawan)	**5,713,209**	5,713,209
SC No. 41 (Sulu Sea)	**–**	–
SC No. 42 (North Palawan)	**–**	–
SC No. 69 (Area 8)	**1,582,308**	5,832
Others	**–**	540,981
	₱103,138,079	₱205,724,762

The foregoing deferred oil exploration costs represent the Company's share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and are covered by operating agreements which set forth the participating interests, rights and obligations of the contractors.

Refer to Annex B-1 for the status of the Company's projects.

Customer Contracts

Customer contracts were acquired through business combinations. This account was fully amortized in 2008.

14. Accounts Payable and Other Current Liabilities

	June 2009	December 2008
Trade and nontrade accounts payable	**₱74,996,054**	₱154,414,542
Accrued directors' and annual incentives	**21,627,671**	21,059,487
Output tax	**23,400,050**	18,136,921
Derivative liability (see Note 23)	**–**	10,807,500
Due to related parties	**8,709,468**	5,792,695
Accrued expenses	**3,775,111**	941,860
Deferred rent income	**–**	35,278
Others	**3,361,757**	3,361,757
	₱135,870,111	₱214,550,040

Accounts payable and other current liabilities are noninterest-bearing and are normally settled on 30 to 60-day terms.

15. Equity

Following are the details of the Company's capital stock:

	Number of Shares	
	June 2009	December 2008
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000
Issued:		
Balance at beginning of year	**1,6662,298,650**	**1,657,585,092**
Issuance during the year (see Note 16)	**304,419**	**4,713,558**
Balance at end of year	**1,662,603,069**	**1,662,298,650**

On June 20, 2007, the SEC approved the stock rights offering of 552.5 million shares of the Company at the rate of 1 share for every 2 shares held as of record date of November 23, 2007, at a price of ₱1.10 per share. The offer period commenced on November 28, 2007 and ended on December 11, 2007. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to ₱599.0 million. The proceeds were used to fund petroleum and mineral explorations and for general corporate purposes.

As of June 30, 2009, the Company's retained earnings balance is ₱1.2 billion while paid-up capital is ₱1.7 billion. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱264.8 million and ₱276.9 million as of June 30, 2009 and December 31, 2008, respectively, are not currently available for dividend distribution.

Dividends declared and paid in the first semester ended June 30, 2009, calendar years 2008, 2007 and 2006 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 27, 2006	Cash	0.04 per share	44,202,269	May 23, 2006
April 2, 2007	Cash	0.04 per share	44,202,269	April 19, 2007
March 25, 2008	Cash	0.04 per share	66,308,161	April 11, 2008
March 16, 2009	Cash	0.04 per share	66,491,946	April 27, 2009

16. **Employee Stock Options and Executive Stock Grants**

The Company had a stock option plan (the Old Plan) that covered up to 25 million shares. The Old Plan entitled qualified employees, officers and directors to purchase shares of stock during the offering years at a price of ₱1 a share.

On June 7, 2004, the Company's BOD approved the reallocation of stock options for a total of 12,518,650 shares out of the original 25 million shares, which expired in April 2003 and May 2004. Such stock options were allocated among directors and employees of the Company and the exercise of such options was subject to the following terms and conditions:

Subscription Price	At par value of ₱1 per share
Period of Exercise	Up to 100% of the allocated shares within three years from June 8, 2004
Payment of Shares	Cash payment upon exercise of option
Right to Exercise Option	Continuous employment required

As allowed under PFRS 1, the Company availed of the exemption from applying PFRS 2 to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005.

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares: (a) stock grants for officers and managers of the Company; and, (b) stock options for directors, officers and employees of TA Oil and its subsidiaries and affiliates (referred to herein as the "New Plan") under the terms and conditions as determined by the Executive Committee of the BOD. As of December 31, 2008, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

On May 7, 2008, the Company's Stock Option Committee decided to revisit the Company's Stock Option Plan, the implementation of the same to remain suspended until a review of the Plan is completed. The Committee also decided to implement the Company's Stock Grant for its executives which resulted to the issuance of 0.3 million and 4.7 million shares in the first semesters ended June 30, 2009 and June 30, 2008.

The exercise of such grants and options are subject to the following terms and conditions:

Stock Grants
The executive stock grants are given to officers and managers of the Company computed at a predetermined percentage of their variable compensation pay based on certain performance criteria.

