# COVER SHEET

0 6 9 - 0 3 9 2 7 4
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 0
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 **March 31, 2013**

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 | **4,857,954,747 shares** |
| Amount of debt outstanding as of March 31, 2013 | **P 761,642,162** |

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 May 15, 2013.

**TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION**

Raymundo A. Reyes Jr

**RAYMUNDO A. REYES, JR.**
SVP – Energy Resources Development

**MARIEJO P. BAUTISTA**
Vice President - Controller

**ANNEX A**

# TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

## Consolidated Interim Financial Statements
## March 31, 2013 and December 31, 2012
## And For The First Quarter Ended March 31, 2013 and 2012

## TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | March 2013 | December 31 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 6 and 29) | **₱900,992,099** | ₱907,595,393 |
| Short-term investments (Note 7) | **1,157,496,792** | 1,555,339,848 |
| Investments held for trading (Notes 8 and 29) | **960,143,613** | 835,008,772 |
| Receivables (Notes 9 and 28) | **854,501,476** | 670,234,362 |
| Fuel and spare parts - at cost | **241,106,272** | 133,932,089 |
| Available-for-sale investments (Note 7) | **134,318,857** | 54,001,940 |
| Other current assets (Note 29) | **224,505,794** | 66,984,801 |
| **Total Current Assets** | **4,473,064,903** | 4,223,097,205 |
| **Noncurrent Assets** | | |
| Property, plant and equipment (Note 10) | **727,033,046** | 606,419,653 |
| Investments in associates & interests in joint venture (Note 11) | **2,228,437,111** | 2,365,380,403 |
| Available-for-sale investments (Notes 12 and 29) | **295,526,159** | 224,563,249 |
| Investment properties (Note 13) | **31,733,858** | 19,139,210 |
| Deferred exploration costs (Note 14) | **72,218,898** | 72,218,898 |
| Deferred income tax assets - net (Note 25) | **6,172,569** | 7,983,090 |
| Other noncurrent assets | **3,437,746** | 2,379,346 |
| **Total Noncurrent Assets** | **3,364,559,387** | 3,298,083,849 |
| **TOTAL ASSETS** | **₱7,837,624,290** | ₱7,521,181,054 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and other current liabilities (Notes 15 and 28) | **₱659,349,317** | ₱554,738,365 |
| Due to stockholders (Notes 26 and 29) | **9,033,061** | 9,034,205 |
| Income and withholding taxes payable | **70,950,300** | 25,400,288 |
| **Total Current Liabilities** | **739,332,678** | 589,172,858 |
| **Noncurrent Liabilities** | | |
| Pension and other post-employment benefits (Note 26) | **16,471,535** | 14,334,004 |
| Other noncurrent liabilities (Note 29) | **5,832,496** | 5,741,057 |
| **Total Noncurrent Liabilities** | **22,304,031** | 20,075,060 |
| **Total Liabilities** | **761,636,709** | 609,247,919 |

(Forward)

| | March 2013 | December 31 2012 |
|---|---|---|
| **Equity** | | |
| Capital stock (Note 16) | **₱4,857,954,747** | ₱4,857,258,870 |
| Additional paid-in capital (Note 16) | **24,437,070** | 24,026,492 |
| Unrealized fair value gains on available-for-sale investments (Note 12) | **111,835,730** | 84,985,224 |
| Retained earnings (Note 16) | **2,110,552,708** | 1,945,662,549 |
| Parent Company's shares of stock held by a subsidiary | **(28,792,674)** | – |
| **Total Equity** | **7,075,987,581** | 6,911,933,135 |
| **TOTAL LIABILITIES AND EQUITY** | **₱7,837,624,290** | ₱7,521,181,054 |

*See accompanying Notes to Consolidated Financial Statements.*

## TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| **REVENUES** | | |
| Generation revenue (Note 1) | **₱68,878,892** | ₱17,862,409 |
| Trading revenue - net (Notes 1 and 18) | **292,529,973** | 144,242,320 |
| Interest and other financial income (Notes 8 and 29) | **63,556,830** | 16,487,016 |
| Dividend income | **5,126,991** | 1,090,389 |
| Rental income (Notes 13 and 28) | **1,654,989** | 1,568,853 |
| | **431,747,675** | 181,250,987 |
| **COSTS AND EXPENSES** | | |
| Cost of power generation (Notes 19, 23 and 28) | **124,918,596** | 15,670,346 |
| Cost of power plant on standby (Notes 1, 10, 20, 22 and 23) | **–** | 11,197,302 |
| General and administrative expenses (Notes 21, 22, 23 and 28) | **76,469,842** | 54,049,938 |
| | **201,388,438** | 80,917,586 |
| **OTHER INCOME (EXPENSES)** (Note 24) | **(11,537,340)** | (33,142,743) |
| **INCOME BEFORE INCOME TAX** | **218,821,897** | 67,190,658 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 25) | | |
| Current | **54,332,453** | 27,879,779 |
| Deferred | **(400,717)** | (2,458,221) |
| | **53,931,736** | 25,421,558 |
| **NET INCOME** | **₱164,890,161** | ₱41,769,100 |
| **Basic/Diluted Earnings Per Share** (Note 27) | **₱0.034** | ₱0.015 |

*See accompanying Notes to Consolidated Financial Statements.*

## TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| **NET INCOME FOR THE YEAR** | **₱164,890,161** | ₱41,769,100 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Unrealized fair value gains/(losses) on available-for-sale investments - net of deferred income tax (Note 12) | **26,814,505** | (119,352) |
| Provision for deferred income tax | **36,000** | (207,000) |
| Other comprehensive income | **26,850,505** | (326,352) |
| **TOTAL COMPREHENSIVE INCOME** | **₱191,740,666** | ₱41,442,748 |

*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 MARCH 31, 2013 AND 2012

| | Capital Stock (Notes 16 and 17) | Additional Paid-in Capital (Note 16) | Unrealized Fair Value Gains on Available-for-Sale Investments (Note 12) | Retained Earnings (Note 16) | Parent Company Shares of Stock Held by a Subsidiary | Total |
|---|---|---|---|---|---|---|
| **BALANCES AT DECEMBER 31, 2012** | **₱4,857,258,870** | **₱24,026,492** | **₱84,985,224** | **₱1,945,662,549** | – | **₱6,911,933,136** |
| Net income for the year | – | – | – | 164,890,161 | – | 164,890,161 |
| Other comprehensive income (loss) | – | – | 26,850,505 | – | – | 26,850,505 |
| Total comprehensive income for the year | – | – | 26,850,505 | 164,890,161 | – | 191,740,666 |
| Cash dividends - ₱0.04 per share | – | – | – | – | – | – |
| Issuance of stocks from stock rights offering | 695,877 | 410,578 | – | – | – | 1,106,455 |
| Increase in Parent Company's shares held by subsidiary | – | – | – | – | (28,792,674) | (28,792,674) |
| | 695,877 | 410,578 | – | – | (28,792,674) | (27,686,219) |
| **BALANCES AT MARCH 31, 2013** | **4,857,954,747** | **24,437,070** | **111,835,730** | **2,110,552,710** | **(28,792,674)** | **7,075,987,583** |
| | | | | | | |
| **BALANCES AT DECEMBER 31, 2011** | **2,829,863,527** | **42,821,420** | **74,174,480** | **1,587,687,134** | – | **4,534,546,561** |
| Net income for the year | – | – | – | 41,769,100 | – | 41,769,100 |
| Other comprehensive income | – | – | (326,352) | – | – | (326,352) |
| Total comprehensive income for the year | – | – | (326,352) | 41,769,100 | – | 41,442,748 |
| Cash dividends - ₱0.04 per share | – | – | – | (113,194,541) | – | (113,194,541) |
| Issuance of stocks | 142,105 | – | – | – | – | 142,105 |
| | 142,205 | – | – | (113,194,541) | – | (113,052,436) |
| **BALANCES AT MARCH 31, 2012** | **₱2,830,005,632** | **₱42,821,420** | **₱73,848,127** | **₱1,516,261,693** | – | **₱4,462,936,872** |

*See accompanying Notes to Consolidated Financial Statements*

## TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱218,821,896** | ₱67,190,656 |
| Adjustments for: | | |
| Equity in net earnings of associates (Note 11) | **17,672,163** | 18,698,272 |
| Dividend income | **(5,126,991)** | (1,090,389) |
| Interest and other financial income (Note 29) | **(63,556,830)** | (16,487,015) |
| Depreciation and amortization (Note 23) | **22,767,793** | 11,718,871 |
| Gain (loss) on derivatives - net (Note 29) | **(2,193,248)** | 2,088,200 |
| Unrealized foreign exchange gain (loss) - net | **680,424** | 10,560,979 |
| Loss (gain) on sale of: | | |
| Marketable Securities | **(22,054)** | (37,628) |
| Property and equipment (Note 24) | **(180,093)** | (59,608) |
| Operating income (loss) before working capital changes | **188,863,060** | 92,582,338 |
| Decrease (increase) in: | | |
| Receivables | **68,937,649** | (9,587,340) |
| Fuel and spare parts | **(3,041,300)** | (154,970,776) |
| Other current assets | **44,685,984** | (15,317,683) |
| Increase (decrease) in accounts payable and other current liabilities | **(270,588,204)** | 18,978,016 |
| Net cash generated from (used in) operations | **28,857,189** | (68,315,445) |
| Interest received | **30,006,097** | 8,442,700 |
| Interest paid | **(81,378)** | – |
| Income taxes paid | **(13,262,924)** | (7,000,859) |
| Net cash flows provided by operating activities | **45,518,984** | (66,873,604) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to: | | |
| Investments held for trading | **(2,203,132,921)** | (830,166,323) |
| Investment in associates & interests in joint ventures (Note 11) | **(673,000,000)** | (150,375,000) |
| Property and equipment (Note 10) | **(6,654,230)** | (90,159,798) |
| Deferred exploration costs (Note 14) | **–** | (11,310,085) |
| Available-for-sale investments | **(485,020)** | – |
| Short-term investments (Note 7) | **–** | – |
| Proceeds from: | | |
| Sale & redemption of investments held for trading | **2,237,364,198** | 951,389,717 |
| Settlement of currency forward contracts (Note29) | **1,789,998** | (4,575,600) |
| Sale of property and equipment (Note 10) | **354,122** | 1,063,758 |
| Sale of available-for-sale investments | **528,038** | 129,695 |
| Termination of short-term investments | **329,099,349** | – |
| Decrease (increase) in other noncurrent asset | **–** | (33,333,333) |
| Cash dividends received | **11,508** | 1,090,389 |
| Net cash flows provided by (used in) investing activities | **(314,124,958)** | (166,246,580) |

(Forward)

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Issuance of capital stock (Note 16 & 17) | **1,106,455** | 142,105 |
| Payment of cash dividends | **–** | (113,194,541) |
| Due to stockholders | **(1,144)** | (14,080) |
| Increase (decrease) in other noncurrent liabilities | **2,137,531** | 1,634,467 |
| Net cash flows provided by (used in) financing activities | **3,242,842** | (111,432,049) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(4,551,146)** | (4,624,535) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(269,914,279)** | (349,176,768) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** (Note 6) | **1,170,906,378** | 874,437,195 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱900,992,099** | ₱525,260,427 |

*See accompanying Notes to Consolidated Financial Statements.*

# TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information and Status of Operations**

Trans-Asia Oil and Energy Development Corporation (TA Oil or “Parent Company”), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Power Generation Corporation (TA Power), Trans-Asia Renewable Energy Corporation (TAREC), Trans-Asia Petroleum Corporation (TA Petroleum) [formerly Trans-Asia (Karang Besar) Petroleum Corporation], CIP II Power Corporation (CIPP), Trans-Asia Gold and Minerals Development Corporation (TA Gold) and Palawan55 Exploration and Petroleum Corporation (Palawan55) (collectively referred to as “the Company”) are incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The direct and ultimate parent company of TA Oil is Philippine Investment-Management (PHINMA), Inc., also incorporated in the Philippines. TA Oil is managed by PHINMA under an existing management agreement.

The Parent Company is involved in power generation and trading, oil and mineral exploration, exploitation and production. The Parent Company has an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the province of Guimaras using its 3.4 megawatt (MW) bunker C-fired diesel generator power station in the island. The renewal of the Company’s certificate of registration as a Wholesale Aggregator was issued on December 19, 2011 renewable every five (5) years, and the renewal of its Retail Electricity Supplier’s (RES) license was issued on November 19, 2012, renewable every five years. The license authorizes the Parent Company to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). As a RES, the Parent Company is allowed to supply electricity to the contestable market, pursuant to EPIRA. The other activities of the Company are investments in various operating companies and financial instruments.

