COVER SHEET

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S.E.C. Registration Number

T R A N S - A S I A O I L A N D E N E R G Y

D E V E L O P M E N T C O R P O R A T I O N

(Company's Full Name)

L E V E L 1 1 P H I N M A P L A Z A 3 9 P L A Z A

D R I V E R O C K W E L L C E N T E R M A K A T I

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

ATTY. JUAN J. DIAZ

Contact Person

8 7 0 - 0 1 0 0

Company Telephone Number

1 2 | 3 1

Month Day

Fiscal Year

17 - Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

3 2 6 4

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2014**

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 **4,864,279,423 shares**
    Amount of debt outstanding as of June 30, 2014 **P 4,691,097,116**

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

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

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

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

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Please refer to attached ANNEX "A."

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

Please refer to attached ANNEX "B."

PART 11 – OTHER INFORMATION

Please refer to attached ANNEX "C"

Signatures

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on August 14, 2014.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

RIZALINO G. SANTOS
SVP – Power Business

MARIEJO P. BAUTISTA
Vice-President - Controller

ANNEX A

Trans-Asia Oil and Energy Development Corporation and Subsidiaries

Consolidated Financial Statements
June 30, 2014 and December 31, 2013
and The First Semester Ended June 30, 2014 and 2013

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 33)	**₱448,879,584**	₱687,992,025
Short-term investments (Notes 7 and 33)	**–**	51,354,062
Investments held for trading (Notes 8 and 33)	**1,380,235,000**	475,351,797
Receivables (Notes 9, 30, 32 and 33)	**2,144,021,089**	2,672,774,753
Fuel and spare parts - at cost	**289,537,484**	243,763,393
Available-for-sale investments (Notes7 and 33)	**–**	292,135,812
Other current assets (Notes 10)	**565,524,361**	447,429,542
Total Current Assets	**4,828,197,518**	4,870,801,384
Noncurrent Assets		
Property, plant and equipment (Note 11)	**3,950,007,672**	2,390,616,330
Investments in associates and interests in joint ventures (Note 12)	**3,748,330,754**	3,248,944,335
Available-for-sale investments (Notes 13 and 33)	**274,493,240**	286,497,796
Investment properties (Note 14)	**29,283,095**	30,263,401
Intangible assets (Note 15)	**384,193,597**	96,290,568
Deferred income tax assets - net (Note 29)	**24,792,297**	47,026,946
Other noncurrent assets (Note 16)	**458,374,233**	15,826,771
Total Noncurrent Assets	**8,869,474,888**	6,115,466,147
TOTAL ASSETS	**₱13,697,672,406**	₱10,986,267,531
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 17, 30 and 33)	**₱1,473,262,215**	₱2,508,904,644
Due to stockholders (Notes 19, 30 and 33)	**190,391,328**	190,447,716
Short-term loans (Note 18)	**–**	910,000,000
Income and withholding taxes payable	**23,321,349**	48,615,329
Total Current Liabilities	**1,686,974,892**	3,657,967,689
Noncurrent Liabilities		
Pension and other post-employment benefits	**38,588,810**	33,625,384
Long-term loans (Note 19)	**4,691,097,116**	–
Deferred income tax liabilities - net (Note 29)	**116,305,543**	142,456,254
Other noncurrent liabilities	**33,680,017**	24,859,321
Total Noncurrent Liabilities	**4,879,671,486**	200,940,959
Total Liabilities	**6,566,646,378**	3,858,908,648

(Forward)

	June 30, 2014	December 31, 2013
Equity		
Capital stock (Note 20)	**₱4,864,279,423**	₱4,863,862,757
Additional paid-in capital	**36,110,905**	35,573,407
Other equity reserve - joint venture	**19,144,649**	23,260,302
Other equity reserve- stock option plan (Note 21)	**12,923,865**	8,765,344
Unrealized fair value gains on available-for-sale investments (Note 13)	**80,047,504**	91,822,813
Remeasurement gains on defined benefit plan (Note 29)	**(4,225,560)**	(4,225,560)
Accumulated share in other comprehensive income of a joint venture (Note 12)	**(4,113,849)**	4,687,860
Retained earnings (Note 20)	**2,155,651,765**	2,132,404,634
Parent Company shares of stock held by a joint venture (Note 12)	**–**	–
Treasury shares (Note 5)	**(28,792,674)**	(28,792,674)
Total Equity	**7,131,026,028**	7,127,358,883
TOTAL LIABILITIES AND EQUITY	**₱13,697,672,406**	₱10,986,267,531

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Semester Ended June 30			
	April - June 2014	April - June 2013	**Jan - June 2014**	Jan - June 2013
REVENUES				
Generation revenue	**₱27,038,074**	₱255,620,165	**₱41,526,646**	₱267,053,603
Trading revenue - net (Note 22)	**272,304,950**	374,343,105	**581,007,137**	710,769,290
Interest and other financial income (charges) (Note 28)	**2,264,801**	(22,588,355)	**800,344**	40,968,475
Dividend income (Note 30)	**6,819,638**	1,393,512	**6,825,022**	6,520,503
Rental income (Notes 14 and 30)	**1,369,679**	1,567,437	**2,239,379**	3,192,426
	309,797,142	610,305,864	**632,398,528**	1,028,504,297
COSTS AND EXPENSES				
Cost of power generation (Notes 24 and 30)	**25,989,321**	339,727,300	**39,186,813**	451,096,654
General and administrative expenses (Notes 25 and 30)	**108,864,002**	76,145,845	**209,518,999**	152,615,687
	134,853,323	415,873,145	**248,705,812**	603,712,341
OTHER INCOME - NET (Note 28)	**(49,220,902)**	1,017,484	**(70,128,730)**	7,152,306
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES (Note 12)	**17,746,487**	(5,742,453)	**10,081,783**	(23,414,616)
INCOME BEFORE INCOME TAX	**143,469,404**	189,707,750	**323,645,768**	408,529,646
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)				
Current	**44,908,654**	60,071,535	**107,200,615**	114,403,987
Deferred	**(8,461,608)**	(2,798,908)	**(363,636)**	(3,199,624)
	36,447,046	57,272,627	**106,836,979**	111,204,363
NET INCOME	**₱107,022,358**	₱132,435,123	**₱216,808,790**	₱297,325,283
Basic/Diluted Earnings Per Share (Note 31)			**₱0.05**	**₱0.06**

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Semester Ended June 30			
	April - June 2014	April - June 2013	**Jan - June 2014**	Jan - June 2013
NET INCOME FOR THE YEAR	**₱107,022,358**	₱132,435,123	**₱216,808,790**	₱297,325,283
OTHER COMPREHENSIVE INCOME (LOSS)				
Net other comprehensive income to be reclassified to profit or loss in subsequent periods				
Unrealized fair value gains (losses) on available-for-sale investments - net of deferred income tax (Note 13)	**(13,527,085)**	(76,902,998)	**(10,854,809)**	(50,088,493)
Income tax effect	**(560,000)**	(2,000)	**(920,500)**	34,000
	(14,087,085)	(76,904,998	**(11,775,309)**	(50,054,493)
Share in other comprehensive income of a joint venture - net of deferred income tax (Note 12)	**(2,810,917)**	**-**	**(8,801,709)**	
	(2,810,917)	**-**	**(8,801,709)**	-
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(16,898,002)**	(76,904,998)	**(20,577,018)**	(50,054,493)
TOTAL COMPREHENSIVE INCOME	**₱90,124,356**	₱55,530,125	**₱196,231,772**	₱247,270,790

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 QUARTER ENDED JUNE 30, 2014 AND 2013

	Capital Stock (Note 19)	Additional Paid-in Capital	Other Equity Reserve - Joint Venture	Other Equity Reserve - Stock Option Plan (Note 20)	Unrealized Fair Value Gains on Available-for-Sale Investments	Remeasurement Gains on Defined Benefit Plan	Accumulated Share in Other Comprehensive Income of a Joint Venture	Retained Earnings	Parent Company Shares of Stock Held by a Joint Venture	Treasury Shares (Note 5)	Total
BALANCES AT JANUARY 1, 2014	**₱4,863,862,757**	**₱35,573,407**	**₱23,260,302**	**₱8,765,344**	**₱91,822,813**	**(₱4,225,560)**	**₱4,687,860**	**₱2,132,404,634**	**₱–**	**(₱28,792,674)**	**₱7,127,358,883**
Net income for the year	–	–	–	–	–	–	–	**216,808,790**	–	–	**216,808,790**
Other comprehensive income	–	–	–	–	**(11775,309)**	–	**(8,801,709)**	–	–	–	**(20,577,018)**
Total comprehensive income for the year	–	–	–	–	**(11,775,309)**	–	**(8,801,709)**	**216,808,790**	–	–	**196,231,772**
Dividends declared (Note 19)	–	–	–	–	–	–	–	**(193,561,659)**	–	–	**(193,561,659)**
Issuance of stocks – stock option (Note 20)	**416,666**	**537,498**	–	–	–	–	–	–	–	–	**954,164**
Equity-based compensation expense (Note 20)	–	–	–	**4,158,521**	–	–	–	–	–	–	**4,158,521**
Share in exp – issuance of stocks of JV	–	–	**(4,115,653)**	–	–	–	–	–	–	–	**(4,115,653)**
	416,666	**537,498**	**(4,115,653)**	**4,158,521**				**(193,561,659)**			**(192,564,627)**
BALANCES AT JUNE 30, 2014	**₱4,864,279,423**	**₱36,110,905**	**₱19,144,649**	**₱12,923,865**	**₱80,047,504**	**(₱4,225,560)**	**(₱4,113,849)**	**₱2,155,651,765**	**₱–**	**(₱28,792,674)**	**₱7,131,026,028**
BALANCES AT JANUARY 1, 2013, AS PREVIOUSLY REPORTED	**₱4,857,258,870**	**₱24,026,492**	**₱27,375,956**	**₱–**	**₱84,985,224**	**₱–**	**₱-**	**₱1,942,498,505**	**₱-**	**(₱28,792,674)**	**₱6,907,352,373**
Effect of adoption of Revised PAS 19 (Note 3)	–	–	–	–	–	(3,474,800)	–	(5,511,800)	–	–	(8,986,600)
BALANCES AT JANUARY 1, 2013, AS RESTATED	**4,857,258,870**	**24,026,492**	**27,375,956**	**–**	**84,985,224**	**(3,474,800)**	–	**1,936,986,705**	**-**	**(28,792,674)**	**6,898,365,773**
Net income for the year,	–	–	–	–	–	–	–	297,325,283	–	–	297,325,283
Other comprehensive income for the year	–	–	–	–	(50,054,493)	–	–	–	–	–	(50,054,493)
Total comprehensive income for the year	–	–	–	–	(50,054,493)	–	–	297,325,283	–	–	247,270,790
Dividends declared	–	–	–	–	–	–	–	(194,318,190)	–	–	(194,318,190)
Issuance of stocks – stock grant	695,877	410,578	–	–	–	–	–	–	–	–	1,106,455
	695,877	410,578	–	–	-	–	-	(194,318,190)	-	-	(193,211,735)
BALANCES AT JUNE 30, 2013, AS RESTATED	**₱4,857,954,747**	**₱24,437,070**	**₱27,375,956**	**₱–**	**₱34,930,731**	**(₱3,474,800)**	**₱–**	**₱2,039,993,798**	**₱–**	**(₱28,792,674)**	**₱6,952,424,828**

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Semester Ended June 30	
	Jan - June 2014	Jan - June 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱323,645,768**	₱408,529,646
Adjustments for:		
Interest and other financial income (Note 28)	**(800,344)**	(40,968,475)
Interest and other financial charges (Note 29)	**68,813,782**	1,021,717
Depreciation and amortization (Notes 11, 14 and 27)	**52,382,492**	43,447,132
Equity-based compensation expense	**4,158,522**	–
Amortization of leasehold rights	**4,102,359**	–
Gain on derivatives - net (Note 33)	**3,339,500**	6,659,951
Unrealized foreign exchange loss - net	**937,252**	(4,998,142)
Dividend income (Note 30)	**(6,825,022)**	(6,520,502)
Provision for (recovery from):		
Doubtful accounts	**(6,000,000)**	–
Gain on sale of:		
Available-for-sale investments	**(102,010)**	(224,908)
Property and equipment (Note 28)	**(1,339)**	(322,950)
Equity in net losses (earnings) of associates and joint ventures (Note 12)	**(10,081,783)**	23,414,616
Operating income before working capital changes	**433,569,177**	430,038,085
Decrease (increase) in:		
Receivables	**53,210,606**	(74,146,418)
Fuel and spare parts - at cost	**(46,100,104)**	(19,266,781)
Other current assets	**24,180,798**	52,306,700
Increase (decrease) in accounts payable and other current liabilities	**(1,039,636,452)**	(84,226,828)
Net cash generated from (used in) operations	**(574,775,975)**	304,704,758
Interest received	**1,913,939**	43,540,644
Interest paid	**(23,979,382)**	(1,848,204)
Income taxes paid	**(238,794,987)**	(91,256,564)
Net cash flows provided by (used in) operating activities	**(835,636,405)**	255,140,634

(Forward)

	For The Semester Ended June 30	
	Jan - June 2014	Jan - June 2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to (reductions in):		
Investment in associates (Note 12)	**(₱11,222,000)**	(₱42,500,000)
Interests in joint ventures (Note 12)	**(491,000,000)**	(414,000,000)
Property and equipment (Note 11)	**(1,510,925,824)**	(16,926,446)
Investment held for trading	**(901,984,715)**	(285,274,117)
Deferred exploration costs (Note 15)	**(9,310,987)**	–
Available-for-sale investments	**(93,906)**	(3,636,895)
Short-term investments (Note 7)	**339,640,084**	558,104,114
Acquisition of a subsidiary (Note 5)	**(411,117,086)**	(212,189,015)
Proceeds from:		
Sale and redemption of investments held for trading(Note 8)	**–**	**–**
Settlement of currency forward contracts (Note 33)	**–**	(3,445,201)
Sale of property and equipment (Note 11)	**1,339**	496,979
Sale of available-for-sale investments (Note 13)	**1,350,663**	1,274,040
Decrease (increase) in other noncurrent assets	**(6,764,436)**	–
Cash dividends received	**4,965,464**	4,660,945
Net cash flows used investing activities	**(2,996,461,404)**	(413,435,596)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock (Note 20)	**954,165**	1,106,455
Proceeds from short-term loans	**1,670,000,000**	–
Proceeds from long-term loans – net	**4,690,483,871**	–
Payment of short-term loans	**(2,580,000,000)**	–
Payment of cash dividends	**(194,554,510)**	(194,318,190)
Decrease in due to stockholders	**(56,388)**	(4,165)
Increase (decrease) in other noncurrent liabilities	**6,597,081**	4,115,956
Net cash flows provided by (used in) financing activities	**3,593,424,219**	(189,099,944)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(438,851)**	(5,930,586)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(239,112,441)**	(353,325,492)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**687,992,025**	907,595,393
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱448,879,584**	₱554,269,901

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 "the Parent Company"), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Power Generation Corporation (TA Power), One Subic Power Generation Corporation (OSPGC), CIP II Power Corporation (CIPP), Trans-Asia Renewable Energy Corporation (TAREC), Trans-Asia Petroleum Corporation(TA Petroleum) [formerly Trans-Asia (Karang Besar) Petroleum Corporation], Trans-Asia Gold and Minerals Development Corporation (TA Gold), Palawan55 Exploration & Production Corporation (Palawan55) and Trans-Asia Wind Power Corporation (TAWPC) (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 engaged in power generation and trading, oil and mineral exploration, development 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 Parent Company is also a registered as a Wholesale Aggregator and is a licensed Retail Electricity Supplier (RES). 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 Parent Company are investments in various operating companies and in financial instruments.

TA Power is engaged in power generation. Previously, the Parent Company had a 50% interest in TA Power, a joint venture with Holcim Philippines, Inc. On January 1, 2013, the Parent Company entered into a Share Purchase Agreement with Holcim Philippines, Inc. (Holcim) for the purchase of Holcim's 50% stake in TA Power (see Note 5). 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 May 12, 2014, TA Power purchased from Udenna Energy Corporation, the entire outstanding shares of stocks of OSPGC, the lessee and operator of the 116 MW diesel power plant located in Subic Bay Freeport Zone.

CIPP is a utilities enterprise, the primary purpose of which is to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone in 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 11). 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 21MW bunker C-fired power plant from Laguna to Barangay Quirino, Bacnotan, La Union. As at December 31, 2012, the Company has completed the transfer of CIPP's power plant (see Note 11). As at June 30, 2014, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

TAREC was incorporated and registered with the SEC on September 2, 1994. It was established with the primary purpose of developing and utilizing renewable energy and pursuing clean and energy-efficient projects. On May 20, 2013, the Department of Energy (DOE) has confirmed the Declaration of Commerciality of TAREC's 54MW Wind Power project in San Lorenzo, Guimaras under Wind Energy Service Contract (WESC) No. 2009-10-009.The DOE confirmation affirms the conversion of said WESC from Pre-Development to Development/ Commercial Stage. As at December 31, 2013, the 54MW Wind Power project is under construction.

TA Petroleum was incorporated and registered with the SEC on September 28, 1994. TA Petroleum is engaged in oil exploration and well development. On November 28, 2012, the SEC approved the increase in authorized capital stock of TA Petroleum from ₱40 million divided into 4 billion shares with a par value of ₱0.01 per share to ₱1 billion divided into 100 billion shares with a par value of ₱0.01 per share. It also approved the change in its name and primary purpose of TA Petroleum from power generation to oil and gas exploration and production. As at June 30, 2014, TA Petroleum has not started commercial oper Asations.

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 BOD approved the suspension of exploration activities of TA Gold effective March 31, 2009. As at June 30, 2014, TA Gold's exploration activities remain suspended.

Palawan55 was incorporated and registered with the SEC on November 16, 2012. Palawan55 is engaged in the development and utilization of crude oil, natural gas, natural gas liquids and other form of petroleum. As at June 30, 2014, Palawan55 has not started commercial operations.

TAWPC was incorporated and registered with the SEC on July 26, 2013. Its primary purpose is to construct, develop, own, operate, manage, repair and maintain wind power generation plants, to generate electricity from such power plants and to market and sell the electricity produced thereby.