Stock Options
Following are the specific terms of the Company's New Plan:

Coverage	Directors, permanent officers and employees of TA Oil and its subsidiaries/affiliates
Exercise price	At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of ₱1.00 per share
Vesting period	• Up to 33% of the allocated shares on the 1st year from the date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.
Right to Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

17. **Trading Cost**

	June 2009	June 2008
Cost of power purchased	**₱140,545,952**	₱87,191,877
Salaries and directors' fees (see Note 20)	**5,578,908**	2,039,937
Taxes and licenses	**1,760,089**	–
Employee benefits (see Note 20)	**364,620**	137,881
Management and professional fees	**293,467**	265,000
Depreciation and amortization (see Note 21)	**188,654**	136,949
Insurance, dues and subscriptions	**120,962**	40,127
Transportation and travel	**119,034**	202,120
Office supplies	**35,186**	48,703
Building maintenance and repairs	**14,718**	6,806
Entertainment, amusement and recreation	**–**	3,495
Others	**148,159**	225,345
	₱149,169,749	₱90,298,240

18. **Cost of Power Generation**

	June 2009	June 2008
Fuel	**₱64,540,773**	₱261,074,740
Depreciation and amortization (see Note 21)	**19,854,902**	20,757,410
Labor (see Note 20)	**9,706,907**	9,368,400
Repairs and maintenance	**6,209,211**	12,234,095
Concession and other fees	**2,328,363**	6,410,886
Insurance	**1,385,572**	1,116,721
Employee benefits (see Note 20)	**1,194,570**	1,225,062
Taxes and licenses	**948,530**	1,004,048
Rental	**164,211**	8,378,335
Others	**3,575,633**	3,300,221
	₱109,908,672	₱324,869,918

19. General and Administrative Expenses

	June 2009	June 2008
Management and professional fees	**₱31,523,995**	₱26,250,002
Salaries and directors' fees (see Note 20)	**18,338,536**	13,794,822
Depreciation and amortization (see Note 21)	**8,955,064**	12,509,057
Building maintenance and repairs	**6,708,773**	4,759,093
General exploration	**3,069,394**	883,645
Rent	**1,546,393**	1,420,271
Taxes and licenses	**1,562,895**	744,418
Insurance, dues and subscriptions	**1,286,671**	1,853,961
Transportation and travel	**1,174,231**	1,156,856
Retirement (see Note 20)	**1,160,137**	1,256,886
Employee benefits (see Note 20)	**1,083,053**	1,322,536
Office supplies	**1,072,369**	1,162,210
Donation and contribution	**535,428**	1,057,927
Entertainment, amusement and recreation	**130,774**	88,982
Others	**1,447,040**	1,475,231
	₱79,594,753	₱69,735,897

20. Personnel Expenses

	June 2009	June 2008
Salaries and directors' fees included under:		
Cost of power generation	**₱9,706,907**	₱9,368,400
Trading cost	**5,578,908**	2,039,937
General and administrative expenses	**18,338,536**	13,794,822
Deferred exploration costs	**84,988**	78,300
Retirement included under:		
General and administrative expenses	**1,160,137**	1,256,886
Employee benefits included under:		
Cost of power generation	**1,194,570**	1,225,062
Trading cost	**364,620**	137,881
General and administrative expenses	**1,083,053**	1,322,536
	₱37,511,719	₱29,223,824

21. Depreciation and Amortization

Depreciation and amortization related to the following assets:

	June 2009	June 2008
Depreciation expense of property, plant and equipment and investment property included under (see Notes 8 and 11):		
Cost of power generation	**₱19,854,902**	₱20,757,410
Trading cost	**188,654**	136,949
General and administrative expenses	**8,955,064**	6,600,790
	28,998,620	27,495,149
Amortization of intangibles included under - General and administrative expenses (see Note 13)	**–**	5,908,267
	₱28,998,620	₱33,403,416

22. EPS Computation

	June 2009	June 2008
(a) Net income	**₱216,155,452**	₱185,980,873
Common shares outstanding at beginning of year (see Note 15)	**1,662,298,650**	1,657,585,092
Weighted average number of shares issued during the year	**90,821**	1,047,951
(b) Weighted average common shares outstanding	**1,662,389,471**	1,658,633,043
Basic/Diluted EPS (a/b)	**₱0.130**	₱0.112

The Company's outstanding stock option has no dilutive effect in the first semesters of 2009, and 2008. Also, the Company does not have any potential common share nor other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

23. Financial Instruments

Fair Value

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the Company's financial statements.

