

COVER SHEET

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S.E.C. Registration Number

T H E P H I L O D R I L L C O R P O R A T I O N

(Company's Full Name)

8 t h F l o o r , Q u a d A l p h a C e n t r u m

B u i l d i n g , 1 2 5 P i o n e e r S t r e e t

M a n d a l u y o n g C i t y

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

Reynaldo E. Nazarea

Contact Person

631-8151

Company Telephone Number

0 6

Month

3 0

Day

SEC Form 17-Q (June 2014)

FORM TYPE

0 6

Month

2 0

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

8 7 9 9

Total No. of Stockholders

Total Amount of Borrowings

P0.00

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION
CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES.**

1. For the quarterly period ended June 30, 2014
2. SEC Identification Number: 38683
3. BIR Tax Identification No.: 000-315-612-000
4. Exact name of registrant as specified in its charter : THE PHILODRILL CORPORATION
5. Philippines 6. _____ (SEC Use Only)
Province, Country or other Industry Classification Code
jurisdiction of incorporation or organization
7. 8th Floor, Quad Alpha Centrum, 125 Pioneer Street, Mandaluyong City 1550
Address of principal office Postal Code
8. (632) 631-8151/52
Registrant's telephone number, including area code
9. Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and of the RSA

Number of Common Stock Outstanding
191,868,805,358

Amount of Debt Outstanding

Total Liabilities P90,339,835

11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes ☒ No ☐

12. Check whether the issuer

- (a) has filed all reports required to be filed by Section 11 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes ☒ No ☐

- (b) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

1. The unaudited Consolidated Financial Statements of the Company for the 2nd quarter ended 30 June 2014 are included in this report. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of the SEC Form 17Q.
2. Interim Statements of Operations for the current interim period (01 January to 30 June 2014), with comparative Statement of Operations for the comparable period (01 January to 30 June 2013) are attached to this report.
3. A statement showing changes in equity cumulatively for the current financial year to date (01 January to 30 June 2014), with a comparative statement for the comparable year-to-date period of the immediately preceding financial year (01 January to 30 June 2013) are attached to this report.
4. The basic and diluted earnings/loss per share are presented on the face of the attached Statement of Operations (01 January to 30 June 2014), as well as the basis of computation thereof.
5. The Company's interim financial report for the 2nd quarter 2014 is in compliance with Generally Accepted Accounting Principles ("GAAP"). Included in this report is a summary of the Company's significant accounting policies.
6. The Company follows the same accounting policies and methods of computation in its interim financial statements (01 January to 30 June, 2014) as compared with the most recent annual financial statements (2013), and no policies or methods have been changed. There were NO reclassifications of financial assets made into and from each category as of the current reporting period.
7. There were NO seasonal or cyclical aspects that had a material effect on the financial condition or results of interim operations of the Company.
8. There were NO unusual items during the interim period (01 January to 30 June 2014), the nature, amount, size or incidents of which have affected the assets, liabilities, equity, net income or cash flows of the Company.

9. There were NO changes in the estimates of amounts reported in prior financial year (2013), which had a material effect in the current interim period (01 January to 30 June, 2014).
10. There were NO issuances, repurchases and repayments of debt and equity securities during the current interim period (January 1 to June 30, 2014).
11. For the period January 1 to June 30, 2014, the Board of Directors in its meeting on February 19, 2014 approved the declaration of cash dividend to stockholders of record as of March 5, 2014, equivalent to P0.0005 per share payable on March 31, 2014.
12. The Company does not generate revenues from any particular segment and its business is not delineated into any segment, whether by business or geography. The Company is not required to disclose segment information in its financial statements.
13. Up to the time of filing of this quarterly report, there were NO material events subsequent to the end of the interim period (January 1 to June 30, 2014) that have not been reflected in the financial statements for said interim period.
14. There were NO changes in the composition of the Company during the interim period (January 1 to June 30, 2014) and there were NO business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuance of operations during said interim period.
15. The Company has NO contingent liabilities or contingent assets as of its last annual balance sheet date (December 31, 2013) and as of end of current interim period (June 30, 2014), EXCEPT those disclosed in Note 25 to the Company's 2013 Audited Financial Statements.
16. There are NO material contingencies and any other events or transactions that are material to an understanding of the current interim period (January 1 to June 30, 2014).

