COVER SHEET

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S.E.C. Registration Number

TRANS-ASIA OIL AND ENERGY
DEVELOPMENT CORPORATION

(Company's Full Name)

LEVEL 11 PHINMA PLAZA 39 PLAZA
DRIVE ROCKWELL CENTER MAKATI

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

ATTY. JUAN J. DIAZ
Contact Person

870-0100
Company Telephone Number

12 31
Month Day
Fiscal Year

17-Q
FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

3286
Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

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, 2012**

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 1210

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 **2,830,005,632 shares**
Amount of debt outstanding as of June 30, 2012 **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 13, 2012.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

Raymundo A. Reyes Jr

RAYMUNDO A. REYES, JR.
Senior Vice President – Oil and Gas

MARIEJO P. BAUTISTA
Vice-President - Controller

ANNEX A

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Interim Financial Statements
June 30, 2012 and December 31, 2011
And For the First Semester Ended June 30, 2012 and 2011

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30 2012	December 31 2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 29)	**₱687,300,421**	₱874,437,195
Investments held for trading (Notes 7 and 29)	**623,050,500**	871,184,403
Receivables (Notes 8, 26, 28 and 29)	**807,486,099**	457,409,183
Fuel and spare parts - at cost	**104,158,224**	71,614,701
Assets held for sale (Note 9)	**64,162,713**	64,570,166
Other current assets (Note 29)	**67,796,458**	47,309,078
Company's share in current assets of joint ventures (Note 13)	**706,455,381**	585,134,829
Total Current Assets	**3,060,409,796**	2,971,659,555
Noncurrent Assets		
Property, plant and equipment (Note 9)	**564,563,450**	482,053,999
Investments in associates (Note 10)	**130,510,026**	119,660,358
Available-for-sale investments (Notes 11 and 29)	**199,190,602**	205,386,573
Investment properties (Note 12)	**20,119,515**	21,099,821
Deferred exploration costs (Note 14)	**103,532,235**	98,685,691
Deferred income tax assets - net (Note 25)	**6,648,802**	11,289,840
Other noncurrent assets (Note 10)	**16,998,345**	331,678
Company's share in noncurrent assets of joint ventures (Note 13)	**1,403,027,718**	1,357,798,844
Total Noncurrent Assets	**2,444,590,693**	2,296,306,804
TOTAL ASSETS	**₱5,505,000,489**	₱5,267,966,359

	June 30 2012	December 31 2011
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 15, 26 and 29)	**₱582,764,543**	₱479,168,831
Due to stockholders (Notes 26 and 29)	**9,051,193**	7,932,125
Income and withholding taxes payable	**78,814,774**	77,784,346
Company's share in current liabilities of joint ventures (Note 13)	**137,055,328**	104,085,505
Total Current Liabilities	**807,685,838**	668,970,807
Noncurrent Liabilities		
Pension and other post-employment benefits	**14,123,219**	13,190,076
Deferred income tax liabilities - net (Note 25)	**–**	–
Other noncurrent liabilities (Notes 29)	**7,160,682**	7,129,993
Company's share in noncurrent liabilities of joint ventures (Note 13)	**7,994,313**	7,283,968
Total Noncurrent Liabilities	**29,278,214**	27,604,037
Total Liabilities	**836,964,052**	696,574,844

(Forward)

	June 30 2012	December 31 2011
Equity		
Capital stock (Note 16)	**₱2,830,005,632**	₱2,829,863,527
Additional paid-in capital (Note 16)	**42,821,420**	42,821,420
Unrealized fair value gains on available-for-sale investments (Note 11)	**67,225,875**	74,174,480
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture	**9,845,060**	13,635,665
Other equity reserve (Note 13)	**30,540,000**	30,540,000
Retained earnings (Note 16)	**1,694,929,160**	1,587,687,133
Parent Company shares of stock held by a joint venture (Note 13)	**(7,330,710)**	(7,330,710)
Total Equity	**4,668,036,437**	4,571,391,515
TOTAL LIABILITIES AND EQUITY	**₱5,505,000,489**	₱5,267,966,359

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	April - June	April June	First Semester Ended June 30	
	2012	2011	**2012**	2011
REVENUES				
Generation revenue (Note 1)	**₱19,612,487**	₱15,876,736	**₱36,273,569**	₱27,778,605
Trading income - net (Notes 1 and 18)	**313,010,870**	64,614,522	**352,738,713**	63,505,346
Interest and other financial income (Notes 7 and 29)	**10,252,202**	15,987,315	**26,739,218**	16,420,497
Dividend income	**4,590,980**	776,737	**5,681,369**	14,262,666
Rental income (Note 12)	**1,109,163**	1,978,280	**2,254,785**	3,148,298
Company's share in revenue of a joint venture (Note 13):				
Sale of electricity	**174,543,865**	189,095,779	**343,386,122**	341,285,049
Other income	**2,465,621**	920,220	**5,017,468**	2,762,601
	525,585,188	289,249,589	**772,091,244**	469,163,062
COSTS AND EXPENSES				
Cost of electricity sold (Notes 19, 22, 23 and 26)	**15,358,561**	13,092,862	**29,782,581**	22,409,682
Cost of power plant on standby (Notes 1, 9, 20, 22, and 23)	**15,631,622**	8,454,463	**26,828,924**	15,900,003
General and administrative expenses (Notes 21, 22, 23 and 26)	**59,587,513**	67,053,128	**113,520,530**	118,508,013
Company's share in costs and expenses of a joint venture (Note 13):				
Cost of electricity sold	**192,688,222**	86,251,729	**258,778,392**	128,575,015
General and administrative expenses	**9,986,795**	6,893,495	**27,288,386**	12,565,221
Other expense				
	293,252,713	181,745,677	**456,198,813**	297,957,934
OTHER INCOME (Note 24)	**33,039,784**	3,430,645	**17,017,631**	4,020,980
INCOME BEFORE INCOME TAX	**265,372,259**	110,934,557	**332,910,062**	175,226,108
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)				
Current	**81,021,525**	30,705,571	**108,901,304**	42,037,009
Deferred	**6,437,367**	(2,412,175)	**3,979,146**	2,996,297
Company's share in income tax of a joint venture (Note 13)	**(754,100)**	261,901	**(406,956)**	527,108
	86,694,792	28,555,297	**112,473,494**	45,560,414
NET INCOME	**₱178,677,467**	₱82,379,260	**₱220,436,568**	₱129,665,694
Basic/Diluted Earnings Per Share (Note 27)			**₱0.08**	₱0.08

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	April - June	April - June	First Semester Ended June 30	
	2012	2011	**2012**	2011
NET INCOME FOR THE PERIOD	**₱178,677,467**	₱82,379,260	**₱220,436,568**	₱129,665,694
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized fair value gains (loss) on available-for-sale investments - net of deferred income tax (Note 11)	**(6,622,252)**	4,708,370	**(6,948,605)**	10,829,680
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture - net of deferred income tax	**(2,995,534)**	1,379,669	**(3,790,605)**	2,976,783
Other comprehensive income	**(9,617,786)**	6,088,039	**(10,739,210)**	13,806,463
TOTAL COMPREHENSIVE INCOME	**₱169,059,681**	₱88,467,299	**₱209,697,358**	₱143,472,157

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FIRST SEMESTER ENDED JUNE 30, 2012 AND 2011

	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)	Other Equity Reserve (Note 13)	Retained Earnings (Note 16)	Parent Company Shares of Stock Held by a Joint Venture (Note 13)	Total
BALANCES AT DECEMBER 31, 2011	**₱2,829,863,527**	**₱42,821,420**	**₱74,174,480**	**₱13,635,665**	**₱30,540,000**	**₱1,587,687,133**	**(₱7,330,710)**	**₱4,571,391,515**
Net income for the year	–	–	–		–	220,436,568	–	220,436,568
Other comprehensive income (loss)	–	–	(6,948,605)	(3,790,605)	–	–	–	(10,739,210)
Total comprehensive income (loss) for the year	–	–	(6,948,605)	(3,790,605)	–	220,436,568	–	209,697,358
Cash dividends - ₱0.04 per share	–	–	–	–	–	(113,194,541)	–	(113,194,541)
Issuance of stocks	142,105	–	–	–	–	–	–	142,105
	142,105	–	–	–	–	(113,194,541)	–	(113,052,436)
BALANCES AT JUNE 30, 2012	**₱2,830,005,632**	**₱42,821,420**	**₱67,225,875**	**₱9,845,060**	**₱30,540,000**	**₱1,694,929,160**	**(₱7,330,710)**	**₱4,668,036,437**
BALANCES AT DECEMBER 31, 2010	**₱1,664,625,604**	**₱54,693,308**	**₱71,834,093**	**₱13,185,776**	**₱–**	**₱1,246,055,049**	**(₱3,923,869)**	**₱3,046,469,961**
Net income for the year	–	–	–	–	–	129,665,694	–	129,665,694
Other comprehensive income	–	–	10,829,680	2,976,783	–	–	–	13,806,463
Total comprehensive income for the year	–	–	10,829,680	2,976,783	–	129,665,694	–	143,472,157
Cash dividends - ₱0.04 per share	–	–	–	–	–	(66,585,025)	–	(66,585,025)
Issuance of stocks from stock rights offering net of direct costs of ₱11.9 million	1,165,237,923	(11,871,888)	–	–	–	–	–	1,153,366,035
Increase in parent company shares held by joint ventures	–	–	–	–	–	–	(3,406,841)	(3,406,841)
	1,165,237,923	(11,871,888)	–	–	–	(66,585,025)	(3,406,841)	1,083,374,169
BALANCES AT JUNE 30, 2011	**₱2,829,863,527**	**₱42,821,420**	**₱82,663,773**	**₱16,162,559**	**₱–**	**₱1,309,135,718**	**(₱7,330,710)**	**₱4,273,316,287**

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	First Semester Ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱332,910,062**	₱175,226,108
Adjustments for:		
Company's share in loss (income) before income tax of joint ventures (Note 13)	**20,949,631**	(3,805,972)
Interest and other financial income (Note 29)	**(26,739,218)**	(16,420,497)
Depreciation and amortization (Note 23)	**22,923,499**	28,229,007
Loss (gain) on derivatives - net (Note 29)	**(4,522,100)**	(4,813,750)
Dividend income	**(5,681,369)**	(14,262,666)
Unrealized foreign exchange loss – net	**13,627,638**	6,328,452
Loss (gain) on sale of:		
Interest in service contract	**–**	(4,048,828)
Available-for-sale investments	**(58,911)**	1,898,371
Property and equipment (Note 24)	**(61,885)**	–
Option fee	**(31,629,019)**	–
Equity in net losses (earnings) of associate (Notes 10 and 24)	**2,975,332**	3,806,647
Operating income before working capital changes	**324,693,660**	172,136,872
Decrease (increase) in:		
Receivables	**(325,233,880)**	(319,666,362)
Fuel and spare parts	**(32,543,523)**	(20,079,045)
Other current assets	**(16,685,339)**	(69,925,099)
Increase in accounts payable and other current liabilities	**172,724,972**	152,024,679
Net cash generated from (used in) operations	**122,955,889**	(85,508,955)
Interest received	**15,532,451**	22,502,800
Income taxes paid	**(106,541,789)**	(9,395,259)
Company's share in net cash flows provided by (used in) operating activities of joint ventures	**(62,312,225)**	28,224,143
Net cash flows used in operating activities	**(30,365,674)**	(44,177,271)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	**(1,631,728,413)**	(1,120,051,462)
Investment in associates (Note 10)	**(13,825,000)**	(31,250,000)
Property and equipment (Note 9)	**(103,910,464)**	(19,786,674)
Deferred exploration costs (Note 14)	**(16,320,026)**	(1,753,628)
Available-for-sale investments	**(519,544)**	(31,222,148)