On August 22, 2013, TAREC assigned its 100% equity interest in TAWPC to the Parent Company. As a result of the assignment, TAWPC became a wholly-owned subsidiary of the Parent Company. As at June 30, 2014, TAWPC has not started commercial operations.

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 135MW coal fired power plant in Calaca, Batangas. SLTEC was incorporated on July29, 2011. As at June 30, 2014, SLTEC has not yet started operations.

The Parent Company has 50% interest in ACTA Power Corporation (ACTA), a joint venture with AC Energy. ACTA is engaged in the business of owning, developing, constructing, operating and maintaining power generation facilities as well as generation and sale of electricity. ACTA was incorporated on February 9, 2012 and it has not started commercial operations as at June 30, 2014.

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 Parent Company's BOD on July 28, 2014.

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 financial instruments 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 Parent Company's functional and presentation currency. All values are rounded to the nearest peso, unless otherwise stated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements.

<u>Statement of Compliance</u>
The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

<u>Basis of Consolidation</u>
The consolidated financial statements comprise the financial statements of the Parent Company and its wholly-owned subsidiaries as at 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.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and when it has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Upon consolidation, all intra group balances, transactions, income and expenses and profits and losses resulting from intra group transactions are eliminated in full.

Changes in the controlling ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as an equity transaction.

The consolidated financial statements include the accounts of the Parent Company and the following wholly-owned subsidiaries:

	Country of Incorporation	Principal Activities	Percentage of Ownership 2014	2013
Trans-Asia Power Generation Corporation[a]	Philippines	Power generation	**100**	100
CIP II Power Generation Corporation	Philippines	Power generation	**100**	100
Trans-Asia Renewable Energy Corporation	Philippines	Renewable energy generation	**100**	100
Trans-Asia Petroleum Corporation	Philippines	Oil and gas exploration	**100**	100
Trans-Asia Gold and Mineral Development Corporation	Philippines	Mineral exploration	**100**	100
Palawan55 Exploration &Production Corporation[b]	Philippines	Oil and gas exploration	**100**	100
Trans-Asia Wind Power Corporation[c]	Philippines	Renewable energy generation	**100**	100
One Subic Generation Power Corporation	Philippines	Power generation	**100**	100

[a] *Acquired the 50% share in TA Power on January 1, 2013 (see Note 5).*
[b] *Incorporated on November 16, 2012.*
[c] *Incorporated on July 26, 2013.*

3. Summary of Significant Accounting Policies and Disclosures

Changes in Accounting Policies

The Company applied, for the first time, certain standards and amendments, some of which will require restatement of previous consolidated financial statements. These include PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PAS 19, *Employee Benefits* (Revised 2011), PFRS 13, *Fair Value Measurement* and amendments to PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 12, *Disclosure of Interests in Other Entities*, resulted in additional disclosures in the consolidated financial statements.

Several other amendments apply for the first time in 2013. However, these did not have an impact on the consolidated financial statements of the Company.

The nature and the impact of each new standard and amendment are described below:

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Company.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  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 balance sheet;
  c) The net amounts presented in the balance sheet;
  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 affect disclosures only and have no impact on the Company's financial position or performance since there was no offsetting of financial assets and financial liabilities as of June 30, 2014 and December 31, 2013.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 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.

  Based on the reassessment of control following the provisions of PFRS 10, the adoption of this new standard no impact on the consolidated financial statements.

- 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 using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

  The application of PFRS 11 resulted in a change in the Company's accounting of its interests in joint ventures, TA Power (became a wholly owned subsidiary on January 1, 2013), SLTEC and ACTA (see Note 12). Prior to transition to PFRS 11, the Parent Company classified its interests in joint ventures as jointly controlled entities and proportionately consolidated its 50% share in the assets, liabilities, revenues, income and expenses in the consolidated financial statements. Under PFRS 11, the Company has determined that its interests in these entities are classified as joint ventures and are to be accounted for using the equity method (see Note 12). The transition was applied retrospectively as required by PFRS 11 and the opening balances as at January 1, 2012 and the comparative information for the years ended December 31. 2012 and 2011 have been restated. The effects of applying PFRS 11 on the Company's consolidated financial statements are as follows:

Consolidated Statements of Income and Statements of Other Comprehensive Income

	Years ended December 31	
	2012	2011
Increase (decrease) in:		
Revenues		
Trading revenue- net	₱154,633,012	₱188,358,534
Company's share in generation revenue of joint venture	(700,608,835)	(665,515,380)
Company's share in other income of joint venture	(9,139,996)	(7,372,793)
Rental income	1,686,913	870,460
	(553,428,906)	(483,659,179)
Costs and Expenses		
Company's share in cost of power generation of joint ventures	(520,256,979)	(446,391,682)
General and administrative expenses	542,104	699,502
Company's share in general and administrative expenses of joint venture	(44,029,913)	(37,266,577)
	(563,744,788)	(482,958,757)
Other Income – net	2,609,598	13,032,273
Income before income tax	12,925,480	12,331,851
Equity in net losses of associates and joint ventures	14,290,774	16,700,246
Company's share in provision for income tax of joint venture	(1,365,294)	(4,368,395)
Net income / total comprehensive income for the year	₱–	₱–

Consolidated Balance Sheets

	December 31, 2012	January 1, 2012
Increase (decrease) in:		
Current Assets		
Trade and other receivables	₱43,456,720	₱86,617,120
Company's share in current assets of joint ventures	(678,712,401)	(585,134,829)
Total Current Assets	(635,255,681)	(498,517,709)

(Forward)

	December 31, 2012	January 1, 2012
Noncurrent Assets		
Investment in associates and interests in joint ventures	₱2,213,083,732	₱1,779,809,359
Company's share in noncurrent assets of joint ventures	(1,716,001,940)	(1,357,798,844)
Total Noncurrent Assets	497,081,792	422,010,515
Current Liabilities		
Trade and other payables	32,268,217	34,862,279
Company's share in current liabilities of joint ventures	(165,266,353)	(104,085,505)
Total Current Liabilities	(132,998,136)	(69,223,226)
Noncurrent Liabilities		
Company's share in noncurrent liabilities of joint ventures	(₱5,175,753)	(₱7,283,968)
Total Noncurrent Liabilities	(5,175,753)	(7,283,968)
Equity	₱–	₱–

Consolidated Statements of Cash Flows

	Years ended December 31	
Increase (decrease) in :	2012	2011
Operating	(₱51,885,586)	₱4,535,505
Investing	(27,058,866)	(256,572,666)
Financing	6,328,088	(30,540,000)
Cash and cash equivalents	(403,350,054)	(120,772,893)
Net decrease in cash and cash equivalents	(₱475,966,418)	(₱403,350,054)

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The Parent Company has no subsidiaries with material non-controlling interests and there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Note 12.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs 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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Company has assessed that the application of PFRS 13 has no material impact the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 32.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits* (Revised)
  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the Revised PAS 19, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Company changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

  The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

  The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company's financial position and financial performance.

  The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

  Consolidated Balance Sheets

	December 31, 2013	December 31, 2012	January 1, 2012
Increase (decrease) in:			
Net defined benefits liability	**(₱11,915,977)**	₱12,838,000	₱8,248,100
Deferred income tax assets	**(3,574,793)**	3,851,400	2,474,430
Other comprehensive income	**8,341,184**	(3,474,800)	–
Retained earnings	**–**	(5,511,800)	(5,773,670)

Consolidated Statements of Income

	Years Ended December 31	
	2013	2012
Increase (decrease) in:		
General and administrative expenses	**₱–**	(₱374,100)
Income before income tax	**–**	(374,100)
Provision for income tax	**–**	112,230
Net income for the year	**₱–**	₱261,870
Basic/diluted earnings per share	**₱–**	₱0.00009

Consolidated Statements of Comprehensive Income

	Years Ended December 31	
	2013	2012
Increase (decrease) in:		
Remeasurement gains on defined benefit plan	**₱11,915,977**	(₱4,964,000)
Income tax effect	**(3,574,793)**	1,489,200
Other comprehensive income for the year, net of tax	**8,341,184**	(3,474,800)
Total comprehensive income for the year	**₱8,341,184**	(₱3,212,930)

The adoption did not have impact on the consolidated statements of cash flows.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate or standalone financial statements of the entities in the Company.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the new PFRS 11 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 effect of the amendment is in relation to the adoption of PFRS 11 as explained above. Starting January 1, 2013, the Company will account for its investments in joint venture using equity method under PAS 28.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Company.

Annual Improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Company adopted these amendments for the current year.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of

financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
  The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory, if otherwise. The amendment does not have any significant impact on the Company's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Company's financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

<u>Standards Issued but not yet Effective</u>
Standards issued but effective subsequent to December 31, 2013 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 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36.In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for

annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments are effective for annual periods beginning on or after January 1, 2014. It is not expected that this amendment would be relevant to the Company since none of the entities in the Company would qualify to be an investment entity under PFRS 10.

- Philippine Interpretation IFRIC 21, *Levies*
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014.The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments 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. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.The amendments will affect presentation only and have no impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.Currently, the Company's employees or third parties do not contribute to the Company's defined benefit plans, thus, the Company does not expect that these amendments will have an impact on its financial position or performance.

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge

accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. 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 the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

<u>Annual Improvements to PFRSs (2010-2012 cycle)</u>
The *Annual Improvements to PFRSs* (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The Company shall consider this amendment in the Company's future share-based transactions.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted).The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment will have no impact on the Company's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments will have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The *Annual Improvements to PFRSs* (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. This amendment will have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

<u>Business Combinations and Goodwill</u>
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.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. It is then considered in the determination of goodwill or gain on bargain purchase.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

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 (CGUs), or groups of CGUs, 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 CGU (group of CGUs), to which the goodwill relates. When the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognized. When goodwill forms part of a CGU (group of CGUs) 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 CGU retained.

<u>Business Combination Involving Entities Under Common Control</u>
Business combinations involving entities under common control are accounted for by applying the

pooling of interest method. The assets and liabilities of the combining entities are combined and reflected at their carrying amounts reported in the Company's consolidated balance sheet. The consolidated statement of income, comprehensive income and cash flows reflect the result of the combining entities in full, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date entities had been under common control.

The assignment of shares of stocks of TAWPC by TAREC to the Parent Company is considered as a reorganization and was accounted for at historical cost in a manner similar to pooling of interests method (see Note 1). Under the pooling of interests method of accounting, the results of operations and cash flows of the Parent Company and its subsidiaries are combined from the beginning of the financial period in which the acquisition occurred and their assets and liabilities are combined at the amounts at which they were previously recorded at the Company's consolidated financial statements as if they had been part of the group for the whole of the current and preceding periods.

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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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 financial asset or financial liability at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS investments, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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. Net changes in fair value on financial assets and financial 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 at June 30, 2014 and December 31, 2013, the Company has no financial asset or financial liability designated at FVPL on initial recognition.

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).

Net changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as gain or loss 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 at June 30, 2014 and December 31, 2013, 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 8 and 32).

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 at June 30, 2014 and December 31, 2013, the Company's derivative asset, included under "Other current assets" account, and derivative liabilities, included under "Accounts payable and other current liabilities" account, are classified as financial assets and financial liabilities at FVPL (see Notes 10, 16 and 33).

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. 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 EIR 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 at June 30, 2014 and December 31, 2013, the Company's cash and cash equivalents, short-term investments and receivables are classified as loans and receivables (see Notes 6, 7, 9 and 33).

HTM Investments
Quoted non-derivative 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 EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR.

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 at June 30, 2014 and December 31, 2013, the Company did not classify any financial asset under HTM investments.

AFS Investments
AFS investments are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. AFS investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, AFS investments are measured at fair value with unrealized 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 equity financial assets, on the other hand, are carried at cost, net of any impairment, until the investment is derecognized. Interest earned while holding AFS investments is reported as interest income using the EIR method.

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 at June 30, 2014 and December 31, 2013, the Company classified its investments in government securities and fixed treasury notes as current AFS investments while the Company's investments in listed and unlisted equity securities and golf club shares are classified as noncurrent AFS investments (see Notes 7, 13 and 33).

Loans and Borrowings
All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method.

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statement of income.

As at June 30, 2014 and December 31, 2013, the Company's accounts payable and other current liabilities, due to stockholders, short-term loans and other noncurrent liabilities are classified as other financial liabilities (see Notes 17, 18, 30 and 33).

<u>Impairment of Financial Assets</u>
The Company assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 interestrate (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, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessment of collectibility of financial assets considering the creditors' capacity to pay, history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past due status and term.

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

AFS investments
The Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. When 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 AFS debt instruments, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the Company also recognizes an impairment loss, if, and only if, it is probable that the Company will sell the investments and the expected cash flows to be realized from the disposal of the AFS investments are less than their carrying values.

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

- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement'; and either the Company (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.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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.

When 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as ‘listed’ are traded in an active market. Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm’s length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available an supportable market data as possible).

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at consolidated balance sheet date.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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
Assets held for sale is carried at the lower of its carrying amount and fair value less cost to sell. 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 situations 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
Machinery and equipment	9-20	years
Wells, platforms and other facilities	10	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 and Interests in Joint Ventures

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Company's investments in associates and interests in joint ventures are accounted for using the equity method of accounting. The investments in associates and interests in joint ventures are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates and joint ventures, less any impairment in value.

The consolidated statement of income reflects the Company's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share of any changes, when applicable, in equity. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

The aggregate of the Company's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associates or joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

When the Parent Company's accumulated share in net losses of an associate and joint venture 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 and joint venture 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 and interest in joint venture are 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.

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 pending the determination of whether the contract area contains oil and gas reserves in commercial quantities, net of any 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 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.

Impairment of Non-financial Assets
The Company assesses at each reporting date whether there is an indication that an asset may be

impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU'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.

The following assets have specific characteristics for impairment testing:

Property, plant and equipment and Investment properties
For property, plant and equipment and investment properties, the Company assesses for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

Investments in associates and interests in joint ventures
The Company determines at the end of each reporting period whether there is any objective evidence that the investments in associates and interests in joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and interests in joint ventures, and its carrying amount. The amount of impairment loss is recognized in the consolidated income statement.

Deferred exploration costs
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.

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.

Asset Retirement Obligation

The Company is legally required under a lease agreement to dismantle the installations and restore the leased site at the end of the lease contract term. The Company recognizes the fair value of the liability for this obligation and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The liability is subsequently carried at amortized cost using the effective interest rate method with the related interest expense recognized in profit or loss.

Capital Stock

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

Additional Paid-in Capital

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.

Treasury Shares

Treasury shares are own equity instruments which are reacquired and recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium. Share options exercised during the reporting period are satisfied with treasury shares.

Other Equity Reserve

Other equity reserves are made up of equity transactions other than capital contributions such as share in equity transactions of joint ventures and share-based payment transactions.

Retained Earnings

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

Revenue

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

Generation Revenue

Revenue from the sale of electricity is recognized during the period when electricity is generated.

Revenue from its bilateral contracts is recognized in accordance with the terms of the ESA in relation to the electricity generated.

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 an agent.
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.

Other Income
Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably.

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

<u>Pensions and Other Post-Employment Benefits</u>
Defined benefit plan
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 net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

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 fair value is determined using the binomial method. 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 balance sheet 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.

Leases

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

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

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

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

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

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

Borrowing Costs

Borrowing costs 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. All other borrowing costs are expensed as incurred.

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. Non-financial items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-financial 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 Income 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 at 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.

Creditable Withholding Tax (CWT)

CWT represents amounts withheld by the Company’s customers and is deducted from the Company’s income tax payable.

Value-added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- where receivables and payables are stated with the amount of VAT included.

Unapplied input VAT is included in “Other current assets” in the consolidated balance sheet.

<u>Earnings Per Share (EPS)</u>
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 at 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.

<u>Contingencies</u>
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.

<u>Events After the Balance Sheet Date</u>
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.

4. 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 at 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.

<u>Judgments</u>
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, TA Oil sells all of its output to Guimelco and TA Power sells all or substantially all of its output to Holcim (see Note 31). 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.

The Power Administration and Management Agreement (PAMA) between TA Oil and One Subic Power Generation Corporation (One Subic Power) qualifies as a lease on the basis that One Subic Power sells all its output to TA Oil and these agreements call for take-or-pay arrangement where payment is made principally on the basis of the availability of the power plant and not on actual deliveries of electricity generated. These arrangements are determined to be operating leases where a significant portion of the risks and benefits of ownership of the assets are retained by One Subic Power. Accordingly, the power plant is not recorded as part of the cost of TA Oil's property, plant and equipment and the fixed capacity fees paid to One Subic Power are recorded as trading costs on the applicable terms of the PAMA (see Note 32).

Classification of leases - the Company as lessee
The Company exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Company. Lease contracts, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased items are classified as finance leases. Otherwise, they are considered as operating leases.

The Company has entered into various lease agreements with individual land owners where the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset, which indicate the risks and rewards related to the asset are transferred to the Company. These leases are classified as finance leases.

The Company has entered into a lease contract with Guimelco for a parcel of land used only as a site for electric generating plant and facilities, where it has determined that the risks and rewards related to the properties are retained with the lessors (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The leases are, therefore, accounted for as operating leases.

Classification of leases - the Company as lessor
The Company 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.

Rental income from investment property amounted to ₱0.94 million and ₱1.95 million in the first semester of 2014 and 2013, respectively (see Notes 14 and 30).

Classification of joint venture
The Company holds 50% of the voting rights of its joint arrangements. The Company has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities.

The Company's joint arrangements are structured through a separate vehicle and provide the Company and the parties to the agreements with rights to the net assets of the separate vehicle under the arrangements.

Upon adoption of PFRS 11, the Company has determined that its interests in SLTEC and ACTA should be continued to be classified as joint ventures.

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 33.

<u>Estimates</u>
Fair value of financial assets and financial liabilities
The fair value for financial instruments in share of stocks 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 ₱4.20 billion and ₱4.49 billion as at June 30, 2014 and December 31, 2013, respectively, while fair values of the Company's financial liabilities amounted to ₱6.48 billion and₱3.52 billion as at June 30, 2014 and December 31, 2013, respectively (see Note 33).

