COVER SHEET

0 6 9 - 0 3 9 2 7 4
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

8 7 0 - 0 1 0 0
Company Telephone Number

1 2 / 3 1
Month Day
Fiscal Year

1 7 - 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, 2010**

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	**1,664,625,604 shares**
Amount of debt outstanding as of March 31, 2010	**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 11, 2010.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

BENNETTE DAPLAS-BACHOCO
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 Interim Financial Statements
June 30, 2010 and December 31, 2009
And For the First Semester Ended June 30, 2010 and 2009

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30 2010	December 31 2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 27)	**₱1,261,582,686**	₱985,315,556
Short-term investments (Notes 27)	–	5,000,000
Investments held for trading (Notes 7 and 27)	**466,404,583**	810,417,029
Receivables - net (Notes 8, 24, 26 and 27)	**99,614,984**	157,479,662
Fuel and spare parts - at cost	**25,615,687**	44,950,577
Other current assets (Note 27)	**85,425,611**	24,262,914
Company's share in current assets of a joint venture (Note 13)	**257,916,040**	198,092,134
Total Current Assets	**2,196,559,591**	2,225,517,872
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**413,658,107**	426,688,419
Investments in associates - net (Note 10)	**18,209,154**	619,756
Available-for-sale investments (Notes 11 and 27)	**212,583,968**	205,127,616
Investment properties - net (Note 12)	**88,658,129**	92,240,477
Intangible assets - net (Note 14)	**88,132,201**	71,862,184
Other noncurrent assets (Note 10)	**331,677**	127,906,678
Company's share in noncurrent assets of a joint venture (Note 13)	**193,332,635**	235,730,847
Total Noncurrent Assets	**1,014,905,871**	1,160,175,977
TOTAL ASSETS	**₱3,211,465,462**	₱3,385,693,849
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 15, 24 and 27)	**₱148,412,045**	₱168,284,745
Due to stockholders (Notes 24 and 27)	**6,934,625**	7,007,740
Income and withholding taxes payable	**7,594,964**	39,366,043
Company's share in current liabilities of a joint venture (Note 13)	**112,686,261**	53,253,252
Total Current Liabilities	**275,627,895**	267,911,780

(Forward)

	June 30 2010	December 31 2009
Noncurrent Liabilities		
Pension and other post-employment benefits	**₱5,057,233**	₱6,043,998
Deferred tax liabilities - net (Note 23)	**18,589,628**	23,410,886
Other noncurrent liabilities (Notes 27)	**8,029,657**	7,845,761
Company's share in noncurrent liabilities of a joint venture (Notes 13 and 23)	**8,023,055**	8,023,055
Total Noncurrent Liabilities	**39,699,573**	45,323,700
Total Liabilities	**315,327,468**	313,235,480
Equity		
Capital stock (Note 16)	**1,664,625,604**	1,662,603,069
Additional paid-in capital (Note 16)	**54,693,308**	54,693,308
Unrealized fair value gains on available-for-sale investments (Note 11)	**58,693,793**	52,223,943
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture	**9,164,216**	8,966,770
Retained earnings (Note 16)	**1,112,884,942**	1,297,895,148
Parent Company shares of stock held by a joint venture (Note 13)	**(3,923,869)**	(3,923,869)
Total Equity	**2,896,137,994**	3,072,458,369
TOTAL LIABILITIES AND EQUITY	**₱3,211,465,462**	₱3,385,693,849

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	April – June	April - June	Six Months Ended June	
	2010	2009	**2010**	2009
REVENUES				
Generation revenue (Note 1)	**₱14,212,937**	₱34,298,537	**₱26,786,439**	₱130,516,362
Trading revenue – net (Notes 1 and 18)	**–**	28,734,038	**–**	139,779,319
Interest and other financial income (Notes 7 and 27)	**11,741,035**	18,248,324	**30,283,663**	32,158,276
Dividend income	**65,077**	12,933,057	**7,079,718**	24,956,239
Other income (Note 12)	**1,753,027**	551,388	**3,521,142**	904,961
Company's share in revenue of a joint venture (Note 13):				
Generation	**219,945,767**	165,222,617	**429,702,496**	317,160,210
Other income	**266,221**	–	**1,828,545**	–
	247,984,064	259,987,961	**499,202,003**	645,475,367
COSTS AND EXPENSES				
Trading cost – net (Note 1 and 18)	**67,655,085**	–	**116,116,377**	–
Cost of power generation (Notes 19, 21, 22 and 26)	**18,851,842**	37,962,038	**38,554,880**	109,911,739
General and administrative expenses (Notes 20, 21, 22 and 24)	**41,583,209**	43,183,874	**79,776,661**	89,392,455
Company's share in costs and expenses of a joint venture (Note 13):				
Cost of power generation	**215,014,356**	88,140,653	**395,882,704**	191,713,342
General and administrative expenses	**3,700,771**	6,882,592	**11,645,545**	11,423,217
Other expenses	**–**	864,366	**–**	447,393
OTHER EXPENSES (INCOME)				
Net loss (gain) on derivatives (Note 23)	**12,654,520**	(2,638,000)	**9,931,020**	(9,281,214)
Interest and other financial charges (Note 23)	**5,827,380**	157,984	**6,295,539**	514,186
Provision for:				
Doubtful accounts (Note 8)	**–**	–	**6,741,771**	**–**
Impairment loss on property, plant and equipment (Note 9)	**–**	59,050,085	**–**	59,050,085
Intangible assets written-off (Note 14)		27,544,996	**–**	27,544,996
Foreign exchange loss (gain)	**(8,406,310)**	1,567,941	**1,858,848**	(9,441,475)
Equity in net loss (earnings) of associates (Note 10)	**–**	15,194	**(11,273)**	(19,892)
Loss (gain) on sale of:				
Property, plant and equipment (Note 9)	**85,582**	(7,601,098)	**124,536**	(7,601,098)
Available-for-sale investments	**(30,965)**	(1,263)	**(30,965)**	5,235
Investment in an associate (Note (10)	**–**	**–**	**–**	(24,790,491)
Others	**(30,873,837)**	(1,796,828)	**(55,472,524)**	(5,287,481)
	326,061,633	253,332,534	**611,413,119**	433,580,997
INCOME (LOSS) BEFORE INCOME TAX (Carried Forward)	**(78,077,569)**	6,655,427	**(112,211,116)**	211,894,370

	April - June	April – June	Six Months Ended June	
	2010	2009	**2010**	2009
INCOME (LOSS) BEFORE INCOME TAX (Brought Forward)	**(₱78,077,569)**	₱6,655,427	**(₱112,211,116)**	₱211,894,370
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)				
Current	**4,620,760**	1,582,721	**9,821,399**	17,849,765
Deferred	**(3,848,365)**	(6,879,821)	**(4,165,520)**	2,934,065
Company's share in income tax of a joint venture (Note 13)	**(33,285)**	549,610	**558,186**	934,406
	739,110	(4,747,490)	**6,214,065**	21,718,236
NET INCOME (LOSS) FOR THE PERIOD	**(₱78,816,679)**	₱11,402,917	**(₱118,425,181)**	₱190,176,134
Basic/Diluted Earnings (Loss) Per Share (Note 25)			**(₱0.07)**	₱0.11

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE STATEMENTS OF INCOME

	April - June	April - June	Six Months Ended June	
	2010	2009	**2010**	2009
NET INCOME (LOSS) FOR THE PERIOD	**(₱78,816,679)**	₱11,402,917	**(₱118,425,181)**	₱190,176,134
OTHER COMPREHENSIVE INCOME				
Unrealized fair value gains/(losses) on available-for-sale investments	**(879,505)**	2,938,314	**6,469,850**	(16,352,082)
Company's share in unrealized fair value gains/(losses) on available-for-sale investments	**9,999**	437,796	**197,446**	(3,423,409)
Other comprehensive income/(loss)	**(869,506)**	3,376,110	**6,667,296**	(19,775,491)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**(₱79,686,185)**	₱14,779,027	**(₱111,757,885)**	₱170,400,643

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 16 and 17)	Additional Paid-in Capital (Note 16)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 11)	Company's Share in Unrealized Fair Value Gains on Available-for-Sale Investments of a Joint Venture (Note 13)	Retained Earnings (Note 16)	Parent Company Shares of Stock Held by a Joint Venture (Note 13)	Total
BALANCES AT DECEMBER 31, 2009	**₱1,662,603,069**	**₱54,693,308**	**₱52,223,943**	**₱8,966,770**	**₱1,297,895,148**	**(₱3,923,869)**	**₱3,072,458,369**
Net loss for the period	–	–	–	–	(118,425,181)	–	(118,425,181)
Other comprehensive income	–	–	6,469,850	197,446	–	–	6,667,296
Total comprehensive income for the period	–	–	6,469,850	197,446	(118,425,181)	–	(111,757,885)
Cash dividends - ₱0.04 per share	–	–	–	–	(66,585,025)	–	(66,585,025)
Issuance of stocks	2,022,535	–	–	–	–	–	2,022,535
	2,022,535	–	–	–	(66,585,025)	–	(64,562,490)
BALANCES AT JUNE 30, 2010	**1,664,625,604**	**54,693,308**	**58,693,793**	**9,164,216**	**1,112,884,942**	**(3,923,869)**	**2,896,137,994**
BALANCES AT DECEMBER 31, 2008	**1,662,298,650**	**54,693,308**	**54,470,950**	**8,759,105**	**1,081,577,231**	**(3,923,869)**	**2,857,875,375**
Net loss for the period	–	–	–		190,176,134	–	190,176,134
Other comprehensive loss	–	–	(16,352,082)	(3,423,409)	–	–	(19,775,491)
Total comprehensive income (loss) for the period	–	–	(16,352,082)	(3,423,409)	190,176,134	–	170,400,643
Cash dividends - ₱0.04 per share	–	–	–	–	(66,491,957)	–	(66,491,957)
Issuance of stocks	304,419	–	–	–	–	–	304,419
	304,419	–	–	–	(66,491,957)	–	(66,187,538)
BALANCES AT JUNE 30, 2009	**₱1,662,603,069**	**₱54,693,308**	**₱38,118,868**	**₱5,335,696**	**₱1,205,261,408**	**(₱3,923,869)**	**₱2,962,088,480**

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱112,211,116)**	₱211,894,370
Adjustments for:		
Company's share in income before income tax of a joint venture	**(7,197,414)**	(4,316,842)
Interest and other financial income (Note 27)	**(30,283,663)**	(32,158,276)
Depreciation and amortization (Note 22)	**25,803,809**	28,998,619
Net loss (gain) on derivatives - net (Note 27)	**9,931,020**	(9,281,214)
Dividend income	**(7,079,718)**	(24,956,239)
Unrealized foreign exchange loss (gain)	**2,274,070**	(9,656,527)
Intangible assets written-off	**–**	27,544,996
Provision for:		
Impairment loss on property, plant and equipment	**–**	59,050,085
Doubtful accounts	**6,741,771**	–
Loss (gain) on sale of:		
Property and equipment	**124,536**	(7,601,098)
Investment in associates	**–**	(24,790,491)
Available-for-sale investments	**(30,965)**	5,235
Interest and other financial charges (Note 27)	**6,295,539**	514,186
Equity in net earnings of associates (Note 10)	**(11,273)**	(19,892)
Operating income (loss) before working capital changes	**(105,643,404)**	215,226,912
Decrease (increase) in:		
Receivables	**82,934,112**	(81,946,817)
Fuel and spare parts	**19,334,890**	(11,247,000)
Other current assets	**(65,379,468)**	(24,489,171)
Decrease in accounts payable and other current liabilities	**(19,722,887)**	(63,427,177)
Net cash generated from (used in) operations	**(88,476,757)**	34,116,747
Interest received	**27,844,549**	28,776,359
Interest paid	**(6,111,643)**	(6,730,345)
Income taxes paid	**(33,988,596)**	(7,954,990)
Company's share in net cash flows provided by (used in) operating activities of a joint venture	**14,095,687**	(12,192,833)
Net cash flows provided by (used in) operating activities	**(86,636,760)**	36,014,938
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	**(727,447,718)**	(855,410,091)
Investment in associate	**(17,578,125)**	–
Deferred exploration costs (Note 14)	**(16,270,017)**	(3,664,959)
Property and equipment (Note 9)	**(10,269,385)**	(13,599,650)
Available-for-sale investments	**(1,060,362)**	(13,276)
Investment properties (Note 12)	**–**	(94,362,125)