(Forward)

	First Semester Ended June 30	
	2012	2011
Proceeds from:		
Sale and redemption of investments held for trading	**₱1,885,802,546**	₱1,208,313,635
Settlement of currency forward contracts (Note 29)	**(3,027,200)**	10,791,500
Termination of short-term investments	**–**	–
Sale of property and equipment (Note 9)	**1,066,034**	–
Sale of available-for-sale investments	**487,822**	31,397,350
Sale of interest in service contract	**–**	12,012,859
Option fee	**43,102,500**	–
Decrease (increase) in other noncurrent assets	**(16,666,667)**	–
Cash dividends received	**5,681,369**	14,262,666
Company's share in net cash flows provided by (used in) investing activities of joint ventures	**(85,610,611)**	1,049,996
Net cash flows provided by investing activities	**64,532,346**	73,764,094
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	**142,105**	1,153,366,035
Payment of cash dividends	**(113,194,541)**	(66,585,024)
Increase (decrease) in due to stockholders	**1,119,067**	(10,703)
Increase (decrease) in other noncurrent liabilities	**778,920**	1,881,753
Net cash flows provided by (used in) financing activities	**(111,154,449)**	1,088,652,061
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
Effect of foreign exchange rate changes on cash and cash equivalents of venturer	**(7,571,834)**	(6,838,377)
Company's share in effect of foreign exchange rate changes on cash and cash equivalents of joint ventures	**–**	–
Net effect of foreign exchange rate changes on cash and cash equivalents	**(7,571,834)**	(6,838,377)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURES	**(84,559,611)**	1,111,400,507
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**1,277,787,249**	1,001,556,552
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,193,227,638**	₱2,112,957,059

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

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 (TAREC), 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 supply, 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 renewal of the Company's certificate of registration as a Wholesale Aggregator was issued on December 19, 2011 renewable every five (5) years, and the renewal of its Retail Electricity Supplier's (RES) license was issued on December 14, 2009, renewable every three years. 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.

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, CIPP sold its distribution assets to Manila Electric Company (MERALCO) resulting in the cessation of CIPP's operations (see Notes 9 and 20). Substantially all of its employees were separated effective January 31, 2010. On February 22, 2010 and March 24, 2010, the Board of Directors (BOD) and stockholders, respectively, of the Parent Company approved the proposed merger of the Parent Company and CIPP subject to the approval by the SEC. In December 2010, CIPP's BOD approved the transfer of its 21 MW bunker C-fire power plant from Laguna to La Union (see Note 9). As of June 30, 2012, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

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.

TAREC and Karang Besar have not yet started commercial operations.

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.

On June 29, 2011, the Parent Company entered into a 50-50 joint venture agreement with AC Energy Holdings, Inc. (AC Energy) to form South Luzon Thermal Energy Corporation (SLTEC), the primary purpose of which is to generate, supply and sell electricity to the public through the operation of a 135 MW coal fired power plant. SLTEC was incorporated on July 29, 2011.

The Parent Company has 50% interest in ACTA Power Corporation (ACTA), a company engaged in the business of owning, developing, constructing, operating and maintaining power generation facilities as well as to generate and sell electricity. ACTA was incorporated on February 9, 2012.

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 BOD on July 23, 2012.

2. Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its wholly-owned subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. 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 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 ventures, TA Power, SLTEC and ACTA, are included as a separate line item in the consolidated financial statements based on the account grouping (see Note 13).

3. Changes in Accounting Policies and Disclosures

Current Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Philippine Financial Reporting Standards (PFRS) and Philippine Interpretations which were adopted as of 1 January 2012.

PAS 12, *Income Taxes* - *Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

PFRS 7, *Financial Instruments: Disclosures* - *Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

PAS 1, *Financial Statement Presentation* - *Presentation of Items of Other Comprehensive Income*

The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

PAS 19, *Employee Benefits (Amendment)*

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 27, *Separate Financial Statements (as revised in 2011)*

As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The

Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 7*, Financial instruments: Disclosures* - *Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation* - *Special Purpose Entities*. It establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Company. This is due to the change in accounting for the Company's interests in TA Power and SLTEC (see Note 13) from

proportionate consolidation to equity accounting for these investments. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31, *Interests in Joint Ventures* and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

PAS 32, *Financial Instruments: Presentation* **-** *Offsetting Financial Assets and Financial Liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Company is currently assessing impact of the amendments to PAS 32.

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 the data used 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
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 and other financial income or charges are recorded when earned or incurred, 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, 2012 and December 31, 2011, 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. A financial asset or financial liability is classified under this category when any of the following criteria is met:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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 and other financial income or charges are recorded when earned or incurred, respectively, while dividend income is recorded when the right to receive payment has been established.

As of June 30, 2012 and December 31, 2011, 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 Notes 7 and 29).

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, 2012 and December 31, 2011, the Company's derivative assets are classified as financial assets at FVPL (see Note 29).

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, 2012 and December 31, 2011, the Company's cash and cash equivalents and receivables are classified as loans and receivables (see Notes 6, 8 and 29).

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, 2012 and December 31, 2011, 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, 2012 and December 31, 2011, the Company's investments in listed and unlisted equity securities and golf club shares are classified as AFS investments (see Notes 11 and 29).

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, 2012 and December 31, 2011, the Company's accounts payable and other current liabilities, due to stockholders and other noncurrent liabilities are classified as other financial liabilities (see Notes 15, 26 and 29).

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

Assets carried at amortized cost
If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans 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, past due status and term.

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired or have been transferred;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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 amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

Offsetting Financial Instruments

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

Fuel and Spare Parts

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

Assets Held for Sale

Noncurrent assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, Plant and Equipment

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

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

Interests in Joint Ventures

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

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

Investment 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) area. Under this method, all exploration costs relating to each SC 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 acquisition method. 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.

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 the consolidated statement of income 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.

<u>Additional Paid-in Capital</u>
Additional paid-in capital represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

<u>Retained Earnings</u>
Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income, net of any dividend declaration.

<u>Revenue</u>
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.

<u>Costs and Expenses</u>
Costs and expenses are recognized when incurred.

<u>Pensions and Other Post-Employment Benefits</u>
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 were fully vested as of January 1, 2005. There were no stock options granted after November 7, 2002 which remained unvested as of January 1, 2005.

Stock option grants subsequent to January 1, 2005 are accounted for in accordance with PFRS 2, that is, the cost of stock option awards are measured by reference to the fair value at the date on which they are granted. The cost of such awards is 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 is 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 charge or credit to the consolidated statement of income 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.

<u>Borrowing Costs</u>
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 financial 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. Nonfinancial items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Nonfinancial 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 to consolidated financial statements 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. 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 leases
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 (see Note 28). The Company has evaluated the arrangements and the terms of the ESA and determined that the agreements do not qualify as leases. Accordingly, fees billed to Guimelco and Holcim are recognized as operating revenues.

Under the Power Administration and Management Agreement between TA Oil and One Subic Power Generation Corporation (One Subic Power), TA Oil will administer and manage the entire generation output of the 116 MW diesel power plant in Subic (see Note 28). The Company has evaluated that the Company does not have control over the asset and that the arrangements and the terms of the agreement does not contain a lease.

The Company also has various lease agreements for the lease of its investment property. The Company has 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 of the Company and the leases are classified as operating leases.

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 29.

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 ₱2.23 billion and ₱2.37 billion as of June 30, 2012 and December 31, 2011, respectively, while fair values of the Company's financial liabilities amounted to ₱479.41 million and ₱441.24 million as of June 30, 2012 and December 31, 2011, respectively (see Note 29).

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 amounted to ₱807.49 million as of June 30, 2012 and ₱457.41 million as of December 31, 2011 (see Note 8).

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 profit 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.

As of June 30, 2012 and December 31, 2011, deferred income tax assets recognized by the Company amounted to ₱44.97 million and ₱42.16 million, respectively. 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 amounted to ₱195.21 million and ₱206.41 million as of June 30, 2012 and December 31, 2011, respectively (see Note 25).

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 amounted to ₱564.56 million and ₱482.05 million as of June 30, 2012 and December 31, 2011, respectively (see Note 9). The carrying value of investment properties amounted to ₱20.12 million and ₱21.10 million as of June 30, 2012 and December 31, 2011, 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 loss 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 (DENR). In 2011, the Company reversed the provision for impairment loss amounting to ₱11.47 million since the management believes that it will be able to recover its costs based on the deed of assignment that TA Oil executed with a third party.

The carrying value of deferred exploration costs amounted to ₱103.53 million and ₱98.69 million as of June 30, 2012 and December 31, 2011, respectively (see Note 14).

Impairment of property, plant and equipment 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. In 2010, the Company reversed a portion of the impairment provision covering the property, plant and equipment of CIPP amounting to ₱20.32 million based on their fair value less costs to sell (as presented as part of "Other income (expenses)" in the consolidated statement of income). Property, plant and equipment with carrying value of ₱14.25 million were directly written-off and charged in the consolidated income statement of income in 2011. The carrying value of property, plant and equipment as of June 30, 2012 and December 31, 2011 amounted to ₱564.56 million and ₱482.05 million, respectively (see Note 9). The carrying value of investment properties amounted to ₱20.12 million and ₱21.10 million as of June 30, 2012 and December 31, 2011, respectively (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 impairment loss was deemed necessary in the first semester of 2012 and 2011. Accumulated impairment loss amounted to ₱1.56 million as of June 30, 2012 and December 31, 2011. The carrying value of investments in associates amounted to ₱130.51 million and ₱119.66 million as of June 30, 2012 and December 31, 2011, 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. In 2010, the Company provided for impairment loss on its investment in unlisted shares of stock amounting to ₱22.59 million. No impairment loss was deemed necessary in the first semester of 2012 and in 2011. The carrying value of AFS investments amounted to ₱199.19 million and ₱205.39 million as of June 30, 2012 and December 31, 2011 (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 Note 26 to the consolidated financial statements include among others, discount rates, expected rates of 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. Pension and other post-employment benefits liability amounted to ₱14.12 million and ₱13.19 million as of June 30, 2012 and December 31, 2011, respectively.

6. Cash and Cash Equivalents

	June 2012	December 2011
Cash on hand and in banks	**₱4,616,216**	₱36,493,764
Short-term deposits	**682,684,205**	837,943,431
	₱687,300,421	₱874,437,195

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:

	June 2012	December 2011
Cash and cash equivalents of venturer	**₱687,300,421**	₱874,437,195
Share in cash and cash equivalents of joint ventures (Note 13)	**505,927,217**	403,350,054
	₱1,193,227,638	₱1,277,787,249

7. Investments Held for Trading

	June 2012	December 2011
Investments in bonds and FXTNs	**₱211,607,381**	₱219,339,074
Investments in UITFs	**411,443,119**	651,845,329
	₱623,050,500	₱871,184,403

The Company's unrealized 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 ₱4.99 million and ₱13.89 million in the first semester of 2012 and 2011, respectively (see Note 29).

8. Receivables

	June 2012	December 2011
Trade (Note 29)	**₱690,136,981**	₱330,018,115
Due from related parties (Notes 26 and 28)	**24,837,806**	86,704,136
Others (Notes 10 and 14)	**102,523,449**	50,699,069
	817,498,236	467,421,320
Less allowance for doubtful accounts	**10,012,137**	10,012,137
	₱807,486,099	₱457,409,183

Trade receivables are noninterest-bearing and are generally on a 30-day credit term.

Other receivables include amount due from a third party for the assignment of tax credit certificate amounting to ₱26.84 million as of June 30, 2012 and ₱39.81 million December 31, 2011 and interest receivable amounting to ₱3.88 million and ₱5.27 million as of June 30, 2012 and December 31, 2011, respectively.