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. As at June 30, 2014 and December 31, 2013, allowance for doubtful accounts amounted to ₱23.09 million and ₱29.78 million, respectively. The carrying value of receivables amounted to ₱2.14 billion and ₱2.67 billion as at June 30, 2014 and December 31, 2013, respectively (see Note 9).

Impairment of AFS investments
The Company treats AFS investments in shares of stock 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 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The Company also determines whether its AFS investments in debt instruments are impaired if there is a loss event which has an impact on the future cash flows that can be reliably estimated. Examples of these loss events are significant financial difficulty of the issuer, observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets and adverse changes in the payment status of borrowers, among others.

The carrying value of AFS investments amounted to ₱274.49 million and ₱578.63 million as at June 30, 2014 and December 31, 2013, respectively (see Notes 7 and 13).

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

As at June 30, 2014 and December 31, 2013, deferred income tax assets recognized by the Company amounted to ₱53.58 million and ₱81.10 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 ₱155.72 million and ₱158.83 million as at June 30, 2014 and December 31, 2013, respectively (see Note 29).

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 total depreciation and amortization of property, plant and equipment and investment properties amounted to ₱52.38 million and ₱43.45 million for the first semesters ended June 30, 2014 and 2013, respectively (see Notes 11, 14 and 27).

The carrying value of property, plant and equipment amounted to ₱3.95 billion and ₱2.39 billion as at June 30, 2014 and December 31, 2013, respectively (see Note 11). The carrying value of investment properties amounted to ₱29.28 million and ₱30.26 million as at June 30, 2014 and December 31, 2013, respectively (see Note 14).

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.

Among the factors considered by management in the write-off of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic. Provision for probable losses of ₱12.87 million to a service contract was set-up in 2012 since based on the test results, management has assessed that the carrying value of deferred exploration costs may not be recoverable. In 2013, the Company reversed the provision for impairment loss amounting to ₱12.87 million since management believes that it will be able to recover its costs on the basis of new studies and test results. Carrying value of deferred exploration costs amounted to ₱105.60 million and ₱96.29 million as at June 30, 2014 and December 31, 2013, respectively (see Note 15).

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 CGU 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 CGUs.

In 2012, property, plant and equipment with carrying value of ₱6.02 million were directly written-off and charged to "Other income - net" account in the consolidated statement of income (see Note 28).The carrying value of property, plant and equipment as at June 30, 2014 and 2013 amounted to ₱3.95 billion and ₱2.39 billion, respectively (see Note 11). The carrying value of investment properties amounted to ₱29.83 million and ₱30.26 million as at June 30, 2014 and December 31, 2013, respectively (see Note 14).

Impairment of investments in associates and interests in joint ventures
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 quarter of 2014 and 2013. Accumulated impairment loss amounted to ₱1.56 million as at June 30, 2014 and December 31, 2013. The carrying value of investments in associates and interests in joint ventures amounted to ₱3.75 billion and ₱3.25 billion as at June 30, 2014 and December 31, 2013, respectively (see Note 12).

Estimating the fair values of acquiree's identifiable assets and liabilities
Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in

establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections.

The fair values of the identifiable net assets acquired from TA Power amounted to ₱974.06 million (see Note 5).

Purchase price allocation, gain on bargain purchase and gain on remeasurement of previously held interest
The Company's consolidated financial statements and financial performance reflect acquired business after the completion of TA Power's acquisition. The Company accounts for the acquired business using the acquisition method which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any difference in the purchase price and the fair values of the net assets acquired is recorded as either goodwill in the consolidated balance sheet or gain on bargain purchase in the consolidated statement of income. Thus, the numerous judgments made in estimating the fair value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial position and performance.

The Company's acquisition of the 50% of TA Power also requires remeasurement of previously held interest in TA Power and has resulted into a gain on remeasurement and gain on bargain purchase. The gain on remeasurement of previously held interest and gain on bargain purchase pertaining to the acquisition of 50% interest in TA Power amounting to ₱168.58 million and ₱25.93 million, respectively, were presented under "Other income- net" account in the calendar year 2013 consolidated statement of income (see Notes 5).

Pension and other post-employment benefits
The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Pension and other post-employment benefits liability amounted to ₱38.59 million and ₱33.63 million as at June 30, 2014 and December 31, 2013, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Share-based payments
The Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the binomial method. The expected life of the stock options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the

exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Parent Company.

Total expense arising from share-based payment recognized by the Company amounted to ₱4.16 million for the first semester of 2014 and ₱12.28 million for the year ended December 31, 2013 (see Note 21).

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

5. Business Combination

TA Power
In line with the Company's objective of increasing its portfolio of power generating assets, on January 1, 2013, the Company entered into a Share Purchase Agreement with Holcim for the acquisition of Holcim's 50% stake in TA Power for a total purchase price of ₱475.50 million. The said amount was fully paid on January 3, 2013. This additional acquisition of TA Power shares increased TA Oil's shareholding in TA Power from 50% equity interest with a carrying value of ₱318.44 million to 100% equity interest with a total carrying value at the time of acquisition of ₱654.15 million. Previously, the Company accounted for its investment in TA Power as interest in joint venture.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values as follows at date of acquisition:

	Previous Carrying Values	Fair Values Recognized on Acquisition
Current Assets:		
Cash and cash equivalents	₱263,310,985	₱263,310,985
Investments held for trading	121,421,332	121,421,332
Trade and other receivables	233,295,833	228,157,137
Fuel and spare parts	104,132,883	104,132,883
Other current assets	128,342,990	127,167,747
Total Current Assets	850,504,023	844,190,084
Noncurrent Assets:		
Property, plant and equipment	14,299,400	475,849,172
Available-for-sale investments	70,138,917	70,138,917
Deferred income tax assets –net	859,643	859,643
Investment property	8,606,415	13,084,800
Other noncurrent assets	1,058,400	1,058,400
Total Noncurrent Assets	94,962,775	560,990,932
Current Liabilities:		
Trade and other payable	273,564,429	273,564,429
Due to related parties	7,386,838	7,386,838
Derivative liability	11,278	11,278
Total Current Liabilities	280,962,545	280,962,545

	Previous Carrying Values	Fair Values Recognized on Acquisition
Noncurrent Liabilities:		
Provision	5,000,000	5,000,000
Other post-employment benefits	5,351,505	5,351,505
Deferred income tax liabilities	–	139,808,447
Total Noncurrent Liabilities	10,351,505	150,159,952
Total identifiable net assets acquired	₱654,152,748	₱974,058,519

Total identifiable net assets acquired	₱974,058,519
Gain on bargain purchase	25,925,597
Purchase consideration transferred	₱948,132,922

Cash paid	₱475,500,000
Cash consideration allocated to pre-existing relationship	(14,396,337)
Cash paid for the additional acquisition	461,103,663
Fair value of previously held interest	487,029,259
Purchase consideration transferred	₱948,132,922
Cash flows from investing activity:	
Net cash acquired from subsidiary	₱263,310,985
Cash paid	(461,103,663)
Cash acquired – net of purchase of subsidiary	(₱197,792,678)

The fair value and gross amount of trade and other receivables amounted to ₱228.16 million. The amount of allowance for impairment for uncollectible trade and other receivables amounted to ₱5.14 million.

For the calendar year 2013, the Company recognized ₱168.58 million gain from remeasurement of previously held interest of 50% in TA Power which is the difference of the fair value of previously held interest of ₱487.03 million and carrying value of investment in TA Power before business combination of ₱318.44 million (see Note 12).

As a result of the acquisition, the Company recognized gain on bargain purchase amounting to ₱25.93 million for the year ended December 31, 2013. The gain resulted primarily from remeasurement of PPE based on expected future cash generation.

The cash consideration of ₱475.50 million paid by the Parent Company includes cash allocated to pre-existing relationship with TA Power. Prior to acquisition, TA Power has investments in the Parent Company amounting to ₱14.40 million.

Transaction costs of ₱0.56 million have been expensed for the year ended December 31, 2013.

Treasury shares

As a result of TA Power becoming a wholly owned subsidiary of TA Oil effective January 1, 2013, Parent Company shares of stock held by TA Power was reclassified to Treasury shares account.

One Subic Generation Power Corporation
On May 12, 2014, TA Power purchased from Udenna the entire outstanding shares of stock of One Subic. The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of tentative fair values as follows at date of acquisition:

	Previous Carrying Values	Fair Values Recognized on Acquisition
Current assets:		
Cash	₱78,026,914	₱78,026,914
Accounts receivable	64,660,245	64,660,245
Fuel and spare parts	1,495,342	1,495,342
Other current assets	2,386,699	2,386,699
Total current assets	146,569,200	146,569,200
Noncurrent assets		
Property, plant and equipment	99,867,705	99,867,705
Other noncurrent assets	9,628,079	9,628,079
Leasehold rights	-	213,322,641
Total noncurrent assets	109,495,784	322,818,425
Current liabilities		
Accounts payable	(33,268,491)	(33,268,491)
Income and withholding taxes	(13,746,984)	(13,746,984)
Total current liabilities	(47,015,475)	(47,015,475)
Noncurrent liabilities		
Mortgage payable	(2,599,911)	(2,599,911)
	(2,599,911)	(2,599,911)
Total identifiable net assets acquired	₱206,449,598	₱419,772,239
Provisional goodwill from the acquisition		69,371,760
Purchase consideration transferred		₱489,144,000

Cash flows from investing activity:	
Net cash acquired with subsidiary	₱78,026,914
Cash payment	(489,144,000)
Cash acquired – net of purchase of subsidiary	(₱411,117,086)

Certain fair values of acquired assets and liabilities on acquisition were still determined provisionally since the Company is still in the process of completing the purchase price allocation.

The provisional goodwill of ₱69.4 million reflects the expected synergy in the Company's growing generation portfolio. The provisional goodwill was not tested for impairment since there were no identified indicators of impairment.

The Company's consolidated revenues would have increased by ₱138.90 million and consolidated net income would have increased by ₱27.91 million for the period ended June 30, 2014 had the acquisition of OSPGC actually took place on January 1, 2014. Total revenues and net income of OSPGC included in the consolidated statement of income from May 12, 2014 to June 30, 2014 amounted to ₱38.20 million and ₱6.98 million, respectively.

6. **Cash and Cash Equivalents**

	June 2014	December 2013
Cash on hand and in banks	**₱20,925,926**	₱212,592,796
Short-term deposits	**427,953,658**	475,399,229
	₱448,879,584	₱687,992,025

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.

7. **Investments in Escrow Account**

The Company placed in an escrow fund account the net proceeds from its November 2012 stock rights offering. The said escrow account shall only be used for the following:

- 54MW Wind Energy Project in San Lorenzo, Guimaras
- Equity investment in SLTEC to fund the second 135MW clean coal-fired power plant in Calaca, Batangas
- Other potential investments in power project opportunities

Following are the composition of the escrow fund and classification in the consolidated balance sheets:

	December 2013
Short-term investments	
Savings account	₱51,354,062
Special deposit account	–
	51,354,062
Available-for-sale investments - current	
AFS investments in bonds and FXTNs	341,832,482
Less allowance for impairment loss	49,696,670
	292,135,812
	₱343,489,874

The Company expects to utilize the escrow account in accordance with the purpose and timing for which it was approved. The remaining balance of the account was disbursed in March 2014.

In 2013, the Company acquired additional AFS investments in bonds and FXTNs totaling ₱344 million. Loss from fair value changes during the year amounted to ₱49.70 million. By the end of 2013, management has assessed that the estimated future cash flows from its AFS investments have decreased since the local 25-year interest rate as at December 31, 2013 increased by over 34% from the date of purchase of the instruments, resulting in the decline of the prices of the instruments by 15%. An impairment loss amounting to ₱49.70 million representing the cumulative marked-to-market loss was recognized and transferred to profit or loss in the calendar year 2013.

These AFS investments were disposed in the first semester of 2014 resulting to a ₱3.85 million loss from fair value changes.

8. Investments Held for Trading

	June 2014	December 2013
Investments in UITFs	**₱1,380,235,000**	₱475,270,734
Investments in bonds and FXTNs	**–**	81,063
	₱1,380,235,000	₱475,351,797

The changes in fair value of investments held for trading, included in net gains (losses) on investments held for trading under “Interest and other financial income” account in the consolidated statements of income, amounted to ₱3.45 million unrealized gains in the first semester of 2014 and ₱91.81 million unrealized losses in the first semester of 2013 (see Note 28).

9. Receivables

	June 2014	December 2013
Trade (Note 32)	**₱2,099,975,421**	₱2,629,331,283
Due from related parties		
(Notes 30 and 32)	**964,894**	185,647
Loan receivable	**–**	-
Receivables from:		
Assignment of MPSA	**38,898,842**	45,449,306
Stockholders	**19,292,209**	19,311,920
Employees	**3,289,701**	3,953,888
Others	**4,689,244**	4,326,419
	2,167,110,311	2,702,558,463
Less allowance for doubtful		
accounts	**23,089,222**	29,783,710
	₱2,144,021,089	₱2,672,774,753

Trade receivables mainly represent receivables from PEMC and from the Company’s bilateral customers. Trade receivables are noninterest-bearing and are generally on terms of 30 to 60days.

Loan receivable from a third party amounting to ₱50.00 million as at December 31, 2012 was settled in 2013.

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

	June 2014						
		Neither Past Due nor	Past Due but not Impaired				Past Dueand
	Total	**Impaired**	**<30 Days**	**30–60 Days**	**61–90 Days**	**91–120 Days**	**Impaired**
Trade	**₱2,099,975,421**	**₱1,351,456,040**	**₱17,638,924**	**₱13,229,727**	**₱508,322,471**	**₱189,532,692**	**₱19,795,567**
Due from related parties	**964,894**	**964,894**	**–**	**–**	**–**	**–**	**–**
Others	**66,169,996**	**62,358,933**	**–**	**–**	**-**	**517,408**	**3,293,655**
	₱2,167,110,311	**₱1,414,779,867**	**₱17,638,924**	**₱13,229,727**	**₱508,322,471**	**₱190,050,100**	**₱23,089,222**

	December 2013						
		Neither Past Due nor	Past Due but not Impaired				Past Dueand
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	91–120 Days	Impaired
Trade	₱2,629,331,283	₱2,472,718,850	₱10,541,887	₱15,687,716	₱9,024,317	₱94,868,458	₱26,490,055
Due from related parties	185,647	185,647	–	–	–	–	–
Others	73,041,533	68,906,784	–	-	69,000	772,094	3,293,655
	₱2,702,588,463	₱2,541,811,281	₱10,541,887	₱15,687,716	₱9,093,317	₱95,640,552	₱29,783,710

The movements in the allowance for doubtful accounts on individually impaired receivables are as follows:

	June 2014		
	Trade	**Others**	**Total**
Balances at beginning of year	**₱26,490,054**	**₱3,293,655**	**₱29,783,709**
Reversal of provision (Note 28)	**(6,000,000)**	**–**	**(6,000,000)**
Written-off	**(694,487)**	**–**	**(694,487)**
Balances at end of year	**₱19,795,567**	**₱3,293,655**	**₱23,089,222**

	December 2013		
	Trade	Others	Total
Balances at beginning of year	₱8,810,342	₱3,293,655	₱12,103,997
Provision for the year	17,679,712	–	17,679,712
Balances at end of year	₱26,490,054	₱3,293,655	₱29,783,709

Due to its interpretation of the WESM Rules, the PEMC allocates its uncollected receivables due from power purchasers in the WESM to the generators who sold power to the WESM. On December 23, 2013, the Supreme Court issued a 60-day Temporary Restraining Order ("TRO") enjoining the MERALCO and the ERC from implementing the Automatic Generation Rate Adjustment (AGRA) mechanism for the November 2013 billing period. The AGRA allows automatic pass through of the cost of power purchased from WESM. In turn, MERALCO did not pay PEMC a significant portion of its November 2013 power bills. PEMC in turn, did not pay the Company the full amount of its electricity sales. On April 22, 2014, the SC extended indefinitely the TRO it issued over the collection of the November 2013 power rate increase.

The Energy Regulatory Commission (ERC) issued an Order (ERC Case No. 2014-021 MC) dated March 3, 2014 voiding the WESM prices of November and December 2013 bills. As directed by ERC, PEMC recalculated regulated prices and issued WESM adjustment bills in March 2014. Certain market players filed motions for reconsideration resulting in ERC's issuance of another Order dated March 27, 2013 for PEMC to provide market participants an additional 45 days, or up to May 12, 2014 to settle their WESM bills covering the adjustments for the period October 26 – December 25, 2013. ERC extended the settlement of WESM bills to a non-extendible period of 30 days up to June 11, 2014 which resulted in a Multilateral Agreement where the WESM Trading Participants agreed to be bound to a payment schedule of 6 months or 24 months subject to certain conditions. The Company signed the Agreement on June 23, 2014 and accordingly booked the adjustments based on the terms of the Agreement, the ERC Order and PEMC's recalculations.

10. Other Current Assets

	June 2014	December 2013
Creditable withholding tax	**₱213,307,582**	₱154,297,757
Prepaid taxes	**99,812,913**	91,510,976
Prepaid expenses	**91,310,569**	113,112,902
Deposit receivables	**81,054,789**	22,334,509
Input VAT	**68,367,205**	54,502,095
Derivative assets (Note 33)	**11,671,303**	11,671,303
	₱565,524,361	₱447,429,542

Creditable withholding tax represents amounts withheld by the Company’s customers and is deducted from the Company’s income tax payable.

As of June 30, 2014, deposit receivable pertains to advance payment to supplier and cash deposit on lease agreements (₱63.82 million). Prepaid expenses pertains to duties on importation (₱ 58.19 million), insurance (₱30.64 million), real property and local taxes (₱1.44 million), and other expenses paid in advance.

As of December 31, 2013, prepaid expenses pertain to insurance (₱34.97 million), professional fees (₱14.20 million), rent and other expenses paid in advance. Prepaid expenses also include debt issue costs and other charges amounting to ₱17.09 million incurred in relation to the ₱4.3-Billion Term Loan Facility (see Note 19 and 32). Upon drawdown, the related debt issue costs will be amortized over the life of the debt instruments using the effective interest method and any unamortized debt issue costs will be presented as a reduction in the long term debt.

Input VAT is recognized when the Company purchases goods and services from a VAT- registered supplier.

Deposit receivables pertain to cash deposits on lease agreements.