(Forward)

	Six Months Ended June 30	
	2010	2009
Cash dividends received	**₱6,540,684**	₱24,956,240
Proceeds from:		
Sale and redemption of investments held for trading	**1,078,480,611**	654,309,364
Termination of short-term investments	**5,000,000**	17,511,120
Settlement of currency forward contracts (Note 27)	**3,225,480**	–
Sale of property and equipment	**953,698**	62,000,000
Sale of available-for-sale investments	**104,825**	133,288
Sale of investment in associates	**–**	193,285,135
Payment for the settlement of currency forward contracts	**–**	(3,976,400)
Company's share in net cash flows provided by investing activities of a joint venture	**8,408,510**	15,951,398
Net cash flows provided by (used in) investing activities	**330,088,201**	(2,879,956)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of long-term receivable	**127,575,000**	–
Payment of cash dividends	**(66,585,024)**	(66,491,946)
Increase in other noncurrent liabilities	**384,636**	506,607
Decrease in due to stockholders	**(73,115)**	(226,378)
Decrease in customers' deposits	**–**	(27,385,096)
Company's share in net cash flows provided by financing activities of a joint venture	**–**	(9,050,000)
Net cash flows provided by (used in) financing activities	**61,301,497**	(102,646,813)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(5,981,610)**	9,187,109
NET INCREASE IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURE	**298,771,328**	60,324,722
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD (Note 6)	**1,027,930,060**	916,460,628
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (Note 6)	**₱1,326,701,388**	₱856,135,906

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

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 Energy Regulatory Commission (ERC) granted the Parent Company 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 2009. The license authorizes the Parent Company to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). As a RES, the Parent Company is allowed to supply electricity to the contestable market, pursuant to EPIRA. The other activities of the Company are investments in various operating companies and financial instruments.

The Parent Company also has a 50% interest in Trans-Asia Power Generation Corporation (TA Power), a company engaged in power generation. 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). Both the Parent Company and TA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM.

CIPP was 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. In April 2009, the terms of the sale of the distribution assets to Manila Electric Company (MERALCO) were finalized resulting in the cessation of CIPP’s operations starting April 2009. Also, the separation of substantially all of its employees effective January 2010 was announced. On February 22, 2010, the Board of Directors of the Parent Company approved the proposed merger of the Parent Company and CIPP, which was approved by the Company’s stockholders on March 24, 2010. To date, the Company has not filed its application for merger with the SEC.

TA Gold was incorporated and registered with the SEC on July 2, 2007 to primarily engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the Board of Directors approved the suspension of exploration activities of TA Gold effective March 31, 2009.

Renewable and Karang Besar have not yet started commercial operations.

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

The consolidated financial statements of the Company were authorized for issuance by the Board of Directors (BOD) on July 19, 2010.

2. Basis of Preparation

The consolidated interim 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 interim financial statements are presented in Philippine peso, which is the Company's functional currency. All values are rounded to the nearest peso, unless otherwise stated.

Statement of Compliance

The accompanying consolidated interim financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated interim financial statements comprise the financial statements of the Parent Company and its wholly-owned subsidiaries as of June 30, 2010 and December 31, 2009 and for the six months ended June 30, 2010 and 2009. The interim financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. Where the reporting date of a subsidiary or associate is different from the Parent Company, adjustments shall be made for the effects of significant transactions and events that occur between that date and the date of the Parent Company's interim financial statements. The difference between the end of the reporting period of the subsidiary or associate and the Parent Company shall be no more than three months.

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 13).

3. Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2009 as described in the annual financial statements except for the adoption of the following new, amended PFRS, Philippine Accounting Standards and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective beginning January 1, 2010. The adoption of the following amendments does not have material effect on the financial statements.

- PFRS 2, *Share-based Payment*
  - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
  - Clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segment Information*
  - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
  - Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*
  - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and, (c) gains or losses on cash flow hedges of a forecast transaction that

subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
  - Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*
  - States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

4. Summary of Significant Accounting and Financial Reporting 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 Financial 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 financial 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 of 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 from 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” gain or loss) 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” gain or loss amount.

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 as either financial asset or liability at FVPL, loans and receivables, held-to-maturity (HTM) investments AFS investments or other financial liabilities. The Company determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, reevaluates this designation at every reporting date.

Financial Assets and Liabilities at FVPL

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

   - 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;
   - 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
   - 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 to receive the payment has been established.

   As of June 30, 2010 and December 31, 2009, the Company has no financial asset or financial liability designated on initial recognition as at FVPL.

b. Financial assets or financial liabilities held for trading
   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 the "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.

As of June 30, 2010 and December 31, 2009, the Company's investments in bonds and fixed treasury notes (FXTNs) and unit investment trust funds (UITFs) are classified as financial assets held for trading (see Note 7).

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 remeasured 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.

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. 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.

As of June 30, 2010 and December 31, 2009, the Company's derivative assets and derivative liability are classified as financial assets and financial liability at FVPL (see Note 27).

Loans and Receivables
Loans and receivables are nonderivative 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.

As of June 30, 2010 and December 31, 2009, the Company's cash and cash equivalents, short-term investments and receivables are classified as loans and receivables (see Notes 6 and 8).

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.

As of June 30, 2010 and December 31, 2009, the Company did not classify any financial asset under HTM investments.

AFS Investments
AFS investments are nonderivative 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. Unlisted AFS financial assets, on the other hand, are carried at cost, net of any impairment, until the investment is derecognized.

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.

As of June 30, 2010 and December 31, 2009, 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.

As of June 30, 2010 and December 31, 2009, the Company's accounts payable and other current liabilities, due to stockholders and customers' deposits are classified as other financial liabilities (see Notes 15 and 24).

Impairment of Financial Assets
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 and receivables 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 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, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

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 collectability 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, pastdue 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
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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>

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.

Financial liabilities

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.

<u>Offsetting Financial Instruments</u>

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.

<u>Fuel and Spare Parts</u>

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 fuel and spare parts.

<u>Property, Plant and Equipment</u>

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. In situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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 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 Parent Company's investments in associates are accounted for under the equity method of accounting. These are entities in which the Parent Company has significant influence and which are neither subsidiaries nor joint ventures of the Parent Company. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Parent Company's share of net assets of the associates, less any impairment in value. The consolidated statement of income includes the Parent 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 Parent 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 Parent 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 reduced to zero. If the associate subsequently reports net income, the Parent 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.

An investment in associate 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 net carrying amount of the investment) is included in the consolidated statement of income in the year the investment is derecognized.

Interest in a Joint Venture

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

The Parent Company's investment in the joint venture'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 Properties

Investment properties are 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) or geophysical survey and exploration contract (GSEC) area. Under this method, all exploration costs relating to each SC or 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;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- 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.

Impairment of Nonfinancial 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.

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.

Capital Stock

Capital stock represents the portion of the paid in capital representing the total par value of the shares issued.

Retained Earnings

Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income.

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. Revenue is measured at the fair value of the consideration received or receivable. Trading revenue is presented gross of trading costs where the Company acts as principal and:

- has primary responsibility for providing the goods and services;
- has discretion in establishing prices; and
- bears the credit and inventory risks

Trading revenue is presented net of trading costs where the Company acts as agent.

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.

Costs and Expenses
Costs and expenses are recognized when incurred.

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.

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.

<u>Leases</u>
The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement depends on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease, if any, if the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d) there is substantial change to the asset.

Where the reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c, or d above, and at the date of renewal or extension period for scenario b.

The Company determines whether arrangements contain a lease to which lease accounting must be applied. The costs of the agreements that do not take the legal form of a lease but convey the right to use an asset are separated into lease payments if the entity has the control of the use or access to the asset, or takes essentially all of the outputs of the asset. The said lease component for these arrangements is then accounted for as finance or operating lease.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income and expense is recognized in the consolidated statement of income on a straight-line basis over the lease arrangements.

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.

Foreign Currency-denominated Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at the balance sheet date. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Income Tax

Current tax

Current income 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 consolidated balance sheet date.

Deferred income tax

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

- where the deferred income 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 income 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 income 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 income 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 income tax asset to be recovered.

Deferred income 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 income tax assets and deferred income 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.

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.

5. **Significant Accounting Judgments, Estimates and Assumptions**

The Company's consolidated financial statements prepared in conformity with PFRS require management to make judgments, 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 judgments, estimates and assumptions used in the 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 judgments and estimates and related impact and associated risks in its consolidated financial statements.

Judgments

Determination of 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.

Determination of whether an arrangement contains a lease and proper classification of the lease

Under TA Oil's ESA with Guimelco and TA Power's ESA with Holcim Philippines, Inc. (Holcim), TA Oil sells all of its output to Guimelco and TA Power sells all or substantially all of its output to Holcim. The Company also has various lease agreements for the lease of its investment property. The Company has evaluated the arrangements and the terms of the agreements and determined that the risks and rewards of ownership of the underlying properties are retained by the Company. Accordingly, the related assets have been recognized in the books and the fees billed to Guimelco, Holcim and the other leases are recorded as operating revenues.

Classification of financial instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet. The classification of the Company's financial assets and financial liabilities are presented in Note 27.

Estimates

Fair value of financial assets and financial liabilities

The fair value for financial instruments traded in an active market 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 and estimation is required in establishing fair values. Any change in value of these financial assets and financial liabilities (including derivatives) would affect the consolidated statement of comprehensive income and consolidated statement of changes in equity. The fair values of the Company's financial assets amounted to ₱2.05 million and ₱2.29 million as of June 30, 2010 and December 31, 2009, respectively, while fair values of Company's financial liabilities amounted to ₱145.46 million and ₱146.95 million as of June 30, 2010 and December 31, 2009, respectively (see Note 27).

Estimated 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 (including noncurrent portion classified under noncurrent assets in the consolidated balance sheet of ₱127.57 million as of December 31, 2009) amounted to ₱99.61 million as of June 30, 2010 and ₱285.05 million as of December 31, 2009 (see Notes 8 and 10).

Realizability of deferred income tax assets
The carrying amount of deferred income 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.

The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred tax assets were recognized in the consolidated balance sheets as of June 30, 2010 and December 31, 2009 amounted to ₱253.13 million and ₱100.15 million, respectively (see Note 23).