The Parent Company extended a loan to Udenna Energy Corporation (UdEC)/One Subic Power Generation Corporation (One Subic) with face value amounting to ₱100 million with interest of 6.564% per annum and a monthly amortization of ₱5.56 million beginning April 2012 up to September 2013. The monthly amortization and interest will be offset against the monthly energy fees under the Power Administration and Management Agreement (PAMA) between One Subic and TA Oil. The remaining outstanding balance of the loan becomes due and demandable upon the occurrence of the following:

a) Sale of the power plant or any major component thereof;
b) A sale, transfer, exchange, swap or assignment of the shares of UdEC or One Subic that results in a new person or entity acquiring, whether directly or indirectly, 50% or more of the outstanding capital stock of UdEC or One Subic;
c) A reorganization, merger, or consolidation, involving UdEC or One Subic; or
d) The sale or disposition of all or substantially all of the assets of UdEC or One Subic.

The outstanding balance of the loan receivable as of June 30, 2012 is ₱83.33 million. The amount due within the next twelve months after the first semester of 2012 is ₱66.67 million. The noncurrent portion of the loan receivable amounting to ₱16.67 million is included as part of "Other noncurrent assets" account in the consolidated balance sheet as of June 30, 2012.

The aging analysis of past due but not impaired receivables is as follows:

	June 30, 2012						
		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	**₱690,137**	**₱546,101**	**₱4,643**	**₱13,819**	**₱666**	**₱118,190**	**₱6,718**
Due from related parties	**24,838**	**24,838**	**–**	**–**	**–**	**–**	**–**
Others	**102,523**	**98,631**	**101**	**–**	**2**	**495**	**3,294**
	₱817,498	**₱669,570**	**₱4,744**	**₱13,819**	**₱668**	**₱118,685**	**₱10,012**

	December 31, 2011						
		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	₱330,018	₱227,562	₱51,608	₱3,453	₱1,334	₱39,343	₱6,718
Due from related parties	86,704	85,567	–	–	–	1,137	–
Others	50,699	46,978	–	–	–	427	3,294
	₱467,421	₱360,107	₱51,608	₱3,453	₱1,334	₱40,907	₱10,012

There was no movement in allowance for doubtful accounts in 2011 and in the first semester of 2012.

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	Construction In Progress	Total
Cost									
At January 1, 2011	₱57,983,000	₱173,473,350	₱497,231,531	₱20,346,661	₱17,626,353	₱25,271,178	₱29,080,392	₱9,133,537	₱830,146,022
Additions	10,800,000	1,603,918	112,622,234	–	5,698,265	1,821,693	625,758	14,594,570	147,766,438
Disposals	–	–	–	–	(2,166,473)	(13,718)	(303,574)	(21,765,994)	(24,249,759)
Written-off	–	(4,119,521)	(25,042,531)	–	–	–	–	–	(29,162,052)
Reclassification	–	–	–	–	–	1,962,113	–	(1,962,113)	–
Transfer to assets held for sale	(57,983,000)	–	(14,558,179)	–	–	–	–	–	(72,541,179)
At December 31, 2011	10,800,000	170,957,747	570,253,055	20,346,661	21,158,145	29,041,266	29,402,576	–	851,959,450
Additions	–	305,412	100,904,942	–	765,123	618,643	1,316,344	–	103,910,464
Disposals	–	–	–	–	(6,319,369)	–	(198,351)	–	(6,517,720)
At June 30, 2012	**10,800,000**	**171,263,159**	**671,157,996**	**20,346,661**	**15,603,898**	**29,659,909**	**30,520,570**	**–**	**949,352,194**
Accumulated Depreciation, Amortization, Depletion and Impairment									
At January 1, 2011	₱–	₱56,448,294	₱223,409,772	₱20,346,661	₱4,054,806	₱10,325,990	₱26,284,083	₱–	₱340,869,606
Depreciation (Note 23)	–	11,230,724	26,219,198	–	8,583,158	4,969,620	2,583,139	–	53,585,839
Disposals	–	–	–	–	(1,438,847)	(4,278)	(220,604)	–	(1,663,729)
Written-off	–	(1,554,206)	(13,361,046)	–	–	–	–	–	(14,915,252)
Transfer to assets held for sale	–	–	(7,971,013)	–	–	–	–	–	(7,971,013)
At December 31, 2011	–	66,124,812	228,296,911	20,346,661	11,199,117	15,291,332	28,646,618	–	369,905,452
Depreciation (Note 23)	–	5,698,846	12,074,031	–	379,076	1,942,351	302,558	–	20,396,863
Disposals	–	–	–	–	(5,317,511)	–	(196,059)	–	(5,513,570)
At June 30, 2012	**–**	**71,823,658**	**240,370,942**	**20,346,661**	**6,260,682**	**17,233,683**	**28,753,117**	**–**	**384,788,745**
Net Book Value									
At January 1, 2011	₱57,983,000	₱117,025,056	₱273,821,759	₱–	₱13,571,547	₱14,945,188	₱2,796,309	₱9,133,537	₱489,276,396
At December 31, 2011	10,800,000	104,832,935	341,956,144	–	9,959,028	13,749,934	755,958	–	482,053,999
At June 30, 2012	**10,800,000**	**99,439,501**	**430,787,054**	**–**	**9,343,216**	**12,426,226**	**1,767,453**	**–**	**564,563,450**

In 2009, CIPP sold its distribution assets to MERALCO. Total consideration amounted to ₱62.0 million while total gain on sale recognized in the consolidated statement of income amounted to ₱7.28 million. The depreciation and related maintenance cost of the power plant of CIPP beginning April 12, 2009 are presented as part of "Cost of Power Plant on Standby" account in the consolidated statements of income (see Note 20).

In 2010, the Company received an offer for the purchase of certain assets of CIPP. This event triggered the review of impairment and the reversal of a portion of impairment provision. The fair value less costs to sell of the assets was determined based on the quoted price from a willing third party buyer and supplier. The Company accordingly reversed a portion of the impairment provision covering the property, plant and equipment of CIPP amounting to ₱20.32 million in 2010 based on their fair value less costs to sell.

In December 2010, CIPP's board of directors approved the transfer of its 21 MW bunker C-fired power plant from Laguna to La Union. As of December 31, 2011, the Company has substantially completed the transfer of CIPP's power plant. Certain assets not included in the transfer and the administration building with a net book value of ₱14.25 million were written-off in 2011.

Also, in 2011, CIPP entered into an agreement with a third party for the sale of its land and certain assets previously used in its Laguna operations. Since these assets are available for sale in their present condition and the sale is highly probable, management accordingly reclassified these assets from property, plant and equipment to assets held for sale in the Company's 2011 consolidated balance sheet.

10. Investments in Associates

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

	Percentage of Ownership	**June 2012**	December 2011
Maibarara Geothermal, Inc.(MGI)	25.00	**₱129,878,997**	₱119,029,329
Asia Coal Corporation (Asia Coal)*	28.18	**631,029**	631,029
Union Aggregates Corporation (UAC)**	31.25	**–**	–
		₱130,510,026	₱119,660,358

* *Shortened corporate life to October 31, 2009.*
** *Ceased operations. Fully provided with impairment loss.*

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

	June 2012	December 2011
Acquisition costs:		
Balance at beginning of year	**₱156,385,073**	₱69,313,038
Addition	**13,825,000**	87,072,035
Balance at end of year	**170,210,073**	156,385,073
Accumulated equity in net losses:		
Balance at beginning of year	**(35,165,464)**	(27,933,712)
Equity in net losses for the year (Note 24)	**(2,975,332)**	(7,231,752)
Balance at end of year	**(38,140,796)**	(35,165,464)
	132,069,277	121,219,609
Less accumulated impairment losses	**1,559,251**	1,559,251
	₱130,510,026	₱119,660,358

Maibarara Geothermal, Inc. (MGI)

The Company subscribed to 25% of the capital stock of MGI which was incorporated and registered with the SEC on August 11, 2010, to implement the integration development of the Maibarara geothermal field in Calamba, Laguna and Sto. Tomas, Batangas for power generation.

The details of the net assets of MGI are shown below:

	June 2012	December 2011
Current assets	**₱525,947,794**	₱385,540,999
Noncurrent assets	**1,062,024,755**	716,369,458
Total Assets	**1,587,972,549**	1,101,910,457
Current liabilities	**(55,284,368)**	(25,793,138)
Noncurrent liabilities	**(1,004,300,581)**	(600,000,000)
Net Assets	**₱528,387,600**	₱476,117,319

The results of operations of MGI for the first semester of 2012 and 2011 are shown below:

	2012	2011
Interest income	**₱3,879,914**	₱635,954
General and administrative expenses	**(15,781,241)**	(15,862,540)
Net loss	**(₱11,901,327)**	(₱15,226,586)

As of December 31, 2011, third party validation of resource assessment was completed by a New Zealand consulting company. The study indicated that there is a 90% probability that the proven field reserves could support a power plant with 28 MW or higher capacity for 25 years.

On September 16, 2011, the Company entered into an ESA with MGI under which the Company will purchase the entire net electricity output of MGI's power plant for a period of 20 years at an agreed price, subject to certain adjustments.

The Company is also a Project Sponsor for MGI's ₱2.4 billion Term Loan Facility for the Maibarara Geothermal Power Plant. In the event of a default of MGI, as a Project Sponsor, the Company is obligated to:

a. assign, mortgage or pledge all its right, title and/or interest in and its shares of stocks in MGI, including those that may be issued in the name of the Company
b. assign its rights and/or interests in the Joint Venture Agreement
c. provide Project Sponsor's support for the completion of the project under such terms and conditions that may be agreed upon by the Company and the lenders.

Asia Coal

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. As of June 30, 2012, Asia Coal is still in the process of securing a tax clearance with the BIR in connection with the filing with the SEC of its application for dissolution.

The net assets of Asia Coal as of October 31, 2009 are as follows:

Current assets	₱2,358,801
Noncurrent asset	14,700
Total Assets	2,373,501
Current liability	133,701
Net Assets	₱2,239,800

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.

Bacnotan Industrial Park Corporation (BIPC)

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.

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. Under the Contract, 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 (subsequently amended to extend until November 18, 2010) (the option exercise date) by giving written notice to BIPC and paying a certain amount. On November 18, 2010, TA Oil exercised the option to purchase the properties and paid the option price of ₱31.26 million which shall be credited along with the initial downpayment of ₱15.63 million to the total purchase price of ₱333.83 million. These amounts are included as part of "Other noncurrent assets" account in the 2010 consolidated balance sheet.

In 2011, SLTEC has decided to purchase the said properties and as such, TA Oil was refunded the entire amount of option price and downpayment totaling ₱46.89 million.

11. Available-for-sale Investments

	June 2012	December 2011
Shares of stock:		
Listed	**₱85,209,982**	₱97,965,953
Unlisted	**77,040,620**	77,040,620
Golf club shares	**36,940,000**	30,380,000
	₱199,190,602	₱205,386,573

AFS investments are stated at fair value as of June 30, 2012 and December 31, 2011, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Loss from change in fair value recognized as other comprehensive income amounted to ₱6.95 million, net of deferred income tax of ₱0.66 million in the first semester of 2012. Gain from change in fair value recognized as other comprehensive income amounted to ₱10.83 million, net of deferred income tax of ₱0.03 million in the first semester of 2011.