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

Financial Performance

Total revenues for the first two quarters ended June 30, 2014 increased by P228.2 million or 58% to P624.6 million from P396.4 million for the same period last year. Petroleum revenues increased

by P256.7 million or 74% to P603.4 million from P346.8 million for the same period last year. The increase was brought mainly by the increased combined production from the Galoc Phase 1 and 2 in the first two quarters of 2014 as compared to production from Phase 1 only during the same period last year. The combined gross production increased to 1,638,653 barrels for the first two quarters ended June 30, 2014, from 914,081 barrels produced for the same period last year. The average price per barrel increased to \$110.46 for the period ended June 30, 2014 as compared to \$106.35 for the same period last year. Equity in net earnings of associates increased by P4.0 million while interest income decreased by P3.2 million or 16%.

Total costs and expenses increased by P102.4 million from P218.6 million for the first two quarters of 2013 to P321.0 million for the first two quarters of 2014. Operating costs increased by 52%. Foreign exchange gains/losses reflected a net loss of P7.3 million for the first two quarters of 2014 as compared to net gain of P20.2 million for the same period last year. The company's net income after tax amounted to P278.3 million for the first two quarters of 2014 as compared to P156.6 million for the same period last year.

The Company's top five (5) key performance indicators are as follows:

	Jun 30 , 2014	Dec 31, 2013
Current Ratio	9.65 : 1	8.58 : 1
Current Assets	871,751,408	673,143,876
Current Liabilities	90,339,835	78,440,718
Debt to Equity Ratio	0.03 : 1	0.03 : 1
Total Liabilities	90,339,835	85,762,439
Stockholders Equity	3,393,398,527	3,210,761,972
Equity to Debt Ratio	37.56 : 1	37.44 : 1
Stockholders Equity	3,393,398,527	3,210,761,972
Total Liabilities	90,339,835	85,762,439
Book Value per Share	0.01860	0.01765
Stockholders Equity (gross of Subs. Receivable)	3,568,733,467	3,386,104,136
Shares outstanding	191,868,805,358	191,868,805,358
Income per Share	0.00145*	0.00082*
Net Income	278,325,896	156,624,585
Weighted ave. no. of shares	191,868,805,358	191,868,805,358

*for the period January 1 to June 30

The current ratios as of December 31, 2013 and June 30, 2014 are 8.58:1 and 9.65:1, respectively. The Company's current assets exceeded its current liabilities by P781.4 million as of June 30, 2014 and P594.7 million as of December 31, 2013. The "Available-for-sale (AFS) financial assets" account in the balance sheet consists of shares of stock which are listed with the Philippine Stock Exchange and which could be sold to meet the Company's obligations as might be called for by future circumstances. These shares of stock had an aggregate market value of P354.7 million as of June 30, 2014 and P354.5 million as of December 31, 2013. If these shares would be considered part of Current Assets, the recomputed current ratio would be 13.58:1 as of June 30, 2014 and 13.10:1 as of December 31, 2013.

Total assets increased from P3.30 billion as of December 31, 2013 to P3.48 billion as of June 30, 2014. Cash and cash equivalents increased by P253.3 million or 270% due to the collection of the company's share in Galoc revenues. Receivables increased by P34.4 million. Crude oil inventory decreased by P87.5 million or 75% due to lower volume of crude oil on storage as of June 30, 2014. Other current assets decreased by P1.6 million due to the amortization of prepaid expenses. Property and equipment reflected a net decrease of P45.1 million to P881.7 million as of June 30, 2014 mainly due to the booking of depletion costs net of additional development costs for the Galoc Phase 2 project. Available-for-sale (AFS) financial assets slightly increased by P0.2 million due to the adjustment in the valuation reserve of the company's listed stock investments. Investment in bonds decreased by P1.5 million due to the restatement of investment in dollar bonds as of June 30, 2014. Deferred income tax assets increased by P7.1 million or 43% due to adjustments in the recognition of deferred tax assets as of end of the interim period. Other noncurrent assets slightly increased by P0.2 million or 1.5%.

Total liabilities reflected a net increase of 5% or P4.6 million from P85.8 million as of December 31, 2013 to P90.3 million as of June 30, 2014 mainly due to additional income tax accrued as of end of interim period.