Estimated useful lives of property, plant and equipment and investment properties
The Company estimates the useful lives of property, plant and equipment and investment properties 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 properties 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 properties are 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 and June 30, 2010 and December 31, 2009 amounted to ₱413.66 million and ₱426.69 million, respectively (see Note 9). The carrying value of investment properties as of June 30, 2010 and December 31, 2009 amounted to ₱88.66 million and ₱92.24 million, respectively (see Note 12).

Impairment of deferred exploration costs
The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount. In 2009, the Company recorded a provision for impairment losses amounting to ₱11.47 million representing the carrying value of deferred exploration costs where a portion of the contract area was excised and an unfavorable ruling was issued by the Department of Environment and Natural Resources. Write-off of deferred exploration costs against allowance for impairment losses amounted to ₱76.62 million in 2009 and ₱85.5 million in 2008. In addition, deferred exploration costs amounting to ₱78.52 million were directly written-off and charged in the consolidated statement of income. Among the factors considered by management in the write off of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic.

As of June 30, 2010 and December 31, 2009, the carrying value of deferred exploration costs amounted to ₱88.13 million and ₱71.86 million, respectively (see Note 14).

Impairment of property, plant and equipment, customer contracts and investment properties
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. In 2009, total impairment loss recognized in the consolidated statement of income on the property, plant and equipment of CIPP amounted to ₱106.89 million. The carrying value of property, plant and equipment as of June 30, 2010 and December 31, 2009 amounted to ₱413.66 million and ₱426.69 million, respectively (see Note 9), while customer contracts have been fully amortized in 2008 (see Note 14). The carrying value of investment properties amounted to ₱88.66 million as of June 30, 2010 and ₱92.24 million as of December 31, 2009 (see Note 12).

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. No additional impairment loss was deemed necessary in first semester ended June 30, 2010 and 2009. Accumulated impairment loss amounted to ₱1.56 million as of June 30, 2010 and December 31, 2009. The carrying value of investments in associates as of June 30, 2010 and December 31, 2009 is ₱18.21 million and ₱0.62 million, respectively (see Note 10).

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% or 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. No impairment loss was deemed necessary in the first semester ended June 30, 2010 and 2009. The carrying value of AFS investments as of June 30, 2010 and December 31, 2009 amounted to ₱212.58 million and ₱205.13 million, respectively (see Note 11).

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 the consolidated interim 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, 2010 and December 31, 2009 is ₱5.06 million and ₱6.04 million, respectively.

6. Cash and Cash Equivalents

	June 30 2010	December 31 2009
Cash on hand and in banks	**₱1,894,099**	₱90,300,463
Short-term deposits	**1,259,688,587**	895,015,093
	₱1,261,582,686	₱985,315,556

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods 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 June 30, 2010 and December 31, 2009:

	June 30 2010	December 31 2009
Cash and cash equivalents of venture	**₱1,261,582,686**	₱985,315,556
Share in cash and cash equivalents of a joint venture (see Note 13)	**65,118,702**	42,614,504
	₱1,326,701,388	₱1,027,930,060

7. Investments Held for Trading

	June 30 2010	December 31 2009
Investments in bonds and FXTNs	**₱234,656,721**	₱283,894,056
Investments in UITFs	**231,747,862**	526,522,973
	₱466,404,583	₱810,417,029

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 statements of income) amounted to (₱2.54 million) and ₱3.97 million as of June 30, 2010 and 2009, respectively.

8. Receivables

	June 30 2010	December 31 2009
Trade (Note 26)	**₱67,773,703**	₱62,581,603
Due from related companies (Notes 24 and 26)	**27,610,648**	59,143,275
Others (Note 10)	**14,242,771**	39,025,150
	109,627,122	160,750,028
Less allowance for doubtful accounts	**10,012,138**	3,270,366
	₱99,614,984	₱157,479,662

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

Other receivables include interest receivable of ₱5.45 million and ₱6.51 million as of June 30, 2010 and December 31, 2009, 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 ₱0.02 million 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 loan receivable was fully collected in February 2008.

As of June 30 and December 31, the aging analysis of past due but not impaired receivables is as follows:

	June 30, 2010						
		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	**₱67,774**	**₱58,084**	**₱525**	**₱503**	**₱547**	**₱1,397**	**₱6,718**
Due from related companies	**27,610**	**27,610**	**–**	**–**	**–**	**–**	**–**
Others	**14,243**	**10,949**	**–**	**–**	**–**	**–**	**3,294**
	₱109,627	**₱96,643**	**₱525**	**₱503**	**₱547**	**₱1,397**	**₱10,012**

	December 31, 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	₱62,582	₱53,375	₱465	₱520	₱463	₱7,759	₱–
Due from related companies	59,143	59,143	–	–	–	–	–
Others	39,025	35,755	–	–	–	–	3,270
	₱160,750	₱148,273	₱465	₱520	₱463	₱7,759	₱3,270

Movements in allowance for doubtful accounts are as follows:

	Trade	**Due from related parties**	**Others**	**Total**
			(In Thousands)	
Balances at January 1, 2009	**₱-**	**₱23,532**	**₱3,270**	**₱26,802**
Write-off		**(23,532)**	**–**	**(23,532)**
Balances at December 31, 2009	**–**	**–**	**₱3,270**	**₱3,270**
Additional provision	**6,718**	**–**	**24**	**6,742**
Balances at June 30, 2010	**₱6,718**	**₱–**	**₱3,294**	**₱10,012**

9. **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, 2009	₱57,983,000	₱100,114,325	₱550,395,020	₱20,346,661	₱12,663,376	₱17,671,228	₱28,210,025	₱787,383,635
Additions	–	–	–	–	2,948,907	15,916,604	563,113	19,428,624
Disposals	–	–	(53,163,489)	–	–	(11,366,581)	–	(64,530,070)
At December 31, 2009	57,983,000	100,114,325	497,231,531	20,346,661	15,612,283	22,221,251	28,773,138	742,282,189
Additions	–	84,293	–	–	7,241,780	2,619,876	323,436	10,269,385
Disposals	–	–	–	–	(5,499,886)	–	(27,104)	(5,526,990)
Reclassification	–	–	–	–	–	48,214	(48,214)	–
At June 30, 2010	57,983,000	100,198,618	497,231,531	20,346,661	17,354,177	24,889,341	29,021,256	747,024,584
Accumulated Depreciation, Amortization, Depletion and Impairment								
At January 1, 2009	–	31,841,592	88,126,102	20,346,661	5,636,651	2,821,134	18,470,563	167,242,703
Depreciation (Note 22)	–	7,700,276	33,705,201	–	2,654,683	3,086,948	4,123,782	51,270,890
Impairment	–	–	106,890,399	–	–	–	–	106,890,399
Disposals	–	–	(9,224,264)	–	–	(585,958)	–	(9,810,222)
At December 31, 2009	–	39,541,868	219,497,438	20,346,661	8,291,334	5,322,124	22,594,345	315,593,770
Depreciation (Note 22)	–	3,849,638	12,421,116	–	1,594,471	2,355,605	2,000,633	22,221,463
Disposals	–	–	–	–	(4,421,652)		(27,104)	(4,448,756)
Reclassification	–	–	–	–	–	44,524	(44,524)	–
At June 30, 2010	–	43,391,506	231,918,554	20,346,661	5,464,153	7,722,253	24,523,350	333,366,477
Net Book Value								
At January 1, 2009	₱57,983,000	₱68,272,733	₱462,268,918	₱–	₱7,026,725	₱14,850,094	₱9,739,462	₱620,140,932
At December 31, 2009	57,983,000	60,572,457	277,734,093	–	7,320,949	16,899,127	6,178,793	426,688,419
At June 30, 2010	57,983,000	56,807,112	265,312,977	–	11,890,024	17,167,088	4,497,906	413,658,107

10. **Investments in Associates**

The percentage of ownership and the carrying values of investments in associates are as follows:

	Percentage of Ownership	**June 30 2010**	December 31 2009
Maibarara Geothermal, Inc. (MGI)	25.00	**₱17,578,125**	₱–
Asia Coal Corporation (Asia Coal)*	28.18	**631,029**	619,756
Bacnotan Industrial Park Corporation (BIPC)	30.00	**–**	–
Union Aggregates Corporation (UAC)**	31.25	**–**	–
		₱18,209,154	₱619,756

* *Shortened corporate life to October 31, 2009*
***Ceased operations*

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

	June 30 2010	December 31 2009
Acquisition costs:		
Balance at beginning of year	**₱26,734,913**	₱207,334,913
Addition	**17,578,125**	
Disposal	**–**	(180,600,000)
Balance at end of year	**44,313,038**	26,734,913
Accumulated equity in net losses:		
Balance at beginning of year	**(24,555,906)**	(36,673,389)
Equity in net earnings for the year	**11,273**	12,126
Disposal	**–**	12,105,357
Balance at end of year	**(24,544,633)**	(24,555,906)
	19,768,405	2,179,007
Less accumulated impairment losses	**1,559,251**	1,559,251
	₱18,209,154	₱619,756

<u>Asia Coal</u>

On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of the corporate life of the Company to October 31, 2009. The Company shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. To date, Asia Coal is still in the process of filing with the SEC its application for dissolution.

The net assets of Asia Coal are as follows:

	June 30 2010	October 31 2009
Current assets	**₱2,358,801**	₱2,358,801
Noncurrent asset	**14,700**	14,700
Total Assets	**2,373,501**	2,373,501
Current liability	**133,701**	173,701
Noncurrent liability	**–**	–
Total Liabilities	**133,701**	173,701
Net Assets	**₱2,239,800**	₱2,199,800

The results of operations of Asia Coal for the three months ended June 30 are as follows:

	2010	2009
Interest income	**₱–**	₱99,705
General and administrative expenses	**–**	(149,409)
Other income (expense)	**40,000**	–
Net loss	**₱40,000**	(₱49,704)

Other than the approval of the directors and stockholders of Asia Coal of the shortening of its corporate life, there were no significant transactions or events that need to be adjusted in Asia Coal's financial statements.

<u>BIPC</u>

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On March 10, 2009, the Parent Company signed a Share Purchase Agreement with Phoenix Petroleum Philippines, Inc. (Phoenix) whereby the Parent Company sold to Phoenix all of the Parent Company's 30% equity interest in BIPC for a consideration payable at approximately 18% down payment and the balance in monthly installments over a period of five years. Total gain on the sale of the investment in an associate recognized in the 2009 consolidated statement of income amounted to ₱24.79 million. As of December 31, 2009, the current portion of the receivable from Phoenix amounted to ₱26.32 million and is included as part of other receivables (see Note 8). The noncurrent portion of the receivable amounting to ₱127.57 million is included as part of "Other noncurrent assets" account in the 2009 consolidated balance sheet.

On January 15, 2010, TA Oil entered into a Contract for the Sale and Purchase of Industrial Lots (the Contract) with BIPC. Under the terms of the Contract, BIPC undertakes to sell the parcels of land registered under its name as well as the additional parcels of land that it will acquire from Phoenix Petroterminals and Industrial Park. Terms of payment include that upon downpayment, TA Oil shall be granted the sole and exclusive option to purchase the properties and shall exercise the option on or before April 1, 2010 (the option exercise date) by giving written notice to BIPC and paying a certain amount. In the event that TA Oil exercises the option on or before the option exercise date, the downpayment and the exercise price shall be credited to the purchase price of the properties for BIPC acquisition. In the event that TA Oil does not exercise the option, BIPC shall refund 50% of the downpayment to TA Oil without interest within 30 days from the lapse of the option exercise date. The total purchase price for the properties already owned by BIPC is ₱177.53 million while the total purchase price of the additional properties to be acquired by BIPC is ₱156.30 million.