	Carrying Amount		Fair Value	
	June 2009	December 2008	**June 2009**	December 2008
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱854,497,994**	₱909,531,281	**₱854,497,994**	₱909,531,281
Short-term investments	**–**	17,511,120	**–**	17,511,120
Receivables:				
Trade	**54,417,249**	129,197,431	**54,417,249**	129,197,431
Due from related companies	**36,983,728**	39,083,708	**36,983,728**	39,083,708
Others	**180,985,326**	15,633,962	**180,985,326**	15,633,962
	1,126,884,297	1,110,957,502	**1,126,884,297**	1,110,957,502
Financial assets at FVPL:				
Investments held for trading	**747,322,580**	544,686,420	**747,322,580**	544,686,420
Derivative asset*	**2,509,890**	1,377,451	**2,509,890**	1,377,451
	749,832,470	546,063,871	**749,832,470**	546,063,871
AFS investments:				
Quoted	**88,364,505**	104,841,834	**88,364,505**	104,841,834
Unquoted	**101,586,985**	101,586,985	**101,586,985**	101,586,985
	189,951,490	206,428,819	**189,951,490**	206,428,819
Total financial assets	**₱2,066,668,257**	₱1,863,450,192	**₱2,066,668,257**	₱1,863,450,192
Financial Liabilities				
Financial liability at FVPL - Derivative liability**	**₱–**	₱–	**₱–**	₱–
Other financial liabilities:				
Accounts payable and other current liabilities	**112,470,061**	182,712,677	**112,470,061**	182,712,677
Customers' deposits	**–**	17,558,403	**–**	20,081,531
Due to stockholders	**6,045,989**	5,340,277	**6,045,989**	5,340,277
Other noncurrent liability	**3,219,257**	3,223,574	**3,219,257**	2,792,642
	121,735,307	208,834,931	**121,735,307**	210,927,127
Total financial liabilities	**₱121,735,307**	₱208,834,931	**₱121,735,307**	₱210,927,127

** Presented as part of other current assets.*
*** Presented as part of accounts payable and other current liabilities.*

The following methods and assumptions are used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables, Accounts Payable and Other Current Liabilities, Due to Stockholders. Carrying amount approximates fair value due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair values of investments held for trading and listed AFS investments. The fair values of unlisted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

Derivative Asset and Derivative Liability. The fair value of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Company has outstanding currency forward contract with an aggregate notional amount of US$5 million and weighted average contracted forward rate of ₱49.13 to US$1.00 as of June 30, 2009, and an aggregate notional amount of US$12.4 million and weighted average contracted forward rate of ₱46.793 to US$1.00 as of December 31, 2008. The Company is in a Selling USD position. The net fair value gain on these currency forward contracts as of June 30, 2009 amounted to ₱2.5 million and was included in "Other current assets" account in the June 30, 2009 consolidated balance sheet. The net fair value loss on these currency forward contracts as of December 31, 2008 amounted to ₱10.8 million and was included in "Accounts payable and other current liabilities" account in the 2008 consolidated balance sheet.

The net movements in fair value changes of freestanding forward currency transactions are as follows:

	June 2009	December 2008
Balance at beginning of year	**(₱10,807,500)**	₱32,623,900
Net changes in fair value during the year	**9,181,100**	(21,231,494)
Fair value of settled contracts	**3,976,400**	(22,199,906)
Balance at end of year	**₱2,350,000**	(₱10,807,500)

The net changes in fair value during the year are included in the "Net loss (gain) on derivatives" account in the consolidated statements of income.

Embedded Derivatives. The Company bifurcated embedded derivatives from its fuel purchase contracts. The purchases are denominated in U.S. dollar but the Company agreed to pay in Philippine peso using the average daily Philippine Dealing System weighted average rate of the month prior to the month of billing. Embedded derivatives are attributable to TA Oil and CIPP.

TA Oil's outstanding embedded forward has an aggregate notional amount of US$0.03 million and US$0.02 million, and weighted average fixing rate of ₱43.1665 and ₱49.8351 to US$1.00 as of June 30, 2009 and December 31, 2008. Whereas CIPP's outstanding embedded forward has an aggregate notional amount of US$0.75 million for bunker fuel purchases and US$0.04 million for diesel purchases, and weighted average fixing rate of ₱43.1665 to US$1.00 as of December 31, 2008.

The net movements in fair value changes of these embedded derivatives are as follows:

	June 2009	December 2008
Balance at beginning of year	**₱1,377,451**	₱1,377,451
Net changes in fair value during the year	**100,114**	–
Fair value of settled contracts	**(1,317,675)**	–
Balance at end of year	**₱159,890**	₱1,377,451

The net changes in fair value are included in the "Net loss (gain) on derivatives" account in the consolidated statements of income.

Customers' Deposits. The fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rates used range from 4.04% to 5.68% in 2007. As of June 30, 2009, the management returns the customer deposits to CIP II locators in 2009.