12. **Investment Properties**

	June 2012	December 2011
Cost		
Balance at beginning of year	**₱28,133,288**	₱28,133,288
Transfer to owner-occupied property (Note 9)	**–**	–
Balance at end of year	**28,133,288**	28,133,288
Less accumulated depreciation		
Balance at beginning of the year	**7,033,467**	5,072,857
Depreciation (Note 23)	**980,306**	1,960,610
Balance at end of year	**8,013,773**	7,033,467
	₱20,119,515	₱21,099,821

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 ₱35.8 million as of June 30, 2012 and December 31, 2011. 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 in the first semester of 2012 and 2011 amounted to ₱1.25 million and ₱1.19 million, respectively, recognized in the consolidated statements of income, while related direct costs and expenses incurred in the first semester of 2012 and 2011 amounted to ₱1.20 million and ₱0.73 million, respectively, included as part of "General and administrative expenses" (see Note 21).

13. **Interests in Joint Ventures**

<u>TA Power</u>

The Company's proportionate share in assets and liabilities of TA Power as of June 30, 2012 and December 31, 2011 before elimination of intercompany transactions and balances are as follows:

	June 2012	December 2011
Current assets	**₱393,694,770**	₱388,007,458
Noncurrent assets*	**71,463,347**	106,781,621
	465,158,116	494,789,079
Current liabilities	**(142,685,205)**	(164,443,121)
Noncurrent liabilities	**(7,994,313)**	(7,283,968)
	(150,679,518)	(171,727,089)
Net assets	**₱314,478,598**	₱323,061,990

* *Net of investment in shares of stock of the Parent Company of ₱7.3 million in June 30, 2011 and December 31, 2011.*

The Company's proportionate share in the revenue and expenses of TA Power for the first semester ended June 30, 2012 and 2011 before elimination of intercompany transactions are as follows:

	2012	2011
Revenue	**₱464,905,551**	₱157,464,824
Cost of power generation	**(462,366,686)**	(150,891,520)
General and administrative expenses	**(12,537,629)**	(6,172,898)
Other income – net	**4,054,384**	2,009,995
Income before income tax	**(5,944,380)**	2,410,401
Benefit from (provision for) income tax	**(406,956)**	(265,207)
Net income (loss)	**(₱5,537,424)**	₱2,145,194

Details of the Company's share in the current and noncurrent assets and current and noncurrent liabilities of TA Power as of June 30, 2012 and December 31, 2011, after elimination of intercompany balances, are as follows:

	June 2012	December 2011
Current assets:		
Cash and cash equivalents	**₱133,194,844**	₱171,809,456
Investment in trading securities	**–**	–
Trade and other receivables	**80,893,687**	90,479,137
Fuel and spares - at cost	**60,298,587**	46,959,130
Prepaid expenses and other current assets	**53,288,238**	44,192,296
	₱327,675,356	₱353,440,019
Noncurrent assets:		
Property, plant and equipment – net	**₱39,388,092**	₱71,660,399
Available-for-sale investments	**28,878,780**	32,669,386
Other noncurrent assets	**433,200**	433,200
	₱68,700,072	₱104,762,985
Current liabilities:		
Trade and other payables	**₱117,913,572**	₱77,851,120
Noncurrent liabilities:		
Deferred income tax liabilities - net (Note 25)	**₱1,912,997**	₱2,588,577
Provisions	**2,500,000**	2,500,000
Other noncurrent liabilities	**3,581,316**	2,195,391
	₱7,994,313	₱7,283,968

Details of the Company's share in the cost of power generation and general and administrative expenses of TA Power for the first semester ended June 30, 2012 and 2011, after elimination of intercompany transactions, are as follows:

	2012	2011
Cost of power generation:		
Fuel	**₱139,905,285**	₱80,123,716
Power purchased	**60,412,909**	5,190
Depreciation and amortization	**32,031,398**	32,001,130
Repairs and maintenance	**9,966,220**	1,455,376
Labor	**6,591,434**	6,045,924
Taxes and licenses	**5,064,832**	5,184,279
Insurance	**2,107,950**	2,105,468
Security, janitorial and professional fees	**586,156**	610,849
Others	**2,112,208**	1,043,083
	₱258,778,392	₱128,575,015
General and administrative expenses:		
Management and professional fees	**₱4,294,541**	₱5,480,206
Salaries and directors' fees	**3,207,628**	2,834,287
Taxes and licenses	**1,031,690**	1,067,687
Employee benefits	**509,204**	131,197
Depreciation and amortization	**139,240**	89,325
Transportation and travel	**136,761**	185,351
Entertainment, amusement & recreation	**2,705**	2,382
Others	**2,350,087**	2,774,786
	₱11,671,856	₱12,565,221

<u>SLTEC</u>

The Company's proportionate share in the assets and liabilities of SLTEC as of June 30, 2012 and December 31, 2011 before elimination of intercompany transactions and balances are as follows:

	June 2012	December 2011
Current assets	**₱378,703,036**	₱231,694,809
Noncurrent assets	**1,334,622,485**	1,253,330,700
Total Assets	**1,713,325,521**	1,485,025,509
Current liabilities	**(19,136,740)**	(26,259,504)
Net assets	**₱1,694,188,781**	₱1,458,766,005

The Company's proportionate share in the net loss of SLTEC for the first semester ended June 30, 2012 before elimination of intercompany transactions are as follows:

General and administrative expenses	(₱15,797,722)
Other income - net	1,220,498
Net loss	(₱14,577,224)

Details of the Company's share in the current and noncurrent assets and current and noncurrent liabilities of SLTEC as of June 30, 2012 and December 31, 2011, after elimination of intercompany balances, are as follows:

	June 2012	December 2011
Current assets:		
Cash and cash equivalents	**₱372,673,206**	₱231,540,598
Trade and other receivables	**–**	91,859
Prepaid expenses and other current assets	**6,029,831**	62,353
	₱378,703,037	₱231,694,810
Noncurrent assets:		
Property, plant and equipment – net	**₱1,204,810,320**	₱1,123,003,241
Input taxes	**85,138,640**	82,608,148
Intangible assets	**44,378,686**	4,755,935
Other noncurrent assets	**–**	42,668,535
	₱1,334,327,646	₱1,253,035,859
Current liabilities:		
Trade and other payables	**₱19,136,741**	₱26,157,068
Due to related parties	**–**	77,317
	₱19,136,741	₱26,234,385

Details of the Company's share in the general and administrative expenses of SLTEC for the first semester ended June 30, 2012, after elimination of intercompany transactions, are as follows:

General and administrative expenses:	
Taxes and licenses	₱9,082,905
Salaries and directors' fees	3,130,964
Management and professional fees	1,480,736
Depreciation and amortization	302,994
Transportation and travel	230,347
Employee benefits	208,639
Entertainment, amusement & recreation	9,342
Others	742,447
	₱15,188,374

In accordance with the Joint Venture Agreement, AC Energy made an additional investment in SLTEC amounting to ₱61.08 million. The Company's share in the additional investment made by AC Energy amounting to ₱30.54 million was recorded as "Other equity reserve" in the June 30, 2012 and December 31, 2011 consolidated statement of changes in equity.

On October 29, 2011, SLTEC signed the Omnibus Loan and Security Agreement with its local third party creditor banks with the Parent Company and AC Energy as Project Sponsors. Under the terms of the Agreement, the Parent Company shall:

- enter into supply agreements with end users sufficient to cover such capacity required by SLTEC to break-even for two years, within 18 months from first drawdown. The consequence of failure is a draw-stop, which means SLTEC will not be able to draw on the loan;
- commit to provide advances to SLTEC in proportion to the Company's equity interest in SLTEC to fund the project cost of the SLTEC power plant project;
- guarantee jointly with AC Energy to redeem the loan in the event that SLTEC defaults on the loan, and lenders are not able to consolidate title to the project site because title to the properties have not been issued; and
- pledge its shares in SLTEC as security, and assign its offtake contracts to the lenders sufficient cover such capacity required by SLTEC to break-even.

ACTA

The Company's proportionate share in the assets and liabilities of ACTA as of June 30, 2012 before elimination of intercompany transactions and balances are as follows:

Current assets	₱76,988
Noncurrent assets	–
Total Assets	76,988
Current liabilities	(5,015)
Net assets	₱71,973

The Company's proportionate share in the net loss of ACTA for the first semester ended June 30, 2012 before elimination of intercompany transactions are as follows:

General and administrative expenses	(₱428,157)
Other income - net	130
Net loss	(₱428,027)

Details of the Company's share in the current assets and current liabilities of ACTA as of June 30, 2012, after elimination of intercompany balances, are as follows:

Current assets:	
Cash and cash equivalents	₱59,168
Trade and other receivables	7,500
Prepaid expenses and other current assets	10,320
	₱76,988
Current liabilities:	
Trade and other payables	₱5,015
Due to related parties	–
	₱5,015

Details of the Company's share in the general and administrative expenses of ACTA for the first semester ended June 30, 2012, after elimination of intercompany transactions, are as follows:

General and administrative expenses:	
Management and professional fees	₱235,475
Taxes and licenses	6,482
Transportation and travel	89,974
Others	96,226
	₱428,157

14. **Deferred Exploration Costs**

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs
Cost			
At January 1, 2011	₱86,695,115	₱11,473,481	₱98,168,596
Additions	8,481,126	–	8,481,126
Disposals	(7,964,031)	–	(7,964,031)
At December 31, 2011	87,212,210	11,473,481	98,685,691
Additions	16,320,025	–	16,320,025
Disposals	–	(11,473,481)	(11,473,481)
At June 30, 2012	**103,532,235**	–	**103,532,235**
Allowance for impairment loss and amortization			
At January 1, 2011	–	11,473,481	11,473,481
Reversal of impairment	–	(11,473,481)	(11,473,481)
At December 31, 2011	–	–	–
Reversal of impairment	–	–	–
At June 30, 2012	–	–	–
Net book value			
At January 1, 2011	₱86,695,115	₱–	₱86,695,115
At December 31, 2011	87,212,210	11,473,481	98,685,691
At June 30, 2012	**103,532,235**	–	**103,532,235**

Deferred Oil and Mineral Exploration Costs

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

	June 2012	December 2011
SC No. 51(Cebu Strait/Northwest Leyte)	**₱32,665,864**	₱32,665,864
SC No. 69 (Camotes)	**35,051,405**	29,450,023
SC No. 6 (Northwest Palawan)	**19,118,688**	19,383,113
SC No. 52 Cagayan Province	**10,983,068**	–
SC No. 55 (Offshore West Palawan)	**5,713,210**	5,713,210
	₱103,532,235	₱87,212,210

The foregoing deferred oil exploration costs represent the Company’s share in the expenditures incurred under Petroleum SCs with the Philippine Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Operating agreements govern the relationship among co-contractors and the conduct of operations under a service contract.

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

15. **Accounts Payable and Other Current Liabilities**

	June 2012	December 2011
Trade and nontrade accounts payable	**₱375,272,988**	₱336,995,499
Output tax - net	**112,548,294**	47,336,507
Due to related parties (Note 26)	**78,174,308**	63,740,910
Accrued directors' and annual incentives (Note 26)	**13,328,271**	26,012,094
Deferred rent income	**1,467,706**	199,688
Accrued expenses	**1,185,848**	385,657
Derivative liabilities (Note 29)	–	3,741,300
Others	**787,128**	757,176
	₱582,764,543	₱479,168,831

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 2012	December 2011
Authorized capital stock - ₱1 par value	**4,200,000,000**	4,200,000,000
Issued and outstanding:		
Balance at beginning of year	**2,829,863,527**	1,664,625,604
Issuance during the year (Note 17)	**142,105**	1,165,237,923
Balance at end of year	**2,830,005,632**	2,829,863,527

The issued and outstanding shares as of June 30, 2012 and December 31, 2011 are held by 3,286 and 3,313 equity holders, respectively.

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 (SRO), 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 (RE) 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.