11. **Property, Plant and Equipment**

The details and movements of this account are shown below:

	Land and Land Improvements	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 December 31, 2012	₱10,800,000	₱171,263,159	₱714,489,352	₱20,346,661	₱16,835,899	₱36,502,498	₱31,278,402	₱–	₱1,001,515,971
Additions	27,701,000	17,467,214	448,501,254	–	7,787,442	626,061	8,033,639	–	510,116,610
Disposals	–	–	–	–	(2,811,622)	–	-	–	(2,811,622)
Reclassification						(11,240,564)		1,383,348,077	1,372,107,513
At December 31, 2013	38,501,000	188,730,373	1,162,990,606	20,346,661	21,811,719	25,887,995	39,312,041	1,383,348,077	2,880,928,472
Additions	–	5,414,243	21,197,727	–	183,036	982,647	4,553,686	1,478,594,485	1,510,925,824
Acquisition through business combinations	–	857,632	96,222,905		2,687,250		99,917		99,867,704
Disposals	–	–	–	–	-	–	(36,741)	–	(36,741)
Reclassifications	–	–	–	–	–	-	–	-	–
At June 30, 2014	**38,501,000**	**195,002,248**	**1,280,411,238**	**20,346,661**	**24,682,005**	**26,870,642**	**43,928,903**	**2,861,942,562**	**4,491,685,259**
Accumulated Depletion, Depreciation, Amortization and Impairment									
At December 31, 2012	–	77,581,890	241,936,665	20,346,661	7,774,850	18,214,916	29,241,336	–	395,096,318
Depreciation and amortization	618,067	11,973,454	76,657,872	–	4,034,614	1,221,636	2,669,773	–	97,175,417
Reclassification	–	354,870	(354,870)	–	-	–	-	–	-
Disposal	-	-	-	-	(1,959,593)	-	-	-	(1,959,593)
At December 31, 2013	618,067	89,910,214	318,239,667	20,346,661	9,849,871	19,436,552	31,911,109	–	490,312,142
Depreciation and amortization (Note 27)	-	6,535,523	40,621,004	–	2,359,366	555,669	1,330,624	–	51,402,186
Disposals	–	–	–	–	-	–	(36,741)	–	(36,741)
At June 30, 2014	**618,067**	**96,445,737**	**358,860,671**	**20,346,661**	**12,209,237**	**19,992,221**	**33,204,992**	**–**	**541,677,587**
Net Book Value									
At December 31, 2012	₱10,800,000	₱93,681,270	₱472,552,688	₱–	₱9,061,050	₱18,287,582	₱2,037,065	₱–	₱606,419,653
At December 31, 2013	37,882,933	98,820,159	844,750,940	–	11,961,849	6,451,442	7,400,931	1,383,348,077–	2,390,616,330
At June 30, 2014	**37,882,933**	**98,556,511**	**921,550,567**	**–**	**12,472,768**	**6,878,421**	**10,723,911**	**2,861,942,562**	**3,950,007,672**

In 2009, CIPP sold its distribution assets to MERALCO. 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.

In December 2010, CIPP’s BOD approved the transfer of its 21MW bunker C-fired power plant from Laguna to La Union. As at December 31, 2012, the Company has substantially completed the transfer of CIPP’s power plant. Certain assets not included in the transfer with a net book value of₱6.02 million and ₱14.25 million were written-off in 2012 and 2011, respectively.

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. The sale was completed in September 2012.Gain recognized from the said sale amounted to ₱11.02 million.

TAREC continues to implement the development activities on the 12 wind service contract areas with an aggregate capacity estimated at 400 MW. This includes the 54 MW San Lorenzo Wind Project for which, in 2013, TAREC obtained approval for the commerciality of the wind project. Construction costs related to the project were included under construction in progress (see Note 32).

12. Investments in Associates and Interests in Joint Ventures

Details of investments in associates and interests in joint ventures and the carrying values as at June 30, 2014 and December 31, 2013 are as follows:

	Percentage of Ownership	**June 30, 2014**	December 31, 2013
Associates			
Maibarara Geothermal, Inc. (MGI)	25.00	**₱256,579,970**	₱219,510,294
Asia Coal Corporation (Asia Coal)*	28.18	**631,029**	631,029
Union Aggregates Corporation (UAC)**	31.25	**–**	–
		257,210,999	220,141,323
Joint ventures			
SLTEC	50.00	**3,491,063,589**	3,028,740,878
ACTA	50.00	**56,166**	62,134
		3,491,119,755	3,028,803,012
		₱3,748,330,754	₱3,248,944,335

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

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

	June 2014	December 2013
Acquisition costs:		
Balance at beginning of year	**₱3,367,338,413**	₱2,355,088,413
Addition	**502,222,000**	1,237,250,000
Business combination (Note 5)	**-**	(225,000,000)
Balance at end of year	**3,869,560,413**	3,367,338,413
Accumulated equity in net income (losses):		
Balance at beginning of year	**(141,618,947)**	11,851,241
Equity in net losses for the year	**10,081,783**	(61,699,060)
Dividends	**–**	–
Business combination (Note 5)	**-**	(91,771,127)
Balance at end of year	**(131,537,164)**	(141,618,946)
Accumulated share in other comprehensive income:		
Balance at beginning of year	**4,687,860**	13,140,777
Share in other comprehensive income (loss)	**(8,801,709)**	4,687,860
Business combination (Note 5)	**-**	(13,140,777)
Balance at end of year	**(4,113,849)**	4,687,860
Other equity transactions:		
Balance at beginning of year	**20,096,259**	12,744,325
Share in additional investment of a venturer in the joint venture company	**–**	–
Share in expenses directly attributable to issuance of stocks of a joint venture	**(4,115,654)**	(4,115,654)
Parent Company shares of stockheld by a joint venture	**–**	–
Business combination (Note 5)	**-**	11,467,588
Balance at end of year	**15,980,605**	20,096,259
Less accumulated impairment losses	**1,559,251**	1,559,251
	₱3,748,330,754	₱3,248,944,335

Investments in Associates

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 as at June 30, 2014 and December 31, 2013 are shown below:

	June 2014	December 2013
Current assets	**₱348,960,0746**	₱219,787,836
Noncurrent assets	**3,148,172,729**	2,960,722,700
Total assets	**3,492,132,805**	3,180,510,536
Current liabilities	**(120,619,538)**	(114,972,699)
Noncurrent liabilities	**(2,348,120,994)**	(2,187,496,661)
Net assets	**₱1,023,392,273**	₱878,041,176

The results of operations of MGI for the semesters ended June 30, 2014 and 2013 are shown below:

	Jan-June 2014	Jan-June 2013
Generation revenues	**₱303,913,184**	₱-
Cost of power generation	**(98,569,130)**	
Interest income(expense) & gain(loss) from forex	**(78,382,661)**	3,591,277
General and administrative expenses	**(23,570,690)**	(23,925,670)
Net loss	**₱103,390,703**	(₱20,334,393)

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.

As at 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 28MW or higher capacity for 25 years.

As at December 31, 2012, MGI completed the balance of well requirements and overall progress of steamfield construction is around 60%. The Engineering, Procurement and Construction contract for the construction and delivery of the geothermal power plant and related site facilities has achieved 57% overall accomplishment as at yearend.

MGI completed the commissioning of the steamfield facilities including the connection of the transmission line to MERALCO's distribution system and its energization in September 2013. Testing of high voltage systems were done in October 2013 while commissioning and testing of the 20MW power plant commenced in November 2013.

Commercial operation of MGI is on February 2014.

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.

MGI made several cash calls and TA Oil, as a Project Sponsor, infused additional investment amounting to ₱11.22 million in the first quarter of 2014 and ₱53.25 million in the calendar year 2013.

Asia Coal

On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of the corporate life of Asia Coal to October 31, 2009. Asia Coal shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. As at December 31, 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 at 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

The results of operations of Asia Coal for the year ended October 31, 2009 are as follows:

Interest income	₱194,393
General and administrative expenses	(152,475)
Other expenses	(83,377)
Benefit from income tax	4,197
Net loss	₱37,262

Asia Coal had no activities since it filed for the shortening of its corporate life.

Interests in Joint Venture

The summarized information in respect of the Company's material joint venture as at June 30, 2014 and December 31, 2013 and for the first semesters ended June 30, 2014 and 2013 and the reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

SLTEC

Balance sheets

	June 2014	December 2013
Current assets	**₱1,978,704,769**	₱2,834,087,636
Noncurrent assets	**14,079,388,183**	11,096,891,967
Current liabilities	**(1,120,584,794)**	(809,000,017)
Noncurrent liabilities	**(7,955,380,980)**	(7,064,497,831)
Equity	**6,982,127,178**	6,057,481,755
Proportion of the Company's ownership	**50%**	50%
Carrying amount of investment	**₱3,491,063,589**	₱3,028,740,878

Additional information:

Cash and cash equivalents	**₱1,952,901,485**	₱2,752,972,906
Current financial liabilities*	**25,803,285**	83,948,837
Noncurrent financial liabilities*	**7,955,380,980**	7,064,497,831

**Excluding trade, other payables and provision.*

Statements of income

	Jan-June 2014	Jan-June 2013
Expenses	**(₱40,314,486)**	(₱47,136,062)
Other income (expenses)	**15,438,278**	12,761,772
Provision for deferred income tax	**(6,643,643)**	(3,134,505)
Net loss	**(31,519,851)**	(37,508,795)
Other comprehensive income	**–**	–

Additional information:		
Depreciation and amortization	**2,913,751**	867,781
Interest income	**8,970,649**	7,637,828
Interest expense	**196,261,639**	34,581,969

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.

In accordance with the Joint Venture Agreement, AC Energy made an additional investment in SLTEC amounting to ₱61.08 million in 2011. 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 2011 consolidated statement of changes in equity. In 2012, SLTEC incurred stock issuance costs totaling ₱12.66 million which were recognized by SLTEC as a reduction in its APIC and Retained Earnings. Of this amount, ₱6.33 million which represents the Company's share in the said costs, was recognized equally as a reduction from the Company's other equity reserve account and retained earnings.

The Company invested additional capital amounting to ₱491 million in the first quarter of 2014 and ₱1.18 billion in the calendar year 2013 in response to several equity calls for the expansion of the coal-fired power plant in Calaca (see Note 1).

13. **Available-for-sale Investments**

	June 2014	December 2013
Shares of stock:		
Listed	**₱146,776,667**	₱156,508,636
Unlisted	**83,246,573**	83,246,573
Golf club shares	**44,470,000**	46,742,587
	₱274,493,240	₱286,497,796

AFS investments are stated at fair value as at June 30, 2014 and December 31, 2013, 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 ₱11.78 million, net of deferred income tax of ₱0.92 million in the first semester of 2014 and ₱50.09 million, net of deferred income tax of ₱0.04 million in the first semester of 2013.

14. **Investment Properties**

The details and movements of this account are shown below.

	June 2014	December 2013
Cost		
Balance at beginning of year	**₱41,218,088**	₱28,133,288
Acquisition through business combination (Note 5)	–	13,084,800
Balance at end of year	**41,218,088**	41,218,088
Less accumulated depreciation		
Balance at beginning of year	**10,954,687**	8,994,077
Depreciation	**980,306**	1,960,610
Balance at end of year	**11,934,993**	10,954,687
	₱29,283,095	₱30,263,401

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₱50.73 million as at June 30, 2014 and December 31, 2013. 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 semesters of 2014 and 2013 amounted to ₱0.94 million and ₱1.95 million, respectively, recognized in the consolidated statements of income, while related direct costs and expenses amounted to ₱1.16 million and ₱1.18 million in the first semesters of 2014 and 2013, respectively included as part of “General and administrative expenses” account in the consolidated statement of income.

15. **Intangible Assets**

	June 2014	December 2013
Deferred exploration costs	**₱105,601,554**	₱96,290,568
Leasehold rights – net of amortization	**209,220,283**	**–**
Provisional goodwill	**69,371,760**	
	₱384,193,597	₱96,290,568

Leasehold rights and goodwill arise from the acquisition of TA Power of the entire outstanding shares of stocks of OSPGC.

The details and movements of deferred exploration costs are shown below:

	Oil Exploration Costs	Leasehold Rights	Provisional Goodwill	Total
Cost				
At January 1, 2013	₱85,093,271	₱–	₱–	₱85,093,271
Additions	11,197,297	–	–	11,197,297
At December 31, 2013	96,290,568	–	–	96,290,568
Additions	9,310,986	213,322,642	69,371,760	292,005,388
At June 30, 2014	**105,601,554**	**213,322,642**	**69,371,760**	**388,295,956**

	Oil Exploration Costs	Leasehold Rights	Provisional Goodwill	Total
Allowance for impairment loss and amortization				
At January 1, 2013	12,874,373	–	–	12,874,373
Reversal	(12,874,373)	–	–	(12,874,373)
At December 31, 2013	–	–	–	–
Additions	–	4,102,359	–	**4,102,359**
At June 30, 2014	**–**	**4,102,359**	**–**	**4,102,359**
Net book value0				
At January 1, 2013	₱85,093,271	₱–	₱–	₱85,093,271
At December 31, 2013	96,290,568	–	–	96,290,568
At June 30, 2014	**105,601,554**	**209,220,283**	**69,371,760**	**384,193,597**

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 2013	December 2013
SC No. 51/Geophysical Survey and Exploration Contract (GSEC) No. 93 (East Visayas)	**₱32,665,864**	₱32,665,864
SC No. 69 (Camotes Sea)	**15,972,361**	15,972,361
SC No. 6 (Northwest Palawan)	**20,812,947**	20,384,761
SC No. 55 (Southwest Palawan)	**5,713,210**	5,713,210
SC No. 52 (Cagayan Province)	**30,437,172**	21,554,372
	₱105,601,554	₱96,290,568

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.

MPSA 252-2007-V (Camarines Norte)

The Office of the President denied the Company’s Appeal for reversal of the decision of the DENR excising portions of the MPSA covered by alleged mineral patents of a third party. Subsequently, the Company elevated the case to the Court of Appeals.

The Company signed an Agreement on October 18, 2011 for the assignment of the MPSA to Investwell Resources, Inc. (Investwell), subject to certain conditions for a total consideration ofUS$4.0 million payable in four tranches. The receipt of the first nonrefundable tranche amounting to US$500,000 (₱21.93 million) was recognized in the 2011 consolidated statement of income. The receipt of the second and third nonrefundable tranches amounting to US$1,000,000 (₱42.20 million), net of the related deferred exploration cost of ₱11.47 million, was presented as “Other income-net” in the 2012 consolidated statement of income (see Note 27).

On October 30, 2012, the Court of Appeals granted the Company’s petition to reverse and set aside the resolutions of the Department of Environment and Natural Resources and the Office of the President that ordered and affirmed, respectively, excision of certain areas covered by alleged mining patents of a third party from the contract area of the MPSA. Subsequently, the third party elevated the case to the Supreme Court.

In agreements dated May 29, 2012, March 19, 2013, June 25, 2013 and December 18, 2013, the Company and Investwell amended and restructured the payment of the fourth tranche of the total consideration.

The DENR approved on February 7, 2013 the assignment of the MPSA to Investwell and the Company accordingly recognized US$870,000 (₱37.93 million) representing a portion of final the tranche. As at March 31, 2014 and December 31, 2013, receivable from Investwell amounted to ₱39.94 million and ₱45.45 million, respectively (see Note 9).

16. Other Noncurrent Assets

	June 2014	December 2013
Accounts receivable	**₱433,368,534**	₱–
Deposit receivable	**25,005,699**	15,826,771
	₱458,374,233	₱15,826,771

Noncurrent receivable pertains to receivable from PEMC on the adjustments in November and December 2013 billings.

Deposit receivable pertains to deposit to suppliers.

17. Accounts Payable and Other Current Liabilities

	June 2014	December 2013
Trade	**₱1,047,268,106**	₱2,261,459,690
Non-trade	**91,104,060**	67,469,420
Output VAT – net	**97,731,990**	102,980,660
Accrued directors' and annual incentives (Note 30)	**20,975,989**	17,972,852
Due to related parties (Note 30)	**115,422,996**	37,350,507
Accrued expenses	**33,581,132**	13,833,145
Accrued interest	**60,132,103**	4,098,978
Deferred rent income	**1,008,190**	220,156
Derivative liabilities (Note 33)	**2,017,000**	–
Others	**4,020,649**	3,519,236
	₱1,473,262,215	₱2,508,904,644

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

18. Short-term Loans

	June 2014	December 2013
Balance at beginning of year	**₱910,000,000**	₱–
Additions	**1,360,000,000**	910,000,000
Payment	**(2,270,000,000)**	–
Balance at end of the period	**₱–**	₱910,000,000

In November and December 2013, the Company availed a 90-day to 120-day unsecured short-term loans from local banks, with interest rate of 3.2% per annum. This was settled in April 2014.

Total interest expense on short-term loans amounted to ₱19.94 million for the first semesters ended June 30, 2014 (see Note 27).

19. Long-term Loans

In February 14, 2014, the Company availed of ₱620.00 million long-term loans from local banks, with interest rate of 5.9671% and 6.6763% per annum. In April 2014, the Company availed ₱4.10 billion additional long-term loans from local banks, with interest rate of 4.8354% to 5.873% per annum.

Total capitalized interest expense on long-term loans amounted to ₱5.06 million for the first semester ended June 30, 2014 (see Note 28).

20. Equity

Capital stock

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

	Number of Shares	
	June 2014	December 2013
Authorized capital stock - ₱1 par value	**8,400,000,000**	8,400,000,000
Issued and outstanding:		
Balance at beginning of year	**4,863,862,757**	4,857,258,870
Issuance during the year:		
Exercise of stock options (Note 21)	**416,666**	5,908,010
Stock grants (Note 21)	–	695,877
Stock rights offering and others	–	–
	–	6,603,887
Balance at end of year	**4,864,279,423**	4,863,862,757

The issued and outstanding shares as at June 30, 2014 and December 31, 2013 are held by 3,264 and 3,274 equity holders, respectively.

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 through SRO. On March 30, 2011, the SEC approved the SRO of 1.165 billion shares of the Parent Company at the rate of seven shares for every 10 shares held as at 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 the Company's equity investment in SLTEC and MGI.