TA Power was incorporated and registered with the SEC on March 14, 1996. It operates and maintains a 52-megawatt power generation plant in Norzagaray, Bulacan. 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. The Company is a joint venture between TA Oil and Holcim Philippines, Inc. (Holcim), each of which owned 50% of the outstanding capital stock and voting interest in the Company. On January 1, 2013, TA Power became a wholly owned subsidiary with the Parent Company’s purchase of Holcim’s 50% stake (see Note 11).

TAREC was incorporated and registered with the SEC on September 2, 1994. TAREC is engaged in the development and utilization of renewable sources of energy (e.g. wind). As of March 31, 2013, TAREC has not started commercial operations.

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 the par value of ₱0.01 per share to ₱1 billion divided into 100 billion shares with the 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 of

March 31, 2013, TA Petroleum has not started commercial operations.

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 Barangay Punta and Tulo, Calamba, Laguna. In April 2009, CIPP sold its distribution assets to Manila Electric Company (MERALCO) resulting in the cessation of CIPP's operations (see Notes 10 and 21). Substantially all of its employees were separated effective January 31, 2010. On February 22, 2010 and March 24, 2010, the Board of Directors (BOD) and stockholders, respectively, of the Parent Company approved the proposed merger of the Parent Company and CIPP subject to the approval by the SEC. In December 2010, CIPP's BOD approved the transfer of its 21 MW bunker C-fire power plant from Laguna to La Union. As of December 31, 2012, the Company has completed the transfer of its power plant (see Note 10). In January 2013, CIPP started commercial operations in Bacnotan, La Union. As of March 31, 2013, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

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

Palawan55 was 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 of March 31, 2013, Palawan55 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 135 MW coal fired power plant. SLTEC was incorporated on July 29, 2011. As of March 31, 2013, SLTEC has not yet started operations.

The Parent Company has 50% interest in ACTA Power Corporation (ACTA), a joint venture with AC Energy. The company 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 of March 31, 2013.

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

The consolidated financial statements of the Company were authorized for issuance by the BOD on April 22, 2013.

## 2. Basis of Preparation

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

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

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

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

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

Changes in the controlling ownership interest 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 equity transactions.

In addition, jointly controlled entities that meet the definition of a joint venture (TA Power before it was wholly owned, SLTEC and ACTA) are accounted for using the equity method. They are no longer presented as separate line items in the consolidated financial statements (see Note 11).

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## 3. **Changes in Accounting Policies and Disclosures**

Current Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Philippine Financial Reporting Standards (PFRS) and Philippine Interpretations which were adopted as of January 1, 2013.

Standards that have been adopted by the Company are described below:

- 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 statement of financial position;

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

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

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

  A reassessment of control was performed by the Parent Company on all its subsidiaries in accordance with the provisions of PFRS 10. Following the reassessment, the Parent Company determined that it still controls all of its subsidiaries and that there is no change in the manner of accounting for its associates.
- 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 standard becomes effective for annual periods beginning on or after January 1, 2013.

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

  The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- 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 when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes

effective for annual periods beginning on or after January 1, 2013.

The Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- 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. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments are not expected to have an impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits (Revised)*
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

  The Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

  Balance sheet

| | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|
| Increase (decrease) in: | | |
| Net defined retirement benefits liability | ₱12,838,000 | ₱8,248,100 |
| Deferred income tax asset | 3,851,400 | 2,474,430 |
| Other comprehensive income | (3,474,800) | – |
| Retained earnings | (5,511,800) | (5,773,670)* |

** Other comprehensive income will be closed to Retained earnings at transition date. Subsequent to January 1, 2013, other comprehensive income shall be separately presented.*

  Income statement

| | 2012 |
|---|---|
| Increase (decrease) in: | |
| Net retirement benefits cost | (₱374,100) |
| Income tax expense | 112,230 |
| Profit for the year | 261,870 |
| Other comprehensive income, net of deferred income tax | (3,474,800) |

- PAS 27, *Separate Financial Statements (as revised in 2011)*
  As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for

subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company presents separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the Company. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

- Philippine Interpretation 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. The interpretation is effective for annual periods beginning on or after January 1, 2013. This new interpretation is not relevant to the Company.

<u>Annual Improvements to PFRSs (2009-2011 cycle)</u>
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- 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 will 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 Company expects that this amendment will not have any impact on its 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.

Standards Issued but not yet Effective
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 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 affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing 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 FVPL. All equity financial assets are measured at fair value either through other OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, 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 in respect of the liability's 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 into PFRS 9, including the embedded derivative separation 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.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

## 4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Short-term Investments

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

*Financial Assets and Liabilities at FVPL*

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

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

   - The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
   - The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

   As of March 31, 2013 and December 31, 2012, the Company has no financial asset or financial liability designated on initial recognition as at FVPL.

b. Financial assets or financial liabilities held for trading
   These financial instruments are recorded in the consolidated balance sheet at fair value. A financial asset or financial liability is classified under this category when any of the following criteria is met:

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

   Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as gain on investment held for trading under the "Interest and other financial income" account. Interest and other financial income or charges are recorded when earned or incurred, respectively, while dividend income is recorded when the right to receive payment has been established.

As of March 31, 2013 and December 31, 2012, 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 29).

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

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

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

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

As of March 31, 2013 and December 31, 2012, the Company's derivative asset and derivative liability are classified as financial assets at FVPL (see Note 29).

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

As of March 31, 2013 and December 31, 2012, the Company's cash and cash equivalents, short-term investments and receivables are classified as loans and receivables (see Notes 6, 7, 9 and 29).

*HTM Investments*
Quoted nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Company has the positive intention and ability to hold to maturity.

Such assets are carried at amortized cost using the effective interest method.

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

As of March 31, 2013 and December 31, 2012, the Company did not classify any financial asset under HTM investments.

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

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

As of March 31, 2013 and December 31, 2012, 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, 12 and 29).

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

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

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

As of March 31, 2013 and December 31, 2012, the Company's accounts payable and other current liabilities, due to stockholders and other noncurrent liabilities are classified as other financial liabilities (see Notes 16, 28 and 29).

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

*Assets carried at amortized cost*
If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest

rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

*Financial assets*

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

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

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

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

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

Offsetting Financial Instruments

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

Fuel and Spare Parts

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

Assets Held for Sale

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

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

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

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

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

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

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

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

Investments in Associates and Interests in Joint Ventures

The Parent Company's investments in associates and interests in joint ventures are accounted for using the equity method of accounting. Associates and interests in joint ventures are entities in which the Parent Company has significant influence. The investments in associates and interests in joint ventures are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Parent Company's share of net assets of the associates and interests in joint ventures, less any impairment in value. The consolidated statement of income includes the Parent Company's share of the results of operations of the associates. Unrealized gains arising from transactions with associates are eliminated to the extent of the Parent Company's interest in the associates and interests in joint ventures. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

When the Parent Company's accumulated share in net losses of an associate and interest in 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 to the extent that the capitalized costs do not exceed the value of those reserves, pending determination of whether the contract area contains oil and gas reserves in commercial quantities, net of an allowance for impairment losses.

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

Deferred exploration costs are assessed for impairment when:

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

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

Business Combinations

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

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

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

Impairment of Property and Equipment, Investment Properties and Deferred Exploration Costs

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

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

<u>Provisions</u>

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.

<u>Asset Retirement Obligation</u>

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 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.

<u>Capital Stock</u>

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

<u>Additional Paid-in Capital</u>

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

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:

*Trading revenue*

Revenue from the sale of electricity is recognized during the period when electricity is purchased from the spot market and sold to the end consumer. Revenue is measured at the fair value of the consideration received or receivable. Trading revenue is presented gross of trading costs where the Company acts as principal and:

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

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

*Generation Revenue*

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

*Dividend*

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

*Interest*

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

*Rental*

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

Costs and Expenses

Costs and expenses are recognized when incurred.

Pensions and Other Post-Employment Benefits

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

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

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

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

Stock Option

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

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

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

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

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

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

Foreign Currency-denominated Transactions

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

Income Tax

*Current tax*

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

*Deferred income tax*

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Earnings Per Share (EPS)

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

Contingencies

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

Events After the Balance Sheet Date

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

## 5. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

*Determination of functional currency*

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

*Determination of whether an arrangement contains a lease and proper classification of leases*

Under TA Oil's ESA with Guimelco and TA Power's ESA with Holcim, TA Oil sells all of its output to Guimelco and TA Power sells all or substantially all of its output to Holcim (see Note 28). The Company has evaluated the arrangements and the terms of the ESA and determined that the agreements do not qualify as leases. Accordingly, fees billed to Guimelco and Holcim are recognized as operating revenues.

Under the Power Administration and Management Agreement between TA Oil and One Subic Power Generation Corporation (One Subic Power), TA Oil will administer and manage the entire generation output of the 116 MW diesel power plant in Subic (see Note 30). The Company has evaluated that the Company does not have control over the asset and that the arrangements and the terms of the agreement do not contain a lease.

The Company also has various lease agreements for the lease of its investment property. The Company has determined that the risks and rewards of ownership of the underlying properties are retained by the Company. Accordingly, the related assets have been recognized in the books of the Company and the leases are classified as operating leases.

*Classification of financial instruments*
The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet. The classification of the Company's financial assets and financial liabilities are presented in Note 29.

Estimates
*Fair value of financial assets and financial liabilities*
The fair value for financial instruments traded in an active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Where the fair values of financial assets and financial liabilities recorded on the consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment and estimation is required in establishing fair values. Any change in value of these financial assets and financial liabilities (including derivatives) would affect the consolidated statement of comprehensive income and consolidated statement of changes in equity. The fair values of the Company's financial assets amounted to ₱4.18 billion and ₱4.27 billion as of December 31, 2012 and March 31, 2013, respectively, while fair values of the Company's financial liabilities amounted to ₱475.58 million and ₱579.32 million as of December 31, 2012 and March 31, 2013, respectively (see Note 29).

*Estimated allowance for doubtful accounts*
The Company maintains allowance for doubtful accounts based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the customer, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, past-due status and terms) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. As of December 31, 2012 and March 31, 2013, allowance for doubtful accounts amounted to ₱12.10 million and ₱12.81 million, respectively. The carrying value of receivables amounted to ₱670.23 million as of December 31, 2012 and ₱854.50 million as of March 31, 2013 (see Note 9).

*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 of December 31, 2012 and March 31, 2013, deferred income tax assets recognized by the Company amounted to ₱31.83 million and ₱31.20 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 ₱216.86 million and ₱218.41 million as of December 31, 2012 and March 31, 2013, respectively (see Note 25).

*Estimated useful lives of property, plant and equipment and investment properties*
The Company estimates the useful lives of property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment properties are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment amounted to ₱606.42 million and ₱727.03 million as of December 31, 2012 and March 31, 2013, respectively (see Note 10). The carrying value of investment properties amounted to ₱19.14 million and ₱31.73 million as of December 31, 2012 and March 31, 2013, respectively (see Note 13).

*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 recent test results, management has assessed that the carrying value of deferred exploration costs may not be recoverable. Carrying value of deferred exploration costs amounted to ₱72.22 million as of
31, 2013, respectively (see Note 14).

*Impairment of property, plant and equipment and investment properties*
The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable,

willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value-in-use of the cash-generating units. Property, plant and equipment with carrying value of ₱6.02 million were directly written-off and charged in the consolidated statement of income in 2012 and none as of March 31, 2013, respectively. The carrying value of property, plant and equipment as of December 31, 2012 and March 31, 2013 amounted to ₱606.42 million and ₱727.03 million, respectively (see Note 10). The carrying value of investment properties amounted to ₱19.14 million and ₱31.73 million as of December 31, 2012 and March 31, 2013, respectively (see Note 13).

*Impairment of investments in associates& interests in joint venture*
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 2012 and 2011. Accumulated impairment loss amounted to ₱1.56 million as of March 31, 2013. The carrying value of investments in associates & interests in joint venture amounted to ₱2.37 billion and ₱2.23 billion as of December 31, 2012 and March 31, 2013 respectively (see Note 11).

*Impairment of AFS investments*
The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Company treats “significant” generally as 20% or more of the original cost of investment, and “prolonged”, greater than 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 carrying value of AFS investments amounted to ₱224.56 million and ₱295.53 million as of December 31, 2012 and March 31, 2013 (see Notes 7 and 12).

*Pension and other post-employment benefits*
The determination of the Company’s obligation and cost for pension and other post-employment benefits is dependent on the selection of certain assumptions in calculating such amounts. The assumptions to the consolidated financial statements include among others, discount rates, expected rates of returns on plan assets and rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. Pension and other post-employment benefits liability amounted to ₱14.33 million and ₱16.47 million as of December 31, 2012 and March 31, 2013.