Other Noncurrent Liability. The fair value of the Company's long-term payable to a third party is based on the discounted value of the expected future cash flow using applicable interest rate for similar type of instrument. Discount rates used were 6.36% and 5.81% in 2008 and 2007, respectively.

Details of interest and other financial income and interest and other financial charges are as follows:

Interest and Other Financial Income

	June 2009	June 2008
Interest income on:		
Cash in bank	**₱496,822**	₱201,257
Short-term deposits and investments	**12,182,658**	19,251,725
Bond	**3,770,738**	1,684,553
FXTN	**14,235,215**	4,861,478
Others	**137,158**	51,977
	30,822,591	25,849,733
Net gains on investments held for trading:		
Amortization of bond premium/discount - net	**(5,658,903)**	(2,319,993)
Gain (loss) on redemption/sale of investments held for trading	**3,026,285**	(74,417)
Unrealized loss from changes in fair value of investments held for trading	**3,968,303**	(5,289,079)
	₱32,158,276	₱18,166,244

Interest and Other Financial Charges

	June 2009	June 2008
Loss on customers' deposit	**₱–**	₱–
Amortization of discount on customers' deposits	**93,455**	55,853
Accretion of asset retirement obligation	**183,896**	184,912
Interest expense on loans and borrowings	–	–
Other financial charges	**236,836**	2,080
	₱514,187	₱242,845

Trans-Asia Oil & Energy Development Corp & subsidiaries
Aging of Accounts Receivable
As of June 30, 2009

	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days	91–120 Days	
			(In Thousands)				
Trade	₱54,417	₱46,082	₱1,660	₱5	₱9	₱6,661	₱–
Due from related companies	36,984	36,984	–	–	–	–	–
Others	184,256	180,985	–	–	–	–	3,271
Total	₱275,657	₱264,051	₱1,660	₱5	₱9	₱6,661	₱3,271

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated revenues decreased to ₱388.1 million in the second quarter of 2009 compared with ₱450.5 million in the same period last year. Following are the material changes in revenues in the Consolidated Income Statement for the second quarter of 2009:

- Trading revenue rose to ₱157.8 million from ₱ 95.1 million on account of higher energy sales and power rate.
- The drop in generation revenues to ₱32.3 million from ₱194.6 million was driven by the absence of energy sales by CIPP plant since the takeover of the concession agreement by Meralco on April 11, 2009.
- Interest and other financial income increased to ₱18.2 million from ₱9.6 million due to higher fair value of investment held for trading.
- Dividend income improved to ₱12.9 million from ₱2.1 million brought about by cash dividend received from Atlas Holding Corporation (AHC) and Bacnotan Consolidated Industries, Inc. (BCII).
- Other income decreased to ₱486.6 thousand from ₱541.7 thousand due to termination of one (1) lease contract.
- Company's share in generation revenues of a joint venture increased to ₱165.2 million from ₱148.6 million as a result of higher energy sales and power rate.
- Company's share in other charges of a joint venture increased to ₱864.4 thousand from ₱144.1 thousand due to higher interest expense.

Consolidated costs and expenses increased to ₱385.3 million in the second quarter of 2009 from ₱347 million in the same period last year. Following are the material changes in costs and expenses in the Consolidated Income Statement for the second quarter of 2009:

- Trading cost rose to ₱134.5 million from ₱57.2 million as a result of higher energy purchased and cost of power purchased.
- Cost of power generation dropped to ₱35.1 million from ₱178.3 million on account of lower energy sales by CIPP due to Meralco's takeover of its concession agreement on April 11, 2009.
- General and administrative expenses declined to ₱42.4 million from ₱43.4 million brought about by lower professional fees.
- Company's share in cost of generation of a joint venture decreased to ₱88.1 million from ₱96.7 million as a result of lower fuel cost.
- Company's share in general and administrative expenses of a joint venture increased to ₱7.4 million from ₱7.1 million due to higher professional fees.
- Provision for impairment loss on property and equipment of ₱59 million was set-up for CIPP plant.
- The Company had written-off ₱27.5 million of intangible assets.
- Regarding the currency forward contracts entered into by the company, a net gain on derivatives of ₱2.7 million was earned in the second quarter of 2009 due to appreciation of peso. A net loss on derivatives of ₱2.2 million was reported in the same period last year with the depreciation of peso.