Stockholders' equity increased by P182.6 million or 6% from P3.21 billion as of December 31, 2013 to P3.39 billion as of June 30, 2014. The net unrealized loss on decline in value of AFS financial assets slightly decreased by P0.2 million to P154.3 million as of June 30, 2014 due to the adjustment in the valuation reserve of the company's listed stock investments. The company's retained earnings amounted to P1.80 billion as of June 30, 2014 as compared to P1.62 billion as of December 31, 2013.

The Company has a majority-owned subsidiary, Phoenix Gas & Oil Exploration Co., Inc. (PGO). The Company acquired 100% of PGO's capital stock in May 2007. Since PGO has NOT yet started commercial operations, disclosure on performance indicators are as follows:

	Jun 30, 2014	Dec 31, 2013
Current Ratio	0	0
Current Assets	0	0
Current Liabilities	1,095,181	926,639
Debt to Equity Ratio	0.12 : 1	0.10 : 1
Total Liabilities	1,095,181	926,639
Stockholders' Equity	8,964,184	9,005,346
Equity to Debt Ratio	8.19 : 1	9.72 : 1
Stockholders' Equity	8,964,184	9,005,346
Total Liabilities	1,095,181	926,639
Book Value per Share	0.007	0.007
Stockholders Equity (gross of Subs. Receivable)	93,339,184	93,380,346
Average shares outstanding	12,505,000,000	12,505,000,000
Income (loss) per Share	0	0
Net Income (Loss)	No operation	No operation
Average shares outstanding	12,505,000,000	12,505,000,000

Discussion and Analysis of Material Events and Uncertainties

In general, Management is not aware of any material event or uncertainty that has affected the current interim period and/or would have a material impact on future operations of the Company. The Company will continue to be affected by the Philippine business environment as may be influenced by any local/regional financial and political crises.

1. There are NO known trends, demands, commitments, events or uncertainties that have or are reasonably likely to have material impact on the Company's liquidity. Should the Company's cash position be not sufficient to meet current requirements, the Company may consider:
 - a) collecting a portion of Accounts Receivables;
 - b) selling a portion of its existing investments and assets;
 - c) generating cash from loans and advances; and
 - d) issuing subscriptions call on the balance of the subscriptions receivable.
2. There are NO events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

3. There are NO material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period, EXCEPT those disclosed in Note 25 to the Company's 2013 Audited Financial Statements.
4. The Company has NO material commitments for capital expenditures, except for the Company's share in the exploration and development expenditures in the SCs and GSECs. The Company expects to be able to fund such expenditures from: operations, collection of subscriptions and other receivables, and from loans/financing, or to avoid incurring these expenditures altogether by way of farm-outs.
5. There are NO known trends, events or uncertainties that have had or are reasonably expected to have a material impact on the revenues or income of the Company from continuing operations.
6. There are NO significant elements of income or loss that did not arise from the Company's continuing operations.
7. There have been NO material changes from period to period in one or more line items of the Company's financial statements, except those discussed below:

Cash and cash equivalents increased by P253 million mainly due to the collection of the company's share in the Galoc revenues.

Receivables increased by P34.4 million or 7% due to additional trade receivables and interest booked as of end of the interim period.

Crude oil inventory decreased by P87.5 million or 75% due to the lower volume of crude oil on storage as of end of the interim period.

Other current assets decreased by P1.6 million due to the amortization of prepaid expenses booked during the interim period.

Property and equipment reflected a net decrease of P45.1 million to P881.7 million as of June 30, 2014 mainly due to the booking of depletion costs (P85.0), net of additional development costs for the Galoc Phase 2 project (P39.9 million).

Deferred income tax assets increased by P7.1 million or 43% due to adjustments in the recognition of DTA as of end of the interim period.

Accounts payable and accrued liabilities reflected a P5.0 million decrease due to payments of accrued expenses during the interim period.

Income tax payable increased by 234% or P14.1 million due to the additional income taxes accrued in the interim period.

Dividends payable increased by P2.8 million mainly due to the additional balance of cash dividend payable declared during the interim period.

Retirement benefit liability decreased by P7.3 million or 100% mainly due the additional contribution made to the retirement fund.

Net unrealized loss on decline in value of AFS financial assets as of December 31, 2013 amounted to P154.5 million. For the interim period, P0.17 million adjustment in the valuation reserve pertaining to the listed stock investments of the Company was booked. As of June 30, 2014, net unrealized loss on decline in market value of AFS financial assets amounted to P154.3 million.