<u>MGI</u>

MGI aims to develop the Maibarara steamfield located at the western flank of Mount Makiling and commission the first 20MW power plant by the second half of 2013. To date, MGI is in the process of incorporation.

11. Available-for-Sale Investments

	June 30 2010	December 31 2009
Shares of stock:		
Listed	**₱82,066,983**	₱80,210,631
Unlisted	**101,586,985**	101,586,985
Golf club shares	**28,930,000**	23,330,000
	₱212,583,968	₱205,127,616

AFS investments are stated at fair value as of June 30, 2010 and December 31, 2009, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Gain from changes in fair value recognized as other comprehensive income amounted to ₱6.5 million in the first semester ended June 30, 2010. Loss from change in fair value recognized as other comprehensive income amounted to ₱16.3 million in the first semester ended June 30, 2009.

12. Investment Properties

	June 30 2010	December 31 2009
Cost		
Balance at beginning of the year	**₱99,255,788**	₱4,893,663
Additions	**–**	94,362,125
Balance at end of year	**99,255,788**	99,255,788
Less accumulated depreciation		
Balance at beginning of the year	**7,015,311**	1,576,752
Depreciation	**3,582,348**	5,438,559
Balance at end of year	**10,597,659**	7,015,311
	₱88,658,129	₱92,240,477

Investment properties are stated at cost less accumulated depreciation and any impairment loss. The fair value of the investment properties based on the latest valuation by an independent firm of appraisers amounted to ₱98.7 million as of June 30, 2010 and December 31, 2009. The valuation undertaken considered the sales of similar or substitute properties and related market data and established estimated value by processes involving comparison.

Rental income for the first semester ended June 30, 2010 and 2009 amounted to ₱3.1 million and ₱68.3 thousand, respectively, which comprises "Other income" presented in the consolidated statements of income. The related direct costs and expenses incurred amounted to ₱1.3 million and ₱0.6 million for the first semester ended June 30, 2010 and 2009, respectively, included as part of "General and administrative expenses" (Note 20).

13. Interest in a Joint Venture

The Company's proportionate share in assets and liabilities of TA Power as of June 30, 2010 and December 31, 2009 before elimination of intercompany transactions and balances are as follows:

	June 30 2010	December 31 2009
Current assets	**₱275,737,209**	₱199,402,913
Noncurrent assets*	**195,249,066**	241,376,471
	470,986,275	440,779,384
Current liabilities	**(139,417,040)**	(112,317,630)
Noncurrent liabilities	**(8,023,055)**	(8,023,055)
	(147,440,095)	(120,340,685)
Net assets	**₱323,546,180**	₱320,438,699

* *Net of investment in shares of stock of the Parent Company of ₱3.9 million both in June 30, 2010 and December 31, 2009.*

The Company's proportionate share in the revenue and expenses of TA Power for the first semester ended June 30 before elimination of intercompany transactions are as follows:

	2010	2009
Revenue	**₱490,341,771**	₱329,667,117
Cost of power generation	**(472,967,103)**	(312,702,036)
General and administrative expenses	**(12,640,421)**	(12,435,018)
Other income (expense) – net	**2,463,167**	(213,221)
Income before income tax	**7,197,414**	4,316,842
Provision for income tax	**(558,186)**	(934,406)
Net income	**₱6,639,228**	₱3,382,436

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, 2010 and December 31, 2009, after elimination of intercompany balances, are as follows:

	June 30 2010	December 31 2009
Current assets:		
Cash and cash equivalents	**₱65,118,702**	₱42,614,504
Investment in trading securities	**–**	8,440,582
Trade and other receivables	**102,871,162**	85,738,184
Fuel and spares - at cost	**49,990,837**	35,906,315
Prepaid expenses and other current assets	**39,935,339**	25,392,549
	₱257,916,040	₱198,092,134
Noncurrent assets:		
Property, plant and equipment - net	**₱164,959,449**	₱196,923,857
Available-for-sale investments	**28,197,936**	23,697,283
Other noncurrent assets	**175,250**	15,109,707
	₱193,332,635	₱235,730,847
Current liabilities:		
Trade and other payables	**₱112,686,261**	₱50,251,289
Due to related parties	**–**	2,929,863
Derivative liability	**–**	72,100
Interest-bearing loans and borrowings	**–**	–
	₱112,686,261	₱53,253,252

Noncurrent liabilities:		
Deferred tax liability - net (see Note 23)	**₱5,523,055**	₱5,523,055
Provisions	**2,500,000**	2,500,000
Other noncurrent liabilities	**–**	–
	₱8,023,055	₱8,023,055

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

	2010	2009
Cost of power generation:		
Fuel	**₱345,934,184**	₱135,527,159
Depreciation and amortization	**31,872,071**	31,950,811
Labor	**5,693,926**	6,089,870
Taxes and licenses	**4,009,849**	4,147,467
Repairs and maintenance	**3,598,954**	10,558,410
Insurance	**1,932,744**	1,509,430
Power purchased	**805,727**	–
Security, janitorial and professional fees	**578,222**	598,688
Others	**1,457,027**	1,331,507
	₱395,882,704	₱191,713,342

	2010	2009
General and administrative expenses:		
Management and professional fees	**₱6,192,145**	₱5,560,316
Salaries and directors' fees	**3,100,724**	2,844,412
Taxes and licenses	**673,816**	1,046,976
Employee benefits	**137,268**	247,052
Depreciation and amortization	**124,408**	303,090
Transportation and travel	**92,186**	74,340
Entertainment, amusement and recreation	**12,858**	8,963
Others	**1,312,140**	1,338,068
	₱11,645,545	₱11,423,217

14. **Intangible Assets**

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Cost:					
At January 1, 2009	₱205,724,762	₱15,138,430	₱220,863,192	₱59,082,665	₱279,945,857
Additions	15,300,580	2,307,310	17,607,890	–	17,607,890
Write-off	(149,163,158)	(5,972,259)	(155,135,417)	–	(155,135,417)
At December 31, 2009	71,862,184	11,473,481	83,335,665	59,082,665	142,418,330
Additions	16,270,017	–	16,270,017	–	16,270,017
Write-off		–	–	–	–
At June 30, 2010	88,132,201	11,473,481	99,605,682	59,082,665	158,688,347

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Allowance for impairment loss and amortization:					
At January 1, 2009	76,618,163	–	76,618,163	59,082,665	135,700,828
Amortization (Note 22)	–	11,473,481	11,473,481	–	11,473,481
Write-off	(76,618,163)	–	(76,618,163)	–	(76,618,163)
At December 31, 2009	–	11,473,481	11,473,481	59,082,665	70,556,146
Impairment	–	–	–	–	–
Write-off	–	–	–	–	–
At June 30, 2010	–	11,473,481	11,473,481	59,082,665	70,556,146
Net book value:					
At January 1, 2009	₱129,106,599	₱15,138,430	₱144,245,029	₱-	₱144,245,029
At December 31, 2009	71,862,184	–	71,862,184	–	71,862,184
At June 30, 2010	88,132,201	–	88,132,201	–	88,132,201

<u>Deferred Oil and Mineral Exploration Costs</u>

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

	June 30 2010	December 31 2009
SC No. 51/GSEC No. 93 (East Visayas)	**₱32,615,779**	₱32,545,030
SC No. 69 (Camotes)	**31,243,951**	15,179,659
SC No. 6 (Northwest Palawan)	**18,559,261**	18,424,285
SC No. 55 (Offshore West Palawan)	**5,713,210**	5,713,210
	₱88,132,201	₱71,862,184

The foregoing deferred oil exploration costs represent the Company’s share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine 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.

15. Accounts Payable and Other Current Liabilities

	June 30 2010	December 31 2009
Trade and nontrade accounts payable	**₱88,402,304**	₱92,651,444
Due to related parties (Note 24)	**24,156,087**	6,998,557
Output tax	**20,845,941**	31,382,389
Derivative liability	**9,068,500**	–
Accrued expenses	**3,061,172**	14,365,092
Deferred rent income	**1,331,253**	181,123
Accrued directors’ and annual incentives (Note 24)	**–**	22,706,140
Others	**1,546,788**	–
	₱148,412,045	₱168,284,745

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

16. Equity

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

	Number of Shares	
	June 30 2010	December 31 2009
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000
Issued and outstanding:		
Balance at beginning of year	**1,662,603,069**	1,662,298,650
Issuance during the year (Note 17)	**2,022,535**	304,419
Balance at end of year	**1,664,625,604**	1,662,603,069

On June 20, 2007, the SEC approved the stock rights offering of 552.5 million shares of the Parent Company at the rate of one share for every two 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. On November 16, 2009, the shareholders approved the reallocation of the proceeds from the stock rights offering to renewable energy projects due to uncertainty in mining projects brought about by the decline in prices of metals and minerals in the world market and due to the sale of CIPP's distribution system rendering the expansion of the power plant unnecessary.

The Company's retained earnings balance amounted to ₱1.11 billion and ₱1.30 billion as of June 30, 2010 and December 31, 2009, respectively, while paid-up capital is ₱1.66 billion as of June 30, 2010 and December 31, 2009. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱235.16 million and ₱223.73 million as of June 30, 2010 and December 31, 209, respectively, are not currently available for dividend distribution.

Dividends declared and paid as of June 30, 2010 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
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	66,491,957	March 30, 2009
March 24, 2010	Cash	0.04 per share	66,585,025	May 28, 2010

17. 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

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 to be awarded as follows: (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.

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.

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 in the issuance of 2.0 million and 0.3 million shares in March 2010 and 2009, respectively.