- For the company's foreign currency holdings, a foreign exchange loss of ₱1.6 million was reported in the second quarter of 2009 following the appreciation of peso. A foreign exchange gain of ₱34.5 million was registered in the same period last year due to the depreciation of peso.
- Interest and other financial charges increased to ₱158 thousand from ₱122 thousand due to higher interest expense on customers' deposits.
- Equity in net earnings of associates of ₱15 thousand was reported in the second quarter of 2009. Equity in net losses of associates of ₱925 thousand was registered in the same period last year due to net income earned by Bacnotan Industrial Park Corporation (BIPC).
- Gain on sale of property and equipment of ₱7.6 million was earned from the disposal of distribution asset of CIPP.
- Gain on sale of available-for-sale investments decreased to ₱1.2 thousand from ₱46 thousand as a result of the drop in market value of the said investments.
- Other income dropped to ₱285 thousand from ₱2.6 million due to reversal of over accrued 2007 expense in 2008.

Provision for income tax of ₱1.5 million was reported in the second quarter of 2009. Benefit from deferred income tax rose to ₱34.5 million from ₱2.6 million due to the tax effect of the provision for impairment loss on CIPP's property and equipment.

As a consequence of the above-cited factors, a net income of ₱37.8 million was reported in the second quarter of 2009 compared with a net income of ₱106 million for the same period last year.

Consolidated revenues declined to ₱785.9 million in the first semester of 2009 compared with ₱835.4 million for the same period last year. Following are the material changes in revenues in the Consolidated Income Statement in the first semester of 2009:

- Trading revenues grew to ₱280.7 million from ₱160.6 million brought about by higher energy sales and power rate.
- Generation revenues dropped to ₱130.5 million from ₱338.9 million brought about by CIPP's lower energy sales due to Meralco's takeover of its concession agreement on April 11, 2009.
- Interest and other financial income improved to ₱32.1 million from ₱18.2 million due to higher fair value of investment held for trading.
- Dividend income rose to ₱24.9 million from ₱2.1 million as Atlas Holdings Corporation (AHC) and Bacnotan Consolidated Industries, Inc. (BCII) declared cash dividend in the first semester of 2009.
- Other income decreased to ₱905 thousand from ₱1.1 million due to termination of one (1) lease contract.
- Company's share in generation revenues of a joint venture increased to ₱317.1 million from ₱314.1 million due to higher energy sales.
- Company's share in other charges of a joint venture of ₱447 thousand was reported in the first semester of 2009 due to higher interest expense. Company's share in other income of a joint venture of ₱400 thousand was registered in the same period last year.

Consolidated costs and expenses dropped to ₱577.5 million in the first semester of 2009 against ₱650 million for the same period last year. Following are the material changes in costs and expenses in the Consolidated Income Statement in the first semester of 2009:

- Trading cost increased to ₱149.2 million from ₱90.3 million due to higher energy purchased coupled by higher cost of power purchased.

- Cost of power generation dropped to ₱110 million from ₱324.9 million as a result of CIPP's lower energy sales due to Meralco's takeover of its concession agreement on April 11, 2009.
- General and administrative expense increased to ₱79.6 million from ₱69.7 million brought about by higher management and professional fees.
- Company's share in general and administrative expenses of a joint venture decreased to ₱11.9 million from ₱13.8 million brought about by lower professional fees and salaries.
- Provision for impairment loss on CIPP's property and equipment of ₱59 million was set-up in the second quarter of 2009.
- The Company had written-off ₱27.5 million of intangible assets.
- Regarding the currency forward contracts entered into by the company, a net gain on derivatives of ₱9.3 million was reported in the first semester of 2009 due to the appreciation of peso. A net loss on derivatives of ₱7.5 million was registered in the same period last year with the depreciation of peso.
- For the company's foreign currency holdings, foreign exchange gain decreased to ₱9.4 million from ₱39.9 million brought about by the appreciation of peso.
- Interest and other financial charges increased to ₱514.2 thousand from ₱242.8 thousand due to financial charges incurred from the stand by letter of credit.
- Equity in net earnings of associates dropped to ₱19.9 thousand from ₱4.4 million brought about by lower net income of BIPC.
- Gain on sale of investments in associates of ₱24.8 million was brought about by the sale of BIPC shares.
- Gain on sale of property and equipment of ₱7.6 million was earned from the disposal of distribution asset of CIPP.
- Loss on sale of available-for-sale investments of ₱5.2 thousand was reported in the first semester of 2009 due to lower market value of investments. A gain on sale of available-for sale investments of ₱43.3 thousand was registered in the same period last year.
- Other income decreased to ₱814 thousand from ₱3.2 million due to reversal of over accrued 2007 expense in 2008.