On November 16, 2009, in a special stockholders' meeting, the Company's stockholders approved the increase in the Company's authorized capital stock from ₱2.0 billion divided into 2 billion shares, to ₱4.2 billion divided into 4.2 billion shares which shall be funded by a stock rights offering. On March 30, 2011, the SEC approved the stock rights offering of 1.165 billion shares of the Parent Company at the rate of seven shares for every 10 shares held as of record date of May 18, 2011, at a price of ₱1 per share. The offer period commenced on May 30, 2011 and ended on June 3, 2011. Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.15 billion. The proceeds were used to partially finance its equity investment in SLTEC and MGI.

On February 10, 2012, the Company's BOD approved the increase in the authorized capital sock subject to the approval of the shareholders and SEC from ₱4.2 billion divided into 4.2 billion shares with par value of ₱1 per share to ₱8.4 billion divided into 8.4 billion shares with a par value of ₱1 per share. The said increase in authorized capital stock shall be funded by a stock rights offering, the terms and conditions of which, including the final issue size, rights entitlement, offer price and record date shall be determined by the board of directors. As of June 30, 2012, the Company is in the process of finalizing the terms and conditions of the SRO to be submitted to SEC.

The Company's retained earnings balance amounted to ₱1.69 billion and ₱1.59 billion as of June 30, 2012 and December 31, 2011, respectively, while paid-up capital is ₱2.87 billion as of June 30, 2012 and December 31, 2011. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱128.46 million and ₱151.9 million as of June 30, 2012 and December 31, 2011, respectively, are not currently available for dividend distribution.

Dividends declared and paid in 2012, 2011 and 2010 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 24, 2010	Cash	0.04 per share	66,585,025	May 3, 2010
March 21, 2011	Cash	0.04 per share	66,585,025	April 11, 2011
February 16, 2012	Cash	0.04 per share	113,194,541	March 1, 2012

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 and 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 suspended the implementation of the Stock Option Plan. The Committee also decided to implement the Company’s Stock Grant for its executives which resulted in the issuance of 0.14 million shares in the first quarter of 2012. No stock grants have been granted and awarded to any of the executives of the Company in 2011.

As of June 30, 2012, no stock options have been granted and awarded to any of the directors, officers and employees of the Company.

18. Trading Revenue

	First Semester Ended June 30	
	2012	2011
Trading revenue	**₱1,522,548,835**	₱707,811,330
Cost of power purchased	**1,169,810,122**	644,305,984
	₱352,738,713	₱63,505,346

19. **Cost of Power Generation**

	First Semester Ended June 30	
	2012	2011
Fuel	**₱19,174,124**	₱12,002,111
Labor (Note 22)	**2,603,558**	2,314,117
Depreciation and amortization (Note 23)	**2,915,293**	2,893,350
Repairs and maintenance	**1,940,571**	2,016,966
Taxes and licenses	**725,509**	761,979
Employee benefits (Note 22)	**520,566**	497,757
Insurance	**335,877**	344,761
Rental	**284,210**	277,895
Concession and other fees	**21,033**	11,170
Others	**1,261,840**	1,289,576
	₱29,782,581	₱22,409,682

20. **Cost of Power Plant on Standby**

	First Semester Ended June 30	
	2012	2011
Depreciation and amortization (Note 23)	**₱10,265,461**	₱11,257,540
Building maintenance and repairs	**6,348,528**	1,274,544
Fuel	**4,340,542**	–
Labor (Note 22)	**2,260,350**	541,268
Taxes and licenses	**428,465**	757,448
Employee benefits (Note 22)	**427,439**	90,353
Concession and other fees	**312,200**	156,100
Insurance	**111,861**	516,087
Rental	**111,197**	–
Others	**2,222,881**	1,306,664
	₱26,828,924	₱15,900,003

21. **General and Administrative Expenses**

	First Semester Ended June 30	
	2012	2011
Salaries and directors' fees (Notes 22 and 26)	**₱31,106,698**	₱28,514,102
Management and professional fees (Note 26)	**37,909,601**	42,752,305
Taxes and licenses	**12,931,247**	5,869,255
Depreciation and amortization (Note 23)	**9,742,745**	14,078,118
Building maintenance and repairs	**5,812,845**	5,811,666
Pension (Note 22)	**3,192,745**	981,183
Donation and contribution	**2,583,375**	206,550
Insurance, dues and subscriptions	**2,322,496**	3,557,480
Employee benefits (Note 22)	**2,157,472**	3,904,877
Transportation and travel	**1,536,347**	1,704,340
Office supplies	**1,080,361**	1,189,578

(Forward)

	2012	2011
Rent	**244,876**	195,129
Entertainment, amusement and recreation	**90,962**	255,320
Others	**2,808,760**	9,488,110
	₱113,520,530	₱118,508,013

22. Personnel Expenses

	First Semester Ended June 30	
	2012	2011
Salaries and directors' fees included under:		
Cost of power generation	**₱2,603,558**	₱2,314,117
Cost of power plant on standby	**2,260,350**	541,268
General and administrative expenses	**31,106,698**	28,514,102
Pension included under general and Administrative expenses	**3,192,745**	981,183
Employee benefits included under:		
Cost of power generation	**520,566**	497,757
Cost of power plant on standby	**427,439**	90,353
General and administrative expenses	**2,157,472**	3,904,877
	₱42,268,828	₱36,843,657

23. Depreciation and Amortization

	First Semester Ended June 30	
	2012	2011
Depreciation expense of property, plant and equipment and investment properties included under (Notes 9 and 12):		
Cost of power generation	**₱2,915,293**	₱2,893,349
Cost of power plant on standby	**10,265,461**	11,257,540
General and administrative expenses	**9,742,745**	14,078,118
	₱22,923,499	₱28,229,007

24. **Other Income**

	First Semester Ended June 30	
	2012	2011
Gain on derivatives – net (Note 29)	**₱4,522,100**	₱4,813,750
Foreign exchange loss – net	**(16,565,368)**	(5,702,534)
Gain (loss) on sale of:		
Interest in service contract	**–**	4,048,828
Available-for-sale investments	**58,911**	(1,898,371)
Property and equipment (Note 9)	**61,885**	–
Inventories	**–**	1,442,838
Option fee	**31,629,019**	–
Equity in net earnings (losses) of associate (Note 10)	**(2,975,332)**	(3,806,646)
Others	**286,416**	5,123,117
	₱17,017,631	₱4,020,980

25. **Income Tax**

a. Current income tax pertains to the following:

	First Semester Ended June 30	
	2012	2011
RCIT	**₱108,901,304**	₱42,037,009
MCIT	**–**	–
	₱108,901,304	₱42,037,009

The components of the Company's net deferred income tax assets (liabilities) as of June 30, 2012 and December 31, 2011 are as follows:

	June 2012	December 2011
Deferred income tax assets:		
Unrealized foreign exchange losses	**₱23,513,389**	₱20,655,109
NOLCO	**12,142,920**	12,142,920
Accrued expenses	**4,723,978**	3,957,023
Allowance for impairment loss	**2,013,835**	2,013,835
Asset retirement obligation	**1,665,929**	1,610,455
Derivative liabilities	**–**	1,122,390
Unamortized past service cost	**470,915**	600,358
Deferred rent income	**440,312**	59,906
	44,971,278	42,161,996
Deferred income tax liabilities:		
Excess of fair value over cost of CIPP power plant	**(20,709,333)**	(21,742,271)
Unrealized fair value gains on investment held for trading and derivatives	**(12,704,149)**	(5,133,148)
Unrealized fair value gains on available-for-sale investments	**(3,515,610)**	(2,853,610)
Asset retirement obligation	**(554,400)**	(576,000)
Derivative asset	**(567,019)**	(567,019)
Unrealized foreign exchange gain	**(271,965)**	(108)
	(38,322,476)	(30,872,156)
Deferred income tax assets (liabilities) - net	**₱6,648,802**	₱11,289,840

The details of the Company's share in net deferred income tax assets (liabilities) of joint ventures as of June 30, 2012 and December 31, 2011 follow:

	June 2012	December 2011
Deferred income tax assets on:		
Past service costs and accrued retirement	**₱170,533**	₱310,060
Unrealized foreign exchange losses	**31,698**	63,386
NOLCO	**–**	–
	202,231	373,446
Deferred income tax liabilities on:		
Capitalized unrealized foreign exchange gains	**(1,987,892)**	(2,720,366)
Pension asset	**(71,478)**	(129,960)
Derivative asset	**(39,057)**	(78,114)
Unrealized MTM gains on derivatives	**(16,801)**	(33,583)
	(2,115,228)	(2,962,023)
Deferred income tax assets (liabilities) - net	**(₱1,912,997)**	(₱2,588,577)

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

	June 2012	December 2011
Allowance for impairment loss	**₱111,724,333**	₱111,724,332
NOLCO	**73,583,649**	78,732,411
Allowance for probable losses	**3,096,747**	8,271,931
Allowance for doubtful accounts	**6,718,483**	6,718,483
Unrealized fair value loss on investment held for trading	**18,831**	893,326
Unrealized foreign exchange losses	**34,710**	38,203
MCIT	**35,028**	35,028

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

As of June 30, 2012, NOLCO totaling ₱114.06 million can be claimed as deduction from regular taxable income and MCIT amounting to ₱0.03 million can be credited against future RCIT due as follows:

Expiry Date	MCIT	NOLCO
December 31, 2012	₱–	₱12,710,524
December 31, 2013	34,180	17,974,467
December 31, 2014	848	83,375,059
	₱35,028	₱114,060,050

NOLCO amounting to ₱5.26 million was applied against taxable income in the first semester of 2012. NOLCO amounting to ₱25.47 million was applied against taxable income in 2011. MCIT amounting to ₱2.63 million was applied against RCIT in 2011. NOLCO amounting to ₱11.82 million expired in 2011.

26. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individual or corporate entities.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the first semester ended June 30, 2012 and year ended December 31, 2011, the Company has not recorded any impairment of receivables from receivables owed by the related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In the ordinary course of business, the Company transacts with its related parties. The transactions and balances of accounts with related parties are as follows:

a. Receivable from related parties (amounts in thousands):

	June 2012	December 2011
Joint ventures:		
Trans-Asia Power Generation Corp (TA Power)	**₱24,771**	₱86,592
South Luzon Thermal Energy Corp. (SLTEC)	**–**	25
	24,771	86,617
Other related parties:		
Phinma, Inc.	**66**	87
	66	87
	₱24,837	₱86,704

i. Receivables from TA Power are primarily trade receivables. The Parent Company sold electricity to TA Power.
ii. Receivables from SLTEC are rental income and share in expenses.
iii. Receivables from Phinma, Inc. represents rental income and share in expenses.

b. Payable to related parties (amounts in thousands):

	June 2012	December 2011
Joint ventures:		
Trans-Asia Power Generation Corp (TA Power)	**₱66,022**	₱34,567
South Luzon Thermal Energy Corp. (SLTEC)	**295**	295
	66,317	34,862
Associates:		
Asia Coal Corp.	**254**	254
	254	254
Other related parties:		
Phinma, Inc.	**11,417**	20,996
Phinma Property Holdings Corp. (PPHC)	**171**	171
Phinma Corp.	**15**	7,359
T-O Insurance, Inc.	**–**	99
	11,603	28,625
	₱78,174	₱63,741

i. Payables to TA Power are primarily trade receivables. The Parent Company purchased electricity from TA Power.
ii. Payables to SLTEC are rental deposits.
iii. Payables to Phinma, Inc. are primarily annual incentive based on a certain percentage of the parent Company's net income under the existing management agreement. Also included in the payables are the Parent Company's share in expenses.
iv. Payables to PPHC are share in expenses.
v. Payables to Phinma Corp. are share in expenses.
vi. Payables to T-O Insurance, Inc. are insurance expenses for the plant and various company vehicles.

c. 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 ₱13.33 million and ₱8.01 million in the first semester of 2012 and 2011, respectively. The related unpaid amounts included under the "Accounts payable and other current liabilities" account in the consolidated balance sheets amounted to ₱13.33 million and ₱26.01 million as of June 30, 2012 and December 31, 2011, respectively.

d. Amounts due to stockholders for unclaimed dividends totaled ₱9.05 million and ₱7.93 million as of June 30, 2012 and December 31, 2011, respectively.

e. Income from related parties (amounts in thousands):

	First Semester Ended June 30	
	2012	2011
Joint venture	**₱205,063**	₱240,271
Other related parties	**6,021**	16,364
	₱211,084	₱256,635

Revenue recognized from related parties includes:

i. Electricity sold to TA Power

ii. Cash dividends declared by Phinma Corp., PPHC, Asian Plaza and UGC.
iii. Rental income and share in expenses from TA Power, SLTEC, Phinma Inc. and AB Capital & Investment Corporation (AB Capital).

f. Cost and expenses from related parties (amounts in thousands):

	First Semester Ended June 30	
	2012	2011
Joint venture	**₱121,777**	₱18,670
Other related parties	**19,865**	26,693
	₱141,642	₱45,363

Expenses recognized from related parties include:

i. Cost of power purchased from TA Power.
ii. Share in expenses charged by Phinma, Inc., Phinma Corp. and TA Power.
iii. Insurance expenses charged by T-O Insurance.