The company's retained earnings amounted to P1.80 billion as of June 30, 2014 as compared to P1.62 billion as of December 31, 2013. The net increase of P182.4 million or 11% was due to the P278.3 million net income booked for the first two quarters of 2014 net of P95.9 million cash dividend declared in February 2014.

Petroleum revenues increased by P256.7 million or 74% to P603.4 million from P346.8 million for the same period last year due to higher production. Production for the current interim period included production from the Galoc Phase 2. The combined gross production increased to 1,638,653 barrels for the first two quarters ended June 30, 2014 from 914,081 barrels produced for the same period last year. While the average price per barrel increased to \$110.46 for the period ended June 30, 2014 as compared to \$106.36 per barrel for the same period last year.

Equity in net earnings of associates increased by 84% due to the higher level of income booked by Penta Capital Investment Corporation.

Interest income decreased by P3.1 million due to lower interest income on short term placements booked for the first two quarters of 2014.

Foreign exchange loss amounted to P7.3 million for the first two quarters of 2014 as compared to P20.2 million foreign exchange gain for the same period last year. The foreign exchange loss was brought about by the P0.745 (appreciation of peso)/adjustment on reference rates for the first two quarters of 2014 and the foreign exchange gain was brought about by the P2.15 (depreciation of peso)/adjustment for the same period last year.

Share in costs and operating increased by P92.5 million or 52% due to higher depletion expense booked for Galoc during the first two quarters of 2014.

Net income amounted to P278.3 million for the first two quarters of 2014, as compared to P156.6 million for the same period last year.

8. There are NO seasonal aspects that had material effect on the financial condition or results of operations.

Item 3. Management's Assessment and Evaluation of Financial Risk Exposures

A. Financial Instruments

Since there were NO financial assets reclassified into and from each category, disclosures on the following are:

- a. The financial assets reclassified into and from each category; - Not Applicable
- b. For each reporting period until derecognition, the carrying amounts and fair values of all financial assets reclassified in the current reporting period and previous reporting periods;- Not Applicable
- c. For financial assets reclassified in rare circumstances, the facts that would establish such kind of circumstances; -Not Applicable
- d. In the reporting period to which financial assets are reclassified, the fair value of the gains or losses of those assets as recognized either in profit or loss, or in equity (other comprehensive income) in that reporting period and previous reporting periods;- Not Applicable

- e. For the remainder of the instruments' lives, the gains or losses that would have been recognized in profit or loss, or equity had they not been reclassified, together with the gains, losses, income and expenses now recognized;-Not Applicable
- f. As at date of reclassification, the effective interest rates and estimated amounts of cash flows the company expects to recover. – Not Applicable

Fair Values of Financial Instruments

The following table shows the carrying amounts and fair values of the Group's financial assets and financial liabilities:

	Consolidated Unaudited June 2014 Fair Values	Consolidated Unaudited June 2014 Carrying Values	Consolidated Audited December 2013 Fair Values	Consolidated Audited December 2013 Carrying Values
FINANCIAL ASSETS				
Cash and cash equivalents	347,315,408	347,315,408	93,984,475	93,984,475
Advances to related companies	228,703,202	228,703,202	228,941,602	228,941,602
Accounts with contract operators	208,247,256	208,247,256	181,310,563	181,310,563
Accrued interest receivables	52,608,359	52,608,359	45,439,963	45,439,963
Others	2,073,890	2,073,890	1,660,854	1,660,854
Long term investment	86,383,350	86,383,350	87,857,705	87,857,705
Advances to a related party net of current portion	50,000,000	50,000,000	50,000,000	50,000,000
	975,331,466	975,331,466	689,195,162	689,195,162
AFS financial assets				
Quoted equity instruments	354,697,853	354,697,853	354,522,489	354,522,489
	354,697,853	354,697,853	354,522,489	354,522,489
	1,330,029,320	1,330,029,320	1,043,717,651	1,043,717,651
FINANCIAL LIABILITIES				
Accounts payable and accrued liabilities				
Accrued liabilities	14,166,465	14,166,465	12,946,324	12,946,324
Accrued interest	0	0	0	0
Others	190,882	190,882	4,528,926	4,528,926
Dividends payable	27,416,377	27,416,377	24,621,568	24,621,568
	41,773,724	41,773,724	42,096,818	42,096,818

Quoted AFS investments are carried at fair value based on the quoted values of the securities.