Provision for income tax increased to ₱17.8 million from ₱5.3 million due to higher taxable income in the first semester of 2009. Benefit from deferred income tax increased to ₱25.8 million from ₱4.8 million due to the tax effect of provision for impairment loss on CIPP's property and equipment. Company's share in income tax of a joint venture of ₱384.8 thousand was reported in the first semester of 2009. Company's share in deferred income tax of ₱1.1 million was registered in the same period last year.

As a consequence of the above-cited factors, net income rose to ₱216.2 million in the first semester of 2009 compared with ₱186 million for the same period last year.

Total consolidated assets decreased slightly to ₱3.31 billion as of June 30, 2009 from ₱3.33 billion as of December 31, 2008. Total consolidated liabilities decreased to ₱322.6 million from ₱476.2 million. Equity increased to ₱2.9 billion from ₱2.8 billion.

Following are the material changes in the accounts in the Consolidated Balance Sheet as of June 30, 2009:

- Cash and cash equivalents decreased to ₱854.5 million from ₱909.5 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of ₱17.5 million in the first semester of 2008 were converted to short-term deposits and formed part of cash and cash equivalents in 2009.

- Investments held for trading increased to ₱747.3 million from ₱544.7 million. The Consolidated Statements of Cash Flows show the details of materials changes in investment held for trading.
- Receivables rose to ₱272.4 million from ₱183.9 million brought about by the sale of BIPC shares.
- Fuel and spare parts increased to ₱62 million from ₱50.7 million brought about by increase in volume of fuel purchased.
- Other current assets increased to ₱44.5 million from ₱16.4 million due to increase in input tax brought about by the purchase of office condominium.
- Company's share in current assets of a joint venture improved to ₱176 million from ₱162.4 million due to higher trade and other receivables.
- Property, plant and equipment fell to ₱493.1 million from ₱620.1 million brought about by the provision for impairment loss set-up in the second quarter of 2009.
- Investments in associates fell to ₱627.5 thousand from ₱169.1 million brought about by the sale of BIPC shares.
- Available-for-sale investments declined to ₱189.9 million from ₱206.4 million brought about by the drop in market value of said investments.
- Investment property rose to ₱95.8 million from ₱3.3 million due to the purchase of office condominium.
- Intangible assets decreased to ₱120.4 million from ₱144.2 million due to deferred exploration costs written-off.
- Company's share in noncurrent assets of a joint venture declined to ₱253.8 million from ₱305.4 million due to depreciation expenses and lower market value of available-for-sale investments.
- Accounts payable and other current liabilities fell to ₱135.9 million from ₱214.5 million on account of settlement of trade payables.
- Customers' deposits of ₱27.4 million were returned to customers of CIPP.
- Due to stockholders decreased to ₱6 million from ₱6.3 million.
- Income and withholding tax payable increased to ₱1.8 million from ₱968.7 thousand due to the rise in income tax withheld on compensation.
- Company's share in current liabilities of a joint venture declined to ₱107.7 million from ₱144.4 million on account of settlement of trade and nontrade payables.
- Pension and other post-employment benefits increased to ₱11.4 million from P ₱10.9 million brought about by the accrual of retirement expense.
- Deferred tax liabilities decreased to ₱38.5 million from P ₱53.5 million as a result of the recognition of deferred tax assets on provision for impairment loss on CIPP's property and equipment.
- Company's share in noncurrent liabilities of a joint venture increased to ₱13.6 million from ₱10.7 million due to reclassification of ₱2.5 million provisions from current liabilities to noncurrent liabilities.
- Unrealized fair value gains on available-for-sale investments fell to ₱38.1 million from ₱54.5 million due to lower market value of the said investments.
- The Company's share in unrealized fair value gains on financial assets of a joint venture dropped to ₱5.3 million from ₱8.7 million brought about by the lower market value of the said financial assets.
- Retained earnings grew to ₱1.23 billion from ₱1.08 billion due to higher net income in the first semester of 2009.

The top five (5) key performance indicators of Trans-Asia and its majority-owned subsidiaries, as consolidated, are the following:

1. Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

   Current ratio improved to 8.58 as of June 30, 2009 from 4.79 as of December 31, 2008 due principally to the increase in investments held for trading, receivables and drop in accounts payable and company's share in current assets of a joint venture.

2. Current Assets to Total Assets = $\frac{\text{Current Assets}}{\text{Total Assets}}$

   The ratio of current assets to total assets increased to 65% as of June 30, 2009 from 56.5% as of December 31, 2008 due to rise in investments held for trading, receivables, other current assets and company's share in current assets of a joint venture.

3. Debt/Equity Ratio = $\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$

   Debt/equity ratio decreased to 0.11:1 as of June 30, 2009 from 0.17:1 as of December 31, 2008 brought about by lower accounts payable and other current liabilities and company's share in current liabilities of a joint venture.