## 6. **Cash and Cash Equivalents**

| | **March 2013** | December 2012 |
|---|---|---|
| Cash on hand and in banks | **₱128,088,660** | ₱177,805,788 |
| Short-term deposits | **772,903,439** | 729,789,605 |
| | **₱900,992,099** | ₱907,595,393 |

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. Short-term Investments

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 March 31, 2013 balance sheet:

| | |
|---|---|
| *Short-term investments* | |
| Savings account | ₱1,083,138,181 |
| Special deposit account | 74,358,611 |
| | 1,157,496,792 |
| *Available-for-sale investments - Current* | |
| AFS investments in bonds and FXTNs | 134,318,857 |
| | ₱1,291,815,649 |

The Company expects to utilize these assets within one year.

## 8. Investments Held for Trading

| | **March 2013** | December 2012 |
|---|---|---|
| Investments in bonds and FXTNs | **₱198,052,431** | ₱246,466,134 |
| Investments in UITFs | **762,091,182** | 588,542,638 |
| | **₱960,143,613** | ₱835,008,772 |

The Company's unrealized gain from changes in fair value of investments held for trading (included in net gains on investments held for trading under "Interest and other financial income" account in the consolidated statements of income) amounted to ₱3.98 million and ₱9.62 million in March 31, 2012 and March 31, 2013, respectively (see Note 29).

## 9. Receivables

| | **March 2013** | December 2012 |
|---|---|---|
| Trade (Note 29) | **₱810,854,895** | ₱516,131,079 |
| Due from related parties (Notes 26 and 29) | **5,418,873** | 87,018,093 |
| Loan receivable | **33,333,333** | 50,000,000 |
| Others | **17,699,396** | 29,189,187 |
| | **867,306,497** | 682,338,359 |
| Less allowance for doubtful accounts | **12,805,021** | 12,103,997 |
| | **₱854,501,476** | ₱670,234,362 |

Trade receivables mainly represent receivables from PEMC and the Company's bilateral customers. Trade receivables are noninterest-bearing and are generally on a 30-day credit term.

Other receivables include amount due from a third party for the assignment of tax credit certificate amounting to ₱6.12 million and ₱29.13 million as of March 31, 2013 and 2012 respectively, and interest receivable amounting to ₱2.93 million and ₱4.53 million as of March 31, 2013 and 2012, respectively. Loan receivable from a third party amounting to ₱33.33 million as of March 31, 2013 will be offset against the monthly energy fees billed by a subsidiary of the said third party. The said loan receivable which will become due in September 2013 has an interest rate of 6.564% per annum with monthly amortization of ₱5.56 million.

As of March 31, the aging analysis of past due but not impaired receivables is as follows:

| | **2013** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Neither Past Due nor** | **Past Due but not Impaired** | | | | | **Past Due and** |
| | **Total** | **Impaired** | **<30 Days** | **30–60 Days** | **61–90 Days** | **91–120 Days** | | **Impaired** |
| | | | | *(In Thousands)* | | | | |
| Trade | **₱810,855** | **₱562,546** | **₱99,788** | **₱4,386** | **₱26,926** | **₱107,698** | | **₱9,511** |
| Due from related parties | **5,419** | **5,419** | – | – | – | – | | – |
| Loan receivable | **33,333** | **33,333** | – | – | – | – | | – |
| Others | **17,699** | **13,903** | **71** | **6** | **2** | **423** | | **3,294** |
| | **₱867,306** | **₱615,201** | **₱99,859** | **₱4,392** | **₱26,928** | **₱108,121** | | **₱12,805** |

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Neither Past Due nor | Past Due but not Impaired | | | | | Past Due and |
| | Total | Impaired | <30 Days | 30–60 Days | 61–90 Days | 91–120 Days | | Impaired |
| | | | | *(In Thousands)* | | | | |
| Trade | ₱516,131 | ₱498,739 | ₱3,037 | ₱577 | ₱569 | ₱4,398 | | ₱8,810 |
| Due from related parties | 74,914 | 74,914 | – | – | – | – | | – |
| Loan receivable | 50,000 | 50,000 | – | – | – | – | | – |
| Others | 29,189 | 25,445 | – | 34 | – | 417 | | 3,294 |
| | ₱670,234 | ₱649,098 | ₱3,037 | ₱611 | ₱569 | ₱4,815 | | ₱12,104 |

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

| | **Trade** | **Others** | **Total** |
|---|---|---|---|
| | | *(In Thousands)* | |
| Balances at January 1, 2013 | **₱ 9,511,366** | **₱3,293,655** | **₱12,805,021** |
| Provision for the year | – | -- | - |
| Balances at March 31, 2013 | **₱9,511,366** | **₱3,293,655** | **₱12,805,021** |

## 10. Property, Plant and Equipment

| | Land | Buildings and Improvements | Machinery and Equipment | Wells, Platforms and Other Facilities | Transportation Equipment | Mining and Other Equipment | Office Furniture, Equipment and Others | Construction In Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| **At January 1, 2012** | **10,800,000** | **170,957,747** | **570,253,053** | **20,346,661** | **21,158,145** | **29,041,266** | **29,402,576** | **–** | **851,959,450** |
| Additions | – | 305,412 | 159,938,859 | – | 3,136,000 | 8,405,808 | 2,074,176 | – | 173,860,255 |
| Disposals | – | – | – | – | (7,458,246) | – | (198,351) | – | (7,656,597) |
| Written-off | – | – | (15,702,561) | – | | (944,576) | – | – | (16,647,137) |
| Reclassification | – | – | – | – | – | – | – | – | – |
| Transfer to assets held for sale | – | – | – | – | – | – | – | – | – |
| **At December 31, 2012** | **10,800,000** | **171,263,159** | **714,489,352** | **20,346,661** | **16,835,899** | **36,502,498** | **31,278,401** | – | **1,001,515,971** |
| Additions | 18,430,000 | 1,431,264 | 115,653,816 | – | 2,658,182 | 3,509,443 | 877,813 | – | 142,560,517 |
| Disposals | – | – | – | – | (497,226) | – | – | – | (497,226) |
| Written-off | – | – | – | – | – | – | – | – | – |
| **At March 31, 2013** | **29,230,000** | **172,694,423** | **830,143,168** | **20,346,661** | **18,996,855** | **40,011,941** | **32,156,214** | – | **1,143,579,262** |
| **Accumulated Depreciation, Amortization, Depletion and Impairment** | | | | | | | | | |
| **At January 1, 2012** | **–** | **66,124,812** | **228,296,911** | **20,346,661** | **11,199,118** | **15,291,332** | **28,646,618** | **–** | **369,905,451** |
| Depreciation (Note 23) | – | 11,457,077 | 24,067,751 | – | 3,032,121 | 3,117,747 | 790,778 | – | 42,465,474 |
| Disposals | – | – | – | – | (6,456,389) | – | (196,059) | – | (6,652,448) |
| Written-off | – | – | (10,427,997) | – | – | (194,163) | – | – | (10,622,160) |
| Transfer to assets held for sale | – | – | – | – | – | – | – | – | – |
| **At December 31, 2012** | **–** | **77,581,889** | **241,936,665** | **20,346,661** | **7,774,850** | **18,214,916** | **29,241,337** | | **395,096,318** |
| Depreciation (Note 23) | – | 3,161,902 | 17,375,748 | – | 411,741 | 510,232 | 313,471 | – | 21,773,095 |
| Disposals | – | – | – | – | (323,196) | – | – | – | (323,196) |
| Written-off | – | – | – | – | – | – | – | – | – |
| **At March 31, 2013** | **–** | **80,743,791** | **259,312,413** | **20,346,661** | **7,863,395** | **18,725,148** | **29,554,808** | | **416,546,217** |
| **Net Book Value** | | | | | | | | | |
| At January 1, 2012 | ₱10,800,000 | 104,832,935 | 341,956,142 | – | 9,959,027 | 13,749,934 | 755,958 | – | 482,053,999 |
| At December 31, 2012 | 10,800,000 | 93,681,270 | 472,552,687 | – | 9,061,049 | 18,287,583 | 2,037,065 | – | 606,419,653 |
| **At March 31, 2013** | **29,230,000** | **91,950,632** | **570,830,755** | – | **11,133,460** | **21,286,793** | **2,061,406** | – | **727,033,046** |

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 (see Note 20).

In December 2010, CIPP’s BOD approved the transfer of the Company’s 21 MW bunker C-fired power plant from Laguna to La Union. As of 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 were written-off in 2012.

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.

## 11. Investments in Associates and Interests in Joint Ventures

| | **March 2013** | December 2012 |
|---|---|---|
| Associates: | | |
| MGI | **199,205,082** | 177,550,744 |
| Asia Coal | **631,029** | 631,029 |
| UAC | **1,559,251** | 1,559,251 |
| | **201,395,362** | 179,741,024 |
| Joint ventures: | | |
| TA Power | **–** | 316,771,129 |
| SLTEC | **2,028,531,457** | 1,870,352,532 |
| ACTA | **69,543** | 74,968 |
| | **2,028,601,000** | 2,187,198,630 |
| | **2,229,996,362** | 2,366,939,654 |
| Less accumulated impairment losses | **(1,559,251)** | (1,559,251) |
| | **₱2,228,437,111** | ₱2,365,380,403 |

TA Power

The Company’s proportionate share in the assets and liabilities of TA Power as of December 31 and income and expenses for the three months ended are as follows:

| | **March 2013** | December 2012 |
|---|---|---|
| Current assets | **₱ –** | ₱423,587,618 |
| Noncurrent assets | **–** | 43,207,685 |
| Total assets | **–** | 466,795,303 |
| Current liabilities | **–** | (140,246,484) |
| Noncurrent liabilities | **–** | (5,175,753) |
| Total liabilities | **–** | (145,422,237) |
| Net assets | **₱ –** | ₱321,373,066 |

| | **For the First Quarter Ended** | |
|---|---|---|
| | **2013** | 2012 |
| Revenue | **₱ –** | ₱212,993,539 |
| Cost of power generation and power purchased | **–** | (214,755,929) |
| General and administrative expenses | **–** | (5,393,757) |
| Other income – net | **–** | 1,776,315 |

| | | | |
|---|---|---|---|
| Income before income tax | | – | (5,379,832) |
| Provision for (benefit from) income tax | | – | (347,145) |
| Net income | ₱ | – | ₱5,276,977 |

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 ₱475.5 million. The said amount was fully paid on January 3, 2013. The carrying amounts of the assets acquired and liabilities assumed at acquisition date are as follows:

| | |
|---|---|
| Current assets: | |
| Cash | **₱263,310,985** |
| Investment held for trading | **121,421,332** |
| Accounts receivable | **233,295,833** |
| Fuel and spare parts | **104,132,883** |
| Other current assets | **128,335,022** |
| Total current assets | **850,496,055** |
| Noncurrent assets | |
| Property, plant and equipment | **14,299,400** |
| Investment properties | **84,535,254** |
| Deferred income tax asset-net | **859,644** |
| Pension asset | **1,058,400** |
| Other noncurrent assets | **8,606,415** |
| Total noncurrent assets | **109,359,113** |
| Current liabilities | |
| Accounts payable | **(273,574,585)** |
| Due to related parties | **(7,386,838)** |
| Total current liabilities | **(280,961,423)** |
| Noncurrent liabilities | |
| Provisions | **(5,000,000)** |
| Other post-employment benefits | **(5,351,505)** |
| | **(10,351,505)** |
| Net assets | **₱668,542,240** |

The fair values of the assets acquired, liabilities assumed and goodwill have not been disclosed since management is currently finalizing the determination of the said amounts.

SLTEC

The Company's proportionate share in the assets and liabilities of SLTEC as of March 31, 2013 and December 31, 2012, and income and expenses for the years then ended are as follows:

| | **March 2013** | December 2012 |
|---|---|---|
| Current assets | **₱573,445,853** | ₱287,023,192 |
| Noncurrent assets | **2,070,940,095** | 1,676,017,843 |
| Total assets | **2,644,385,948** | 1,963,041,035 |
| Current liabilities | **(91,642,578)** | (66,476,590) |
| Noncurrent liabilities | **(500,000,000)** | |
| Net assets | **₱2,052,743,370** | ₱1,896,564,445 |

| | **For the First Quarter Ended** | |
|---|---|---|
| | **2013** | 2012 |
| General and administrative expenses | **(₱20,079,889)** | (₱12,418,242) |
| Other income - net | **4,563,566** | 937,397 |
| Provision for income tax | **(1,304,753)** | – |

| | | |
|---|---|---|
| Net loss | **(₱16,821,075)** | (₱11,480,844) |

On October 29, 2011, SLTEC signed the Omnibus Loan and Security Agreement with its local third party creditor banks with the Company and AC Energy as Project Sponsors. Under the terms of the Agreement, the 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 until such time that the Company has contracted the required capacity up to one year from the date of commissioning of the SLTEC plant;
- 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 which guarantee will be called in case the Lenders are unable to consolidate the titles of the land because of the non-issuance of the transfer certificate of title after SLTEC defaults and its properties are foreclosed; and
- pledge its shares in SLTEC as security, and assign its off take contracts to the lenders sufficient to cover such capacity required by SLTEC to break-even.