B. Financial Risk Management Objectives and Policies

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise mainly of cash and cash equivalents, receivables, AFS financial assets, accounts payables and accrued liabilities (except withholding taxes), dividends payable and subscriptions payable. The main purpose of these financial instruments is to provide financing for the Group's operations and capital intensive projects.

The Board of Directors (BOD) is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

The main risks arising from the Group's financial instruments are credit risks, liquidity risk, and market risks. The market risks exposure of the Group can be further classified to foreign currency risk and equity price risk. The BOD reviews and approves the policies for managing some of these risks and they are summarized as follows:

Credit risks

Credit risk is the possibility of loss for the Group if its receivable counterparties fail to discharge their contractual obligations. With respect to credit risk arising from the other financial assets of the Group, which comprise of cash in banks, cash equivalents and AFS financial assets, the Group's exposure to credit risk could arise from default of the counterparty.

The Group trades only with recognized, creditworthy third parties. However, the Group's credit risk exposure is concentrated on a few counterparties as inherent in the oil exploration and production business.

As of June 30, 2014, all of the outstanding trade receivables are from the SC14 A, B, B-1 & C-1 consortiums. At present, the SC14 A, B & B-1 consortium has a supply agreement with Pilipinas Shell Petroleum Corporation (Pilipinas Shell), assuring Pilipinas Shell with sale of the SC14 A, B & B-1 consortium's petroleum products. For SC14 C-1 consortium, the operator, Galoc Production Company has a crude agency agreement with Vitol Asia Pte. Ltd. for the marketing of the Galoc production.

The table below summarizes the Group's gross maximum credit risk exposure from its financial instruments. These amounts are gross of collateral and credit enhancements, but net of any amounts offset and allowance for impairment losses:

	Unaudited balances as of June 30, 2014
Loans and receivables	
Cash and cash equivalents	347,315,408
Accounts with contract operators	208,247,256
Advances to related companies	228,703,202
Accrued interest	52,608,359
Others	2,073,890
Advances to a related party net of current portion	50,000,000
AFS investments	
Quoted	354,697,855
Long term investment	86,383,350
Gross maximum credit risk exposure	1,330,029,320

The table below shows the credit quality of the Group's financial assets by class as of June 30, 2014 based on the Group's credit evaluation process:

	Neither past due nor impaired High Grade	Neither past due nor impaired Standard Grade	Past due but not impaired			Impaired Financial Assets	Total
			1-30 days	31-90 days	Over 90 days		
Loans and receivables							
Cash and cash equivalents	347,315,408						347,315,408
Accounts with contract operators	208,247,256						208,247,256
Advances to related companies	222,893,602				5,809,600		228,703,202
Accrued interest			1,796,011	3,592,021	47,220,327		52,608,359
Others					2,073,890		2,073,890
Advances to a related party net of current portion	50,000,000						50,000,000
AFS investments:							
Quoted equity instruments	354,697,854						354,697,854
Long term investment	86,383,350						86,383,350
Total	1,269,537,470	0	1,796,011	3,592,021	55,103,817	0	1,330,029,329

Credit quality of cash and cash equivalents and AFS financial assets are based on the nature of the counterparty.

"High grade" credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience and/or counterparty credit standing. "Standard grade" credit quality financial assets are not yet past due, yet are from counterparties with a history of default. However, the Group cannot demand any of these amounts as uncollectible because they arise from related companies for which there is a common control.

"Past due but not impaired" are items which are already past their maturity dates, but the amount

due is still judged as collectible by the Group based on its assessment of the age and creditworthiness of the counterparties. Lastly, "Impaired financial assets" are those that are long-outstanding and has been provided with allowance for impairment losses.

Liquidity risk

Liquidity risk is the risk where the Group becomes unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and operating cash flows. The Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings.

The table below summarizes the aging analyses of the Group's financial assets as of June 30, 2014 that is used to manage the liquidity risk of the Company:

	Less than three months	Three to twelve months	Total
Cash and cash equivalents	347,315,408	0	347,315,408
Accounts with contract operators	208,247,256	0	208,247,256
AFS financial assets	354,697,854	0	354,697,854
	910,260,518	0	910,260,518

The table below summarizes the maturity profile of the Group's accounts payable, accrued liabilities and dividends payable based on contractual undiscounted payments.