As of June 30, 2010, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

18. **Trading Revenue (cost) - net**

	Six months ended June 30	
	2010	2009
Trading revenue	**₱244,492,162**	₱280,710,789
Cost of power purchased	**360,608,539**	140,931,470
	(₱116,116,377)	₱139,779,319

19. **Cost of Power Generation**

	Six months ended June 30	
	2010	2009
Depreciation and amortization (Note 22)	**₱13,326,011**	₱19,854,902
Fuel	**12,999,635**	64,490,778
Labor (Note 21)	**5,227,435**	9,706,907
Insurance	**1,284,162**	1,385,572
Taxes and licenses	**918,976**	948,530
Employee benefits (Note 21)	**880,980**	1,189,161
Repairs and maintenance	**829,974**	6,209,210
Rental	**284,210**	164,211
Concession and other fees (Note 26)	**176,326**	2,503,834
Others	**2,627,171**	3,458,634
	₱38,554,880	₱109,911,739

20. General and Administrative Expenses

	Six months ended June 30 **2010**	2009
Salaries and directors' fees (Notes 21 and 24)	**₱24,447,076**	₱27,355,510
Management and professional fees (Note 24)	**19,339,534**	31,098,305
Depreciation and amortization (Note 22)	**12,477,798**	9,143,718
Building maintenance and repairs	**5,955,586**	5,409,005
Insurance, dues and subscriptions	**3,504,939**	1,551,751
Taxes and licenses	**2,971,843**	2,392,984
Employee benefits (Note 21)	**2,058,426**	2,811,848
Transportation and travel	**1,813,346**	1,356,056
Donation and contribution	**1,739,288**	535,428
Rent	**1,635,063**	1,546,393
Office supplies	**1,279,839**	1,109,431
General exploration	**–**	3,069,394
Entertainment, amusement and recreation	**220,798**	137,017
Others	**2,333,125**	1,875,615
	₱79,776,661	₱89,392,455

21. Personnel Expenses

	Six months ended June 30 **2010**	2009
Salaries and directors' fees included under:		
Cost of power generation	**₱5,227,435**	₱9,706,907
General and administrative expenses	**24,447,076**	27,355,510
Employee benefits included under:		
Cost of power generation	**880,980**	1,189,161
General and administrative expenses	**2,058,426**	2,811,848
	₱32,613,917	₱41,063,426

22. Depreciation and Amortization

	Six months ended June 30 **2010**	2009
Depreciation expense of property, plant and equipment and investment properties included under (Notes 9 and 12):		
Cost of power generation	**₱13,326,011**	₱19,854,902
General and administrative expenses	**12,477,798**	9,143,718
	₱25,803,809	₱28,998,620

23. **Income Tax**

a. Current income tax pertains to regular corporate income tax.

b. The components of the Company's net deferred income tax liabilities as of June 30, 2010 December 31, 2009 are as follows:

	June 30 2010	December 31 2009
Deferred income tax assets:		
Derivative liability	**₱2,720,550**	₱–
Unrealized foreign exchange losses	**1,785,578**	1,785,578
Allowance for doubtful accounts	**981,110**	981,110
Unamortized past service cost	**642,595**	755,557
Accrued expenses	**275,786**	85,939
Deferred rent income	**57,054**	54,337
Unrealized mark to market loss on derivatives	**19,577**	19,577
	6,482,250	3,682,098
Deferred income tax liabilities:		
Fair value of power plant	**(20,205,963)**	(20,997,069)
Unrealized fair value gains on investment held for trading and derivatives	**(3,127,810)**	(4,336,277)
Unrealized fair value gains on available-for-sale investments	**(1,079,305)**	(1,079,305)
Asset retirement obligation	**(658,800)**	(662,400)
Derivative asset	–	(17,933)
	(25,071,878)	(27,092,984)
Deferred income tax liabilities - net	**(₱18,589,628)**	(₱23,410,886)

The Company's share in net deferred income tax liabilities of a joint venture is as follows:

	June 30 2010	December 31 2009
Deferred income tax assets on:		
NOLCO	**₱2,603,126**	₱2,603,126
Past service costs and accrued retirement	**127,175**	127,175
Unrealized foreign exchange losses	**58,116**	58,116
	2,788,417	2,788,417
Deferred income tax liabilities on:		
Capitalized unrealized foreign exchange gains	**(8,161,072)**	(8,161,072)
Unrealized MTM gains on derivatives	**(150,400)**	(150,400)
	(8,311,472)	(8,311,472)
Deferred income tax liabilities - net	**(₱5,523,055)**	(₱5,523,055)

The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred income tax assets were recognized in the consolidated balance sheets are as follows:

	June 30 2010	December 31 2009
NOLCO	**₱189,383,406**	₱36,969,513
Unrealized foreign exchange losses	**28,760,074**	28,760,074
Allowance for probable losses on mineral exploration	**11,473,481**	11,473,481
Allowance for unrecoverable input tax	**6,935,276**	6,935,276
Allowance for impairment losses	**6,712,782**	6,712,782
Accrued expenses	**5,057,234**	4,672,598
Asset retirement obligation	**4,810,400**	4,626,504

Deferred income tax assets have not been recognized with respect to the foregoing items as it is not probable that sufficient future taxable income will be available against which the related deferred income tax assets can be used.

NOLCO totaling ₱189.38 million can be claimed as deduction from regular taxable income as follows:

Expiry Date	NOLCO
December 31, 2010	₱7,220,813
December 31, 2011	12,222,794
December 31, 2012	17,525,906
December 31, 2013	152,413,893
	₱189,383,406

NOLCO amounting to ₱0.9 million expired in 2009.

NOLCO amounting to ₱37.8 million was applied to taxable income in 2009. MCIT amounting to ₱10.0 million was applied against RCIT in 2009.

24. Related Party Transactions

PHINMA

The Parent Company is controlled by PHINMA through a management agreement. Under the existing management agreement, the Parent Company pays PHINMA a fixed monthly management fee plus an annual incentive based on a certain percentage of the Parent Company's net income. The management agreement with PHINMA was renewed for another five years starting September 1, 2008. Total management fees, including annual incentive, amounted to ₱3.5 million and ₱12.9 million for the first semester ended June 30, 2010 and 2009, respectively. Net payable to PHINMA (included under "Accounts payable and other current liabilities" account) amounted to ₱0.8 million and ₱10.9 million as of June 30, 2010 and December 31, 2009, respectively.

TA Power

TA Power leases and occupies part of the office space owned by the Parent Company. Rental income earned classified under "Other income" in the consolidated statements of income amounted to ₱0.5 million and ₱0.6 in the first semester ended June 30, 2010 and 2009, respectively, net of the Parent Company's interest. Also, the Parent Company sold electricity to TA Power in the first semester ended June 30, 2010 and 2009. Net receivable from TA Power amounted to ₱9.7 million and ₱57.71 million as of June 30, 2010 and December 31, 2009, respectively, net of the Parent Company's interest. Outstanding payable to TA Power (included under "Accounts payable and other current liabilities" account), net of the Parent Company's interest amounted to ₱17.82 million and ₱1.35 million as of June 30, 2010 and December 31, 2009, respectively. Outstanding receivable from TA Power (included under "Receivables" account), net of the Parent Company's interest, amounted to ₱27.52 million and ₱59.06 million as of June 30, 2010 and December 31, 2009.

PHINMA Property Holdings Corporation (PPHC)
PPHC is likewise controlled by PHINMA through a management agreement. PPHC bills the Parent Company for the management of the building and other charges where the Parent Company's office is located. Net payable to PPHC amounted to ₱0.17 million as of June 30, 2010 and December 31, 2009, included in "Account payable and other current liabilities".

Directors
The Company recognized bonus to directors computed based on net income before the effect of the application of the equity method of accounting. Directors' bonus amounted to ₱12.0 million in the first semester ended June 30, 2009 and none in the first semester ended June 30, 2010. The related unpaid amount included under the "Accounts payable and other current liabilities" account in the consolidated balance sheets amounted to ₱12.3 million as of December 31, 2009.

Stockholders
Amounts due to stockholders for unclaimed dividends totaled ₱7.59 million and ₱7.01 million as of June 30, 2010 and December 31, 2009, respectively.

25. EPS Computation

	Six months ended June 30	
	2010	2009
(a) Net income (loss)	**(₱118,425,181)**	₱190,176,134
Common shares outstanding at beginning of the period (Note 16)	**1,662,603,069**	1,662,298,650
Weighted average number of shares issued during the period	**1,329,733**	–
(b) Weighted average common shares outstanding	**1,663,932,802**	1,662,298,650
Basic/Diluted EPS (a/b)	**(₱0.07)**	₱0.11

The Company's stock option has no dilutive effect in the first semester ended June 30, 2010 and 2009. 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.

26. Commitments

Electricity Supply Agreement with Guimelco
On November 12, 2003 and July 26, 2004, the Company signed an ESA and amendment to the ESA, respectively, with Guimelco, a nonstock, nonprofit cooperative (see Note 1). Under the ESA, the Company agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel

generator power station and to supply Guimelco with electricity based on the terms and conditions set forth in the ESA. Following are the significant provisions of the ESA, among others:

Cooperation Period	Ten years, and may be extended pursuant to the ESA.
Electricity Fees	Electricity fees is based on a formula as set forth in the ESA and shall be payable monthly during the Cooperation Period.
Electricity Delivery Procedures	Guimelco must give priority to electricity generated by the Company's power station up to 1.8 MW, over any other power source.

The power plant commenced commercial operations on June 26, 2005.

Electricity Supply Agreements with Holcim
On December 14, 2007, TA Oil, TA Power and Holcim entered into a memorandum of agreement with the following provisions:

- TA Power shall supply exclusively the electricity requirements of the Bulacan plant of Holcim at rates equal to "Time of Use" rates charged by the National Power Corporation (NPC) plus all other charges and applying such adjustments approved and in the manner prescribed by the ERC.

- TA Oil, acting as a retail electricity supplier, shall exclusively supply all the electricity requirements of Holcim's cement plant in La Union until 2013. TA Oil shall charge Holcim at rates equal to "Time of Use" rates charged by the NPC plus all other charges and applying such adjustments approved and in the manner prescribed by the ERC. Transmission charges shall be settled separately by Holcim with the National Transmission Corporation under Holcim's Transmission Services Agreement.

- TA Oil and TA Power guarantee to cover all of Holcim's electricity requirements for both the La Union and Bulacan plants until 2013.

Operating Lease Commitment
The Company has entered into a lease contract with Guimelco for a parcel of land used only as site for electric generating plant and facilities. The term of the lease is 10 years with a renewal option included in the contract. The Company is given the first option to buy the property if the lessor decides to sell the land. The lease is at a fixed monthly rate of ₱20,000 for the duration of the lease term. Starting July 2009, the fixed monthly rate was increased to ₱40,000. Future minimum operating lease payables under this lease agreement as of June 30, 2010 and December 31 2009 are as follows:

	June 30 2010	December 31 2009
Within one year	**₱480,000**	₱480,000
After one year but not more than five years	**1,840,000**	2,080,000
More than five years	**–**	–
	₱2,320,000	₱2,560,000

Concession Agreement
CIPP has a concession agreement with Carmelray-JTCI Corporation (CJC), the developer of CIP II in Calamba, Laguna, where CIPP's power plant is located. The cooperation period under the concession agreement shall end in 2027, subject to extension. CJC has the option to purchase

the power plant or the distribution system, or both at the end of the cooperation period or any extension thereof. The purchase price for the power plant shall be its net book value and that for the distribution system shall be US$1.

In consideration of the grant of concession by CJC to CIPP, CIPP shall pay CJC a concession fee in an amount equivalent to 2% of CIPP's gross receipts on the sale and supply of generated electricity to locators within CIP II.

On March 26, 2009, CIPP, CJC and MERALCO executed the Tripartite Agreement where CIPP's rights and obligations under the concession agreement will be transferred to MERALCO.

On the same date, MERALCO and CIPP entered into a Memorandum of Agreement which states that subject to the payment of a mutually agreed purchase price, CIPP shall transfer to MERALCO the ownership of its existing electric distribution system and MERALCO shall assume all the rights and obligations of CIPP under the concession agreement.

In the Asset Purchase Agreement entered into by CIPP and MERALCO on April 11, 2009, MERALCO acquired CIPP's rights and interests in the existing electric distribution system on an "as is, where is" basis for a total consideration of ₱62.00 million. Gain on sale recognized in the consolidated statement of income related to the said transaction amounted to ₱7.28 million.

Electric Power Industry Reform Act
Republic Act No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;
(2) Creation of a WESM; and
(3) Open and non-discriminatory access to transmission and distribution systems.

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

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

Renewable Service Contracts
In October 2009, Renewable was awarded 10 wind energy service contracts by the Department of Energy (DOE), representing a total potential wind capacity of 227MW.

In February 2010, another 10 service contracts representing an additional 123MW of potential wind capacity were again awarded to Renewable by the DOE thus bringing its total potential wind capacity to 350MW as of February 22, 2010.