ACTA

The Company's proportionate share in the assets of ACTA as of December 31, 2012 and income and expenses for the year then ended are as follows:

| | |
|---|---|
| Current assets: | |
| Cash and cash equivalents | ₱64,648 |
| Prepaid expenses and other current assets | 10,320 |
| | ₱74,968 |

The Company's proportionate share in the net loss of ACTA for the three months ended March 31, 2013 before elimination of intercompany transactions are as follows:

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| General and administrative expenses | **(₱5,458)** | (₱269,077) |
| Other income - net | **33** | 55 |
| Net loss | **(₱5,425)** | (₱269,022) |

ACTA has no noncurrent assets and liabilities as of December 31, 2012.

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 integrated 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 of March 31 are shown below:

| | **Mar.2013** | Dec.2012 |
|---|---|---|
| Current assets | **₱675,676,592** | ₱634,614,694 |
| Noncurrent assets | **1,821,495,250** | 1,847,572,461 |
| Total assets | **2,497,171,842** | 2,482,187,155 |
| Current liabilities | **(99,882,300)** | (173,355,806) |
| Noncurrent liabilities | **(1,600,469,215)** | (1,598,628,371) |
| Total liabilities | **(1,700,351,515)** | (1,771,984,177) |
| Net Assets | **₱796,820,327** | ₱710,202,978 |

The results of operations of MGI for the three months ended March 31 are shown below:

| | **Jan.-Mar.2013** | Jan.-Mar.2012 |
|---|---|---|
| Interest income | **₱2,627,286** | ₱4,616,649 |
| General and administrative expenses | **(6,009,937)** | (9,502,363) |
| Net loss | **(₱3,382,651)** | (₱4,885,714) |

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

As of March 31, 2013, MGI completed the balance of well requirements (1 additional production well and 1 reinjection well for power plant condensates) for the proposed 20 MW power plant. Overall progress of steamfield (fluid collection and reinjection system) construction, which is managed by MGI directly, is around 80%. The Engineering, Procurement and Construction contract for the construction and delivery of 20 MW geothermal power plant and related site facilities has achieved 88% overall accomplishment.

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 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; and
c. provide Project Sponsor's support for the completion of the project under such terms and conditions that may be agreed upon by the Company and the lenders.

Asia Coal

On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of the corporate life of 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 of February 16, 2012, Asia Coal is still in the process of securing a tax clearance with the BIR in connection with the filing with the SEC its application for dissolution.

The net assets of Asia Coal as of December 31, 2012 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 |

There are no results of operations for Asia Coal for the three months ended March 31, 2013.

Other than the approval of the directors and stockholders of Asia Coal of the shortening of its corporate life, there were no significant transactions or events that need to be adjusted in Asia Coal's financial statements.
The percentages of ownership and the carrying values of investments in associates and joint ventures are as follows:

| Associates: | Percentage of Ownership | **March 2013** | December 2012 |
|---|---|---|---|
| Maibarara Geothermal, Inc. (MGI) | 25.00 | **₱199,205,082** | ₱177,550,744 |
| Asia Coal Corporation (Asia Coal)* | 28.18 | **631,029** | 631,029 |
| Union Aggregates Corporation (UAC)** | 31.25 | **–** | – |
| | | **₱199,836,110** | ₱178,181,773 |

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

| Joint Ventures: | Percentage of Ownership | **March 2013** | December 2012 |
|---|---|---|---|
| South Luzon Thermal Energy Corp. (SLTEC) | 50.00 | **₱2,028,531,457** | ₱1,870,352,532 |
| Trans-Asia Power Generation Corp. (TAP) | 50.00 | **–** | 316,771,129 |
| ACTA Power Corporation (ACTA) | 50.00 | **69,544** | 74,969 |
| | | **₱2,028,601,001** | ₱2,187,198,630 |
| | | | |
| | | **₱2,228,437,111** | ₱2,365,380,403 |

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

| | **2013** | 2012 |
|---|---|---|
| Acquisition costs: | | |
| Balance at beginning of year | **₱2,130,088,413** | ₱1,831,385,073 |
| Addition | **197,500,000** | 523,278,308 |
| Balance at end of year | **2,327,588,413** | 2,354,663,381 |
| Accumulated equity in net losses: | | |
| Balance at beginning of year | **(79,919,888)** | 32,798,939 |
| Equity in net losses for the year (Note 24) | **(17,672,163)** | (20,522,666) |
| Balance at end of year | **(97,592,051)** | 12,276,273 |
| | **2,229,996,362** | 2,366,939,654 |
| Less accumulated impairment losses | **1,559,251** | 1,559,251 |
| | **₱2,228,437,111** | ₱2,365,380,403 |

12. **Available-for-sale Investments**

| | **March 2013** | December 2012 |
|---|---|---|
| Shares of stock: | | |
| Listed | **₱167,394,086** | ₱97,136,676 |
| Unlisted | **83,246,573** | 83,246,573 |
| Golf club shares | **44,885,500** | 44,180,000 |
| | **₱295,526,159** | ₱224,563,249 |

AFS investments are stated at fair value as of March 31, 2013 and 2012, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Gain from change in fair value recognized as other comprehensive income amounted to ₱26.81 million, plus benefit from deferred income tax of ₱36 thousand in March 31, 2013 and ₱119.35 thousand loss and provision for deferred income tax of ₱207 thousand in December 31, 2012(see Note 24).

## 13. Investment Properties

| | March 2013 | December 2012 |
|---|---|---|
| Cost, beginning of the year | **₱28,133,289** | ₱28,133,288 |
| Additions | **13,084,000** | – |
| Less accumulated depreciation | | |
| Balance at beginning of the year | **8,994,078** | 7,033,467 |
| Depreciation | **490,153** | 1,960,610 |
| Balance at end of year | **9,484,231** | 8,994,077 |
| | **₱31,733,858** | ₱19,139,211 |

Investment properties are stated at cost less accumulated depreciation and any impairment loss. The fair value of the investment properties based on the latest valuation by an independent firm of appraisers amounted to ₱35.8 million as of December 31, 2012. The valuation undertaken considered the sales of similar or substitute properties and related market data and established estimated value by processes involving comparison.

Rental income for the three months ended March 2013 and 2012 amounted to ₱1.03 million and ₱ 619.03 thousand, respectively, recognized in the consolidated statements of income, while related direct costs and expenses incurred in 2013 and 2012 amounted to ₱688.76 thousand and ₱676.78 thousand, respectively, included as part of "General and administrative expenses" (see Note 21).

## 14. Deferred Exploration Costs

| | Oil Exploration Costs | Mineral Exploration Costs | Total Deferred Exploration Costs |
|---|---|---|---|
| **Cost** | | | |
| At January 1, 2012 | ₱87,212,210 | ₱11,473,481 | ₱98,168,596 |
| Additions | 18,928,348 | – | 18,928,348 |
| Disposals | – | (11,473,481) | (11,473,481) |
| Reimbursement of expenses | (21,047,288) | – | (21,047,288) |
| At December 31, 2012 | 85,093,270 | – | 85,093,270 |
| Additions | – | – | – |
| Disposals | – | – | – |
| **At March 31, 2013** | **85,093,270** | – | **85,093,270** |
| **Allowance for impairment loss and amortization** | | | |
| At January 1, 2012 | 12,874,372 | – | 12,874,372 |
| Reversal of impairment | – | – | – |
| At December 31, 2012 | 12,874,372 | – | 12,874,372 |
| Reversal of impairment | – | – | – |
| **At March 31, 2013** | 12,874,372 | – | 12,874,372 |
| **Net book value** | | | |
| At January 1, 2012 | ₱87,212,210 | ₱11,473,481 | ₱98,168,596 |
| At December 31, 2012 | 72,218,898 | – | 72,218,898 |
| **At March 31, 2013** | **72,218,898** | – | **72,218,898** |

Deferred Oil and Mineral Exploration Costs

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

| | March 2013 | December 2012 |
|---|---|---|
| SC No. 51(East Visayas) | **₱32,665,864** | ₱32,665,864 |
| SC No. 69 (Camotes) | **14,667,555** | 14,667,555 |
| SC No. 6 (Northwest Palawan) | **19,172,269** | 19,172,269 |
| SC No. 55 (Offshore West Palawan) | **5,713,210** | 5,713,210 |
| SC No. 52 (Cagayan Province) | – | 12,874,373 |
| | **₱72,218,898** | ₱85,093,271 |

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

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

## 15. Accounts Payable and Other Current Liabilities

| | March 2013 | December 2012 |
|---|---|---|
| Trade and nontrade accounts payable | **₱516,472,519** | ₱331,436,513 |
| Output tax - net | **87,686,945** | 88,799,049 |
| Accrued directors' and annual incentives (Note 28) | **9,094,334** | 23,287,808 |
| Due to related parties (Note 28) | **15,933,767** | 91,379,918 |
| Accrued expenses | **24,326,064** | 16,034,005 |
| Derivative liabilities (Note 32) | **823,856** | 812,579 |
| Deferred rent income | **2,201,560** | 209,672 |
| Others | **2,810,272** | 2,778,821 |
| | **₱659,349,317** | ₱554,738,365 |

Accounts payable and other current liabilities are noninterest-bearing and are normally settled on 30 to 60-day terms. Accrued expenses as of December 31, 2012 include variable incentives of ₱10.00 million and estimated plug and abandonment cost for SC 14 Tara of ₱5.13 million. As of March 31, 2013, only the estimated plug and abandonment cost for SC 14 Tara of ₱5.13 million was included in the accrued expenses.

## 16. Equity

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

| | Number of Shares | | |
|---|---|---|---|
| | March 2013 | December 2012 | December 2011 |
| Authorized capital stock - ₱1 par value | **8,400,000,000** | 8,400,000,000 | 4,200,000,000 |

| | | | |
|---|---|---|---|
| Issued and outstanding: | | | |
| Balance at beginning of year | **4,857,258,870** | 2,829,863,527 | 1,664,625,604 |
| Issuance during the year (Note 17) | **695,877** | 2,027,395,343 | 1,165,237,923 |
| Balance at end of year | **4,857,954,747** | 4,857,258,870 | 2,829,863,527 |

The issued and outstanding shares as of March 31, 2013, December 2012 and 2011 are held by 3,260, 3,269 and 3,313 equity holders, respectively.

On June 20, 2007, the SEC approved the stock rights offering of 552.5 million shares of the Parent Company at the rate of one share for every two shares held as of record date of November 23, 2007, at a price of ₱1.10 per share. The offer period commenced on November 28, 2007 and ended on December 11, 2007. Total proceeds raised from the stock rights offering (SRO), net of direct costs incurred, amounted to ₱599.0 million. The proceeds were used to fund petroleum and mineral explorations and for general corporate purposes. On November 16, 2009, the shareholders approved the reallocation of the proceeds from the stock rights offering to renewable energy (RE) projects due to uncertainty in mining projects brought about by the decline in prices of metals and minerals in the world market and due to the sale of CIPP's distribution system rendering the expansion of the power plant unnecessary.

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

On March 20, 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 of 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 will be used to finance its equity investments in a 54MW wind energy project in San Lorenzo, Guimaras and the second 135MW clean coal-fired power plant in Calaca, Batangas, and other power project opportunities.

The Company's retained earnings balance amounted to ₱2.11 billion and ₱1.94 billion as of March 31, 2013 and December 31, 2012, respectively, while paid-up capital is ₱4.88 billion as of March 31, 2013. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱110.84 million and ₱97.01 million as of December 31, 2012 and March 31, 2013, respectively, are not currently available for dividend distribution.

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 |

Dividends declared and paid in 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 | 113,194,541 | March 1, 2012 |
| March 21, 2013 | Cash | 0.04 per share | 194,318,190 | April 8, 2013 |

## 17. Employee Stock Options and Executive Stock Grants

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

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

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

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares to be awarded as follows: (a) stock grants for officers and managers of the Company; and, (b) stock options for directors, officers and employees of TA Oil and its subsidiaries and affiliates (referred to herein as the "New Plan") under the terms and conditions as determined by the Executive

Committee of the BOD.