4. Rate of return on stockholders' equity = $\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$

   The rate of return on stockholders' equity improved to 7.4% for the first semester ended June 30, 2009 as compared to 6.5% for the same period last year due to higher net income in the first half of 2009.

5. Earnings per share = $\frac{\text{Net Income less Preferred Stock Dividend}}{\text{Average No. of Common Shares Outstanding}}$

   Earnings per share improved to P 0.13 from P 0.11 on account of higher net income for the first semester of 2009.

During the First Semester of 2009:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows except for the disposal of distribution asset of CIPP, provision for impairment loss on CIPP's property and equipment and write-off of intangible assets.
- The Company had two reportable segments namely: oil exploration and power generation. The fund placements are incidental to the Company's oil exploration and power generation activities arising from management of the Company's funds. The exploration costs are shown as "deferred exploration costs" in the consolidated balance sheets.

- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- The Company had not been involved in any business combinations, acquisition of subsidiaries and long-term investments, restructuring and discontinuing operations. However, the Company sold all its shares of stocks in BIPC in March 2009.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material contingencies and any other events or transactions that occurred that were material to an understanding of the current interim period.
- There were no operations subject to seasonality and cyclicality.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affected adversely the liquidity of the Company.
- There were no trends, events or uncertainties occurred that had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There were no events that trigger direct or contingent financial obligation that was material to the Company.
- There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period.

Annex "B-1"

PROGRESS REPORT
For the Quarter, April 1, 2009 to June 30, 2009

OIL PRODUCTION

SC 14 B-1 (Northwest Palawan)

Oil production resumed at the North Matinloc - 2 well. As of June 30, 2009, about 8000 barrels of oil had been lifted from the field.

Trans-Asia holds 6.103% participating interest in the North Matinloc block.

OIL EXPLORATION

SC 6 Block A (Northwest Palawan)

The Department of Energy granted a 15-year extension of the term of SC 6 Block A effective March 1, 2009.

Trans-Asia has 7.78% participating interest and 2.475% carried interest in SC Block A.

SC 6 Block B (Northwest Palawan)

The Department of Energy granted a 15 - year extension of the term of SC 6 Block B effective March 1, 2009.

Trans-Asia has 14.063% participating interest and 2.475% carried interest in SC 6 Block B.

SC 51 (East Visayas)

The governor of Cebu province issued Executive Order No. 10 on May 29, 2009 revoking Executive Order No. 9 which ordered the DOE to cease and desist from conducting oil exploration surveys in the coastal waters of the municipalities of Argao and Sibonga.

The SC 51 consortium requested the DOE an 18 - month extension of the 3rd Sub-Phase of the Exploration Period effective on the date the DOE lifts the moratorium it imposed on SC 51 offshore operations.

Trans-Asia owns 6.67% participating interest in SC 51.

SC 55 (Ultra Deepwater West Palawan)

The SC 55 consortium agreed to request the DOE substitution of a 2D - 3D seismic program for the 1 ultra deepwater well commitment under the 3rd Sub-Phase of the Exploration Period (August 5, 2009 - August 4, 2010), and deferment of the mandatory partial relinquishment of the contract area until completion of the proposed substitute 2D - 3D seismic program.

Trans-Asia holds15% participating interest in SC 55.

SC 69 (Camotes Sea)

Partners elected to enter the 2nd Sub-Phase of the Exploration Period (May 7, 2009 to November 6, 2010) which entails a commitment to conduct either a minimum 50 square kilometer 3D seismic survey or a minimum 750 line-kilometer 2D seismic survey, with expected expenditures of US $ 2 MM for the 3D seismic survey, or $ 1MM for the 2D seismic survey.

Trans-Asia holds 30% participating interest in SC 69.

MINERAL EXPLORATION

Camarines Norte MPSA No. 252-2007-V

Trans-Asia received on June 16, 2009 notice of an Order of the Secretary of the Department of Environment and Natural Resources to excise portions of the MPSA contract area that are covered by alleged mining patents of a third party.

Trans-Asia has 100% interest in subject MPSA.