On March20, 2012, the Company's stockholders approved the increase in the authorized capital stock 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 which shall be funded by a stock rights offering. On September 26, 2012, the Company filed with the SEC Form 10.1 Notice of / Application for Confirmation of Exempt Transaction covering the common shares to be issued relative to the Company's Rights Offer, pursuant to Sections 10.1 (e) and 10.1 (i) of the Securities Regulations Code (SRC) under which the exemption is based. On October 3, 2012, the SEC approved the stock rights offering of 1.415 billion shares of the Parent Company at the rate of one (1) share for every two (2) shares held as at record date of November 7, 2012 at a price of ₱1 per share. The offer period commenced on November 14, 2012 and ended on November 20, 2012. The Company also offered an additional 212.25 million shares to meet additional demand from eligible stockholders ("Overallotment Option"). Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.61 billion. The proceeds were used to finance its equity investments in a 54MW wind energy project in San Lorenzo, Guimaras and the second 135MW clean coal-firedpower plant in Calaca, Batangas, and other power project opportunities.

The following table presents the track record of registration of capital stock:

Date of SEC Approval	No. of shares Registered	No. of shares Issued	Par Value	Issue/ Offer Price
08-Feb-69	2,000,000,000	1,000,000,000	₱0.01	₱0.01
22-Jul-75	2,000,000,000	937,760,548	0.01	0.01
16-Jul-79	6,000,000,000	6,058,354,933	0.01	0.01
12-Feb-88	10,000,000,000	7,643,377,695	0.01	0.02
08-Jun-93	10,000,000,000	8,216,141,069	0.01	0.01
15-Jul-94	70,000,000,000	50,170,865,849	0.01	0.01
24-Aug-05	1,000,000,000	264,454,741	1.00	1.00
06-Jun-11	2,200,000,000	1,165,237,923	1.00	1.00
12-Nov-12	4,200,000,000	2,027,395,343	1.00	1.00

Retained earnings

The Company's retained earnings balance amounted to ₱2.16 billion and ₱2.13 billion as at June 30, 2014 and December 31, 2013, respectively, while paid-up capital is ₱4.90 billion as at June 30, 2014 and December 31, 2013, respectively. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱363.10 million and ₱489.39 million as at June 30, 2014 and December 31, 2013, respectively, are not currently available for dividend distribution.

Dividends declared

Cash dividends declared in the first semester of 2014, calendar year 2013, 2012 and 2011 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 21, 2011	Cash	₱0.04 per share	₱66,585,025	April 11, 2011
February 16, 2012	Cash	0.04 per share	113,194,540	March 1, 2012
March 21, 2013	Cash	0.04 per share	194,318,190*	April 8, 2013
July 22, 2013	Cash	0.013/0.0385per share	64,056,892	August 5, 2013
March 24, 2014	Cash	0.04 per share	194,554,510	April 7, 2014

**Includes dividends on shares held by TA Power.*

On July 22, 2013, the Company's BOD also approved the declaration of property dividends to stockholders of record date of August 5, 2013 which consist of shares of stock in TA Petroleum at the rate of 2.55 TA Petroleum shares for every 100 TA Oil shares held and cash in the amount of ₱0.23 per share to TA Oil's shareholders.

As at December 31, 2013, unpaid cash and property dividends amounted to ₱183.60 million, and included under due to stockholders. By virtue of an exemptive relief granted by the SEC, the payment date of the property dividend included under “Due to stockholders” account shall be 10 trading days from the date all of the following are secured: a) SEC approval of property dividend; b) SEC approval of registration of TA Petroleum shares; and c) issuance of the Certificate Authorizing Registration (CAR) authorizing transfer of TA Petroleum shares to the shareholder. As at December 31, 2013, only the SEC approval of the property dividend has been secured**.**

21. Employee Stock Options and Executive Stock Grants

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 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:

<u>Stock Grants</u>
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.

<u>Stock Options</u>
Following are the specific terms of the Company’s Stock Option 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 only the Company’s Stock Grant for its executives which resulted in the issuance of 0.70 million shares in 2013 and 0.14 million shares in 2012. No stock grants have been granted and awarded to any of the executives of the Company in 2011.

On July 22, 2013, the grant date, the Company lifted the suspension of the plan and awarded additional options under the same plan. Exercise price is ₱2.29 per share.

The following illustrates the number of outstanding share options in 2013:

Outstanding at January 1	–
Granted during the year	42,090,303
Forfeited during the year	(515,609)
Exercised during the year*	(5,908,010)
Outstanding at December 31	35,666,684
Exercisable at December 31	7,606,482

** The weighted average stock price at the date of exercise of these options was ₱2.46.*

The remaining contractual life for the stock options outstanding as at March, 2014 is 2.30 years.

The fair value of options granted during the year was ₱23.03 million.

A summary of the stock option plan for the year ended December 31, 2013 follows:

Vesting date	July 22,2013	July 22, 2014	July 22, 2015
Vesting shares	14,030,101	14,030,101	14,030,101

The fair value of the options granted is estimated at the date of grant using binomial method, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the Stock Option Plan in 2013:

	33.33% vesting on July 22, 2013	33.33% vesting on July 22, 2014	33.33% vesting on July 22, 2015
Spot price	₱2.40	₱2.40	₱2.40
Exercise price	2.29	2.29	2.29
Risk-free rate	2.162%	2.162%	2.162%
Expected volatility	31.25%	31.25%	31.25%
Term to vesting	3 years	3 years	3 years
Fair value of stock options	₱0.5472 per option	₱0.5472 per option	₱0.5472 per option

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Equity-based compensation expense recognized by the Company under “Salaries and directors’ fees” account amounted to ₱12.28million in 2013.

Carrying value of the stock option plan recognized under the “Other equity reserve - stock option plan” account in the equity section of the consolidated balance sheet amounted to ₱8.77 million as at December 31, 2013.

22. **Trading Revenue**

	Jan-June 2014	Jan-June 2013
Trading revenue	**₱3,446,738,637**	₱3,299,118,242
Cost of power purchased	**2,865,731,500**	2,588,348,952
	₱581,007,137	₱710,769,290

23. **Cost of power purchased**

	Jan-June 2014	Jan-June 2013
Trading cost	**₱1,762,159,475**	₱2,208,935,661
Fuel	**1,036,847,214**	379,413,291
Depreciation and amortization (Note 27)	**39,846,888**	–
Salaries (Note 26)	**22,969,295**	–
Pension and employee benefits (Note 26)	**3,908,628**	–
	₱2,865,731,500	₱2,588,348,952

24. **Cost of Power Generation**

	Jan-June 2014	Jan-June 2013
Fuel	**₱22,176,951**	₱345,974,794
Market and other fees	**3,534,974**	453,191
Salaries (Note 26)	**3,241,737**	19,132,536
Depreciation and amortization (Note 27)	**2.929.207**	34,458,650
Repairs and maintenance	**2,775,958**	16,875,962
Station used	**1,890,522**	5,159,852
Taxes and licenses	**1,053,383**	13,876,770
Pension and employee benefits (Note 26)	**609,944**	5,070,272
Insurance	**370,595**	7,535,866
Rental	**282,000**	424,416
Others	**321,542**	2,134,345
	₱39,186,813	₱451,096,654

25. General and Administrative Expenses

	Jan-June 2014	Jan-June 2013
Taxes and licenses	**₱51,746,119**	₱16,975,562
Salaries and directors' fees (Notes 26 and 30)	**48,126,927**	38,387,130
Management and professional fees (Note 30)	**39,696,944**	56,441,523
Insurance, dues and subscriptions	**19,893,405**	3,974,807
Pension and employee benefits (Note 26)	**12,522,398**	7,164,199
Depreciation and amortization (Note 27)	**9,606,397**	8,988,482
Building maintenance and repairs	**7,029,067**	6,437,977
Donation and contribution	**6,537,811**	4,255,316
Transportation and travel	**5,944,149**	1,993,624
Rent	**1,793,870**	264,878
Office supplies	**1,764,272**	1,308,738
Entertainment, amusement and recreation	**263,688**	185,709
Others	**4,593,952**	6,237,742
	₱209,518,999	₱152,615,687

26. Personnel Expenses

	Jan- June 2014	Jan-June 2013
Salaries and directors' fees included under:		
Cost of power purchased (Note 23)	**₱22,969,295**	**₱-**
Cost of power generation (Note 24)	**3,241,737**	19,132,536
General and administrative expenses (Note 25)	**48,126,927**	38,387,130
Pension and employee benefits included under:		
Cost of power purchased (Note 23)	**3,908,628**	–
Cost of power generation (Note 24)	**609,944**	5,070,272
General and administrative expenses (Note 25)	**12,522,398**	7,164,199
	₱91,378,929	₱69,754,137

27. **Depreciation and Amortization**

	Jan-June 2014	Jan-June 2013
Depreciation expense of property, plant and equipment and investment properties included under Notes 11 and 14:		
Cost of power purchased (Note 23)	**₱39,846,888**	₱-
Cost of power generation (Note 24)	**2.929.207**	34,458,650
General and administrative expenses (Note25)	**9,606,397**	8,988,482
	₱52,382,492	₱43,447,132

28. **Other Income - Net**

	Jan-June 2014	Jan-June 2013
Gain (loss) on derivatives - net (Note 33)	**(₱3,339,500)**	(₱6,659,951)
Interest and other finance charges (Note 18 and 19)	**(68,813,782)**	(1,021,717)
Amortization of leasehold rights	**(4,102,358)**	
Foreign exchange gain (loss) - net	**(722,932)**	6,595,434
Gain (loss) on sale of:		
AFS investments	**102,009**	224,908
Property and equipment (Note 11)	**1,339**	322,950
Reversal of (provisions for):		
Doubtful accounts (Note 9)	**6,000,000**	–
Others	**746,494**	7,690,682
	(₱70,128,730)	₱7,152,306

Interest and Other Financial Income

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

	Jan-June 2014	Jan-June 2013
Interest income on:		
Cash in bank	**₱18,264**	₱21,348
Short-term deposits and investments	**1,676,577**	41,621,107
Bonds	**–**	2,164,825
FXTN	**68**	6,507,769
Others	**196,842**	2,238,783
	1,891,751	52,553,832

	Jan-June 2014	Jan-June 2013
Net gains (losses) on investments held for trading:		
Amortization of bond premium/discount - net	**6**	(1,470,797)
Gain (loss) on sale of investments in bond	**–**	40,809,964
Fair value gains on investments held for trading:		
Realized gain (loss)	**(54,238,827)**	40,889,662
Unrealized gain (loss)	**53,147,414**	(91,814,186)
	(1,091,407)	(11,585,357)
	₱800,344	₱40,968,475

29. Income Tax

a. Current income tax pertains to the following:

	Jan-June 2014	Jan-June 2013
RCIT	**₱106,641,542**	₱114,403,987
MCIT	**559,073**	–
	₱107,200,615	₱114,403,987

b. The components of the Company's net deferred income tax assets (liabilities) as at June 30, 2014 and December 31 are as follows:

	June 2014	December 2013
Deferred income tax assets:		
Accrued expenses	**₱3,026,208**	₱36,590,989
NOLCO	**15,155,782**	21,151,689
Pension and other post-employment benefits	**14,664,408**	11,738,432
Debt issuance costs	**8,670,865**	–
Allowance for doubtful accounts	**6,148,765**	6,141,778
Allowance for impairment loss	**2,013,835**	2,013,835
Asset retirement obligation	**1,888,738**	1,833,569
Unamortized past service cost	**1,298,697**	1,333,042
Deferred rent income	**302,457**	66,047
Unrealized foreign exchange losses	**266,533**	230,638
Allowance for inventory obsolescence	**145,957**	–
	53,582,245	81,100,019
Excess of fair value over cost of power plant	**(₱20,686,189)**	(₱-)
Asset retirement obligation	**(468,000)**	(489,600)
Unrealized foreign exchange gain	**(1,880)**	–
Accrued revenues	**–**	(26,852,284)
Derivative asset	**(1,894,157)**	(3,506,654)
Unrealized fair value gains on AFS investments	**(4,127,610)**	(3,207,110)
Unrealized fair value gains on investment held for trading and derivatives	**(1,612,112)**	(17,425)
	(28,789,948)	(34,073,073)
Deferred income tax assets - net	**₱24,792,297**	₱47,026,946

	June 2014	December 2013
Deferred income tax liabilities		
Excess of fair value over cost of power plant	**₱116,305,543**	₱142,454,438
Unrealized fair value gains on investment held for trading and derivatives	**–**	1,496
Unrealized foreign exchange gain	**–**	320
Deferred income tax liabilities	**₱116,305,543**	₱142,456,254

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 2014	December 2013
NOLCO	**₱45,320,288**	₱41,168,979
Allowance for impairment loss on property and equipment	**105,008,532**	105,008,532
Allowance for probable losses on mineral exploration	**3,096,746**	3,096,746
Allowance for doubtful accounts	**23,995**	6,718,483
Allowance for inventory obsolescence	–	486,522
Unrealized foreign exchange losses	–	135,066
MCIT	**1,145,894**	1,094,765
Pension and other post-employment benefits	**1,123,005**	1,123,005
	₱155,718,460	₱158,832,098

Deferred income tax assets have not been recognized on these temporary differences that relate to the subsidiaries as management 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 at June 30, 2014, NOLCO totaling ₱101.29 million can be claimed as deduction from regular taxable income and MCIT amounting to ₱1.15 million can be credited against future RCIT due as follows:

Expiry Date	MCIT	NOLCO
December 31, 2014	₱848	₱12,815,196
December 31, 2015	–	48,442,368
December 31, 2016	1,093,917	34,581,998
December 31, 2017	51,129	
	₱1,145,894	₱95,839,562

NOLCO amounting to ₱24.02 million was applied against taxable income in the first semester of 2014.

30. 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 years ended December 31, 2013 and 2012, the Company has not recorded any impairment of receivables on amounts 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 associates, affiliates, jointly controlled entities and other related parties on advances, loans, reimbursement of expenses, office space rentals, management service agreements and electricity supply. The transactions and balances of accounts for the first semester of 2014 and for the year 2013 with related parties are as follows (in thousands):

June 2014					
Company	**Amount/ Volume**	**Nature**	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate Parent					
Phinma, Inc					
Revenues	**₱227,903**	Rent and share in expenses	**₱964,894**	30-day, non-interest bearing	Unsecured, no impairment
Costs and Expenses	**14,078,847**	Management fees and share in expenses	**(40,156,998)**	30-day, non-interest bearing	Unsecured
Receivables	**149,386**	Advances	-	30-day, non-interest bearing	Unsecured, no impairment
Joint Ventures					
SLTEC					
Revenues	**1,071,183**	Rent and share in expenses	-	30-day, non-interest bearing	Unsecured, no impairment
Payable	**–**	Rental deposit	**(589,680)**	End of lease term	Unsecured
Associate					
Asia Coal					
Payable	**–**	Advances	**(253,620)**	On demand	Unsecured
MGI					
Costs & Expenses	**274,674,482**	Trading cost	**(63,556,489)**	30-day, non-interest bearing	Unsecured
Other Related Parties					
PPHC					
Payable	**–**	Advances	**(171,354)**	On demand	Unsecured
Phinma Corp.					
Cash Dividend	**3,255,925**	Dividend income	-		
Costs and Expenses	**1,186,328**	Share in expenses	**(178,232)**	30-day, non-interest bearing	Unsecured
Payable	**141,400,000**	Advances	-		
T-O Insurance, Inc.					
Receivable	**139,692**	Refund of insurance expenses			
Costs and Expenses	**48,963,198**	Insurance expense	**(10,516,620)**	30-day, non-interest bearing	Unsecured
Directors					
Expenses	**9,782,290**	Annual incentives	**(20,975,989)**	On demand	Unsecured
Stockholders					
Payable	-	Cash dividend	**(5,794,802)**	On demand	Unsecured
Payable	-	Cash and Property Dividend	**(190,391,328)**	Upon issuance of CAR	Unsecured

	December 2013				
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Ultimate Parent					
Phinma, Inc					
Revenues	₱811,866	Rent and share in expenses	₱52,825	30-day, non-interest bearing	Unsecured, no impairment
Costs and Expenses	61,456,748	Management fees and share in expenses	(34,961,046)	30-day, non-interest bearing	Unsecured
Joint Ventures					
SLTEC					
Revenues	2,515,769	Rent and share in expenses	132,822	30-day, non-interest bearing	Unsecured, no impairment
Payable	–	Rental deposit	(589,680)	End of lease term	Unsecured
Associate					
Asia Coal					
Payable	–	Advances	(253,620)	On demand	Unsecured
MGI					
Payable	730,767	Trading cost	(730,767)	30-day, non-interest bearing	Unsecured
Other Related Parties					
PPHC					
Payable	–	Advances	(171,354)	On demand	Unsecured
Phinma Corp.					
Cash Dividend	5,155,572	Dividend income	–		
Costs and Expenses	938,404	Share in expenses	(4,747)	30-day, non-interest bearing	Unsecured
Payable	120,000,000	Share in expenses	–		
Union Galvasteel Corp.					
Cash Dividend	1,520,381	Dividend income	–		
Costs and Expenses	12,820	Roofing materials	–		
Asian Plaza Inc.					
Cash Dividend	1,318,940	Dividend income	–		
Araullo University					
Advances	3,700,000	Advances	–		
T-O Insurance, Inc.					
Costs and Expenses	56,626,713	Insurance expense	(639,293)	30-day, non-interest bearing	Unsecured
Directors					
Expenses	19,657,605	Annual incentives	(17,972,852)	On demand	Unsecured
Stockholders					
Payable	194,318,190	Cash dividend	(5,851,190)	On demand	Unsecured
Payable	187,218,202	Cash and Property Dividend	(184,596,526)	Upon issuance of CAR	Unsecured

PHINMA
The Parent Company and its subsidiaries TA Power, CIPP, TAREC and TA Petroleum have management contracts with Philippine Investment-Management (PHINMA), Inc. up to August 31, 2018 except for TA Power whose contract with PHINMA is up to 2016, renewable thereafter upon mutual agreement. Under these contracts, PHINMA has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. Under the existing management agreement, the Parent Company pays PHINMA a fixed monthly management fee plus an annual incentive based on a certain percentage of the Parent Company's net income.