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

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

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

| | |
|---|---|
| Coverage | Directors, permanent officers and employees of TA Oil and its subsidiaries and affiliates |
| Exercise price | At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of ₱1.00 per share |
| Vesting period | • Up to 33% of the allocated shares on the 1st year from the date of grant;<br>• Up to 66% of the allocated shares on the 2nd year from the date of grant; and<br>• 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 0.14 million shares in 2012 and 2.02 million shares in 2010. As of March 31, 2013, stock grants of 695,877 shares have been granted to the executives of the Company and 142,105 as of December 31, 2012.

As of December 31, 2012 and March 31, 2013, no stock options have been granted and awarded to any of the directors, officers and employees of the Company.

18. **Trading Revenue (Loss)**

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| Trading revenue | **₱1,166,258,562** | ₱634,604,601 |
| Cost of power purchased | **873,728,589** | 490,362,281 |
| | **₱ 292,529,973** | ₱144,242,320 |

19. **Cost of Power Generation**

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| Fuel | **₱59,909,608** | ₱9,419,633 |
| Depreciation and amortization (Note 23) | **18,226,939** | 1,454,814 |
| Power Delivery cost | **13,563,910** | 15,284 |
| Station used | **1,615,585** | 1,201,326 |
| Repairs and maintenance | **5,842,247** | 489,929 |
| Labor (Note 22) | **9,580,748** | 1,479,013 |
| Taxes and licenses | **7,418,321** | 354,152 |
| Concession and other fees | **76,696** | 10,369 |
| Employee benefits (Note 22) | **2,052,193** | 255,853 |
| Insurance | **3,753,852** | 182,844 |
| Rental | **204,158** | 145,263 |
| Others | **2,674,339** | 661,866 |
| | **₱124,918,596** | ₱15,670,346 |

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

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| Depreciation and amortization (Note 23) | ₱ – | ₱5,116,976 |
| Fuel | – | 1,835,850 |
| Repairs and maintenance | – | 2,264,533 |
| Insurance | – | 13,966 |
| Labor (Note 23) | – | 820,825 |
| Concession and other fees | – | 312,200 |
| Taxes and licenses | – | 500 |
| Employee benefits (Note 22) | – | 195,963 |
| Rental | – | 12,631 |
| Others | – | 623,858 |
| | ₱ – | ₱11,197,302 |

21. **General and Administrative Expenses**

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| Management and professional fees (Note 26) | **₱29,722,518** | ₱12,721,879 |
| Salaries and directors' fees (Notes 22 and 26) | **19,068,241** | 17,527,937 |
| Depreciation and amortization (Note 23) | **4,540,854** | 5,147,081 |
| Building maintenance and repairs | **3,665,661** | 3,609,521 |
| Taxes and licenses | **8,345,984** | 6,781,465 |
| Pension (Notes 22 and 26) | **1,690,328** | 628,553 |
| Insurance, dues and subscriptions | **1,404,113** | 905,131 |
| Employee benefits (Note 22) | **1,597,892** | 2,032,119 |
| Transportation and travel | **956,906** | 808,654 |

| | 2013 | 2012 |
|---|---|---|
| Office supplies | **927,169** | 798,400 |
| Rent | **166,120** | 123,131 |
| Donation and contribution | **967,813** | 1,241,688 |
| Entertainment, amusement and recreation | **99,770** | 52,119 |
| Others | **3,316,473** | 1,672,260 |
| | **₱76,469,842** | ₱54,049,938 |

22. **Personnel Expenses**

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| Salaries and directors' fees included under: | | |
| Cost of power generation | **₱9,580,748** | ₱1,479,013 |
| Cost of power plant on standby | **–** | 820,825 |
| General and administrative expenses | **19,068,241** | 17,527,937 |
| Pension included under general and administrative expenses | **1,690,328** | 628,553 |
| Employee benefits included under: | | |
| Cost of power generation | **2,052,193** | 255,853 |
| Cost of power plant on standby | – | 195,963 |
| General and administrative expenses | **1,597,892** | 2,032,119 |
| | **₱33,989,402** | ₱22,940,264 |

23. **Depreciation and Amortization**

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| Depreciation expense of property, plant and equipment and investment properties included under (Notes 10 and 13): | | |
| Cost of power generation | **₱18,226,939** | ₱1,454,814 |
| Cost of power plant on standby | **–** | 5,116,976 |
| General and administrative expenses | **4,540,854** | 5,147,081 |
| Amortization of intangibles included under: | | |
| General and administrative expenses | **–** | – |
| | **₱22,767,793** | ₱11,718,871 |

24. **Other Income (Expenses)**

| | For the First Quarter Ended | |
|---|---|---|
| | **2013** | 2012 |
| Gain (loss) on derivatives - net (Note 29) | **₱2,193,249** | ₱(2,088,200) |
| Foreign exchange gain (loss) - net | **(1,084,052)** | (12,374,565) |
| Property and equipment written-off (Note 10) | **–** | – |
| Gain (loss) on sale of: | | |
| Interest in service contract | **–** | – |
| Asset held for sale | **–** | – |
| Royalty interest | **–** | – |
| Available-for-sale investments | **22,054** | 37,627 |
| Property and equipment (Note 10) | **180,093** | 59,608 |

| | 2013 | 2012 |
|---|---|---|
| Investment in an associate (Note 11) | – | – |
| Inventories | – | – |
| Reversal of (provisions for): | | |
| Impairment loss on deferred exploration costs | – | – |
| Impairment loss on available-for-sale investments | – | – |
| Impairment loss on property, plant and equipment (Note 10) | – | – |
| Doubtful accounts (Note 9) | – | – |
| Reimbursement of expenses | – | – |
| Option fee (Note 15) | – | – |
| Equity in net losses of associates (Note 11) | **(17,672,163)** | (18,698,272) |
| Surety bond related charges | – | – |
| Receipt of tax credits | – | – |
| Others | **4,823,479** | (78,941) |
| | **₱(11,537,340)** | ₱(33,142,743) |

## 25. **Income Tax**

a. Current income tax pertains to the following:

| | For the First Quarter ended | |
|---|---|---|
| | **2013** | 2012 |
| RCIT | **₱54,332,453** | ₱27,879,779 |
| MCIT | – | – |
| Gross income tax | – | – |
| | **₱54,332,453** | ₱27,879,779 |

b. The components of the Company's net deferred income tax assets (liabilities) as of March 31, 2013 are as follows:

| | **March 2013** | December 2012 |
|---|---|---|
| Deferred income tax assets: | | |
| Unrealized foreign exchange losses | **₱1,550,672** | ₱4,972,264 |
| NOLCO | **12,142,920** | 12,142,920 |
| Accrued expenses | **7,043,607** | 5,838,037 |
| Allowance for probable losses | **3,862,312** | 3,862,312 |
| Allowance for impairment loss | **2,013,835** | 2,013,835 |
| Asset retirement obligation | **1,749,749** | 1,722,317 |
| Allowance for doubtful accounts | **837,865** | 627,558 |
| Unamortized MTM loss | **247,156** | 243,773 |
| Unamortized past service cost | **1,086,848** | 341,473 |
| Deferred rent income | **660,468** | 62,902 |
| | **31,195,432** | 31,827,391 |
| Deferred income tax liabilities: | | |
| Excess of fair value over cost of CIPP power plant | **(11,743,597)** | (13,571,402) |
| Unrealized fair value gains on investment held for trading and derivatives | **(8,090,552)** | (5,172,314) |
| Unrealized fair value gains on available-for-sale | **(4,349,194)** | (4,211,610) |

| | | |
|---|---|---|
| investments | | |
| Asset retirement obligation | **(522,000)** | (532,800) |
| Pension asset | **(317,520)** | (356,175) |
| Unrealized foreign exchange gain | – | – |
| | **(25,022,863)** | (23,844,301) |
| Deferred income tax assets - net | **₱6,172,569** | ₱7,983,090 |

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:

| | **2013** | 2012 |
|---|---|---|
| NOLCO | **₱103,420,426** | ₱101,178,020 |
| 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 | **6,718,483** | 6,718,483 |
| Unrealized fair value loss on investment held for trading | **–** | – |
| Unrealized foreign exchange losses | **–** | 4,342 |
| Derivative liability | **–** | 812,579 |
| MCIT | **167,725** | 41,003 |

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 of December 31, 2012, NOLCO totaling ₱143.90 million can be claimed as deduction from regular taxable income and MCIT amounting to ₱167.72 thousand can be credited against future RCIT due as follows:

| Expiry Date | MCIT | NOLCO |
|---|---|---|
| December 31, 2013 | ₱166,877 | ₱12,079,400 |
| December 31, 2014 | 848 | 83,375,060 |
| December 31, 2015 | – | 48,442,368 |
| | ₱167,725 | ₱143,896,828 |

NOLCO amounting to ₱5.26 million were applied against taxable income in 2012. MCIT amounting to ₱0.04 million were applied against RCIT in 2012. NOLCO amounting to ₱12.71 million expired in 2012.

## 26. Related Party Transactions

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

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For year ended December 31, 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 quarter 2013 and for the year 2012 with related parties are as follows (in thousands):

**March 31, 2013**

| Company | Amount/ Volume | Nature | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| **Ultimate Parent** | | | | | |
| ***Phinma, Inc.*** | | | | | |
| Revenues | ₱252 | Rent and share in expenses | ₱216 | 30-day, non-interest bearing | Unsecured, no impairment |
| Costs and expenses | 16,839 | Management fees and share in expenses | 11,967 | 30-day, non-interest bearing | Unsecured |
| Receivable | 103 | Advances | – | | |
| **Joint Ventures** | | | | | |
| ***SLTEC*** | | | | | |
| Revenues | 639 | Rent and share in expenses | 92 | 30-day, non-interest bearing | Unsecured, no impairment |
| Payable | – | Rental deposit | 590 | End of lease term | Unsecured |
| **Associate** | | | | | |
| ***Asia Coal*** | | | | | |
| Payable | – | Advances | 254 | On demand | Unsecured |
| **Other Related Parties** | | | | | |
| ***PPHC*** | | | | | |
| Payable | – | Advances | 171 | On demand | Unsecured |
| ***Phinma Corp.*** | | | | | |
| Receivable | 5,115 | Cash dividend | 5,111 | April 17,2013 | Unsecured, no impairment |
| Receivable | 271 | Advances | – | | |
| Costs and expenses | 227 | Share in expenses | 5 | 30-day, non-interest bearing | Unsecured |
| ***T-O Insurance, Inc.*** | | | | | |
| Payable | 1,723 | Insurance expense | – | | |
| ***Emar Corp.*** | | | | | |
| Receivable | 64 | Advances | – | | |
| ***Directors*** | | | | | |
| Expenses | 9,094 | Annual incentives | 9,094 | Next calendar year | Unsecured |

**December 31, 2012**

| Company | Amount/ Volume | Nature | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| **Ultimate Parent** | | | | | |
| ***Phinma, Inc*** | | | | | |
| Revenues | ₱730 | Rent and share in expenses | ₱115 | 30-day, non-interest bearing | Unsecured, no impairment |
| Costs and expenses | 36,149 | Management fees and share in expenses | 22,329 | 30-day, non-interest bearing | Unsecured |
| **Joint Ventures** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| ***TA Power*** | | | | | |
| Revenues | 413,212 | Electricity sold, rent and share in expenses | 42,762 | 30-day, non-interest bearing | Unsecured, no impairment |
| Cost and expenses | 256,788 | Electricity purchases | 31,984 | 30-day, non-interest bearing | Unsecured |
| ***SLTEC*** | | | | | |
| Revenues | 1,963 | Rent and share in expenses | 684 | 30-day, non-interest bearing | Unsecured, no impairment |
| Payable | – | Rental deposit | 295 | End of lease term | Unsecured |
| **Associate** | | | | | |
| ***Asia Coal*** | | | | | |
| Payable | – | Advances | 254 | On demand | Unsecured |
| **Other Related Parties** | | | | | |
| ***PPHC*** | | | | | |
| Revenue | 2,172 | Dividend income | – | | |
| Payable | – | Advances | 171 | On demand | Unsecured |
| ***Phinma Corp.*** | | | | | |
| Cash Dividend | 3,256 | Dividend income | – | | |
| Costs and expenses | 1,469 | Share in expenses | 73 | 30-day, non-interest bearing | Unsecured |
| ***Union Galvasteel Corp.*** | | | | | |
| Cash Dividend | 1,520 | Dividend income | – | | |
| ***Asian Plaza Inc.*** | | | | | |
| Cash Dividend | 1,319 | Dividend income | – | | |
| ***Fuld & Company*** | | | | | |
| Costs and expenses | 4,977 | Professional fees | 3,950 | 30-day, non-interest bearing | Unsecured |
| ***T-O Insurance, Inc.*** | | | | | |
| Costs and expenses | 3,077 | Insurance expense | 56 | 30-day, non-interest bearing | Unsecured |
| ***Directors*** | | | | | |
| Expenses | 26,588 | Annual incentives | 23,288 | On demand | Unsecured |
| ***Stockholders*** | | | | | |
| Payable | – | Unclaimed cash dividend | 9,034 | On demand | Secured, no impairment |

PHINMA

The Company has a management contract with Philippine Investment-Management (PHINMA), Inc. up to August 31, 2013, renewable thereafter upon mutual agreement. Under this contract, 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.