27. Financial Assets and Financial Liabilities

Fair Value

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

	Carrying Amount		Fair Value	
	June 30 2010	December 31 2009	**June 30 2010**	December 31 2009
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱1,261,582,686**	₱985,315,556	**₱1,261,582,686**	₱985,315,556
Short-term investments	**–**	5,000,000	**–**	5,000,000
Receivables:				
Trade	**67,773,703**	62,581,603	**67,773,703**	62,581,603
Due from related companies	**27,610,648**	59,143,275	**27,610,648**	59,143,275
Others	**14,242,771**	163,329,784	**14,242,771**	163,329,784
	1,371,209,808	1,275,370,218	**1,371,209,808**	1,275,370,218
Financial assets at FVPL:				
Investments held for trading	**₱466,404,583**	**₱810,417,029**	**₱466,404,583**	₱810,417,029
Derivative asset*	**59,776**	**4,147,776**	**59,776**	4,147,776
	466,464,359	**814,564,805**	**466,464,359**	814,564,805
AFS investments:				
Quoted	**110,996,983**	**103,540,631**	**110,996,983**	103,540,631
Unquoted	**101,586,985**	**101,586,985**	**101,586,985**	101,586,985
	212,583,968	**205,127,616**	**212,583,968**	205,127,616
	₱2,050,258,135	**₱2,295,062,639**	**₱2,050,258,135**	₱2,295,062,639
Financial Liabilities				
Financial liability at FVPL - Derivative liability**	**₱9,068,500**	₱–	**₱9,068,500**	₱–
Other financial liabilities:				
Accounts payable and other current liabilities***	**126,234,851**	136,721,233	**126,234,851**	136,721,233
Due to stockholders	**6,934,625**	7,007,740	**6,934,625**	7,007,740
Other noncurrent liability	**3,219,257**	3,219,257	**3,219,257**	3,219,257
	136,388,733	146,948,230	**136,388,733**	146,948,230
	₱145,457,233	₱146,948,230	**₱145,457,233**	₱146,948,230

* *Presented as part of other current assets.*
** *Presented as part of accounts payable and other current liabilities.*
*** *Excludes nonfinancial items amounting to ₱22.18 million and ₱31.56 million in June 30, 2010 and December 31, 2009, respectively.*

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

The carrying amounts of cash and cash equivalents, short-term investments, receivables, accounts payable and other current liabilities and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments. The carrying amount of the noncurrent receivable from Phoenix approximates its fair value since its interest rate is based on prevailing market rates.

Investments held for trading and AFS investments
Quoted market prices have been used to determine the fair values of investments held for trading and quoted AFS investments. The fair values of unquoted 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.

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

Customers' deposits
In 2008, management expects that these customer deposits will be returned to locators in 2009 hence, the carrying amount of these deposits approximates their fair value. The customer's deposits have been returned to the respective customers as of December 31, 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 rate used was 6.36% in 2008.

Fair Value Hierarchy
As of June 30, 2010 and December 31, 2009 the fair value measurement of the Company's financial assets carried at fair value are categorized as follows:

	Level 1	**Level 2**	**Total**
		(In Thousands)	
Investments held for trading	**₱466,404**	**₱–**	**₱466,404**
AFS investments	**110,997**	**–**	**110,997**
Derivative asset	**–**	**60**	**60**
Total financial assets	**₱577,401**	**₱60**	**₱577,461**

	Level 1	Level 2	Total
		(In Thousands)	
Investments held for trading	₱810,417	₱–	₱810,417
AFS investments	103,541	–	103,541
Derivative asset	–	4,148	4,148
Total financial assets	₱913,958	₱4,148	₱918,106

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company has no financial instruments measured at fair value using the level 3 hierarchy in June 2010 and December 2009. Also, there were no transfers between level 1 and level 2 fair value measurements during the first semester ended June 30, 2010 and 2009.

Derivative Assets and Derivative Liability

Currency forwards

The Company enters into sell US$, buy peso foreign currency forward contracts to manage the foreign currency risk arising from its US$ denominated assets. These derivatives, which include currency forwards are transactions not accounted for as accounting hedges.

The Company has outstanding currency forward contracts with an aggregate notional amount of US$13.7 million and weighted average contracted forward rate of ₱46.20 to US$1.00 as of June 30, 2010, and an aggregate notional amount of US$3 million and weighted average contracted forward rate of ₱47.573 to US$1.00 as of December 31, 2009. The net fair value of these currency forward contracts amounted to ₱9.07 million and ₱4.09 million loss as of June 30, 2010 and December 31, 2009, respectively.

Embedded derivatives

The Company has 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.

As of December 31, 2009 and 2008, TA Oil's outstanding embedded forwards have an aggregate notional amount of US$0.06 million and US$0.03 million, respectively. The weighted average fixing rate amounted to ₱47.01 to US$1.00 and ₱49.18 to US$1.00 as of December 31, 2009 and 2008, respectively. The net fair value of these embedded derivatives amounted to ₱0.06 million gain and ₱0.6 million gain as of December 31, 2009 and 2008, respectively.

CIPP's has outstanding embedded forward from bunker fuel purchases with an aggregate notional amount of US$0.75 million and a weighted average fixing rate of ₱49.18 to US$1.00 as of December 31, 2008. The net fair value gain of these embedded derivatives amounted to ₱0.8 million gain as of December 31, 2008. There are no outstanding embedded derivatives as of December 31, 2009.

The net movements in fair value changes of the Company's derivative instruments (both freestanding and embedded derivatives) are as follows:

	June 30 2010	December 31 2009
Balance at beginning of period	**₱4,147,776**	(₱9,430,049)
Net changes in fair value during the period	**(9,931,020)**	37,608,112
Fair value of settled contracts	**(3,225,480)**	(24,030,287)
Balance at end of period	**(₱9,008,724)**	₱4,147,776

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

The fair values of the outstanding derivatives of the Company as of June 30, 2010 and December 31, 2009 are presented as follows:

	June 30 2010	December 31 2009
Derivative Assets:		
Freestanding	**₱–**	₱4,088,000
Embedded	**59,776**	59,776
	59,776	4,147,776
Derivative Liability - Freestanding	**(9,068,500)**	–
	(₱9,008,724)	₱4,147,776

The fair value of the derivative assets and derivative liability are presented under "Other current assets" and "Accounts payable and other current liabilities" account in the consolidated balance sheets.

The details of interest and other financial income and interest and other financial charges are as follows:

Interest and Other Financial Income

	Six months ended June 30	
	2010	2009
Interest income on:		
Cash in bank	**₱14,482**	₱496,822
Short-term deposits and investments	**17,515,532**	12,175,643
Bond	**1,312,912**	3,770,738
FXTN	**2,436,947**	14,235,215
Others	**5,503,248**	144,173
	26,783,121	30,822,591
Net gains on investments held for trading:		
Amortization of bond premium/discount - net	**(4,473,855)**	(5,658,903)
Gain (loss) on redemption/sale of investments held for trading	**10,518,740**	3,026,285
Unrealized gain (loss) from changes in fair value of investments held for trading	**(2,544,343)**	3,968,303
	₱30,283,663	₱32,158,276

Interest and Other Financial Charges

	Six months ended June 30	
	2010	2009
Accretion of asset retirement obligation	**₱183,896**	₱183,896
Interest expense on loans and borrowings	**–**	93,455
Other financial charges	**6,111,643**	236,835
	₱6,295,539	₱514,186

28. **Operating Segments**

The Company is divided into two reportable operating segments - Power and Petroleum and Mining. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, certain operating expenses and finance-related results are managed on a group basis and are not allocated to operating segments.

	June 30, 2010			
	Power	**Petroleum and Mining**	**Adjustments and Eliminations**	**Total**
Revenue	**₱458,550,639**	**₱270,884**	**₱40,380,480**	**₱499,202,003**
Results				
Depreciation & amortization	**15,990,127**	**293,067**	**9,520,615**	**25,803,809**
Provision for doubtful accounts	**6,741,771**	**–**	**–**	**6,741,771**
Interest & other financial charges	**2,947,325**	**–**	**3,348,214**	**6,295,539**
Loss on sale of property and equipment	**–**	**662**	**123,874**	**124,536**
Segment profit	**(₱102,721,610)**	**₱8,435,923**	**(₱17,925,429)**	**(₱112,211,116)**
Operating assets	**₱1,058,080,926**	**₱100,215,530**	**₱2,053,169,006**	**₱3,211,465,462**
Operating liabilities	**₱283,063,529**	**₱275,059**	**₱31,988,880**	**₱315,327,468**
Other disclosure				
Capital expenditure	**₱4,961,158**	**₱3,527**	**₱5,304,700**	**₱10,269,385**
Capital disposal	**₱–**	**₱9,104**	**₱5,517,886**	**₱5,526,990**

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱36.40 million and ₱3.98 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss and mark to market gain on derivatives amounting to ₱56.46 million. Other income not included in the profit for operating segment amounted to ₱1.62 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱1.67 billion, receivables and other current assets totaling ₱22.14 million and other noncurrent assets amounting to ₱363.51 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱28.72 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱3.27 million.

5. Capital expenditure and disposal consists of additions to and disposal of property, plant and equipment.

	June 30, 2009			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Revenue	₱586,931,819	₱383,412	₱58,160,136	₱645,475,367
Results				
Depreciation & amortization	20,769,298	298,046	7,931,275	28,998,619
Interest & other financial charges	277,351	–	236,835	514,186
Intangible assets written-off	–	27,544,996	–	27,544,996
Provision for impairment loss on property and equipment	59,050,085	–	–	59,050,085
Gain on sale of property and equipment	(7,601,098)	–	–	(7,601,098)
Segment profit	₱201,263,295	(₱34,638,176)	₱45,269,251	₱211,894,370
Operating assets	₱1,062,150,537	₱147,725,956	₱2,109,950,152	₱3,319,826,645
Operating liabilities	₱268,862,605	₱2,182,567	₱86,692,996	₱357,738,168
Other disclosure				
Capital expenditure	₱12,777,682	₱38,846	₱783,122	₱13,599,650
Capital disposal	₱58,680,070	₱–	₱–	₱58,680,070

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱56.68 million and ₱1.48 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange gain and mark to market gain on derivatives amounting to ₱42.97 million. Other income not included in the profit for operating segment amounted to ₱30.32 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱1.55 billion, receivables and other current assets totaling ₱191.03 million and other noncurrent assets amounting to ₱364.29 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱73.16 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱13.53 million.

5. Capital expenditure consists of additions to property, plant and equipment.

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated revenues decreased to ₱247.9 million in the second quarter of 2010 from ₱259.9 million in the same period last year. Following are the material changes in revenues in the Consolidated Income Statements between the second quarters ended June 30, 2010 and 2009:

- The drop in generation revenues to ₱14.2 million from ₱34.3 million was due to the cessation of operations of the power generating plant of CIP II Power Corporation (CIPP) beginning April 11, 2009, when Meralco took over the concession agreement with the developer of Carmelray Industrial Park II in Calamba, Laguna. The ₱14.2 million generation revenue in 2010 represents that of Guimaras power plant.
- Net trading cost of ₱67.6 million was reported in the second quarter of 2010 as compared with ₱28.7 million net trading revenues in the same period last year. The higher cost of power purchased per kilowatt hour in 2010 resulted in negative gross margin for the energy trading business of the Company.
- Interest and other financial income decreased to ₱11.7 million from ₱18.2 million due to lower fair value of investments held for trading and lower interest rates.
- Dividend income dropped from ₱12.9 million to ₱65 thousand as a result of cash dividend declared by Atlas Holdings Corporation in the second quarter of 2009.
- Other income increased to ₱1.7 million from ₱0.5 million due to additional lease contracts entered into by the Company, where the Company is the lessor.
- The increase in the Company's share in generation revenues of a joint venture to ₱219.9 million from ₱165.2 million was brought by higher power rates and energy sales.
- The Company's share in other income of a joint venture of ₱0.2 million was reported in the second quarter of 2010 as compared with ₱0.8 million Company's share in other expenses of a joint venture in the same period last year. This was principally due to interest expenses incurred by the joint venture in 2009.