TA Power
TA Power leases and occupies part of the office space owned by the Parent Company. Also, the Parent Company sold electricity to TA Power in 2013 and 2012. On November 3, 2011, TA Power granted the Parent Company the right to utilize its generator node for the purpose of purchasing electricity that will be sold to a customer. Sales of electricity are based on WESM prices.

On December 26, 2013, a PAMA valid for ten years was entered into by and between TA Power as generator and the Parent Company as Administrator, for the administration and management by the Parent of the entire capacity and net output of TA Power.

CIPP
Effective January 1, 2013, CIPP granted the Parent Company the right to utilize its generator node for the purpose of purchasing electricity that will be sold to the Parent's customers. Sales of electricity are based on WESM prices. On June 26, 2013, a PAMA valid for ten years was entered into by and between CIPP as generator and the Parent Company as Administrator, for the administration and management by the Parent of the entire capacity and net output of CIPP.

PAMA with One Subic Power
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 manages the entire generation output of the 116 MW diesel power plant in Subic, Olongapo City. TA Oil sells the entire capacity of the power plant in the WESM, for a period of five years. TA Oil pays One Subic Power each month all electricity generated by the power plant based on a formula (actual fuel consumption and electricity generated) under the PAMA and shall be payable monthly. The PAMA became effective on February 17, 2011, and was amended on February 27, 2013.

SLTEC
SLTEC leases and occupies part of the office space owned by the Parent Company. Monthly rent is based on a pre-agreed amount subject to 5% escalation rate per annum. The lease agreement is for a period of five years commencing on October 10, 2011. SLTEC reimbursed TA Oil for the cost of the coal power plant under construction and other costs incurred in relation to the coal project in 2011.

PHINMA Corporation
PHINMA Corporation is likewise controlled by PHINMA, INC. through a management agreement. PHINMA Corporation bills the Parent Company for its share in expenses. The Parent Company also receives cash dividends received from PHINMA Corp. Phinma Corporation granted advances to TA Oil for its working capital requirements.

PHINMA Property Holdings Corporation (PPHC)/Union Galvasteel Corporation (UGC) [formerly Atlas Holding Corporation (AHC)]/Asian Plaza, Inc.
PPHC, UGC and Asian Plaza, Inc. are entities under common control.The Company receives cash dividend from these corporations.

T-O Insurance, Inc.
T-O Insurance, Inc. is likewise controlled by PHINMA, INC. through a management agreement. The Company insures its properties through T-O Insurance.

Directors
The Company recognized bonus to directors computed based on net income before the effect of the application of the equity method of accounting.

Retirement Fund
The fund is managed by a trustee under the Phinma Jumbo Retirement Plan. The carrying value and fair value of the retirement fund of the Parent Company amounts to ₱32.32 million as at June 30, 2014 and December 31, 2013.

Investments in government securities, mutual funds and UITFs can be readily sold or redeemed. Marketable equity securities, which can be transacted through the Philippine Stock Exchange, account for less than 1% of plan assets; all other equity securities are transacted over the counter.

Except for the Company's contributions to the fund and benefit to employees, there were no transactions with the fund for the first semester of 2014 and 2013.

The plan assets include shares of stock of the Parent Company with fair value of ₱0.05 million and ₱0.06 million as at June 30, 2014 and December 31, 2013, respectively. The shares were acquired at a cost of ₱0.03 million. There are no restrictions or limitations on the shares and there was no material gain or loss on the shares for the first semester of 2014 and 2013. The voting rights over the shares are exercised through the trustee by the retirement committee, the members of which are directors or officers of the Parent Company.

31. Earnings Per Share

Basic and diluted EPS are computed as follows:

	June 2014	June 2013
(a) Net income	**₱216,808,790**	₱297,325,283
Common shares outstanding at beginning of year (see Note 19)	**4,863,862,757**	4,857,258,870
Weighted average number of shares issued during the year		365,239
(b) Weighted average common shares outstanding	**4,863,862,757**	4,857,624,109
Basic/Diluted EPS (a/b)	**₱0.05**	₱0.06

The Company's stock option has no dilutive effect in 2013. 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.

32. Significant Laws, Commitments and Contracts

Electric Power Industry Reform Act (EPIRA)
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.

Electricity Supply Agreement with Guimelco
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.

Electricity Supply Agreements with Holcim
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 with One Subic Power</u>
On November 18, 2010, TA Oil and One Subic Power, a third party entered into a 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 PAMAbecame effective on February 17, 2011.

<u>Contract to Purchase Generated Electricity with Sem-Calaca Power Corporation</u>
On March 26, 2011, the 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 Company agrees to purchase the 15 MW output of Sem-Calaca Power Plant.

On February 27, 2013, TA Oil amended the existing Contract to Purchase Generated Electricity. Under the new contract, TA Oil can purchase up to 45MW of electricity from Sem-Calaca's power plant. Moreover, TA Oil renewed the contract for another three years from February 1, 2013 to March 25, 2016.

<u>Contracts of Sale of Electricity with Sorsogon I Electric Cooperative, Inc. (SORECO I) and Quezon I Electric Cooperative, Inc. (QUEZELCO)</u>
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. The contract with SORECO I ended on December 25, 2012 and was not renewed.

<u>Contract of Sale of Electricity with Lafarge Republic, Inc,</u>
On July 9, 2012, TA Oil entered into Contract for the Sale of Electricity with Lafarge Republic, Inc. for a period of five years from December 26, 2012 to December 25, 2017. Under the said agreement, TA Oil shall supply all the electricity requirement of Lafarge Cement Plants (located in Bigte and Minuyan, Norzagaray, Bulacan and Mapulo, Taysan, Batangas) in excess of the

Base-Load Supply.

Contract of Sale of Electricity with Philippine Economic Zone Authority (PEZA)

PEZA-Lot1 Base Load

TA Oil entered into Contract for the Sale of Electricity Lot 1 Base Load with PEZA on December 20, 2012 for a period of 5 years. Under the said agreement, TA Oil shall supply the Base Load electricity requirement of PEZA for its Cavite Economic Zone (CEZ). Delivery of electricity commenced on January 26, 2013.

PEZA-Lot 2 Shoulder and Peak Load

TA Oil entered into Contract for the Sale of Electricity Lot 2 Shoulder and Peak Load with PEZA for a period of 5 years. Under this agreement, TA Oil shall supply all of the electricity requirement of PEZA for its CEZ in excess of the base load supply. Delivery of electricity commenced on January 26, 2013.

Tripartite Agreement with PEZA and MERALCO

On January 24, 2013, TA Oil entered into a Tripartite Agreement with PEZA and MERALCOto facilitate the implementation of the Contract for the Sale of Electricity with PEZA before Retail Competition and Open Access. The agreement is effective from January 24, 2013 to June 25, 2013.

Maibarara Geothermal, Inc. (MGI)

As Project Sponsor of the 20 MW Maibarara power plant project, TA Oil 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.

Electricity Sale Contract

On April 17, 2013, TA Oil entered into Electricity Sale Contract with Direct Power Services, Inc. (Direct Power) for a period of 11 years from July 2013 to June 2024. Under the said agreement, TA Oil agreed to supply all the electricity requirements of Direct Power facilities.

Power Sale Contract

On April 23, 2013, TA Oil entered into Power Sales Contract with KEPCO SPC Power Corporation (KEPCO) for a period of five years from May 2013 to April 2018. KEPCO agreed to supply TA Oil the Contract Quantity upon the terms and subject to the condition set out in the Power Service Contract.

Contract to Purchase Generated Energy

TA Oil entered in Contract to Purchase Generated Energy with Vivant Sta. Clara Northern Renewables Corporation (Vivant) on April 26, 2013 for a period of 2 years. TA Oil agreed to purchase 15MW from the 70MW Bakun Hydro Power Plant administered by Vivant.

Electricity Sales Contract

On June 7, 2013, TA Oil entered into Electricity Sales Contract with BATELEC I Electric Cooperative, Inc. (BATELEC I) for a period of 5 years upon ERC approval. TA Oil will supply the Load Following Requirements of BATELEC I.

₱4.3-Billion Term Loan Facility

On December 18, 2013, the Company entered into a ₱4.3 billion Term Loan Facility with Security Bank Corporation (SBC) and Development Bank of the Philippines (DBP). The proceeds will be used to partially finance the 54MW San Lorenzo Wind Farm composed of 27MW wind turbine generators and related roads, jetty, substations, transmission line facilities and submarine cable to connect to the grid. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of 15 years with semi-annual interest payments starting on the date on which the loan is made. The Tranche A's interest rate is to be fixed at the higher of 10-year PDST-F plus a spread of 1.625% or 6.25% for the first 10 years, to be repriced at higher of 5-year PDST-F plus a spread of 1.25% or 6.25% for the last 5 years. The Tranche B will be fixed at higher of interpolated 15-year PDST-F plus a spread of 1.625% or 6.50%.Since the interest rate floor pricing arrangement exposes the Company to a fixing rate higher than the related market rate upon drawdown of the loan, the interest rate floor on the loan is an embedded derivative that needs to be assessed if it is clearly and requires to be bifurcated. The Company has assessed that the interest floor is not clearly and closely related to the host contract, therefore, required to be bifurcated. As at December 31, 2013, the Company did not recognize any derivative liability from the interest rate floor since its fair value is not significant.

Under the terms of the Agreement, the Company shall:
1. Provide equity contributions equivalent to 30% of project cost;
2. Fund any cost overruns on the project and the required debt service reserve amount (DSRA) in the event of delays in obtaining Feed-in-Tariff eligibility or Renewable Energy Payment Agreement; and
3. Redeem the loan in the event that TAREC defaults on the loan and titles to the project properties have not been issued to TAREC, or notwithstanding such titles, lenders fail to acquire title to the project properties due to lack of annotation or third party claims.

As at December 31, 2013, no drawdown has been made. The Company has incurred debt issue costs and other charges amounting to ₱17.09 million in relation to the debt facility and recorded as prepaid expenses, included under "Other current assets" account in the consolidated balance sheet (see Note 10).

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 beknown as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to:

(1) Accelerate the exploration and development of Renewable Energy (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 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 227MW.

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 at 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.

In 2012, TAREC continued the development activities on the 12 wind service contract areas with an aggregate capacity estimated at 400MW. This includes the 54MW San Lorenzo Wind Project which is ready for implementation pending receipt of a notification from the DOE for the project's inclusion in the 200MW installation target for wind.

SC 50 (Offshore Northwest Palawan)
In 2013, the Company commenced negotiations with Frontier Energy Limited, the Operator, regarding a Farm-in Agreement that would provide for the Company's acquisition of 10% participating interest in SC 50.

Subject to execution of said Farm-in Agreement, the Company has committed to subscribe to 136 million in Frontier Oil shares through the latter's forthcoming initial public offering.

Mabini Geothermal Service Contract (Batangas)
TA Oil signed a Memorandum of Agreement with Basic Energy Corporation (Basic) on December 3, 2013, under which TA Oil shall acquire from Basic a 10% participating interest in the Mabini Geothermal Service Contract, which interest may be increased to up to 40%, at the option of TA Oil, after TA Oil completes a gravity program in the contract area at its sole cost.

Operating Lease Commitments
The Parent Company has entered into a lease contract with Guimelco for a parcel of land used only as a 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 lease payments under this operating lease agreement follows:

	June 2014	December 2013
Within one year	**₱400,000**	₱480,000
After one year but not more than five years	-	160,000
	₱4000,000	₱640,000

Finance Lease
The Company has entered into various lease agreements with individual land owners where the present value of the minimum lease payments amounted to at least substantially all of the fair value of the leased assets, which indicates that the risks and rewards relates to the asset are transferred to the Company. These leases are classified as finance leases and have terms of 20 to 25 years.

Future minimum lease payments under these agreements are as follows:

	June 2014	December 2013
Within one year	**₱167,619**	₱650,448
After one year but not more than five years	**6,770,955**	7,123,510
More than 5 years	**52,182,434**	49,413,335
	₱59,121,008	₱57,187,293

33. 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	
	June 2014	December 2013	**June 2014**	December 2013
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱448,879,584**	₱687,992,025	**₱448,879,584**	₱687,992,025
Short-term investments		51,354,062		51,354,062
Receivables:				
Trade	**2,080,179,854**	2,602,841,228	**2,080,179,854**	2,602,841,228
Due from related parties	**964,894**	185,647	**964,894**	185,647
Loan receivable	**–**	–	**–**	–
Others*	**1,395,589**	69,747,878	**1,395,589**	69,747,878
Other noncurrent assets		13,474,425		13,474,425
	2,531,419,921	3,425,595,265	**2,531,419,921**	3,425,595,265
Financial assets at FVPL:				
Investments held for trading	**1,380,235,000**	475,351,797	**1,380,235,000**	475,351,797
Derivative assets**	**11,671,303**	11,671,303	**11,671,303**	11,671,303
	1,391,906,303	487,023,100	**1,391,906,303**	487,023,100
AFS investments:				
Quoted	**₱191,246,667**	₱203,251,223	**₱191,246,667**	₱203,251,223
Unquoted	**83,246,573**	83,246,573	**83,246,573**	83,246,573
Government securities and FXTNs		292,135,812		292,135,812
	274,493,240	578,633,608	**274,493,240**	578,633,608
	₱4,197,819,464	₱4,491,251,973	**₱4,197,819,464**	₱4,491,251,973

	Carrying Value		Fair Value	
	June 2014	December 2013	**June 2014**	December 2013
Financial Liabilities				
Financial liability at FVPL -				
Derivative liabilities***	**₱2,017,000**	₱–	**₱2,017,000**	₱–
Other financial liabilities				
Accounts payable and other current liabilities****	**1,574,019,395**	2,405,703,828	**1,574,019,395**	2,405,703,828
Due to stockholders	**190,391,328**	190,447,716	**190,391,328**	190,447,716
Short-term loans	-	910,000,000	-	910,000,000
Long-term loans	**4,691,097,115**		**4,691,097,115**	
Other noncurrent liabilities*****	**22,384,225**	18,747,425	**22,384,225**	18,747,425
	6,477,892,063	3,524,898,969	**6,477,892,063**	3,524,898,969
	₱6,479,909,063	₱3,524,898,969	**₱6,479,909,063**	₱3,524,898,969

**Excludes nonfinancial asset amounting to ₱20.33 million as at June 30, 2014 and December 31, 2013.*
***Presented as part of other current assets.*
****Presented as part of accounts payable and other current liabilities.*
*****Excludes nonfinancial items amounting to ₱22.38 million and ₱103.20 million as at March 31, 2014 and December 31, 2013, respectively.*
******Excludes nonfinancial item amounting to ₱11.20 million and ₱6.11 million as at March 31, 2014 and December 31, 2013, 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 amounting to ₱13.47 million is based on the discounted value of the expected future cash flow using applicable interest rate for similar type of instrument.

Fair Value Hierarchy
As at June 30, 2014 and December 31, the fair value measurement of the Company's financial assets and liabilities carried at fair value is categorized as follows (in thousands):

	June 2014		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Assets:			
Investments held for trading	**₱1,380,235**	**₱**	**₱1,380,235**
AFS investments	**191,247**	–	**191,247**
Derivative asset	–	**11,671**	**11,671**
	₱1,571,482	**₱11,671**	**₱1,583,153**

	December 2013		
	Level 1	Level 2	Total
		(In thousands)	
Assets:			
Investments held for trading	₱475,271	₱81	₱475,352
AFS investments	203,251	–	203,251
Derivative asset	–	11,671	11,671
	₱678,522	₱11,752	₱690,274

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.

Offsetting of Financial Assets and Financial Liabilities
There is no offsetting of financial assets and financial liabilities and any similar arrangements that are required to be disclosed in the consolidated financial statements as at March 31, 2014 and December 31, 2013.

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$8.00 million and weighted average contracted forward rate of ₱43.927 as at June 30, 2014. The Company has no outstanding currency forward contract as at December 31, 2013.

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. These embedded derivatives are attributable to TA Oil.

The Company’s outstanding embedded forwards have an aggregate notional amount of US$7.07 as at December 31, 2013. The weighted average fixing rate amounted to ₱45.23 to US$1.00 as at December 31, 2013. The net fair value of these embedded derivatives amounted to ₱11.67 million losses at June 30, 2014 and December 31, 2013, respectively.

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

	June 2014	December 2013
Balance at beginning of year	**₱11,671,303**	₱374,671
Net changes in fair value during the year	**(3,339,500)**	31,158,641
Fair value of settled contracts	**1,322,500**	(19,862,009)
Balance at end of year	**₱9,654,303**	₱11,671,303

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

The fair values of the outstanding derivative assets (liabilities) of the Company as at March 31, 2014 and December 31, 2013 are as follows:

	March 2014	December 2013
Embedded	**₱11,671,303**	**₱11,671,303**
Freestanding	**(2,017,000)**	**–**
	₱9,654,303	**₱11,671,303**

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.

34. 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.

	June 2014			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Revenue	**₱622,533,783**	**₱–**	**₱9,864,745**	**₱632,398,528**
Results				
Depreciation and amortization	**44,054,236**	**248,865**	**8,079,391**	**52,382,492**
Reversal for doubtful accounts	**(6,000,000)**	–	–	**(6,000,000)**
Segment profit	**₱433,828,235**	**(₱9,318,527)**	**(₱100,863,940)**	**₱323,645,768**
Operating assets	**₱10,532,060,669**	**₱145,979,467**	**₱3,019,632,270**	**₱13,697,672,406**
Operating liabilities	**₱3,101,853,112**	**₱16,174,060**	**₱3,448,619,206**	**₱6,566,646,378**
Other disclosure				
Capital expenditure	**₱1,500,845,924**	**₱-**	**₱10,079,900**	**₱1,510,925,824**

a. Revenue for each operating segment does not include interest and other financial, dividend and rental income amounting to ₱0.80 million, ₱6.83 million and ₱2.24 million, respectively.

b. Profit for operating segment does not include general and administrative expenses, foreign exchange loss and financial charges amounting to ₱111.16 million. Other income - net not included in the profit for operating segment amounted to ₱0.43 million.

c. Segment assets do not include cash and cash equivalents and investments held for trading amounting to ₱1.83 billion, receivables and other current assets totaling ₱335.44 million and property, plant and equipment, investment in associates, AFS investments, investment property, other noncurrent assets and deferred tax assets amounting to ₱855.07 million as these are managed on a group basis.

d. Segment liabilities do not include accounts payable and other current liabilities and due to stockholders of ₱335.67 million, long-term loan of ₱2.97 billion and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱141.85 million.

e. Capital expenditure consists of additions to property, plant and equipment and acquisition through business combination.