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 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
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.

The plan assets include shares of stock of the Parent Company with fair value of ₱0.3 million March 31, 2013. The shares were acquired at a cost of ₱0.2 million. There are no restrictions or limitations on the shares and there was no material gain or loss on the shares for the year ended December 31, 2012. 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.

27. **EPS Computation**

| | **March 2013** | March 2012 |
|---|---|---|
| (a) Net income | **₱164,890,161** | ₱41,769,100 |
| Common shares outstanding at beginning of year (Note 17) | **4,857,258,870** | 2,829,863,527 |
| Weighted average number of shares issued during the year | **30,928** | 18,739 |
| (b) Weighted average common shares outstanding | **4,857,289,798** | 2,829,882,266 |
| Basic/Diluted EPS (a/b) | **₱0.034** | ₱0.015 |

The Company's stock option has no dilutive effect in 2012. Also, the Company does not have any potential common share nor other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

28. **Significant Laws, Commitments and Contracts**

Electric Power Industry Reform Act (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.

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

Contracts of Sale of Electricity with Sorsogon I Electric Cooperative, Inc. (SORECO I) and Quezon I Electric Cooperative, Inc. (QUEZELCO II)
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 provide 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.

Contract of Sale of Electricity with Lafarge Republic, Inc,
On July 9, 2012, TA Oil entered into Contract for the Sale of Electricity with Lafarge Republic, Inc. for a period of 5 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-Lot 1 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 Meralco to 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.

Contract to Purchase Generated Electricity with Sem-Calaca Power Corporation

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, the Company and Sem-Calaca signed a contract amending their existing Contract to Purchase Generated Electricity. Under the new contract, TA Oil can now purchase up to 45MW of electricity from Sem-Calaca's 2 x 300 MW power plant in Calaca, Batangas.

Contract for the Sale of Electricity with DirectPower Services, Inc.

On April 17, 2013, the Company signed a Contract for the Sale of Electricity with DirectPower Services, Inc., a Retail Electricity Supplier duly licensed by the Energy Regulatory Commission. The contract covers the supply of electricity by Trans-Asia to DirectPower of a combined peak demand of up to 106.71MW, valid for eleven (11) years commencing on June 26, 2013 or the start of the Retail Competition and Open Access, whichever comes later, or such other date agreed by the Parties in writing.

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.

Renewable Energy Act of 2008

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

(1) Accelerate the exploration and development of 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 value-added tax (VAT) rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

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

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

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

In 2011, 8 wind energy service contracts which represent 89 MW were applied for relinquishment pending the approval to the DOE due to poor wind resource and complexity of site topography as examined during site survey.

In 2012, TAREC continued 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 which is ready for implementation pending receipt of a notification from the DOE for the project's inclusion in the 200 MW installation target for wind.

Operating Lease Commitment
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 operating lease payables under this lease agreement as of December 31, 2012 and March 31, 2013 are as follows:

| | **March 2013** | December 2012 |
|---|---|---|
| Within one year | **₱480,000** | ₱480,000 |
| After one year but not more than five years | **520,000** | 640,000 |
| | **₱1,000,000** | ₱1,120,000 |

## 29. Financial Assets and Financial Liabilities

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

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | **March 2013** | December 2012 | **March 2013** | December 2012 |
| **Financial Assets** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **₱900,992,099** | ₱907,595,393 | **₱900,992,099** | ₱907,595,393 |
| Short-term investments | **1,157,496,792** | 1,555,339,848 | **1,157,496,792** | 1,555,339,848 |
| Receivables: | | | | |
| Trade | **802,343,529** | 507,320,737 | **802,343,529** | 507,320,737 |
| Due from related companies | **5,418,873** | 87,018,093 | **5,418,873** | 87,018,093 |
| Others* | **8,288,865** | 5,562,426 | **8,288,865** | 5,562,426 |
| | **2,873,540,158** | 3,062,836,497 | **2,873,540,158** | 3,062,836,497 |

| | | | | |
|---|---|---|---|---|
| Financial assets at FVPL: | | | | |
| Investments held for trading | **960,143,613** | 835,008,772 | **960,143,613** | 835,008,772 |
| Derivative asset | **1,590,500** | 1,187,250 | **1,590,500** | 1,187,250 |
| | **961,734,113** | 836,196,022 | **961,734,113** | 836,196,022 |
| AFS investments: | | | | |
| Quoted | **₱212,279,586** | ₱141,316,676 | **₱212,279,586** | ₱141,316,676 |
| Unquoted | **83,246,573** | 83,246,573 | **83,246,573** | 83,246,573 |
| Government securities and FXTNs | **134,318,857** | 54,001,940 | **134,318,857** | 54,001,940 |
| | **429,845,016** | 278,565,189 | **429,845,016** | 278,565,189 |
| | **₱4,265,119,287** | ₱4,177,597,708 | **₱4,265,119,287** | ₱4,177,597,708 |
| **Financial Liabilities** | | | | |
| Financial liability at FVPL - | | | | |
| Derivative liabilities** | **₱823,856** | ₱812,579 | **₱823,856** | ₱812,579 |
| Other financial liabilities | | | | |
| Accounts payable and other current liabilities*** | **569,460,812** | 465,729,644 | **569,460,812** | 465,729,644 |
| Due to stockholders | **9,033,061** | 9,034,205 | **9,033,061** | 9,034,205 |
| Other noncurrent liabilities | – | – | – | – |
| | **578,493,873** | 474,763,850 | **578,493,873** | 474,763,850 |
| | **₱579,317,729** | ₱475,576,428 | **₱579,317,729** | ₱475,576,428 |

** Excludes nonfinancial asset amounting to ₱23.63 million and ₱9.41 million as of December 31, 2012 and March 31, 2013, respectively.*
*** Presented as part of other current assets.*
**** Excludes nonfinancial items amounting to ₱89.01 million and ₱89.89 million as of December 31, 2012 and March 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 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 of March 31, 2013, the fair value measurement of the Company's financial assets and liabilities carried at fair value is categorized as follows (in thousands):

| | 2013 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** |
| *Assets:* | | | |
| Investments held for trading | **₱762,091** | **₱198,052** | **₱960,143** |
| AFS investments | **212,280** | – | **212,280** |
| Derivative asset | – | **1,591** | **1,591** |
| *Liabilities -* | | | |
| Derivative liabilities | – | **(824)** | **(824)** |
| Total | **₱974,371** | **₱198,819** | **₱1,173,190** |

| | 2011 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| *Assets:* | | | |
| Investments held for trading | **₱588,543** | **₱246,466** | **₱835,009** |
| AFS investments | **141,317** | – | **141,317** |
| Derivative asset | – | **1,187** | **1,187** |
| *Liabilities -* | | | |
| Derivative liabilities | – | **(813)** | **(813)** |
| Total | **₱729,860** | **₱246,840** | **₱976,700** |

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.

<u>Derivative Assets and Liabilities</u>
*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$4.8 million and weighted average contracted forward rate of ₱41.241 to US$1.00 as of December 31, 2012 and ₱41.046 to US$1.00 as of March 31,2013. The net fair value of these currency forward contracts amounted to ₱1.19 million gain as of December 31, 2012.

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

TA Oil's outstanding embedded forwards have an aggregate notional amount of US$1.94 million as of December 31, 2012. The weighted average fixing rate amounted to ₱41.10 to US$1.00 as of December 31, 2012. The net fair value of these embedded derivatives amounted to ₱0.81 million loss as of December 31, 2012.

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

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **₱374,671** | **(₱1,851,236)** |
| Net changes in fair value during the year | **2,181,971** | **9,364,316** |
| Fair value of settled contracts | **(1,789,998)** | **(7,138,409)** |
| Balance at end of year | **₱766,644** | **₱374,671** |

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

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

| | **2013** | 2012 |
|---|---|---|
| Freestanding | **₱1,590,500** | **₱1,187,250** |
| Embedded | **(823,856)** | **(812,579)** |
| | **₱766,644** | **₱374,671** |

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

Interest and Other Financial Income

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

| | **For the First Quarter Ended** | |
|---|---|---|
| | **2013** | 2012 |
| Interest income on: | | |
| Cash in bank | **₱5,123** | ₱47,773 |
| Short-term deposits and investments | **24,616,009** | 3,218,969 |
| Bond | **1,113,538** | 1,301,324 |
| FXTN | **2,373,953** | 1,713,451 |
| Others | **1,297,288** | 658,102 |
| | **29,405,911** | 6,939,619 |
| Net gains (losses) on investments held for trading: | | |
| Amortization of bond premium/discount – net | **(415,802)** | (975,125) |
| Loss on redemption/sale of investments held for trading | **24,950,008** | 6,538,224 |
| Unrealized fair value gains on investments held for trading | **9,616,713** | 3,984,298 |
| | **34,150,919** | 9,547,397 |
| | **₱63,556,830** | ₱16,487,016 |

## 30. Operating Segments

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

| | March 31, 2013 | | | |
|---|---|---|---|---|
| | **Power** | **Petroleum and Mining** | **Adjustments and Eliminations** | **Total** |
| **Revenue** | **₱365,125,117** | **₱641,826** | **₱65,980,732** | **₱431,747,675** |
| **Results** | | | | |
| Depreciation and amortization | **18,919,842** | **116,998** | **3,730,953** | **22,767,793** |
| **Segment profit** | **₱197,428,428** | **(₱1,832,772)** | **₱23,226,241** | **₱218,821,897** |
| **Operating assets** | **₱4,419,285,630** | **₱447,227,405** | **₱2,971,116,707** | **₱7,837,629,742** |
| **Operating liabilities** | **₱637,289,570** | **₱16,295,115** | **₱108,057,476** | **₱761,642,161** |
| **Other disclosure** | | | | |
| Capital expenditure | **₱6,498,926** | **₱-** | **₱155,304** | **₱6,654,230** |

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱63.96 million and ₱2.02 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss, provision for impairment of available-for-sale investment and mark to market gain on derivatives amounting to ₱44.03 million. Other income not included in the profit for operating segment amounted to ₱1.22 million.

3. Segment assets do not include cash and cash equivalents and investments held for trading amounting to ₱2.6 billion, receivables and other current assets totaling ₱50.09 million and other noncurrent assets amounting to ₱343.56 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱103.83 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱4.22 million.

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

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | Power | Petroleum and Mining | Adjustments and Eliminations | Total |
| **Revenue** | ₱162,455,720 | ₱8,392 | ₱18,786,875 | ₱181,250,987 |
| **Results** | | | | |
| Depreciation and amortization | 7,867,002 | 86,816 | 3,765,053 | 11,718,871 |
| **Segment profit** | ₱97,078,151 | (₱2,442,096) | (₱27,445,397) | ₱67,190,658 |
| **Operating assets** | ₱3,261,850,697 | ₱135,190,015 | ₱1,682,123,420 | ₱5,079,164,132 |
| **Operating liabilities** | ₱404,015,356 | ₱20,515,799 | ₱191,696,106 | ₱616,227,261 |

| | | | | |
|---|---|---|---|---|
| **Other disclosure** | | | | |
| Capital expenditure | ₱88,827,566 | ₱1,232,000 | ₱100,232 | ₱90,159,798 |

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱17.22 million and ₱1.57 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss, provision for impairment of available-for-sale investment and mark to market gain on derivatives amounting to ₱47.18 million. Other income not included in the profit for operating segment amounted to ₱0.94 million.

3. Segment assets do not include cash and cash equivalents and investments held for trading amounting to ₱1.24 billion, receivables and other current assets totaling ₱76.51 million and other noncurrent assets amounting to ₱366.04 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱198.54 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱6.84 million.

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

**ANNEX B**

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated revenues climbed to ₱431.75 million in the first quarter of 2013 from ₱181.25 million in the same period last year. Following are the material changes in revenues in the Consolidated Statements of Income between the first quarter of 2013 and 2012:

- Generation revenues rose to ₱68.88 million from ₱17.86 million last year due to energy sold by Trans-Asia Power Generation Corporation (TA Power), which became wholly owned on January 1, 2013 and CIP II Power Corporation (CIPP) which commenced operation in January this year.
- Net trading income of ₱292.53 million was more than double as compared with ₱144.24 million reported in the same period last year as a result of lower cost of power per kWh and higher energy sales in kWh.
- Interest and other financial income rose to ₱63.56 million from ₱16.49 million last year due to interest income from escrow account and gain on sale of bonds.
- Dividend income increased from ₱1.09 million to ₱5.13 million primarily because of the dividends received from PHINMA Corporation.
- Rental income increased from ₱1.57 million to ₱1.66 million due to a lease contract with a third party.