27. EPS Computation

	First Semester Ended June 30	
	2012	2011
(a) Net income	**₱220,436,568**	₱129,665,694
Common shares outstanding at beginning of year (Note 16)	**2,829,863,527**	1,664,625,604
Weighted average number of shares issued during the year	**80,422**	57,940,007
(b) Weighted average common shares outstanding	**2,829,943,949**	1,722,565,611
Basic/Diluted EPS (a/b)	**₱0.08**	₱0.08

The Company's stock option has no dilutive effect in the first half of 2012 and 2011. 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.

28. Significant Laws, Commitments and Contracts

Electric Power Industry Reform Act

Republic Act (R.A.) 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.

<u>Electricity Supply Agreement with Guimelco</u>
On November 12, 2003 and July 26, 2004, TA Oil signed an ESA and amendment to the ESA, respectively, with Guimelco, a nonstock, nonprofit cooperative (see Note 1). Under the ESA, TA Oil 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.

<u>Electricity Supply Agreements with Holcim</u>
TA Oil, TA Power and Holcim entered into a memorandum of agreement (as amended on January 12, 2010 and December 20, 2010) with the following provisions:

- TA Power shall supply exclusively the electricity requirements of the Bulacan plant of Holcim at rates equal to the agreed "Time of Use" rates schedule 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 the agreed "Time of Use" schedule 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.

In August 2011, TA Oil, TA Power and Holcim signed an ESA for Holcim's electricity requirements for its La Union and Bulacan plants, valid for 15 years commencing on December 26, 2013.

<u>Power Administration and Management Agreement (PAMA) with One Subic Power</u>

On November 18, 2010, TA Oil and One Subic Power Generation Corporation (One Subic Power, a third party) entered into a Power Administration and Management Agreement (PAMA). Under the terms of the PAMA, TA Oil will administer and manage the entire generation output of the 116 MW diesel power plant in Subic, Olongapo City. TA Oil will be selling or trading the entire capacity of the power plant, while operations will be under One Subic Power for a period of five years commencing on the commercial operation date (the date when the power plant is capable of supplying power to the Grid). TA Oil will pay One Subic Power for all electricity actually delivered by the power plant based on a formula (actual fuel consumption and electricity generated) as set forth in the PAMA and shall be payable monthly. The PAMA became effective on February 17, 2011.

ESA with Batangas II Electric Cooperative, Inc. (BATELEC II)
TA Oil entered into an ESA with BATELEC II on May 4, 2011. Under the said agreement, TA Oil shall meet the electricity requirements of BATELEC II in excess of its existing contracts and bill BATELEC II monthly in accordance with the terms set forth in the agreement. The agreement shall be for a period of six months, with an option to renew for another six months subject to mutual agreement by both parties. The contract with BATELEC II ended in December 2011 and was not renewed.

Contracts of Sale of Electricity with Sorsogon I Electric Cooperative, Inc. (SORECO I) and Quezon I Electric Cooperative, Inc. (QUEZELCO)
On November 11, 2011 and December 8, 2011, TA Oil entered into Contracts of Sale of Electricity with SORECO I and QUEZELCO II, for a period of 12 months and five years, respectively, from December 26, 2011. The contract with QUEZELCO II provides an option to renew the contract for a period mutually agreed by both parties. The contract with SORECO I provides an option to renew for another 12 months subject to mutual agreement by both parties. In accordance with the contract, TA Oil shall supply 90% of QUEZELCO II's and all of SORECO I's electricity requirements on an hourly basis using the market trading node of TA Oil's designated generator.

Contract to Purchase Generated Electricity with Sem-Calaca Power Corporation
On March 26, 2011 the Parent Company entered into a Contract to Purchase Generated Electricity with Sem-Calaca Power Corporation (Sem-Calaca) for a period of 3 years. Under the Contract, the Parent Company agrees to purchase the 15 MW output of Sem-Calaca Power Plant.

Maibarara Geothermal, Inc. (MGI)
As Project Sponsor of the 20 MW Maibarara power plant project, Trans-Asia has provided a pledge on its shares in Maibarara Geothermal Inc, a guarantee to provide additional equity or advances to the Project in case of cost overruns and an assignment to the lenders of the Electricity Supply Agreement with MGI.

Renewable Energy Act of 2008
On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to:

(1) Accelerate the exploration and development of RE resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy;

(2) Increase the utilization of RE by institutionalizing the development of national and local capabilities in the use of RE systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives;
(3) Encourage the development and utilization of RE resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and
(4) Establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, RE developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments, shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent value-added tax (VAT) rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Company expects that the Act may have significant effect on the operating results of TAREC, an RE developer. Impact on the operating results is expected to arise from the effective reduction in taxes.

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

In February 2010, another 10 service contracts representing an additional 123MW of potential wind capacity were again awarded to TAREC by the DOE thus bringing its total potential wind capacity to 350MW as of December 31, 2010.

In 2011, 8 wind energy service contracts which represent 89 MW were applied for relinquishment pending the approval to the DOE due to poor wind resource and complexity of site topography as examined during site survey. Total potential wind capacity would be brought down to 261 MW as of December 31, 2011.

Operating Lease Commitment
The Parent 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 Parent 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, 2012 and December 31, 2011 are as follows:

	June 2012	December 2011
Within one year	**₱480,000**	₱480,000
After one year but not more than five years	**880,000**	1,120,000
	₱1,360,000	₱1,600,000

29. **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 Value		Fair Value	
	2012	2011	**2012**	2011
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱687,300,421**	₱874,437,195	**₱687,300,421**	₱874,437,195
Receivables:				
Trade	**683,419,498**	323,299,633	**683,419,498**	323,299,633
Due from related companies	**24,837,807**	86,704,136	**24,837,807**	86,704,136
Others	**6,079,359**	7,596,306	**6,079,359**	7,596,306
	1,401,637,085	1,292,037,270	**1,401,637,085**	1,292,037,270
Financial assets at FVPL:				
Investments held for trading	**623,050,500**	871,184,403	**623,050,500**	871,184,403
Derivative asset*	**5,698,064**	1,890,064	**5,698,064**	1,890,064
	628,748,564	873,074,467	**628,748,564**	873,074,467
AFS investments:				
Quoted	**122,149,982**	128,345,953	**122,149,982**	128,345,953
Unquoted	**77,040,620**	77,040,620	**77,040,620**	77,040,620
	199,190,602	205,386,573	**199,190,602**	205,386,573
	₱2,229,576,251	₱2,370,498,310	**₱2,229,576,251**	₱2,370,498,310
Financial Liabilities				
Financial liability at FVPL -				
Derivative liabilities**	–	₱3,741,300	–	₱3,741,300
Other financial liabilities				
Accounts payable and other current liabilities***	**468,748,543**	427,891,334	**468,748,543**	427,891,334
Due to stockholders	**9,051,193**	7,932,125	**9,051,193**	7,932,125
Other noncurrent liabilities****	**1,607,586**	1,761,810	**1,607,586**	1,671,455
	479,407,322	437,585,269	**479,407,322**	437,494,914
	₱479,407,322	₱441,326,569	**₱479,407,322**	₱441,236,214

** Presented as part of other current assets.*

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

**** Excludes nonfinancial items amounting to ₱114.02 million and ₱47.54 million as of June 30, 2012 and December 31, 2011, respectively.*

*****Excludes nonfinancial items amounting to ₱5.55 million and ₱5.37 million as of June 30, 2012 and December 31, 2011, respectively.*

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

Cash and cash equivalents, receivables, accounts payable and other current liabilities and due to stockholders

The carrying amounts of cash and cash equivalents, 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.

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 of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Other noncurrent liabilities
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 2.67% in 2011.

Fair Value Hierarchy
As of June 30, 2012 and December 31, 2011, the fair value measurement of the Company's financial assets and liabilities carried at fair value is categorized as follows (in thousands):

	June 2012		
	Level 1	**Level 2**	**Total**
Assets:			
Investments held for trading	**₱411,443**	**₱211,607**	**₱623,050**
AFS investments	**122,150**	**–**	**122,150**
Derivative asset	**–**	**5,698**	**5,698**
Liabilities -			
Derivative liabilities	**–**	**–**	**–**
Total	**₱533,593**	**₱217,305**	**₱750,898**

	December 2011		
	Level 1	Level 2	Total
Assets:			
Investments held for trading	₱651,845	₱219,339	₱871,184
AFS investments	128,346	–	128,346
Derivative asset	–	1,890	1,890
Liabilities -			
Derivative liabilities	–	(3,741)	(3,741)
Total	₱780,191	₱217,488	₱997,679

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. Also, there were no transfers between level 1 and level 2 fair value measurements.

Derivative Assets and Liabilities

Currency forwards

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

The Company has outstanding currency forward contracts with an aggregate notional amount of US$7.00 million and weighted average contracted forward rate of ₱43.525 to US$1.00 as of June 30, 2012, and an aggregate notional amount of US$11.20 million and weighted average contracted forward rate of ₱43.511 to US$1.00 as of December 31, 2011. The net fair value of these currency forward contracts amounted to ₱3.81 million gain and ₱3.74 million loss as of June 30, 2012 and December 31, 2011, 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.

TA Oil's outstanding embedded forwards have an aggregate notional amount of US$2.84 million as of December 31, 2011. The weighted average fixing rate amounted to ₱43.33 to US$1.00 as of December 31, 2011. The net fair value of these embedded derivatives amounted to ₱1.89 million gain as of June 30, 2012 and December 31, 2011.

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

	June 2012	December 2011
Balance at beginning of year	**(₱1,851,236)**	₱3,464,104
Net changes in fair value during the year	**4,522,100**	9,625,976
Fair value of settled contracts	**3,027,200**	(14,941,316)
Balance at end of period	**₱5,698,064**	(₱1,851,236)

The net changes in fair value during the year are included in the "Other income (expenses)" account in the consolidated statements of income.

The fair values of the outstanding derivative assets (liabilities) of the Company as of June 30, 2012 and December 31, 2011 are as follows:

	June 2012	December 2011
Freestanding	**₱3,808,000**	(₱3,741,300)
Embedded	**1,890,064**	1,890,064
	₱5,698,064	(₱1,851,236)

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

Interest and Other Financial Income

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

-

	First Semester Ended June 30	
	2012	2011
Interest income on:		
Cash in bank	**₱54,058**	₱674,360
Short-term deposits and investments	**4,540,954**	11,051,720
Bond	**3,610,449**	2,950,489
FXTN	**3,269,546**	4,423,746
Others	**2,646,241**	141,996
	14,121,248	19,242,311
Net gains (losses) on investments held for trading:		
Amortization of bond premium/discount - net	**(1,656,961)**	(2,882,574)
Gain on redemption/sale of investments held for trading	**19,261,055**	13,953,799
Unrealized gain (loss) from changes in fair value	**(4,986,124)**	(13,893,039)
	12,617,970	(2,821,814)
	₱26,739,218	₱16,420,497

30. Operating Segments

The Company is divided into two reportable operating segments based on the nature of the services provided - 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.