Certified Correct:

RAYMUNDO A. REYES, JR.
Geologist No. 716
PRC License Valid to Feb. 5, 2011
PTR No. 1603579
Issued on January 31, 2009
at Makati City

Signed in the presence of:

jpc

ANNEX C

Reports on SEC Form 17-C

The Company filed the following reports on SEC 17-C during the second quarter ended June 30, 2009 covered by this report:

Date of Filing	Items Reported
April 2, 2009	Mr. Francisco L. Viray, Ph.D, President and CEO of Trans-Asia Oil and Energy Development Corporation (TA Oil), stated during the Bacnotan Consolidated Industries, Inc. press conference held on April 2, 2009 that he estimates a project development operating budget of around Php 40 to 50 million per year for Trans-Asia Renewable Energy Corporation (TA Renewable). TA Renewable is a wholly owned subsidiary of TA Oil.
April 3, 2009	At the annual meeting of the shareholders of TA Oil held on April 3, 2009, the following actions were taken: 1. The following incumbent directors of the corporation were reelected: Oscar J. Hilado Antonio V. del Rosario Magdaleno B. Albarracin, Jr. Ramon R. del Rosario, Jr. Francisco L. Viray Roberto M. Laviña Victor J. del Rosario Alfredo M. Velayo (Independent) Raymundo O. Feliciano (Independent) Ricardo V. Camua (Independent) Reynaldo V. Paulino (Independent) 2. The auditing firm of SyCip Gorres Velayo and Company was reappointed external auditors for the year 2009 Following the annual meeting of shareholders, the following officers were reelected: Oscar J. Hilado — Chairman Ramon R. del Rosario, Jr. — Vice Chairman Francisco L. Viray — President & CEO Roberto M. Laviña — EVP/CFO/Treasurer Juan J. Diaz — Corporate Secretary Rosario B. Venturina — SVP-Buss. Dev’t.

Ponciano L. Dimayuga	SVP-Finance
Virgilio R. Francisco	SVP
Raymundo A. Reyes, Jr.	VP-Exploration
Carlos I. Arguelles	VP & Compliance Officer
Rizalino G. Santos	VP-Electricity Trading & Marketing
Frederick C. Lopez	VP-Materials Management
Miguel Romualdo T. Sanidad	Asst. Corporate Secretary
Danilo L. Panes	Asst. Vice President
Benjamin S. Austria	Senior Consultant

Moreover, the various Committees of the Board were organized as follows:

Executive Committee/Stock Option Committee:

Ramon R. del Rosario, Jr.	Chairman
Oscar J. Hilado	Member
Magdaleno B. Albarracin, Jr.	Member
Francisco L. Viray	Member
Alfredo M. Velayo	Member

Audit Committee:

Alfredo M. Velayo	Chairman
Roberto M. Laviña	Member
Ricardo V. Camua	Member
Victor J. del Rosario	Member

Nominations Committee:

Ramon R. del Rosario, Jr.	Chairman
Antonio V. del Rosario	Member
Raymundo O. Feliciano	Member

Compensation Committee:

Alfredo M. Velayo	Chairman
Ramon R. del Rosatio, Jr.	Member
Oscar J. Hilado	Member

April 3, 2009

TA Oil together with its partner, NorAsian Energy Philippines, Inc., decided to enter the 2nd Sub-phase of the Exploration Period of Service Contract No. 69 which cover the period may 7, 2009 to November 6, 2010. The consortium will send the formal notice to this effect to the Department of Energy soonest.

The aforementioned Sub-Phase entails a commitment of either: 1) at least 50 sq km of 3D seismic survey with minimum US $2 million expenditures, or 2) at least 750 line-kilometers of 2D seismic survey with minimum US $1 million expenditures.

	TA Oil has 30% participating interest in SC 69.
April 27, 2009	Submission of certification of independent directors, namely Mr. Ricardo V. Camua, Mr. Raymundo O. Feliciano and Alfredo M. Velayo, that they possess the qualifications and none of the disqualifications as provided for in the Securities Regulation Code. Mr. Reynaldo V. Paulino, an independent director, is currently out of the country and his certification will be submitted upon his return.
May 4, 2009	Submission of amended certification of Mr. Ricardo V. Camua that independent directors possess the qualifications and none of the disqualifications as provided for in the Securities Regulation Code.
May 7, 2009	Submission of certification of Mr. Reynaldo V. Paulino that independent directors possess the qualifications and none of the disqualifications as provided for in the Securities Regulation Code.
June 22, 2009	The Mines and Geosciences Bureau notified TA Oil that the Secretary of the Department of Environment and Natural Resources issued an Order dated May 21, 2009 to excise from the area covered by the Mineral Production Sharing Agreement No. 252-2007-V granted to TA Oil on July 28, 2007, certain parcels of land covered by alleged mining patents of a third party. TA Oil is reviewing its options and will respond to the Order in due course.
June 23, 2009	The Department of Energy had approved a fifteen (15) year – extension of the term of Service Contract No. 6 over Block A and Block B effective March 1, 2009. TA Oil has 7.78% participating interest and 14.063% participating interest in Block A and Block B, respectively.