Consolidated costs and expenses rose to ₱201.39 million in the first quarter of 2013 from ₱80.92 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 quarter of 2013 and 2012:

- Cost of power generation increased from ₱15.67 million last year to ₱124.92 million as a result of TA Power and CIPP operations.
- Cost of power plant on standby of ₱11.20 million in 2012 represents the expenses of CIPP before its commercial operations.
- General and administrative expenses increased to ₱76.47 million from ₱54.05 million brought about by higher management and professional fees.

Other expenses of ₱11.54 million were reported in the first quarter of 2013 as compared with ₱33.14 million in the same period last year. Following are the material changes in other income and expenses in the Consolidated Income Statements between first quarter of 2013 and 2012:

- The Company reported a net gain on its currency forward contracts of ₱2.19 million in the first quarter of 2013 as compared with a net loss of ₱2.09 in the same period last year. This was due to the appreciation of peso vis-a-vis the US dollar on forward contracts.
- The Company incurred foreign exchange loss of ₱1.08 million from its foreign currency denominated financial assets in the first quarter of 2013 which is much lower than the ₱12.37 million loss in the same period last year. The decrease was brought about by the sale of US dollar bonds in the first quarter of 2013.
- Gain on sale of available-for-sale investments of ₱22.05 thousand was reported in the first quarter of 2013 as compared with ₱37.63 thousand in the same period last year due to lower market value of investments in the first quarter of 2013.

- Gain on sale of property, plant and equipment of ₱180.09 thousand was reported in the first quarter of 2013 compared to ₱59.61 thousand in same period last year for the disposal of fully depreciated transportation equipment.
- Equity in net losses of associates decreased from ₱18.70 million to ₱17.67 million in the first quarter of 2013 brought about by the lower net loss of Maibarara Geothermal, Inc. (MGI), a 25% associate of the Company, and the change in the treatment of TA Power accounts in accordance with PFRS 11 (Joint Arrangements). TA Power's net loss of P5.73 million in the first quarter of 2012 is presented under equity in net losses of associates while its results of operations for 2013 are included in the consolidation by the parent company.
- Other expenses of ₱78.94 thousand were incurred in the first quarter of 2012. Other income of ₱4.82 million was reported in the same period this year consisting mainly of miscellaneous income from insurance recovery of TA Power.

Provision for income tax in the first quarter of 2013 doubled from ₱25.42 million to ₱53.93 million due to higher taxable income, net of benefit from deferred income tax of ₱2.46 million last year and ₱400.72 thousand this year..

A net income of ₱164.89 million was reported for the three months ended of 2013 as compared with ₱41.77 million in the same period last year, or a 295% increase.

Total consolidated assets increased to ₱7.84 billion as of March 31, 2013 from ₱7.52 billion as of December 31, 2012. Total consolidated liabilities increased to ₱761.64 million from ₱609.25 million. Equity also rose from ₱6.91 billion to ₱7.08 billion.

Following are the material changes in the accounts in the Consolidated Balance Sheets between March 31, 2013 and December 31, 2012:

- Cash and cash equivalents slightly decreased from ₱907.60 million to ₱900.99 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments fell from ₱1.56 billion to ₱1.16 billion due to the Company's purchase of Holcim's 50% stake in TA Power.
- Investments held for trading increased from ₱835.01 million to ₱960.14 million. The Consolidated Statements of Cash Flows show details of material changes in investments held for trading.
- Receivables went up from ₱670.23 million to ₱854.50 million due to increase in trading revenues.
- The increase in fuel and spare parts from ₱133.93 million to ₱241.11 million was brought about by the increase in the quantity of bunker fuel purchased. The Company maintains bunker fuel inventories for the Subic power plant under its Power Administration and Management Agreement with One Subic Power Generation Corporation.
- Available for sale investments rose to ₱134.32 million from ₱54 million due to investment in bonds.
- Other current assets went up to ₱224.51 million from ₱66.98 million primarily brought about by the creditable withholding taxes of TA Power and input taxes of CIPP.
- Property, plant and equipment increased from ₱606.42 million to ₱727.03 million due to additional capital expenditures of CIPP and fixed assets of TA Power.
- Investments in associates and interests in joint ventures decreased from ₱2.37 billion to ₱2.23 billion due to reclassification of investment in TA Power from joint venture (50%) to wholly owned subsidiary.
- The increase in available for sale investments from ₱224.56 million to ₱295.53 million was brought about the acquisition of listed shares of stocks.

- Net deferred income tax asset decreased from ₱7.98 million to ₱6.17 million due to higher deferred tax liabilities on unrealized fair value gains on investments.
- Investment properties went up to ₱31.73 million from ₱19.14 million primarily because of the land owned by TA Power.
- Other noncurrent assets increased from ₱2.38 million to ₱3.44 million. The latter includes retirement plan of TA Power.
- The increase in accounts payable and other current liabilities from ₱554.74 million to ₱659.35 million was brought about by the increase in trade payables due to higher level of operations.
- Income and withholding taxes payable rose from ₱25.40 million to ₱70.95 million due to higher taxable income.
- Pension and other post-employment benefits increased from ₱14.33 million to ₱16.47 million due to additional pension expense accrued in the first quarter of 2013.
- Unrealized fair value gains on available-for-sale investments went up from ₱84.99 million to ₱111.84 million due to TA Power's AFS investments.
- Retained earnings rose from ₱1.95 billion to ₱2.11 billion due to the higher income generated in the first quarter of 2013.

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

| **Key Performance Indicators** | **31-Mar-13** | **31-Dec-12** | **Increase ( Decrease) Difference** | **%** |
|---|---|---|---|---|
| *Liquidity Ratio* | | | | |
| Current ratio | 6.05 | 7.17 | (1.12) | (16%) |
| *Financial Leverage Ratio* | | | | |
| Debt to equity | 0.11 | 0.09 | 0.02 | 22% |

| **Key Performance Indicators** | **31-Mar-13** | **31-Mar-12** | **Increase ( Decrease) Difference** | **%** |
|---|---|---|---|---|
| *Profitability Ratio* | | | | |
| Return on equity | 2.36% | 0.93% | 1.43% | 154 |
| *Efficiency Ratio* | | | | |
| Return on assets | 2.79% | 1.32% | 1.47% | 111 |
| Asset turnover | 0.17 | 0.13 | 0.04 | 31 |

Current Ratio

- Both current assets and current liabilities increased as of March 31, 2013 due to the increased level of operations. Current ratio, however, decreased by16% due to the Company's purchase of Holcim's 50% share in TA Power.

Debt to equity ratio

- Debt to equity ratio slightly increased from 0.09 to 0.11 due to higher trade payables and income taxes.

Return on equity

- Return on equity is 2.5 times that of last year brought about by higher net income in the three months period ended March 31, 2013 despite the increase in capital stock.

Return on assets

- Return on assets more than doubled due to higher net income in the three months period ended March 31, 2013 despite the increase in total assets.

Asset turnover

- Asset turnover went up by 31% as revenues increased by 94% compared to 54% increase in total assets.

During The Three Months Period of 2013:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- The Company had two (2) reportable segments namely: petroleum and mining exploration and power business. The fund placements are incidental to the Company's petroleum and mining exploration and power generation activities arising from management of the Company's funds. The exploration costs are shown as "deferred exploration costs" in the consolidated balance sheets.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements other than those already disclosed in the Consolidated Financial Statements.
- The Company became the 100% owner of TA Power on January 1, 2013.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date except those already disclosed in the Consolidated Financial Statements.
- There were no material contingencies and any other events or transactions that occurred that were material to an understanding of the current year.
- There were no operations subject to seasonality and cyclicality.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company except for those mentioned above.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There were no events that trigger direct or contingent financial obligation that was material to the Company except for those mentioned above.
- There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period except for those mentioned above.

Annex "B-1"

# PROGRESS REPORT
## For the Quarter, January 1, 2013 to March 31, 2013

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## OIL PRODUCTION

### *SC 14 B-1 North Matinloc (Northwest Palawan)*

The North Matinloc field produced 2,400 barrels of oil during the quarter, bringing cumulative production since resumption of operations in February 2009 to 80,724 barrels.

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

## OIL EXPLORATION

### *SC 6 Block B (Northwest Palawan)*

Peak Oil and Gas, one of the farminees, disputed the legality of the notice terminating the Deed of Assignment and Farmin Agreement issued by Philodrill, the Operator.

Trans-Asia has 4.2189% post-farmin interest in SC6 Block B.

### *SC 51 (East Visayas)*

Evaluation of rig tenders for the Duhat - 2 drilling program was completed. Well planning continued. Pre-drilling IEC commenced in mid-January 2013.

Frontier Oil did not exercise its option to acquire interest in the South Block under the Farm-in Option Agreement dated 23 October 2012.

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

---

***SC 55 (Ultra Deepwater West Palawan)***

BHP Billiton, the Operator, reported that, while a rig suitable for drilling the Cinco - 1 well is available, the required clearance from the Palawan Council for Sustainable Development remains pending

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

***SC 69 (Camotes Sea)***

Farmout efforts continued.

The consortium requested the DOE a 6-month extension of the current exploration Sub-Phase to 7 November 2013.

Trans-Asia has 6.00% participating interest in SC 69.

***SC 52 (Cagayan Province)***

Frontier Oil, the Operator, continued preparations for the deepening and re-testing of the Nassiping - 2 well. Mobilization is expected in late May or early June 2013.

Trans-Asia has an option to acquire 10% participating interest in SC 52, which may be exercised after completion of the aforementioned program.

**GEOTHERMAL ENERGY DEVELOPMENT**

***Maibarara Geothermal Service Contract (Batangas/Laguna)***

Construction of the power plant, steamfield, transmission line and switchyard progressed.

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

**MINERALS**

***MPSA No. 252-2007-V (Camarines Norte)***

The Department of Environment and Natural Resources approved the assignment of above MPSA to Investwell Resources, Inc.

Certified Correct:

**RAYMUNDO A. REYES, JR.**
Geologist No. 716
PRC License Valid to Feb. 5, 2014
PTR No. 3693084
Issued on January 21, 2013
at Makati City

**Signed in the presence of:**

**ANNEX C**

## Reports on SEC Form 17-C

The Company filed the following reports on SEC 17-C during the first quarter ended March 31, 2013 covered by this report:

| Date of Filing | Items Reported |
|---|---|
| January 03, 2013 | Please be informed the Trans-Asia Oil and Energy Development Corporation ("the Corporation") has disbursed today the amount of Php350 Million from the Php 1,627 Million gross proceeds of its 2012 Stock Rights Offering.<br><br>The disbursed funds shall be used to pay for Holcim 's 50% stake in Trans-Asia Power Generation Corporation (TAPGC), which owns and operates a 52 megawatt power plant in Norzagaray, Bulacan. The purchase of Holcim's 50% stake in TAPGC is a power project opportunity and is in accordance with the Use of Proceeds as disclosed in the Corporation's Prospectus dated October 30, 2012. |
| January 03, 2013 | In connection with our disclosure entitled **Update on Service Contract No. 51 – East Visayas** dated December 21, 2012, we would like to clarify that the resource potential of the prospect stated therein is in accordance with the studies done by the SC 51 Consortium and has not been validated by the Department of Energy. |
| January 17, 2013 | This refers to your letter dated January 17, 2013, requesting for clarification/confirmation of the news article entitled "10 Firms Eyeing Angat Rehabilitation" published in the January 17, 2013 issue of the Manila Bulletin. The article reported in part that:<br><br>*About 10 investor groups have showed interest in the rehabilitation accord being offered for the 28-megawatt auxiliary units of the Angat hydropower plant.*<br><br>*The firms which showed up at the prequalification process undertaken by the Public Private Partnership (PPP) Center include the Aboitiz Group, Marubeni Corporation, Korea Water Resources Corporation, Trans-Asia Oil and Energy Development Corporation, EEI Corporation, First Gen, Caltimex Power, Sta. Clara International, Juntee Philippines and another group represented by its law firm.* |

| | |
|---|---|
| | We confirm the accuracy of the news article insofar as Trans-Asia is concerned. |
| February 01, 2013 | Please be informed that Maibarara Geothermal Inc. (MGI), 25% - owned subsidiary of Trans-Asia, awarded on 1 February 2013 a contract to Cendaur Engineering for the construction, installation, commissioning and testing of a switchyard for its 20 MW power plant in Sto. Tomas, Batangas. Cendaur Engineering shall complete the switchyard works by 30 June 2013.<br><br>MGI had earlier awarded the construction of a 5 – km long transmission line to MIESCOR, which is scheduled for completion by end – May 2013.<br><br>EEI Corporation, MGI's contractor for the engineering, procurement and construction of the power plant, is expected to complete all major site structures in time for Fuji Electric's delivery of the major plant equipment by March – April 2013.<br><br>Power plant commissioning is expected by July 2013. |
| February 12, 2013 | Please be informed that Trans-Asia and partners extended the deadline for Frontier Oil Corporation to exercise its option under the Farm-in Option Agreement covering the Cebu Strait sector of the SC 51 Contract Area (the "South Block"), to 28 February 2013.<br><br>Under the Agreement, Frontier has the option to acquire eighty percent (80%) of the participating interest in the South Block primarily by undertaking to drill the offshore Argao -1 exploratory well at its sole cost and risk under the 6$^{th}$ Sub-Phase of the Exploration Period of SC 51 (31 January 2014 to 8 July 2015).<br><br>Trans-Asia currently has 33.34% participating interest in the South Block of SC 51. |
| February 27, 2013 | Please be informed that Trans-Asia Oil and Energy Development Corporation and Sem-Calaca Power Corporation signed today a contract amending their existing Contract to Purchase Generated Electricity. Under the new contract, Trans-Asia can now purchase up to 45 megawatts of electricity from Sem-Calaca's 2 x 300 megawatt power plant in Calaca Batangas, from 15 megawatts under the old contract. The new contract assures Trans-Asia of additional electricity supply to service its customers. |
| March 06, 2013 | Please be informed that we received today an Order from the Department of Environment and Natural Resources dated 7 February 2013 approving the assignment of subject Mineral |

Production Sharing Agreement of Trans-Asia to Investwell Resources, Inc.