Consolidated costs and expenses amounted to ₱326.1 million in the second quarter of 2010 while these amounted only to ₱253.3 million in the same period last year. Following are the material changes in costs and expenses in the Consolidated Income Statements between the second quarters ended June 30, 2010 and 2009:

- Cost of power generation dropped to ₱18.8 million from ₱37.9 million as a result of CIPP's cessation of operations due to Meralco's takeover of its concession agreement on April 11, 2009.
- General and administrative expenses decreased to ₱41.6 million from ₱43.2 million brought about by lower management and professional fees.
- The Company's share in cost of power generation of a joint venture rose to ₱215.0 million from ₱88.1 million as a result of higher energy generated and higher fuel cost.
- The decrease in the Company's share in general and administrative expenses of a joint venture from ₱6.9 million to ₱3.7 million was brought about by lower management and professional fees.
- The Company reported a net loss on its currency forward contracts of ₱12.6 million in the second quarter of 2010 as compared with ₱2.6 net gains in the same period last year. This was due to the depreciation of peso in the second quarter of 2010.

- Interest and other financial charges rose to ₱5.8 million from ₱0.2 million brought about by bidding related expenses incurred in the second quarter of 2010.
- Provision for impairment losses on CIPP generating sets amounting to ₱59.0 million was set-up in the second quarter of 2009.
- The Company had written-off ₱27.5 million of intangible assets in the second quarter of 2009 due to expiration of contracts.
- The Company reported foreign exchange gain of ₱8.4 million arising from its foreign currency denominated financial assets in the second quarter of 2010 which is a complete turnaround from a foreign exchange loss of ₱1.6 million in the same period last year. This was brought about by the depreciation of peso in the second quarter of 2010.
- Equity in net loss of associates of ₱15.2 thousand was reported in the second quarter of 2009.
- Loss on sale of property, plant and equipment of ₱85 thousand was reported in the second quarter of 2010 as compared with ₱7.6 million gain in the same period last year. The disposal of the distribution asset of CIP II resulted in the gain on sale of property, plant and equipment in the second quarter of 2009.
- Gain on sale of available-for-sale investments increased to ₱30.9 thousand from ₱1.3 thousand as a result of higher market value of the said investments in the second quarter of 2010.
- The increase in other income to ₱30.9 million from ₱1.8 million represents the refunds of duties and taxes from the Bureau of Customs arising from the Company's fuel purchases in previous years.

Provision for income tax increased to ₱4.6 million from ₱1.6 million due to higher taxable income in the second quarter of 2010. Benefit from deferred income tax decreased to ₱3.8 million from ₱6.9 million. The latter includes the tax effect of the intangible assets written-off in 2009. The Company's share in income tax of a joint venture amounted to negative ₱33.3 thousand in the second quarter of 2010 as compared to ₱549.6 thousand for the same period last year.

As a consequence of the above-cited factors, a net loss of ₱78.8 million was incurred in the second quarter of 2010 as compared with a net income of ₱11.4 million in the same period last year.

Consolidated revenues declined to ₱499.2 million in the first semester of 2010 from ₱645.5 million in the same period last year. Following are the material changes in revenues in the Consolidated Income Statements between the first semesters ended June 30, 2010 and 2009:

- The drop in generation revenues to ₱26.8 million from ₱130.5 million was due to the cessation of operations of the power generating plant of CIP II Power Corporation (CIPP) beginning April 11, 2009, when Meralco took over the concession agreement with the developer of Carmelray Industrial Park II in Calamba, Laguna. The ₱26.8 million generation revenue in 2010 represents that of Guimaras power plant.
- Net trading cost of ₱116.1 million was reported in the first semester of 2010 as compared with ₱139.8 million net trading revenues in the same period last year. The higher cost of power purchased per kilowatt hour in 2010 resulted in negative gross margin for the energy trading business of the Company.
- Interest and other financial income decreased to ₱30.3 million from ₱32.1 million due to lower fair value of investments held for trading and interest rates.
- Dividend income declined from ₱24.9 million to ₱7.1 million due to lower cash dividends from Atlas Holdings Corporation (AHC), Bacnotan Consolidated Industries, Inc. (BCII) and Phinma Properties Holdings Corporation (PPHC) in the first semester of 2010.
- Other income improved to ₱3.5 million from ₱0.9 million due to additional lease contracts entered into by the Company, where the Company is the lessor.
- The increase in the Company's share in generation revenues of a joint venture to ₱429.7 million from ₱317.2 million was brought by higher power rates and energy sales.

- The Company's share in other income of a joint venture of ₱1.8 million was reported in the first semester of 2010 as compared with ₱0.4 million other expenses in the same period last year. The interest expense incurred in 2009 resulted in other expenses of joint venture.

Consolidated costs and expenses amounted to ₱611.4 million in the first semester of 2010 while these amounted only to ₱433.6 million in the same period last year. Following are the material changes in costs and expenses in the Consolidated Income Statements between the first semesters ended June 30, 2010 and 2009:

- Cost of power generation dropped to ₱38.5 million from ₱109.9 million as a result of CIPP's cessation of operations due to Meralco's takeover of its concession agreement on April 11, 2009.
- General and administrative expenses decreased to ₱79.8 million from ₱89.4 million brought about by lower management and professional fees.
- The Company's share in cost of power generation of a joint venture rose to ₱395.9 million from ₱191.7 million as a result of higher energy generated and fuel cost.
- The slight increase in the Company's share in general and administrative expenses of a joint venture from ₱11.6 million to ₱11.4 million was brought about by higher management and professional fees.
- The Company reported a net loss on its currency forward contracts of ₱9.9 million in the first semester of 2010 as compared with ₱9.3 net gains in the same period last year. This was due to the depreciation of peso in the first semester of 2010.
- Interest and other financial charges rose to ₱6.3 million from ₱0.5 million brought about by bidding related expenses incurred in the first semester of 2010.
- Trade receivables of CIPP amounting to ₱6.7 million was provided with an allowance in the first semester of 2010.
- Provision for impairment losses on CIPP generating sets amounting to ₱59.0 million was set-up in the second quarter of 2009.
- The Company had written-off ₱27.5 million of intangible assets in the second quarter of 2009 due to expiration of contracts.
- The Company incurred foreign exchange loss of ₱1.9 million arising from its foreign currency denominated financial assets in the first semester of 2010 which is a complete turnaround from a foreign exchange gain of ₱9.4 million in the same period last year. This was brought about by the appreciation of peso in the first semester of 2010.
- Equity in net earnings of associates decreased to ₱11.3 thousand from ₱19.9 thousand brought about by lower net income reported by investees.
- Loss on sale of property, plant and equipment of ₱124.5 thousand was reported in the first semester of 2010 as compared with ₱7.6 million gains in the same period last year. The disposal of the distribution asset of CIP II resulted in the gain on sale of property, plant and equipment in the first semester of 2009.
- Gain on sale of available-for-sale investments increased to ₱30.9 thousand from ₱5.2 thousand as a result of higher market value of the said investments in the first semester of 2010.
- Gain on sale of investment in an associate of ₱24.8 million in the first quarter of 2009 was brought about by the sale of the Company's investment in Bacnotan Industrial Park Corporation.
- The increase in other income to ₱55.5 million from ₱5.3 million represents the refunds of duties and taxes from the Bureau of Customs arising from the Company's fuel purchases in previous years.

Provision for income tax decreased to ₱9.8 million from ₱17.8 million due to lower taxable income in the first semester of 2010. Benefit from deferred income tax of ₱4.2 million was reported in the first semester of 2010 as compared with ₱2.9 million provisions for deferred income tax reported in 2009. The latter includes the tax effect of the intangible assets written-off in 2009. Company's share in income tax of a joint venture decreased to ₱558.2 thousand from ₱934.4 thousand on account of lower taxable income.

As a consequence of the above-cited factors, a net loss of ₱118.4 million was incurred in the first semester of 2010 as compared with a net income of ₱190.2 million in the same period last year.

Total consolidated assets decreased slightly to ₱3.2 billion as of June 30, 2010 from ₱3.4 billion as of December 31, 2009. Total consolidated liabilities increased to ₱315.3 million from ₱313.2 million. Equity declined from ₱3.1 billion to ₱2.9 billion.

Following are the material changes in the accounts in the Consolidated Balance Sheets between June 30, 2010 and December 31, 2009:

- Cash and cash equivalents increased to ₱1.3 billion from ₱985.3 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of ₱5 million of December 31, 2009 have original maturities of more than three months but less than one year. These investments were converted to short-term deposits with original maturities of less than three months and formed part of cash and cash equivalents as of June 30, 2010.
- Investments held for trading decreased to ₱466.4 million from ₱810.4 million. The Consolidated Statements of Cash Flows show the details of materials changes in investment held for trading.
- Receivables decreased to ₱99.6 million from ₱157.5 million due to the collection of trade and nontrade receivables.
- The drop in fuel and spare parts from ₱44.9 million to ₱25.6 million was brought about by the disposal of fuel inventory of CIPP in 2010.
- Other current assets rose to ₱85.4 million from ₱24.3 million on account of the Tax Credit Certificate obtained from the Bureau of Customs and increase in deposit receivable.
- The Company's share in current assets of a joint venture rose to ₱257.9 million from ₱198.1 million due to higher level of receivables and fuel and spare parts inventory.
- Property, plant and equipment decreased from ₱426.7 million to ₱413.6 million due to depreciation and disposal in the first semester of 2010.
- Investments in associates rose to ₱18.2 million from ₱0.6 million due to investment in Maibarara Geothermal, Inc.
- Available-for-sale investments increased to ₱212.6 million from ₱205.1 million brought about by the improvement in the fair value of said investments.
- Investment property decreased to ₱88.6 million from ₱92.2 million due to depreciation in the first semester of 2010.
- The increase in intangible assets from ₱71.9 million to ₱88.1 million was due to the Company's payment of cash call to the consortium covering SC 69.
- Other noncurrent assets dropped from ₱127.9 million to ₱0.3 million brought about by the collection of long-term receivable from Phoenix Petroleum Philippines, Inc.
- The Company's share in noncurrent assets of a joint venture declined to ₱193.3 million from ₱235.7 million due to depreciation expenses and collection of long-term receivable.
- Accounts payable and other current liabilities decreased to ₱148.4 million from ₱168.3 million on account of settlement of trade payables in 2010.
- Income and withholding taxes payable fell from ₱39.4 million to ₱7.6 million due to payment of income tax in 2010.
- The Company's share in current liabilities of a joint venture rose to ₱112.7 million from ₱53.3 million brought about by higher level of trade and nontrade payables as of June 30, 2010.