	First Semester Ended June 30, 2012			
	Power	**Petroleum and Mining**	**Adjustments and Eliminations**	**Total**
Revenue	**₱737,241,480**	**₱16,346**	**₱34,833,418**	**₱772,091,244**
Results				
Depreciation & amortization	**15,360,715**	**200,766**	**7,362,018**	**22,923,499**
Segment profit	**₱357,489,521**	**₱27,007,561**	**(₱51,587,020)**	**₱332,910,062**

(Forward)

	First Semester Ended June 30, 2012			
	Power	**Petroleum and Mining**	**Adjustments and Eliminations**	**Total**
Operating assets	**₱3,549,326,016**	**₱286,896,256**	**₱1,668,778,217**	**₱5,505,000,489**
Operating liabilities	**₱678,900,426**	**₱12,385,002**	**₱145,678,624**	**₱836,964,052**
Other disclosure				
Capital expenditure	**₱101,966,509**	**₱1,295,156**	**₱648,799**	**₱103,910,464**

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱31.78 million and ₱3.05 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss, interest and other financial charges and mark to market gain on derivatives amounting to ₱84.64 million. Other expenses, net of other income not included in the profit for operating segment amounted to ₱1.00 million.

3. Segment assets do not include cash and cash equivalents and investments held for trading amounting to ₱1.27 billion, receivables and other current assets totaling ₱79.72 million and other noncurrent assets amounting to ₱326.43 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱152.67 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱6.99 million.

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

	First Semester Ended June 30, 2011			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Revenue	₱436,109,621	₱3,342	₱33,050,099	₱469,163,062
Results				
Depreciation & amortization	19,267,414	175,101	8,786,492	28,229,007
Segment profit	₱219,552,950	₱8,099,959	(₱52,426,801)	₱175,226,108
Operating assets	₱1,523,457,866	₱99,001,553	₱3,154,961,774	₱4,777,421,193
Operating liabilities	₱365,826,111	₱6,860,445	₱131,418,349	₱504,104,905
Other disclosure				
Capital expenditure	₱19,018,156	₱–	₱768,519	₱19,786,675

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱29.58 million and ₱3.47 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss, interest and other financial charges and mark to market gain on derivatives amounting to ₱77.52 million. Other expenses, net of other income, not included in the profit for operating segment amounted to ₱7.95 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱2.70 billion, receivables and other current assets totaling ₱12.39 million and other noncurrent assets amounting to ₱442.79 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱113.99 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱17.43 million.

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

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated revenues almost doubled from ₱289.25 million in the second quarter of 2011 to ₱525.59 million in the second quarter of 2012. Following are the material changes in revenues in the Consolidated Statements of Income between the second quarter of 2012 and 2011:

- Generation revenues increased from ₱15.88 million to ₱19.61 million due to higher energy sold and power rate by Guimaras power plant brought about by the plant's participation in the electricity supply business.
- Net trading income rose to ₱313.01 million in the second quarter of 2012 as compared with ₱64.61 million in the same period last year due to higher power rates coupled with higher energy sales in kWh.
- Interest and other financial income decreased from ₱15.99 million to ₱10.25 million due to lower level of investments and loss from changes in fair value of investments held for trading.
- Dividend income rose from ₱0.78 million to ₱4.59 million. Dividend income for the second quarter of 2012 includes dividends received from Asian Plaza and Phinma Corp.
- Rental income decreased from ₱1.98 million to ₱1.11 million due termination of a lease contract.
- The decrease in the Company's share in generation revenues of a joint venture from ₱189.10 million to ₱174.54 million was brought about by lower energy sales.
- The Company's share in other income of joint ventures increased from ₱0.92 million to ₱2.47 million. The latter includes financial income of South Luzon Thermal Energy Corporation (SLTEC).

Consolidated costs and expenses increased to ₱293.25 million in the second quarter of 2012 from ₱181.75 million in the same period last year. Following are the material changes in costs and expenses in the Consolidated Statements of Income between the second quarter of 2012 and 2011:

- Cost of power generation increased to ₱15.36 million from ₱13.09 million as a result of higher fuel costs.
- Cost of power plant on standby rose from ₱8.45 million to ₱15.63 million due to higher repairs & maintenance and higher fuel costs.
- General and administrative expenses decreased to ₱59.59 million from ₱67.05 million brought about by lower management and professional fees, depreciation and amortization and salaries and directors fees.
- The Company's share in cost of power generation of a joint venture more than doubled from ₱86.25 million to ₱192.69 million as a result of higher fuel costs and repairs and maintenance.
- The increase in the Company's share in general and administrative expenses of joint ventures to ₱9.99 million from ₱6.89 million was brought about by the share in general and administrative expenses of SLTEC which was incorporated on July 29, 2011.

Other income rose to ₱33.04 million in the second quarter of 2012 from ₱3.43 million in the same period last year. Following are the material changes in other income and expenses in the Consolidated Income Statements between second quarter of 2012 and 2011:

- The Company reported a net gain on its currency forward contracts of ₱6.61 million in the second quarter of 2012 as compared with ₱3.17 in the same period last year. This was due to the appreciation of the Peso vis-a-vis the US dollar on the settlement date of the contract in the second quarter of 2012.
- The Company incurred foreign exchange loss of ₱4.19 million from its foreign currency denominated financial assets in the second quarter of 2012 as compared with ₱0.39 million gain in the same period last year. This was brought about by the appreciation of the Peso vis-a-vis the US dollar in the second quarter of 2012.
- Gain on sale of available-for-sale investments decreased from ₱0.04 million to ₱ 0.02 million in the second quarter of 2012 due to lower market value of investments in the second quarter of 2012.
- Gain on sale of property and equipment of ₱2.28 thousand was reported in the second quarter of 2012 for the disposal of fully depreciated office equipment.
- Gain on sale of inventories of ₱1.44 million was earned in the second quarter of 2011. This mainly represents the sale of CIPP's bunker fuel inventory to a third party.
- The Company reported a ₱31.63 million option fee received from a third party related to the Company's Camarines Norte Mineral Production Sharing Agreement (MPSA).
- Equity in net losses of associates decreased from ₱2.22 million to ₱1.75 million in the second quarter of 2012 brought about by lower net losses incurred by investee Maibarara Geothermal, Inc. (MGI), a 25% associate of the Company.
- Other income increased to ₱0.72 million from ₱0.61 million in the second quarter of 2012. Other income consists of miscellaneous income and expenses, the individual components of which are not material in amount and nature.

Provision for income tax in the second quarter of 2012 more than doubled from ₱30.71 million to ₱81.02 million due to higher taxable income. Provision for deferred income tax of ₱6.44 million was reported in the second quarter of 2012 due to use of deferred tax assets as compared with benefit from deferred income tax of ₱2.41 million in the same period last year. Company's share in income tax of a joint venture of amounting to ₱0.26 million was reported in the second quarter of 2011 while benefit from income tax of ₱0.75 million was reported in the second quarter of 2012. Net income in the second quarter of 2012 more than doubled from ₱82.38 million to ₱178.68 million.

For the first semester of 2012, consolidated revenues rose to ₱772.09 million from ₱469.16 million for the same period last year. Following are the material changes in revenues in the Consolidated Statements of Income between the first semester of 2012 and 2011:

- Generation revenues increased from ₱27.78 million to ₱36.27 million due to higher energy sold and power rates by Guimaras power plant brought about by the plant's participation in the electricity supply business beginning March 2011.
- Net trading income rose to ₱352.74 million in the first semester of 2012 as compared with ₱63.51 million in the same period last year due to higher power rates and higher energy sales in kWh.
- Interest and other financial income increased from ₱16.42 million to ₱26.74 million due to gain from changes in fair value of investments held for trading.

- Dividend income fell from ₱14.26 million to ₱5.68 million. Dividend income for the first semester of 2011 includes dividends received from Union Galvasteel Corp. (UGC) and higher cash dividends declared by Asian Plaza.
- Rental income decreased from ₱3.15 million to ₱2.25 million due termination of a lease contract.
- The Company's share in other income of joint ventures increased from ₱2.76 million to ₱5.02 million. The latter includes financial income of SLTEC.

Consolidated costs and expenses increased to ₱456.20 million in the first semester of 2012 from ₱297.96 million in the same period last year. Following are the material changes in costs and expenses in the Consolidated Statements of Income between the first semester of 2012 and 2011:

- Cost of power generation increased to ₱29.78 million from ₱22.41 million as a result of higher energy generated and fuel costs.
- Cost of power plant on standby rose from ₱15.90 million to ₱26.83 million due to higher repairs & maintenance and higher fuel costs.
- General and administrative expenses decreased to ₱113.52 million from ₱118.51 million brought about by lower management and professional fees and depreciation and amortization.
- The Company's share in cost of power generation of a joint venture more than doubled from ₱128.58 million to ₱258.78 million as a result of higher fuel costs, repairs and maintenance and cost of power purchased.
- The increase in the Company's share in general and administrative expenses of joint ventures to ₱27.29 million from ₱12.57 million was brought about by the share in general and administrative expenses of SLTEC which was incorporated on July 29, 2011.

Other income increased to ₱17.02 million in the first semester of 2012 from ₱4.02 million in the same period last year. Following are the material changes in other income and expenses in the Consolidated Income Statements between first semester of 2012 and 2011:

- The Company reported a net gain on its currency forward contracts of ₱4.52 million in the first semester of 2012 as compared with ₱4.81million in the same period last year. This was due to the higher appreciation of the Peso vis-a-vis the US dollar on the settlement date of the contract in the first quarter of 2011.
- The Company incurred foreign exchange loss of ₱16.57 million from its foreign currency denominated financial assets in the first semester of 2012 as compared with ₱5.70 million in the same period last year. This was brought about by the appreciation of the Peso vis-a-vis the US dollar in the first semester of 2012.
- The Company reported a ₱4.05 million gain on sale of interest in SC 69 in the first semester of 2011.
- Gain on sale of available-for-sale investments amounting to ₱0.06 million was reported in the first semester of 2012 as compared with ₱ 1.90 million loss in the same period last year due to lower market value of investments in the first semester of 2011.
- Gain on sale of property and equipment of ₱0.06 million was reported in the first semester of 2012 for the disposal of fully depreciated office equipment.
- Gain on sale of inventories of ₱1.44 million was earned in the second quarter of 2011. This mainly represents the sale of CIPP's bunker fuel inventory to a third party.
- The Company reported a ₱31.63 million option fee received from a third party related to the Company's Camarines Norte MPSA.

- Equity in net losses of associates decreased from ₱3.81 million to ₱2.98 million in the first semester of 2012 brought about by lower net losses incurred by investee MGI.
- Other income fell to ₱0.29 million from ₱5.12 million in the first semester of 2012. Other income consists of miscellaneous income and expenses, the individual components of which are not material in amount and nature.

Provision for income tax in the first semester of 2012 more than doubled from ₱42.04 million to ₱108.90 million due to higher taxable income. Provision for deferred income tax of ₱3.98 million was reported in the first semester of 2012 as compared with ₱3.00 million for the same period last year due to use of deferred tax assets. Company's share in income tax of a joint venture amounting to ₱0.53 million was reported in the first semester of 2011 while benefit from income tax of ₱0.41 million was reported in the first semester of 2012.