	June 2013			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Revenue	₱977,822,893	₱–	₱50,681,404	₱1,028,504,297
Results				
Depreciation and amortization	35,597,737	233,799	7,615,596	43,447,132
Segment profit	₱460,725,738	(₱7,645,042)	(₱44,551,050)	₱408,529,646
Operating assets	₱4,200,267,743	₱88,297,061	₱3,611,241,961	₱7,899,806,765
Operating liabilities	₱819,243,381	₱16,269,611	₱110,876,092	₱946,389,084
Other disclosure				
Capital expenditure	₱15,916,092	₱-	₱1,010,354	₱16,926,446

a. Revenue for each operating segment does not include interest and other financial, dividend and rental income amounting to ₱40.97 million, ₱6.52 million and ₱3.19 million, respectively.

b. Profit for operating segment does not include general and administrative expenses, foreign exchange loss and mark to market gain on derivatives amounting to ₱75.29 million. Other income - net not included in the profit for operating segment amounted to ₱19.94 million.

c. Segment assets do not include cash and cash equivalents and investments held for trading amounting to ₱2.79 billion, receivables and other current assets totaling ₱178.43 million and property, plant and equipment, investment in associates, AFS investments, investment property, other noncurrent assets and deferred tax assets amounting to ₱638.75 million as these are managed on a group basis.

d. Segment liabilities do not include accounts payable and other current liabilities of ₱86.41 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱24.47 million.

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

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated revenues dropped to ₱309.80 million in the second quarter of 2014 from ₱ 610.31 million in the same period last year. Following are the material changes in the revenues in the Consolidated Statements of Income between the second quarter of 2014 and 2013:

- Generation revenues went down from ₱255.62 million to ₱27.04 million due to decrease in energy sold by its wholly owned power plants in Bulacan and La Union brought about by lower WESM prices.
- Net trading income of ₱272.30 million was 27.26% lower as compared with ₱374.34 million reported in the same period last year as a result of higher cost of power per kWh.
- Interest and other financial income of ₱2.26 million was reported in the second quarter of 2014 due to income from changes in fair value of investment held for trading. For the same period last year, interest and other financial losses was ₱22.59 million due to loss from changes in fair value of available-for-sale investments.
- Dividend income rose from ₱1.39 million to ₱6.82 million as dividends were received from PHINMA Corporation, Union Galvasteel Corporation and Asian Plaza, Inc. in the second quarter of 2014.
- Rental income decreased from ₱1.54 million to ₱1.37 million as office space previously for lease was used by the Company for its operations.

Consolidated costs and expenses dropped to ₱134.85 million in the second quarter of 2014 from ₱415.87 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 2014 and 2013:

- Cost of power generation dropped by 92.35% from ₱339.73 million last year to ₱25.99 million as a result of lower energy generated.
- General and administrative expenses increased to ₱108.86 million from ₱76.14 million brought about by higher taxes and licenses, insurance, dues and subscriptions.

Other expenses of ₱49.22 million were reported in the second quarter of 2014 as compared with other income of ₱1.02 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 2014 and 2013:

- The Company reported a net gain on its currency forward contracts of ₱2.03 million in the second quarter of 2014 due to the appreciation of the peso vis-a-vis the US dollar on the settlement date of the forward contracts. Net loss on its currency forward contracts of ₱8.85 million was reported in the second quarter of 2013 due to the depreciation of the peso vis-a-vis the US dollar in the settlement date of the forward contracts.
- Interest expense rose to ₱49.92 million from ₱0.84 million due to interest expense incurred on short-term and long-term loans.
- The Company reported a foreign exchange loss of ₱.83 million from its foreign currency denominated holdings in the second quarter of 2014 as compared with ₱7.68 million foreign exchange gain in the same period last year. The latter includes foreign exchange gain brought about by the sale of US dollar bonds and due to depreciation of peso.
- Amortization of leasehold rights of ₱4.10 million was reported in the second quarter of 2014.

- Gain on sale of available-for-sale investments of ₱14.33 thousand was reported in the second quarter of 2014 as compared with ₱202.85 thousand in the same period last year due to lower market value of investments in the second quarter of 2014.
- Gain on sale of property, plant and equipment of ₱142.86 thousand was reported in the second quarter of 2013 due to the disposal of fully depreciated transportation equipment.
- Other income of ₱4.29 million was reported in the second quarter of 2014 as compared with ₱2.69 million in the same period last year.

Equity in net earnings of associates and joint ventures of ₱17.75 million was reported in the second quarter of 2014 brought about by net income reported by Maibarara Geothermal, Inc. (MGI) where the Company has 25% interest. MGI started its commercial operation on February 2014. Equity in net losses of associates and joint ventures of ₱ 5.74 million was reported in the second quarter of 2013.

As a result of the lower taxable income, provision for income tax decreased by 36.36% from ₱57.27 million to ₱36.45 million in the second quarter of 2014, which is net of benefit from deferred income tax of ₱8.46 million this quarter versus ₱2.80 million in the same quarter last year.

A net income of ₱107.02 million was reported for the second quarter of 2014 as compared with ₱132.44 million in the same period last year.

Consolidated revenues went down to ₱632.40 million in the first semester of 2014 from ₱1.03 billion in the same period last year. Following are the material changes in revenues in the Consolidated Statements of Income between the first semester of 2014 and 2013:

- Generation revenues went down from ₱₱267.05 million to ₱41.53 million due to decrease in energy sold by its wholly owned power plants in Bulacan and La Union brought about by lower WESM prices.
- Net trading income of ₱581.01 million was 18.26% lower as compared with ₱710.77 million reported in the same period last year as a result of higher cost of power per kWh.
- Interest and other financial income went down from ₱40.97 million to ₱0.80 million in the first semester of 2014 due to loss from changes in fair value of available-for-sale investments and lower interest income brought about by lower level of placements.
- Rental income went down from ₱3.19 million to ₱2.24 million as office space previously for lease was used by the Company for its operations.

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Consolidated costs and expenses dropped to ₱248.71 million in the first semester of 2014 from ₱603.71 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 2014 and 2013:

- Cost of power generation decreased from ₱451.10 million last year to ₱39.19 million as a result of lower energy generated.
- General and administrative expenses increased to ₱209.52 million from ₱152.62 million brought about by higher taxes and licenses, insurance, dues and subscriptions.

Other expenses of ₱70.13 million were reported in the first semester of 2014 as compared with other income of ₱7.15 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 2014 and 2013:

- Net loss on its currency forward contracts decreased from ₱6.66 million to ₱3.34 million in the second semester of 2014 due to the appreciation of the peso vis-a-vis the US dollar.
- Interest expense rose to ₱68.81 million from ₱1.02 million due to interest expense incurred on short-term and long-term loans.

- The Company reported a foreign exchange loss of ₱0.72 million from its foreign currency denominated holdings in the first semester of 2014 as compared with ₱6.60 million foreign exchange gain in the same period last year. The Company has no foreign currency holdings as of June 30 this year.
- Amortization of leasehold rights of ₱4.10 million was reported in the second quarter of 2014.
- Gain on sale of available-for-sale investments of ₱102.01 thousand was reported in the first semester of 2014 as compared with ₱224.91 thousand in the same period last year due to lower market value of investments in the first semester of 2014.
- Gain on sale of property, plant and equipment of ₱1.34 thousand was reported in the first semester of 2014 as compared with ₱322.95 thousand for the same period last year due to the disposal of fully depreciated transportation equipment in the first semester of 2013.
- Reversal of provision for doubtful accounts of ₱6.00 million was reported in the first semester of 2014.
- Other expenses of ₱0.75 million was reported in the first semester of 2014 as compared with ₱7.69 million other income reported in the same period last year. The latter consists mainly of miscellaneous income from insurance recovery of Trans-Asia Power Generation Corp.

Equity in net earnings of associates and joint ventures of ₱10.08 million was reported in the first semester of 2014 brought about by net income reported by MGI Equity in net losses of associates and joint ventures of ₱ 23.41 million was reported in the first semester of 2013.

As a result of the lower taxable income, provision for income tax decreased by 3.93% from ₱111.20 million to ₱106.84 million in the first semester of 2014, which is net of benefit from deferred income tax of ₱0.36 million this semester versus ₱3.20 million benefit from deferred income tax in the same semester last year.

A net income of ₱216.81 million was reported for the first semester of 2014 as compared with ₱297.33 million in the same period last year.

Total consolidated assets increased to ₱13.70 billion as of June 30, 2014 from ₱10.99 billion as of December 31, 2013. Total consolidated liabilities increased to ₱6.57 billion from ₱3.86 billion. Equity remained steady at ₱7.13 billion.

Following are the material changes in the Consolidated Balance Sheet accounts between June 30, 2014 and December 31, 2013:

- Cash and cash equivalents decreased to ₱448.88 million from ₱687.99 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of ₱51.35 million and available-for-sale investments of ₱292.14 million were terminated and used to fund the Company's wind project.
- Investments held for trading increased from ₱475.35 million to ₱1.38 billion. The Consolidated Statements of Cash Flows show details of material changes in investments held for trading.
- Receivables went down to ₱2.14 billion from ₱2.67 billion mainly due to reclassification of trade receivables as noncurrent assets.
- The increase in fuel and spare parts from ₱243.76 million to ₱289.54 million was brought about by the increase in bunker fuel purchased and increase in fuel price.
- Other current assets increased to ₱565.52 million from ₱447.43 million brought about by the creditable withholding taxes of CIP II Power Corporation (CIP II) and Trans-Asia Power Generation Corporation (TA Power) and increase in deposit to supplier.

- Property, plant and equipment increased from ₱2.39 billion to ₱3.95 billion due to additional capital expenditures and construction in progress of TAREC.
- Investments in associates and interests in joint venture increased from ₱3.25 billion to ₱3.75 billion due to additional investment in SLTEC and MGI.
- Intangible assets increased from ₱96.29 million to ₱384.19 million due to goodwill and leasehold rights recognized in the acquisition of One Subic Power Generation Corporation (One Subic) based on tentative fair values and additional option fee in Service Contract 52.
- Deferred income tax asset decreased from ₱47.03 million to ₱24.79 million due to the tax effect of net operating loss carryover (NOLCO) applied by CIP II.
- Other noncurrent assets increased from ₱15.83 million to ₱458.37 million due to the reclassification of trade receivables collectible beyond 12 months.
- The decrease in accounts payable and other current liabilities from ₱2.51 billion to ₱1.47 billion was brought about by the decrease in trade payables.
- The Company settled its short-term loans in the first semester of 2014.
- Income and withholding taxes payable went down from ₱48.62 million to ₱23.32 million due to lower income taxes payable and offsetting by prepaid taxes and creditable withholding taxes.
- Pension and other post-employment benefits increased from ₱33.63 million to ₱38.59 million due to additional pension expense accrued in the first semester of 2014
- The Company availed of a ₱4.69 billion long-term loan, net of ₱28.90 million debt issuance cost, in the first semester of 2014 to fund its wind project.
- Deferred income tax liabilities decreased from ₱142.46 million to ₱116.31 million due to the tax effect of TA Power's and CIP's depreciation of the excess of fair value over the power plants' costs.
- Other noncurrent liabilities increased from ₱24.86 million to ₱33.68 million as the latter includes other noncurrent liabilities of One Subic which was purchased by TA Power on May 12, 2014.
- Other equity reserve – stock option plan increased from ₱8.77 million to ₱12.92 million due to accrual of equity-based compensation expense in the first semester of 2014.
- Unrealized fair value gains on available-for-sale investments went down from ₱91.82 million to ₱80.05 million due to lower market value of investments.
- Accumulated share in other comprehensive losses from forward contracts of a joint venture amounting to ₱4.11 million was reported as of June 2014 due to the appreciation of the peso vis-a-vis the US dollar on June 30, 2014. As of December 31, 2013, the accumulated share in other comprehensive income of a joint venture was ₱4.69 million

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

KPI	Formula	30-Jun-14 Unaudited	31-Dec-13 Unaudited	Increase (Decrease) Difference	%
Liquidity Ratios					
Current ratio	Current assets / Current liabiltiies	2.86	1.33	1.53	115
Acid test ratio	Cash + Short-term investments + Accounts Receivables + Other liquid assets / Current liabilities	2.36	1.14	1.21	106
Solvency Ratios					
Debt/Equity ratio	Total Liabilities / Total Equity	0.92	0.54	0.38	70
Asset to equity ratio	Total Assets / Total Equity	1.92	1.54	0.38	25
Interest coverage ratio	Earnings before interest & tax (EBIT) / Interest expense	5.89	N.A	N.A	N.A
Net Debt to Equity Ratio	Debt - Cash & cash equivalents / Total equity	0.66	0.33	0.33	101

KPI	Formula	30-Jun-14 Unaudited	30-Jun-13 Unaudited	Increase (Decrease) Difference	%
Profitability Ratios					
Return on equity	Net income after tax / Average stockholder's equity	3.04%	4.28%	(0.01)	(29)
Return on assets	Net income before taxes / Total assets	2.62%	5.28%	(0.03)	(50)
Asset turnover	Revenues / Total assets	5.12%	13.30%	(0.08)	(61)

Current Ratio

Current ratio and acid test ratio increased due to a 54% decrease in current liabilities brought about by the settlement of short-term loans in the first semester of 2014.

Debt to equity ratio

Debt to equity ratio increased from 0.54 to 0.92 due to long-term loan availed in the first semester of 2014.

Asset to equity ratio

Asset to equity ratio went up by 25% as total assets increased by 24.7% due to the Company's various projects and debt financing as compared to 0.1% increase in total equity.

Interest coverage ratio and Net debt to equity ratio

Interest coverage ratio was 5.89% and net debt to equity ratio increased from 0.33 to 0.66 due to long-term loans availed in the first semester of 2014.

Return in equity

Return on equity went down from 4.28% to 3.04% due to lower income in the first semester of 2014.

Return on assets

Return on assets dropped from 5.28% to 2.62% as total assets increased by 60% and net income decreased by 21% in the first semester of 2014.

Asset turnover

Asset turnover went down by 61% as revenues decreased by 39% and total assets increased by 60%.

During The Six Months Period of 2014:

- 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.
- TA Power purchased 100% of the outstanding shares of One Subic on May 12, 2014.
- 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 except as disclosed in Note 9 of the Consolidated Financial Statements pertaining to ERC Case No. 2014-021 MC voiding the WESM prices of November and December 2013.
- 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.

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

PROGRESS REPORT
For the Quarter, April 1, 2014 to June 30, 2014

OIL PRODUCTION

SC 14 B-1 North Matinloc (Northwest Palawan)

The North Matinloc field produced 2,111 barrels of oil during the quarter, bringing cumulative production since resumption of operations in February 2009 to 92,397 barrels.

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

OIL EXPLORATION

SC 6 Block A (Northwest Palawan)

Processing of the 500 sq km 3D seismic data acquired in 4Q 2013 was completed.

Trans-Asia, through its wholly-owned subsidiary, Trans-Asia Petroleum Corporation ("TA Petroleum"), has 2.334% participating interest in SC 6 Block A.

SC 6 Block B (Northwest Palawan)

The consortium commenced geological and geophysical studies committed under the first two years of the second extension period of the service contract.

Trans-Asia, through TA Petroleum, owns 14.063% participating interest in SC 6 Block B.

SC 51 (East Visayas)

Otto Energy Investments, Ltd., ("OEIL") notified the DOE and partners of its withdrawal from SC 51. Approval of the withdrawal is pending with the DOE.

Trans-Asia, through TA Petroleum, holds 6.67% participating interest in SC 51.

SC 55 (Ultra Deepwater West Palawan)

OEIL continued farmout efforts and preparations for the drilling of an exploratory well.

Trans-Asia, through its subsidiary Palawan55 Exploration & Production Corporation, has 6.82% participating interest in SC 55.

SC 69 (Camotes Sea)

Transfer of Otto Energy Philippines interests to TA Petroleum and the other remaining party is under processing by the DOE.

The remaining parties' request for extension of the term of SC 69 until 31 December 2014 is pending with the DOE.

Trans-Asia, through TA Petroleum, holds 6% participating interest in SC 69.

GEOTHERMAL ENERGY DEVELOPMENT

Mabini Geothermal Service Contract (Batangas)

Trans-Asia completed the first phase of a gravity survey in the contract area. Preparations for a second phase are underway.

Pursuant to the Memorandum of Agreement with Basic Energy Corporation dated December 2013, Trans-Asia shall acquire from Basic a minimum of 10% but not more than 40% participating interest in the service contract.

HYDROPOWER ENERGY DEVELOPMENT

The DOE awarded Trans-Asia on 7 July 2014 three Hydropower Energy Service Contracts over certain areas in Pililia, Rizal; Ilagan, Isabela, and Buguias, Benguet.

Certified Correct:

RAYMUNDO A. REYES, JR.
SVP-Energy Resources Development

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, 2014 covered by this report:

Date of Filing	Items Reported
April 11, 2014	Please be informed that Trans-Asia Oil and Energy Development Corporation (the "Company") executed a Php 1 Billion 5-year Term Loan Agreement with Security Bank Corporation and a Php 1.5 Billion 10-year Corporate Note Facility with China Banking Corporation. Proceeds of the loans will be used to fund the Company's projects and working capital.
April 21, 2014	This refers to your letter dated April 21, 2014, requesting confirmation and/or clarification of the news article entitled "Power to take up bulk of Phinma capex for 2014" published on April 21, 2014 at Inquirer.net. The article read as follows: *The Phinma Group has set a capital expenditure (capex) program of P11.8 billion for 2014, and much of it will be taken up by its flagship energy unit Trans-Asia Oil and Energy Development Corp.* *Regina B. Alvarez, Phinma's SVP for Finance, told reporters that around P10.8 billion had been set aside for Trans-Asia. That is 91.5 percent of the group's budget pie. The rest of the capex, or P60 million, will be taken up by Union Galvasteel Corp.* *This year, Trans-Asia is embarking on several projects with Trans-Asia Renewable Energy Corp. (Tarec) and South Luzon Thermal Energy Corp. (Sltec), a joint venture between Trans-Asia and AC Energy Holdings Inc. of the Ayala Group.* *The 54-megawatt San Lorenzo wind farm in Guimaras, the first of Tarec's wind project portfolio, is under construction and may be completed in the third quarter of 2014.* *Sltec is undertaking the 270-megawatt clean coal power project in Calaca, Batangas. The project is expected be fully operational by 2016, with the first phase to be completed by end-2014 and the second phase by 2015. Each phase involves 135-megawatt of capacity.*

Phinma's flagship company in the energy industry plans to expand capacity to "close to 500 megawatts" or so by 2016, president and CEO Francisco L. Viray said in an interview on the sidelines of the parent firm's stockholders meeting. Presently the firm has 250 megawatts in capacity.