- Pension and other post-employment benefits decreased to ₱5.0 million from ₱6.0 million due to payments of separation and retirement benefits of certain employees.
- Deferred tax liabilities decreased from ₱23.4 million to ₱18.6 million due to the tax effect of the net loss on the currency forward contracts.
- The increase in other noncurrent liabilities from ₱7.8 million to ₱8.0 million was due to the accretion of interest on the asset retirement obligation.
- The increase in unrealized fair value gains on available-for-sale investments to ₱58.7 million from 52.2 million was due to higher market value of the said investments.
- The Company's share in unrealized fair value gains on financial assets of a joint venture increased to ₱9.2 million from ₱9.0 million brought about by the higher market value of the joint venture's financial assets.
- Retained earnings declined to ₱1.1 billion from ₱1.3 billion due to the net loss incurred and the declaration of cash dividend in the first semester of 2010.

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

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

   Current ratio decreased to 7.98:1 as of June 30, 2010 from 8.31:1 as of December 31, 2009 due principally to the decrease in receivables and fuel and spare parts inventory.

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

   The ratio of current assets to total assets increased to 0.68:1 as of June 30, 2010 from 0.66:1 as of December 31, 2009 due to rise in cash and cash equivalents and other current assets.

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

   Debt/equity ratio increased slightly to 0.11:1 as of June 30, 2010 from 0.10:1 as of December 31, 2009 brought about by lower equity as of June 30, 2010.

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

   The rate of return on stockholders' equity is negative 3.97% for the first semester of 2010 as compared to 6.4% for the same period last year due to net loss incurred in the first semester of 2010.

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

   Earnings per share is negative ₱0.07 in the first semester of 2010 as compared with ₱0.11 in the same period last year brought about by the net loss incurred for the first semester of 2010.

During the first semester ended June 30 2010:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- The Company had two (2) reportable segments namely: petroleum and mining exploration and power business. The fund placements are incidental to the Company's petroleum and mining 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 except for the 25% interest investment in Maibarara Geothermal, Inc.
- 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.

<u>Annex "B-1"</u>

PROGRESS REPORT
For the Quarter, April 1, 2010 to June 30, 2010

OIL PRODUCTION

SC 14 B-1 North Matinloc (Northwest Palawan)

Oil production continued at the North Matinloc - 2 well. As of June 30, 2010, cumulative production from the field, since resumption of operations in February 2009, reached some 43,554 barrels.

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

OIL EXPLORATION

SC 51 (East Visayas)

Preparations continued for the planned exploratory drilling in offshore Argao, Cebu in the fourth quarter of 2010.

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

SC 55 (Ultra Deepwater West Palawan)

Processing of 1,822 sq. km. 3D seismic data acquired in March 2010 and 600 sq. km. 3D seismic data recorded in December 2009 progressed in Houston and Perth, respectively.

The Department of Energy approved the consortium's request for one-year extension of the current 3rd exploration sub-phase to May 5, 2011.

Trans-Asia signed an Option Agreement with Frontier Gasfields Pty. Ltd. of Australia on June 3, 2010 which grants the latter the option to acquire the 5% interest that Trans-Asia has the option to acquire from NorAsian Energy, after the drilling of the first well in the block.

Trans-Asia holds 15% participating interest in SC 55.

SC 69 (Camotes Sea)

Processing of 891 km 2D seismic data progressed in Perth.

Trans-Asia signed a Farm-In Option Agreement with Frontier Gasfields Pty. Ltd. of Australia on June 3, 2010 which grants the latter the option to acquire 15% out the 30% participating interest of Trans-Asia in SC 69.

GEOTHERMAL

Trans-Asia signed a Joint Venture Agreement with PetroGreen Energy Corporation and PNOC Renewables Corporation on May 19, 2010 for the development of the Maibarara geothermal field for power generation. Trans-Asia will have 25% equity participation in Maibarara Geothermal, Inc. (MGI), the proposed Joint Venture company. PetroEnergy Resources Corporation, parent company of PetroGreen and Maibarara service contractor, shall assign the service contract to MGI following the latter's incorporation, subject to DOE approval.

MINERALS

MPSA 252-2007-V Camarines Norte

The Office of the President denied Trans-Asia's Appeal for reversal of the DENR's decision excising portions of the MPSA covered by alleged patents of a third party.

Trans-Asia filed a timely Motion for Reconsideration.

Certified Correct:

RAYMUNDO A. REYES, JR.
Geologist No. 716
PRC License Valid to Feb. 5, 2011
PTR No. 2141251
Issued on January 31, 2010
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, 2010 covered by this report:

Date of Filing	Items Reported
April 5, 2010	Please be informed that the Service Contract No. 69 consortium completed on 1 April 2010 a 2D seismic survey in the Camotes Sea, pursuant to its work obligation under the current Exploration Sub-Phase. A total of 891 km of seismic data was recorded. Digital processing of the data will follow. Trans-Asia has 30% participating interest in Service Contract No. 69.
April 19, 2010	Please be informed that at the just-concluded regular meeting of the Board of Trans-Asia Oil and Energy Development Corporation held today, April 19, 2010, the following actions were taken: 1. The cash dividend of ₱0.04 per share declared on March 24, 2010 was made payable on May 28, 2010 to all shareholders of record as of May 3, 2010. 2. The election of Ms. Bennette Daplas-Bachoco as Senior Vice-President/Finance vice Senior Vice-President/Finance Ponciano L. Dimayuga effective May 1, 2010.
April 20, 2010	Please be informed that the Department of Energy approved the consortium's request for one-year extension of the term of the current exploration Sub-Phase 3 until 5 August 2011. The extension period will allow the consortium to complete a supplemental 1,800 sq. km. seismic program. Trans-Asia has 15% participating interest in Service Contract No. 55.
May 19, 2010	Please be informed that Trans-Asia signed today a Joint Venture Agreement with PetroGreen Energy Corporation and PNOC Renewables Corporation, for the integrated development and operation of the Maibarara Geothermal Project in Batangas and

Laguna. The aforementioned companies agreed to organize Maibarara Geothermal, Inc. (MGI) capitalized at Philippine Pesos 1.125 billion with the following shareholding interests: Trans-Asia, 25%; PetroGreen, 65% and PNOC RC, 10%. The Department of Energy awarded the Maibarara geothermal service contract to PetroEnergy Resources Corporation, parent company of PetroGreen, on 1February 2010. PetroEnergy will assign said service contract to MGI, subject to DOE approval.

MGI aims to develop the Maibarara steamfield located at the western flank of Mount Makiling and commission the first 20MW power plant by the second half of 2013. Total project cost may reach Philippine Pesos 2.8 billion.

During the first two years of the service contract, MGI will undertake at a total estimated cost of US $ 12-18 million, information and education campaigns, environmental permitting, road rehabilitation, work-over and discharge tests of old wells, drilling of up to 2 wells (if necessary), detailed engineering studies and initial civil works for the steamfield and power plant.

May 25, 2010

This refers to your Department's letter of 24 May 2010 requesting additional information pertaining to Trans-Asia's signing of a Joint Venture Agreement ("JVA") with PetroGreen Energy Corporation ("PGEC") and PNOC Renewables Corporation ("PRC"), which we disclosed on 19 May 2010.

Under the JVA, Trans-Asia, PGEC and PRC agreed a joint venture company to be named Maibarara Geothermal, Inc. ("MGI") that will have the following equity interests: Trans-Asia, 25%; PetroGreen, 65% and PNOC RC, 10%. The authorized capital stock of MGI at the time of incorporation shall be ₱1.125 billion divided into 11.25 million with par value of ₱100 per share. The initial capital contribution of Trans-Asia, PGEC and PRC shall be ₱17.58 million, ₱45.70 million and ₱7.03 million, respectively. Within thirty (30) days of the date of execution of the JVA, Trans-Asia, PGEC and PRC shall commence the establishment of MGI.

Following incorporation of MGI, PGEC shall cause its parent company, PetroEnergy Resources Corporation ("PERC") to assign to MGI the Maibarara Geothermal Renewable Energy Service Contract No. 2010-02-012 ("Service Contract") that was awarded to PERC on 1 February 2010. PGEC is a wholly-owned subsidiary of PERC. There are no materials relationships among Trans-Asia, PGEC and PRC, their directors, officers and affiliates.

Trans-Asia' investment in MGI will not have a significant effect on its financial condition, considering that Trans-Asia's investment in MGI is limited to a minimum of the ₱17.58

million initial capital contribution or up to a maximum of ₱70.32 million of subscribed capital in MGI.

The assignment of the Service Contract is subject to the approval of the Department of Energy. Upon approval of said assignment, MGI shall assume all the rights, commitments and obligations of PERC under the Service Contract.

June 3, 2010	Please be informed that Trans-Asia signed today the following agreements with Frontier Gasfields Pty. Ltd. ("Frontier"), an Australian company: 1. Option Agreement in relation to the petroleum Service Contract dated August 5, 2005 ("SC 55"), and 2. Farm-In Option Agreement in relation to the petroleum Service Contract dated May 7, 2008 ("SC 69"). The Option Agreement relating to SC 55 grants Frontier the option to acquire from Trans-Asia a five percent (5%) participating interest in SC 55, that may be acquired by Trans-Asia, from its current SC 55 partner by virtue of a separate agreement. Said option may be exercised by Frontier within one hundred fifty (50) days from completion of drilling operations on the first exploratory well under SC 55. The Farm-In Option Agreement relating to SC 69, on the other hand, grants Frontier the option to acquire a fifteen percent (15%) participating interest from Trans-Asia in SC 69. This option may be exercised by Frontier within one hundred and eighty two (182) days from the date of payment of the option fee, but in no case later than the expiry date of the current Sub-Phase of SC 69. Trans-Asia has fifteen percent (15%) participating interest and thirty percent (30%) participating interest in SC 55 and SC 69, respectively.
June 22, 2010	We are furnishing you herewith a copy of the letter dated June 22, 2010 of Trans-Asia Oil and Energy Development Corporation addressed to the Securities and Exchange Commission in compliance to their requirement to show cause for the non submission of the Company's Revised Manual on Corporate Governance on or before April 14, 2010 pursuant to the Revised Code of Corporate Governance. The letter read as follows: We refer to your letter dated June 11, 2010 which we received on June 21, 2010 calling our attention to our failure to submit the company's Revised Manual on Corporate Governance on or before April 14, 2010 "pursuant to the Revised Code on

Corporate Governance (SEC Memorandum Circular No. 6 Series of 2009).

Your records will show that our corporation had submitted its Revised Manual on Good Corporate Governance as early as January 18, 2008.

While SEC Memorandum Circular No. 6 expressly took effect on July 25, 2009, by express provision of Article 9 of the same Circular, and we quote:

"x x x corporations that have earlier submitted their manual may, at their option, continue to use the said manual as long as it complies with the provisions of this Code."

Considering (i) that SEC Memorandum Circular No. 6 prescribing a Revised Code of Corporate Governance with effectivity on July 15, 2009 is in the nature of an administrative edict having the binding force of law upon all covered corporations who this bound to a strict compliance therewith; and (ii) that there was, and is, nothing in our existing Manual which contradicts anything in your Revised Code of Corporate Governance, our corporation did not deem itself obliged to make any further submission to the SEC pursuant to the above-quoted provision of SEC Memorandum Circular No. 6.