As a consequence of the above-cited factors, a net income of ₱220.44 million was reported in the first semester of 2012 as compared with ₱129.67 million in the same period last year.

Total consolidated assets increased to ₱5.51 billion as of June 30, 2012 from ₱5.27 billion as of December 31, 2011. Total consolidated liabilities also increased to ₱836.96 million from ₱696.57 million. Equity increased from ₱4.57 billion to ₱4.67 billion.

Following are the material changes in the accounts in the Consolidated Balance Sheets between June 30, 2012 and December 31, 2011:

- Cash and cash equivalents dropped from ₱874.44 million to ₱687.30 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Investments held for trading fell from ₱871.18 million to ₱623.05 million. The Consolidated Statements of Cash Flows show details of material changes in investments held for trading.
- Receivables went up from ₱457.41 million to ₱807.49 million mainly due to current portion of receivable from Udenna Energy Corporation (UdEC) and increase in trade receivables.
- The increase in fuel and spare parts from ₱71.61 million to ₱104.16 million was brought about by the increase in the quantity of bunker fuel purchased coupled with higher fuel cost per liter. The Company maintains bunker fuel inventories for the Subic power plant under its Power Administration and Management Agreement (PAMA) with One Subic.
- Other current assets increased to ₱67.80 million from ₱47.31 million brought about by the increase in input taxes due to increase in bunker fuel purchased.
- The Company's share in current assets of joint ventures went up from ₱585.13 million to ₱706.46 million due to increase in the current assets of SLTEC and share in current assets of ACTA Power Corporation (ACTA).
- Property, plant and equipment rose from ₱482.05 million to ₱564.56 million due to additional capital expenditures of CIPP's power plant in La Union.
- Investment in associates increased from ₱119.66 million to ₱130.51 million due to additional investment in MGI.
- Available-for-sale investments slightly decreased from ₱205.39 million to ₱199.19 million brought about by lower market value of investments.
- Investment properties went down to ₱20.12 million from ₱21.10 million due to depreciation expense during the period.

- Deferred exploration costs went up from ₱98.69 million to ₱103.53 million due to participation of the Company in Service Contract 52 (Cagayan Province).
- Deferred income tax asset decreased from ₱11.29 million to ₱6.65 million due to deferred tax asset used in the first semester of 2012.
- Other noncurrent assets rose from ₱0.33 million to ₱17.00 million. The latter includes noncurrent portion of receivable from UdEC.
- The increase in Company's share in noncurrent assets of joint venture to ₱1.40 billion from ₱1.36 billion was due to additional capital expenditures of SLTEC.
- The increase in accounts payable and other current liabilities from ₱479.17 million to ₱582.76 million was due to higher trade payables brought about by increase in cost of power purchased.
- Due to stockholders increased from ₱7.93 million to ₱9.05 million due to unclaimed cash dividend checks.
- The Company's share in current liabilities of joint ventures rose to ₱137.06 million from ₱104.09 million brought about by higher trade payables.
- Pension and other post-employment benefits increased from ₱13.19 million to ₱14.12 million due to additional pension expense accrued in the first semester of 2012.
- The increase in Company's share on noncurrent liabilities of joint ventures from ₱7.28 million to ₱7.99 million was brought about by the accrual of pension expense.
- Unrealized fair value gains on available-for-sale investments decreased from ₱74.17 million to ₱67.23 million due to lower market value of investments.
- The Company's share in unrealized fair value gains on available-for-sale investments of a joint venture declined from ₱13.64 million to ₱9.85 million due to lower market value of an investment.
- Retained earnings increased from ₱1.59 billion to ₱1.69 billion due to the net income earned in the first semester of 2012.

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

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

   Current ratio declined to 3.79:1 as of June 30, 2012 from 4.44:1 as of December 31, 2011 due to decrease in cash and cash equivalents and investment held for trading brought about by equity call requirements from its energy portfolio investments and payment of cash dividend in the first quarter of 2012.

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

   The ratio of current assets to total assets remained steady at 0.56:1 as of June 30, 2012 and December 31, 2011.

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

   Debt/equity ratio increased to 0.18:1 as of June 30, 2012 from 0.15:1 as of December 31, 2011 due to increase in account payable and other current liabilities.

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

The rate of return on stockholders' equity went up from 3.54% in the first semester of 2011 to 4.77% in the first semester of 2012 brought about by higher net income in the first semester of 2012 despite the increase in capital stock.

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

Earnings per share remained steady at ₱0.08 in the first semester of 2012 and 2011.

During The First Semester of 2012:

- 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 other than those already disclosed in the Consolidated Financial Statements.
- The Company had not been involved in any business combinations, acquisition of subsidiaries and long-term investments, restructuring and discontinued operations except for the investment of the Company in ACTA, a joint venture with AC Energy Holdings, Inc.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date except those already disclosed in the Consolidated Financial Statements.
- There were no material contingencies and any other events or transactions that occurred that were material to an understanding of the current year.
- 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 affect adversely the liquidity of the Company except for those mentioned above.
- There were no trends, events or uncertainties that have 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 except for those mentioned above.
- 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 except for those mentioned above.

Annex "B-1"

PROGRESS REPORT
For the Quarter, April 1, 2012 to June 30, 2012

OIL PRODUCTION

SC 14 B-1 North Matinloc (Northwest Palawan)

The North Mantinloc field produced 2,379 barrels of oil during the quarter, bringing cumulative production since resumption of operations in February 2009 to 73,441 barrels.

Trans-Asia holds 6.103% participating interest in the SC 14 North Matinloc block.

SC 14 Tara Production Area (Northwest Palawan)

The SC 14 consortia submitted a letter to the DOE turning over to the government the Pandan and Libro platforms. (Note: The Tara South - 1 well was drilled directionally from the Libro platform).

The consortia await the DOE's Release and Waiver document that would hold the consortia free and harmless upon turnover of the structures, with plugging of the Pandan, Libro and Tara wells as the only remaining obligations to the government.

Trans-Asia has 22.50% participating interest in the Tara block.

OIL EXPLORATION

SC 51 (East Visayas)

BGP of China, the seismic acquisition contractor for the 100 - km 2D seismic survey in northwest Leyte, commenced scouting of the lines for shot hole staking and subsequent drilling. In mid - May, BGP announced their unilateral suspension of their activities for a minimum period of (1) month, as directed by their government. The BGP crew returned to the field in mid - June and continued survey operations.

NorAsian Energy Ltd., the Operator, requested the Department of Energy a six - month moratorium on the work commitment for the current Sub-Phase 4 due to the work suspension and related delays in project implementation.

Swan Oil and Gas was declared in default of its obligations by the rest of the partners.

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

SC 55 (Ultra Deepwater West Palawan)

The DOE granted a 12 - month extension of the current Sub - Phase 4 until August 5, 2013.

BHP Billiton, the Operator, continued negotiations for a suitable rig that could drill the programmed Cinco - 1 well.

Trans-Asia has 6.82% participating interest in SC 55.

SC 69 (Camotes Sea)

As requested by the consortium, the DOE granted a 9 - month extension of the current Sub - Phase 3 to May 7, 2013 to enable completion of technical studies.

3D seismic interpretation progressed.

Trans-Asia holds 6.0% participating interest in SC 69.

PECR 4 Area 1 (Cagayan Basin)

Trans-Asia and two other companies submitted a joint bid for Area 1 to the DOE under the Philippine Energy Contracting Round - Petroleum 4.

GEOTHERMAL ENERGY DEVELOPMENT

Maibarara Geothermal Service Contract (Batangas/Laguna)

The DOE approved the drilling of two (2) new wells and the workover of a production well in the Maibarara contract area. One new well will be used as a steam producer and the other new well will serve as reinjection well for condensate fluids coming from the power plant.

Drilling of the first new well is expected to start in early third quarter of 2012.

Trans-Asia owns 25% equity in Maibarara Geothermal, Inc., the service contractor.

Certified Correct:

RAYMUNDO A. REYES, JR.
Geologist No. 716
PRC License Valid to Feb. 5, 2014
PTR No. 3227730
Issued on February 6, 2012
at Makati City

Signed in the presence of:

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, 2012 covered by this report:

Date of Filing	Items Reported
April 16, 2012	Please be informed that BHP Billiton, Operator of SC 55, has requested the Department of Energy (DOE) an 18-month extension of Exploration Sub-Phase 4 of SC 55 which expires on August 5, 2012. A deepwater well is required to be drilled within the current Sub-Phase. The request was made to enable BHP Billiton to secure an ultra deepwater drilling with specialized well control equipment capable of drilling the Cinco prospect, and to provide sufficient time for post – well evaluation. Availability of such rigs is limited for the rest of the year. The co-contractor in SC 55 are: Trans-Asia 6.82% Otto Energy Ltd. (though wholly owned Subsidiary NorAsian Energy Ltd.) 33.18 BHP Billiton Petroleum (Phils.) Corp. 60.00
April 17, 2012	Certification on qualifications of independent directors.
April 24, 2012	Please be informed that Maibarara Geothermal, Inc. (MGI), a 25% owned subsidiary of Trans-Asia, signed a Land Lease Agreement (LLA) with the National Power Corporation (NPC) and Power Sector Assets and Liabilities Corporation (PSALM) over two (2) NPC lots in Sto. Tomas, Batangas, for use in the Maibarara steamfield operations. The LLA has a term of 25 years, extendible by an additional 25 years upon mutual agreement of the parties. Furthermore, the DOE approved the drilling of two (2) new wells in the Maibarara contract area. One well will be used as a steam producer and the other well will serve as a reinjection well for condensate fluids. The wells are expected to be drilled in the 3rd quarter of this year.
May 15, 2012	Summary information flyer on the Trans- Asia's first quarter 2012 results of operations.

May 23, 2012	Please be informed that at the regular meeting of the Board of Directors of Trans-Asia held today, Mr. Manuel “Karim” G. Garcia was elected Vice President-Strategic Planning effective May 28, 2012.
May 28, 2012	Please be informed that the DOE granted a one-year extension to exploration Sub-Phase 4 of SC 55, which entails a commitment to drill one (1) well. Sub-Phase 4 will now end on August 5, 2013. The SC 55 consortium is composed of BHP Billiton Petroleum (Phils.) Corp. (Operator with 60% interest), NorAsian Energy Ltd (33.18%) and Trans-Asia (6.82%).
May 30, 2012	Please be informed that Trans-Asia entered into an Amendment Agreement with Investwell Resources, Inc. (“Investwell”) amending the Agreement dated October 18, 2011 that provided for the assignment of Trans-Asia’s Mineral Production Sharing Agreement (MPSA) denominated as MPSA No. 252-2007-V to Investwell. The Amendment Agreement modified, among others, the amount, timing and mode of payment of the outstanding financial considerations stipulated in the Agreement that are pertinent to the assignment of MPSA No. 252-2007-V to Investwell.
June 25, 2012	Please informed that DOE approved the SC 69 consortium’s request for a 9-month extension of the current exploration Sub-Phase 3 to May 7, 2013. The extension period will allow the consortium to complete the interpretation of new seismic data and undertake other technical studies. Trans-Asia has 6% participating interest in SC 69.
June 25, 2012	Please be informed that Trans-Asia and its wholly-owned subsidiary, Trans-Asia Gold and Minerals Development Corp. (“Trans-Asia Gold”) entered into a Termination Agreement terminating their Operating Agreement dated February 4, 2008. Under said Termination Agreement, Trans-Asia Gold relinquished its right to explore, develop and operate the area covered by Trans-Asia’s MPSA denominated as MPSA 252-2007-V in Jose Panganiban, Camarines Norte, in exchange for certain compensation.

Trans-Asia had earlier assigned said MPSA to a third party, subject to certain terms and conditions including approval by the Department of Environment and Natural Resources (DENR).