March 19, 2013

Please be informed that SC 55 Operator, BHP Billiton Petroleum (Philippines) Corporation (“BHPB”), has notified its co-contractors that certain local regulatory approvals have not been obtained to this date, and this may affect the contractor’s ability to satisfy their obligation to drill the Cinco – 1 well by August 2013.

The contractors are pursuing all available options to be able to deliver the well within the contractual deadline, and are closely coordinating with the Department of Energy regarding the matter.

BHPB has reiterated its commitment to drill the Cinco – 1 well as soon as possible and is in the advanced stage of procuring the required services, equipment and supplies for said activity.

The SC 55 contractors are Trans-Asia (6.82% interest), Otto Energy Ltd. (33.18%) and BHP Billiton (60%).

March 21, 2013

Please be informed that at the regular meeting of the Board of Directors of Trans-Asia Oil and Energy Development Corporation held today, the following actions were taken:

1. Declaration of cash dividend of ₱0.04 per share, payable on May 6, 2013 to all shareholders of record as of April 8, 2013; and

2. Authority to invest up to ₱1.5 Billion in South Luzon Thermal Energy Corporation (“SLTEC”), to finance the construction of the second unit of the SLTEC power plant in Calaca, Batangas (“Unit 2”), subject to the approval of the Unit 2 project by SLTEC.

March 22, 2013

Please be informed that at the Annual Meeting of the Shareholders of Trans-Asia Oil and Energy Development Corporation held today, with all directors present, the following actions were taken:

(1) The following were elected directors of the Corporation:

Oscar J. Hilado
Antonio V. del Rosario
Magdaleno B. Albarracin, Jr.
Ramon R. del Rosario, Jr.
Francisco L. Viray
Roberto M. Laviña
Victor J. del Rosario
Alfredo M. Velayo (Independent)
Raymundo O. Feliciano (Independent)

Ricardo V. Camua (Independent)
David L. Balangue (Independent)

(2) The auditing firm of Sycip, Gorres, Velayo and Company was reappointed external auditors for the year 2013;
(3) The company's Management Contract with PHINMA, Inc. was renewed effective September 01, 2013 for a period of (5) five years, under the same terms and conditions with a monthly fee of Php 800,000.00 subject to adjustment yearly by Php 80,000.00 on each anniversary date for the duration of the contract.

Following the Annual Meeting of Shareholders the following officers were elected:

| | | |
|---|---|---|
| Oscar J. Hilado | - | Chairman |
| Ramon R. del Rosario, Jr | - | Vice Chairman |
| Francisco L. Viray | - | President & Chief Executive Officer |
| Roberto M. Laviña | - | SEVP/Treasurer |
| Juan J. Diaz | - | Corporate Secretary |
| Virgilio R. Francisco, Jr. | - | Senior Vice President |
| Pythagoras L. Brion, Jr. | - | Senior Vice President & Chief Financial Officer |
| Raymundo A. Reyes | - | Senior Vice President – Energy Resources Development |
| Rizalino G. Santos | - | Senior Vice President - Power Business |
| Cecille B. Arenillo | - | Vice President & Compliance Officer |
| Frederick C. Lopez | - | Vice President – Materials Management |
| Mariejo P. Bautista | - | Vice President – Controller |
| Danilo L. Panes | - | Assistant Vice President – Renewable Energy |
| Alan T. Ascalon | - | Asst. Vice President/ Assistant Corporate Secretary |
| Miguel Romualdo T. Sanidad | - | Assistant Corporate Secretary |

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

<u>Executive Committee/Stock Option Committee:</u>

| | | |
|---|---|---|
| Ramon R. del Rosario, Jr | - | Chairman |
| Oscar J. Hilado | - | Member |
| Magdaleno B. Albarracin, Jr. | - | Member |
| Francisco L. Viray | - | Member |

| | | |
|---|---|---|
| Alfredo M. Velayo | - | Member |

Audit Committee:

| | | |
|---|---|---|
| Alfredo M. Velayo | - | Chairman |
| Roberto M. Laviña | - | Member |
| Ricardo V. Camua | - | Member |
| Victor J. del Rosario | - | Member |
| David L. Balangue | - | Member |

Nomination Committee:

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

Compensation Committee:

| | | |
|---|---|---|
| Alfredo M. Velayo | - | Chairman |
| Ramon R. del Rosario, Jr. | - | Member |
| Oscar J. Hilado | - | Member |

**ANNEX D**

# TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

## Annual Report of Use of Proceeds from Stock Rights Offering

## For the First Quarter Ended March 31, 2013

Trans-Asia Oil
and Energy Development Corporation
*A PHINMA Company*

**HELP EARTH**
Harnessing Energy Literacy for Planet EARTH

April 15, 2013

**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 March 31, 2013, Trans-Asia Oil and Energy Development Corporation (TA):

- has used P230.1 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 P0.362 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,

**Raymundo A. Reyes, Jr.**
SVP – Energy Resources Development

**Trans-Asia Oil & Energy Development Corporation (TA)**
**Schedule of Disbursements from the Gross Proceeds of the 2007 Stock Rights Offering**
**For the period January 1, 2013 to March 31, 2013**
**(Amounts in Millions)**

| | Estimate | | | Actual disbursement for the period Nov. 28, 2007 to Dec. 31, 2012 | | | Actual disbursement for the period Jan. 1, 2013 to Mar. 31, 2013 | | | Balance of Gross Proceeds As of Mar. 31, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | | | 30.8 | | | 3.0 | | | 33.8 | | |
| Previously earmarked for Mineral Projects | 34.6 | 413.1 | | - | 30.8 | | - | 3.0 | | - | 33.8 | |
| ***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 | 227.1 | - | - | 3.0 | 0.4 | 8.8 | 230.1 |
| **Balance** | | | **-** | | | **380.7** | | | **(3.0)** | | | **377.7** |

Prepared by:

**Shelibeth T. Rodriguez**
Sr. Accountant

Noted by:

**Raymundo A. Reyes, Jr.**
SVP - Energy Reseources Development

SGV & Co
Ernst & Young

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

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

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 AUDITOR'S 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 from the gross proceeds of the 2011 stock rights offering of Trans-Asia Oil and Energy Development Corporation (the Company) as of March 31, 2013 and for the period from May 30, 2011 to March 31, 2013. 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 of March 31, 2013 and for the period from May 30, 2011 to March 31, 2013 (the "Schedule") and checked its mathematical accuracy. We noted no exceptions.

2 We traced the estimated and gross net proceeds and actual disbursements as of March 31, 2013 and for the period from May 30, 2011 to March 31, 2013 per Schedule to the Schedule of Disbursements from the Gross Proceeds of the 2011 Stock Rights Offering for the period from October 1, 2012 to December 31, 2012 submitted to SEC and noted no exceptions.

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.


A member firm of Ernst & Young Global Limited

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 other 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 whole.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez

Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-AR-2 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-085-895
BIR Accreditation No. 08-001998-65-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669691, January 2, 2013, Makati City

April 12, 2013

**Trans-Asia Oil & Energy Development Corporation (TA)**
**Schedule of Disbursements from the Gross Proceeds of the 2011 Stock Rights Offering**
**For the period from January 1, 2013 to March 31, 2013**

**(Amounts in Millions)**

| | Estimate | | | Actual Disbursement For the period May 30, 2011 to Dec. 31, 2012 | | | Actual Disbursement For the period Jan. 1, 2013 to Mar. 31, 2013 | | | Balance of the Gross Proceeds As of Mar. 31, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 |
| **Total** | | | **₱–** | | | **₱3.1** | | | **₱–** | | | **₱3.1** |

Prepared by:

**Shelibeth T. Rodriguez**
Sr. Accountant

Noted by:

**Raymundo A. Reyes, Jr.**
SVP - Energy Reseources Development

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December 28, 2012, valid until December 31, 2015
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November 15, 2012, valid until November 16, 2015

# INDEPENDENT AUDITOR'S 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 from the gross proceeds of the 2012 stock rights offering of Trans-Asia Oil and Energy Development Corporation (the Company) for the period from January 1, 2013 to March 31, 2013. 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 January 1, 2013 to March 31, 2013 (the "Schedule") and checked its mathematical accuracy. We noted no exceptions.
2. We traced the estimated gross proceeds and application of gross proceeds per Schedule to the estimated amounts indicated in the prospectus. We noted that the estimated amounts per schedule agree with the amounts indicated in the prospectus.
3. We obtained the schedule of proceeds of the 2012 stock rights offering and checked its mathematical accuracy. We did not note any exceptions.
4. We agreed amount of proceeds indicated in the Schedule to the total proceeds in the schedule obtained in No.3. We noted no exceptions.
5. We obtained the details of disbursements related to the 2012 stock rights offering and checked its mathematical accuracy. We did not note any exceptions.
6. We agreed the amount of disbursements in the Schedule to the details of disbursements obtained in No. 5. We noted no exceptions.
7. We vouched the disbursements to supporting documents such as check vouchers, letter of intent, official receipts, and bank statements. 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 or for any other purpose.


A member firm of Ernst & Young Global Limited

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 other 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 whole.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-AR-2 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-085-895
BIR Accreditation No. 08-001998-65-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669691, January 2, 2013, Makati City

April 12, 2013

**Trans-Asia Oil & Energy Development Corporation (TA)**
**Schedule of Disbursements from the Gross Proceeds of the 2012 Stock Rights Offering**
**For the period from January 1, 2013 to March 31, 2013**

**(Amounts in Millions)**

| | Estimate | | | Actual Disbursement For the period Nov. 14, 2012 to Dec. 31, 2012 | | | Actual Disbursement For the period Jan. 1, 2013 to Mar. 31, 2013 | | | Balance of the Gross Proceeds As of Mar. 31, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Original Gross Proceeds - 2012 SRO** | | | **₱1,627** | | | **₱–** | | | **₱–** | | | **₱1,627** |
| **Application of Gross Proceeds** | | | | | | | | | | | | |
| ***Equity Investment in 54MW wind energy project* in San Lorenzo, Guimaras** | | ₱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 | | | - | | | 350.0 | | | 350.0 | |
| ***Pay Expenses in Relation to the Stock Rights Offer*** | | | | | | | | | | | | |
| SEC Fees for increase in confirmation and exemption | ₱1.6 | | | ₱1.6 | | | ₱ - | | | ₱1.6 | | |
| PSE listing and processing fees | 2.4 | | | 1.6 | | | 0.1 | | | 1.7 | | |
| Documentary stamp tax | 8.1 | | | 8.1 | | | - | | | 8.1 | | |
| Professional fees | 1.2 | | | - | | | - | | | - | | |
| Other expenses | 1.7 | 15.0 | 1,627.0 | 0.6 | 11.9 | 11.9 | 0.1 | 0.2 | 350.2 | 0.7 | 12.1 | 362.1 |
| **Total** | | | **₱–** | | | **(₱11.9)** | | | **(₱350.2)** | | | **₱1,264.9** |

Prepared by:

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