Trans-Asia recently took on a P1-billion, 5-year term loan agreement with Security Bank Corp. and a P1.5-billion 10-year corporate note facility with China Banking Corp. Proceeds of the loans will be used to fund the company's projects.

Beyond coal and wind, Trans-Asia may go into hydroelectric power and gas-fired power plant operation, Viray said. The company has asked the Department of Energy to grant it a service contract for a 10-megawatt hydropower project in Ilagan, Isabela."

Trans-Asia hereby confirms the accuracy of the news article as published.

April 25, 2014

Please be informed that Trans-Asia Oil and Energy Development Corporation (the "Company") executed today a Php 500 Million 10-year Fixed Rate Corporate Notes Facility Agreement with China Bank Corporation and Banco De Oro Unibank, Inc. Proceeds of the loan will be used to fund the Company's projects and working capital.

May 02, 2014

Please be informed that Otto Energy Investments, Ltd. ("Otto"), the Operator, notified partners that it has elected to withdraw from SC 51.

Otto recently completed its post-well analysis of the Duhat-2 well which was drilled in July 2013. The Duhat-2 well was abandoned before reaching its target horizon after the well encountered high pressure water at high flow rates.

Otto's withdrawal from SC 51 and transfer of its participating interest to the remaining parties are subject to the approval of the Department of Energy.

Trans-Asia Petroleum Corporation, subsidiary of Trans-Asia Oil and Energy Development Corporation, currently has a 6.67% participating in SC 51.

May 07, 2014

Please be informed that Palawan55 Exploration & Production Corporation ("Palawan55"), a subsidiary of Trans-Asia, has been notified by Otto Energy Investments, Ltd. ("OEL") of the confirmation by the Department of Energy of the variation to the work program timing following delayed issuance of the

Strategic Environmental Plan from the Palawan Council for Sustainable Development in 2012/13.

Accordingly, the revised timing for work program commitment is as follows:

Sub-Phase	Work Program	Revised Work Schedule
SP4	Drill One (1) deepwater well	6 Aug 2011 – 23 Dec 2014
SP5	Drill One (1) deepwater well	23 Dec 2014 – 23 Dec 2016

The revision represents an extension of approximately 14 months.

OEL further advised that for several months now they have been into a farm-out process to be able to bring-in a new joint venture partner suitably qualified for deepwater operations.

The current distribution of participating interests in SC 55 is as follows: Palawan55, 6.82%; OEP (Otto Energy Philippines), 60%; and OEL, 33.18%.

May 12, 2014

Please be informed that Trans-Asia Power Generation Corporation ("TAPGC"), a wholly owned subsidiary of Trans-Asia Oil and Energy Development Corporation ("TA") purchased today from Udenna Energy Corporation ("Udenna"), the entire outstanding shares of stock of One Subic Power Generation Corporation ("OSPGC"), the lessee and operator of the 116 Megawatt Diesel Power Plant located in Subic Bay Freeport Zone.

The acquisition of OSPGC added to TA's growing generation portfolio, which already includes TA's diesel power plants in Norzagaray, Bulacan, Bacnotan, La Union and Guimaras; the Maibarara Geothermal plant, a portion of the Sem-Calaca power plant, and a 40 Megawatt capacity from the Unified Leyte geothermal facilities. Currently in construction are TA's 52 megawatt wind farm in San Lorenzo, Guimaras and the 135 Megawatt coal power plant in Calaca, Batangas, through South Luzon Thermal Energy Corp., a 50-50 joint venture with AC Energy Holdings, Inc.

June 09, 2014

This refers to your letter dated 09 June 2014, requesting confirmation and/or clarification of the following news articles posted online today:

Trans-Asia may get power barges
Manila Standard Today (Internet Edition)
Posted June 09, 2014

"POWER Sector Assets and Liabilities Management Corp. plans to negotiate with Trans-Asia Oil and Energy Development Corp., the second highest bidder for three power barges in Iloilo, after the winning company pulled out from the deal in March.

Trans-Asia, the power unit of the Phinma Group, emerged as the second highest bidder, with an offer of P370.52 million, lower than the bid of SPC Island Power which submitted a bid of P545.89 million.

'We have requested OGCC for an opinion whether we can legally enter into a negotiation with the second winning bidder,' PSALM president and chief executive Emmanuel Ledesma Jr. said.

Apo geothermal draws nine interested parties
BusinessWorld Online
Posted June 09, 2014

"NINE investor groups have formally expressed interest in the September auction for the Mt. Apo geothermal power plants, the Power Sector Assets and Liabilities Management Corp. (PSALM) said over the weekend.

'The selection and appointment of the independent power producer administrator (IPPA) for the output of the Mindanao I and II (Mt. Apo 1 and 2) Geothermal Power Plants has drawn the interest of nine investor groups,' PSALM President and Chief Executive Officer Emmanuel R. Ledesma, Jr. said in a statement.

These firms have been identified as: EDC Mindanao Geothermal Inc.; FDC Misamis Power Corp.; GDF SUEZ Energy Philippines, Inc.; Good Friends Hydro Resources Corp.; SMC Global Power Holdings Corp,; SPC Power Corp.; Therma Southern Mindanao, Inc.; Trans-Asia Oil and Energy Development Corp.; and Vivant Geo Power Corp.

Mr. Ledesma made the announcement following the closing of the deadline for fulfilling initial bid requirements.

We confirm that Trans-Asia and PSALM are exploring the possibility of Trans-Asia's acquisition of the 32-MW Power Barge 101 and 32-MW Power Barge 102 located in Obrero, Iloilo City and 32-MW Power Barge 103 located in Estancia Iloilo (the "Power Barges"). Trans-Asia is awaiting the outcome of the termination notice sent by the winning bidder and the OGCC's opinion on the legality of a negotiated sale of the Power Barges.

On the second news article, Trans-Asia confirms that it has expressed interest in the proposed Independent Power Producer

Administrator Contract for the Output of Mindanao I and II (Mt. Apo 1 and 2) Geothermal Power Plants.

TRANS-ASIA
OIL & ENERGY DEVELOPMENT
A PHINMA Company

July 15, 2014

THE DISCLOSURE DEPARTMENT
4/F Philippine Stock Exchange, Inc.
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center, Pasig City

Attention: **Janet Encarnacion**
OIC, Disclosure Department

Gentlemen:

In compliance with the disclosure requirements of the Philippine Stock Exchange (PSE) on the use of proceeds from Stock Rights Offerings (SROs), please be advised that as of June 30, 2014, Trans-Asia Oil and Energy Development Corporation (TA):

- has used P237.8 Million from the P607.8 Million gross proceeds of the 2007 SRO.
- has used P1.162 Billion from the P1.165 Billion gross proceeds of the 2011 SRO.
- has used P1.627 Billion from the P1.627 Billion gross proceeds of the 2012 SRO.

Attached is the schedule of disbursements of proceeds from SROs.

Very truly yours,

Mariejo P. Bautista
VP – Controller

Trans-Asia Oil & Energy Development Corporation (TA)
Schedule of Disbursements from the Gross Proceeds of the 2007 Stock Rights Offering (SRO)
As of June 30, 2014
(Amounts in Millions)

	Estimate			Actual disbursement for the period Nov. 28, 2007 to March 31, 2014			Actual disbursement for the period April - June 2014			Balance of Gross Proceeds As of June 30, 2014		
Original Gross Proceeds - 2007 SRO			**607.8**			**607.8**			**-**			**607.8**
Application of Gross Proceeds												
Renewable Energy Projects												
Previously earmarked for CIPP Plant Expansion	378.5			41.6						41.6		
Previously earmarked for Mineral Projects	34.6	413.1		-	41.6			-		-	41.6	
General Corporate Purposes												
Repay Loan to Unionbank	32.7			32.7						32.7		
Repay Loan to Equitable PCI bank	150.0	182.7		150.0	182.7			-		150.0	182.7	
Fund Petroleum and Mineral Exploration Projects												
Area 8	5.3			4.8						4.8		
SC 51	0.7			-						-		
SC 55	0.7			-						-		
Camarines Norte	2.8			-						-		
Kalinga	13.5			-						-		
Other Areas	16.4			-						-		
Reallocated to Renewable Energy Projects	(34.6)	4.8			4.8			-		-	4.8	
Pay Expenses in Relation to the Stock Rights Offer												
Documentary Stamp Tax	2.8			2.8						2.8		
Professional Fees	1.9			4.1						4.1		
PSE and SEC listing and Processing Fees	1.2			1.2						1.2		
Stock Transfer Agent Fee	0.5			0.2						0.2		
Administrative (printing of notices, subscription agreements, stock certificates, mailing costs and miscellaneous expenses)	0.8	7.2	607.8	0.4	8.8	237.8		-	-	0.4	8.8	237.8
Balance			-			370.0			-			370.0

Prepared by:

Yolanda D. Añonuevo
Assistant Controller

Noted by:

Marlejo P. Bautista
VP - Controller

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Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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Fax: (632) 819 0872
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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT OF FACTUAL FINDINGS

The Stockholders and the Board of Directors
Trans-Asia Oil and Energy Development Corporation
11th Floor, PHINMA Plaza
39 Plaza Drive, Rockwell Center
Makati City

We are pleased to submit our report on the agreed-upon procedures performed with respect to the disbursements form the gross proceeds of the 2011 stock rights offering of Trans-Asia Oil and Energy Development Corporation (the Company) as at June 30, 2014 and for the period April 1, 2014 to June 30, 2014. Our engagement was undertaken in accordance with the Philippine Standards on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. The procedures were performed to assist the Company in connection with its reporting requirements with the Philippine Securities and Exchange Commission (SEC).

Shown below are the procedures we performed and our findings:

1. We obtained the Schedule of Disbursements from the Gross Proceeds of the 2011 Stock Rights Offering as at June 30, 2014 and for the period from April 1, 2014 to June 30, 2014 (the "Schedule") and checked its mathematical accuracy. We noted no exceptions. The schedule shows the following information:
   a. Estimated gross proceeds and estimated application of gross proceeds
   b. Actual gross proceeds
   c. Actual disbursements for the period May 30, 2011 to March 31, 2014
   d. Actual disbursements for the period April 1, 2014 to June 30, 2014
   e. Balance of the gross proceeds as at June 30, 2014.

2. Using the information obtained in No. 1, we performed the following:
   a. Traced the estimated gross proceeds and estimated application of gross proceeds to the Schedule of Disbursements from the Gross Proceeds of the 2011 Stock Rights Offering for the period January 1, 2014 to March 31, 2014 submitted to SEC and noted no exceptions.
   b. Traced the actual disbursements for the period May 30, 2011 to March 31, 2014 to the Schedule of Disbursements from the Gross Proceeds of the 2011 Stock Rights Offering for the period January 1, 2014 to March 31, 2014 submitted to SEC and noted no exceptions.

3. From the schedule obtained in No. 1, we noted that there are no actual disbursements for the period April 1, 2014 to June 30, 2014.

The sufficiency of the procedures is solely the responsibility of the Company's management. Consequently, we make no representations regarding the sufficiency of the procedures described in the foregoing either for the purpose of which this report has been requested of for any other purpose.

The above procedures do not constitute either an audit or a review made in accordance with the Philippine Standards on Auditing or Philippine Standards on Review Engagements, thus we do not express any assurance on the financial statements of the Company taken as a whole.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Philippine Standards on Auditing or Philippine Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is intended solely for the purpose set forth in the first paragraph of this report and for your information. It is not to be used for any other purpose or to be distributed to any parties. This report relates only to the accounts and items specified above and do not extend to the financial statements of the Company, taken as a whole.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-3 (Group A),
January 18, 2013, valid until January 17, 2016
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225193, January 2, 2014, Makati City

July 10, 2014

Trans-Asia Oil & Energy Development Corporation (TA)
Schedule of Disbursements from the Gross Proceeds of the 2011 Stock Rights Offering
As at June 30, 2014 and For the Period April 1, 2014 to June 30, 2014
(Amounts in Millions)

	Estimate			Actual Disbursement For the Period May 30, 2011 to March 31, 2014			Actual Disbursement For the Period April 1, 2014 to June 30, 2014			Balance of the Gross Proceeds As at June 30, 2014		
Original Gross Proceeds - 2011 SRO			1,165.2			1,165.2			–			1,165.2
Application of Gross Proceeds												
Equity Investment in Coal Power Projects		1,044.1			1,044.1			–			1,044.1	
Equity Investment in Maibarara Geothermal Inc.		105.0			105.0			–	–		105.0	
Pay Expenses in Relation to the Stock Rights Offer												
Documentary stamp tax	5.8			5.8			–			5.8		
Professional fees	4.0			–			–			–		
SEC Fees for increase in authorized capital stock and notice of excemption	3.5			5.6			–			5.6		
PSE listing and processing fees	1.3			1.2			–			1.2		
Other expenses	1.5	16.1	1,165.2	0.4	13.0	1,162.1	–	–	–	0.4	13.0	1,162.1
Balance			–			3.1			–			3.1

Prepared by:

Yolanda D. Añonuevo
Assistant Controller

Noted by:

Mariejo P. Bautista
VP - Controller

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The Stockholders and the Board of Directors
Trans-Asia Oil and Energy Development Corporation
11th Floor, PHINMA Plaza
39 Plaza Drive, Rockwell Center
Makati City

We are pleased to submit our report on the agreed-upon procedures performed with respect to the disbursements form the gross proceeds of the 2012 stock rights offering of Trans-Asia Oil and Energy Development Corporation (the Company) for the period April 1, 2014 to June 30, 2014. Our engagement was undertaken in accordance with the Philippine Standards on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information.* The procedures were performed to assist the Company in connection with its reporting requirements with the Philippine Securities and Exchange Commission (SEC).

Shown below are the procedures we performed and our findings:

1. We obtained the Schedule of Disbursements from the Gross Proceeds of the 2012 Stock Rights Offering for the period April 1, 2014 to June 30, 2014 (the "Schedule") and checked its mathematical accuracy. We noted no exceptions. The schedule shows the following information:
   a. Estimated gross proceeds and estimated application of gross proceeds
   b. Actual gross proceeds
   c. Actual disbursements for the period November 14, 2012 to March 31, 2014
   d. Actual disbursements for the period April 1, 2014 to June 30, 2014
   e. Balance of the gross proceeds as at June 30, 2014.

2. Using the schedule obtained in No. 1, we performed the following:
   a. Traced the estimated gross proceeds and estimated application of gross proceeds to the Schedule of Disbursements from the Gross Proceeds of the 2012 Stock Rights Offering for the period January 1, 2014 to March 31, 2014 submitted to SEC, which were also traced to the estimated amounts indicated in the prospectus. We noted no exceptions.
   b. Traced the actual gross proceeds to the Schedule of Disbursements from the Gross Proceeds of the 2012 Stock Rights Offering for the period January 1, 2014 to March 31, 2014 submitted to SEC, which were also previously traced to bank validated deposit slips and bank statements in prior year. We noted no exceptions.

c. Traced the actual disbursements for the period November 14, 2012 to March 31, 2014 to the Schedule of Disbursements from the Gross Proceeds of the 2012 Stock Rights Offering for the period January 1, 2014 to March 31, 2014 submitted to SEC and noted no exceptions.
d. Vouched the actual disbursements for the period April 1, 2014 to June 30, 2014 to supporting documents such as check voucher, bank statements, and official receipt. We did not note any exceptions.

The sufficiency of the procedures is solely the responsibility of the Company's management. Consequently, we make no representations regarding the sufficiency of the procedures described in the foregoing either for the purpose of which this report has been requested of for any other purpose.

The above procedures do not constitute either an audit or a review made in accordance with the Philippine Standards on Auditing or Philippine Standards on Review Engagements, thus we do not express any assurance on the financial statements of the Company taken as a whole.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Philippine Standards on Auditing or Philippine Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is intended solely for the purpose set forth in the first paragraph of this report and for your information. It is not to be used for any other purpose or to be distributed to any parties. This report relates only to the accounts and items specified above and do not extend to the financial statements of the Company, taken as a whole.

SYCIP GORRES VELAYO & CO.

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July 10, 2014

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As at June 30, 2014 and For the Period April 1, 2014 to June 30, 2014
(Amounts in Millions)

	Estimate			Actual Disbursement For the Period November 14, 2012 to March 31, 2014			Actual Disbursement For the Period April 1, 2014 to June 30, 2014			Balance of the Gross Proceeds As at June 30, 2014		
Original Gross Proceeds - 2012 SRO			**1,627.0**			**-**			**-**			**1,627.0**
Application of Gross Proceeds												
Equity Investment in 54MW wind energy project **in San Lorenzo, Guimaras**		1,000.0			989.5			10.5			1,000.0	
Equity Investment in second 135MW unit of the **clean coal-fired power plant in Calaca, Batangas,** ***and/or other Power project Opportunities and Possible*** **investments in privatization of NPC and PSALM**		612.0			589.00						589.0	
Pay Expenses in Relation to the Stock Rights Offer												
SEC Fees for increase confirmation and exemption	1.6			1.6			-			1.6		
PSE listing and processing fees	2.4			1.7			-			1.7		
Documentary stamp tax	8.1			8.1			-			8.1		
Professional fees	1.2			-			-			-		
Other expenses	1.7	15.0		0.7	12.1		-	-		0.7	12.1	
Interest income earned				(27.9)						(27.9)		
Realized fair value loss				53.5	25.6					53.5	25.6	
			1,627.0			1,616.2			10.5			1,626.7
Balance			**-**			**(1,616.2)**			**(10.5)**			**0.3**

Prepared by:

Yolanda D. Añonuevo

Noted by:

Mariejo P. Bautista