	Less than three months	Three to twelve months	Total
June 30, 2014	41,773,724		41,773,724

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates and equity price.

Foreign currency risk

Foreign currency risk is the risk that the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Group's transactional currency exposures arise from cash and cash equivalents, receivables and investment in bonds. The Parent Company's entire share in petroleum operations revenue is denominated in United States Dollar (USD). Consequently, the Group is exposed to foreign exchange risk arising from its USD-denominated receivables, cash and cash equivalents and long term investment.

As of June 30, 2014, the exchange rate of the Philippine peso to the US\$ is P43.65 to US\$1.00.

Equity price risk

Equity price risk is the risk that the fair values of investments in quoted equity securities could decrease as a result of changes in the prices of equity indices and the value of individual stocks. The Group is exposed to equity securities price risk because of investments held by the Parent Company, which are classified in the consolidated statements of financial position as AFS financial assets.

PETROLEUM PROJECTS

1.0 Service Contract 6A (Octon)

Processing of the new 3D seismic data that operator Pitkin Petroleum (Pitkin) acquired last year was completed at Fairfield's Ho Chi Minh City processing center in May 2014. Provisional processed results were delivered to Pitkin for review which they completed in early June 2014. By end-June 2014, Fairfield was preparing the final deliverables for submission to Pitkin.

Pitkin commenced interpretation using the newly re-processed data set. Mapping is now being continued towards the north to tie in to the previous interpretation of the northern portion of the block.

Pitkin likewise continued with the petrophysical, biostratigraphic and geochemical analysis of select wells within the block.

As of end-June 2014, laboratory analysis of the samples collected from the first leg of the Onshore Northern Palawan Island field program was ongoing.

2.0 Service Contract 6B (Bonita)

In early April, Philodrill presented to the Department of Energy the results of the in-house reevaluation of the Bonita block, as well as the consortium's proposed forward programs for the first sub-phase of the 2nd 5-year extension of the contract term. The submitted work program under Sub-Phase 1 (which will run from 1 March 2014 – 28 February 2016) include satellite gravity modeling and oil seep mapping as initial activities followed by 3D seismic data re-processing and interpretation as the second part of the program.

The DOE approved in May 2014 the submitted work program for Sub-Phase 1, and in effect the consortium's entry into the second 5-year term extension of the contract.

3.0 Service Contract No. 14 (Production Blocks – A, B and B-1)

2nd Quarter 2014 Crude Oil Production Summary (in barrels)

	Nido	Matinloc	North Matinloc	Total
April	6,577	6,614	783	13,974
May	6,583	6,328	658	13,569
June	6,600	4,106	870	11,576
Total	19,760	17,048	2,311	39,119

The consortium completed three shipments during the second quarter, involving 42,354 barrels of combined Nido-Matinloc-North Matinloc crudes. As of end-June 2014, about 11,793 barrels of the crude mix were onboard the storage vessels.

Nido 1X-1 Appraisal/Development Studies

In April 2014, the consortium contracted a consultant reservoir engineer who did an independent evaluation of the drill stem test (DST) results of the Nido 1X-1 well. Similar to the petrophysical studies conducted by another third-party consultant, the DST evaluation works infer a potentially larger hydrocarbon resource volume for the Nido 1X-1 structure than previously certified. Based on the results from the commissioned studies, we have re-engaged the services of RISC Pty Ltd for the re-assessment of the reserves/resources of the Nido 1X-1 and Nido A Attic structures to incorporate the results of and the new insights provided by those commissioned third-party evaluation studies.

4.0 Service Contract No. 14 (Retention Block, Tara, and Libro)

Contractor Enhanced Drilling Solution Limited carried out the final plugging and abandonment (P&A) of the Libro, Pandan and Tara South wells from April 19 to May 10, 2014 using the offshore supply vessel MEO Glory. The total P&A project cost was approximately USD 1.8 MM.

5.0 Service Contract No. 14 C-1 (Galoc)

The Galoc Field produced 763,225 barrels during the period from April 1 to June 30, 2014. Cumulative production stood at 13,250,273 barrels as of June 30, 2014.

Field operator Galoc Production Company (GPC) completed three (3) offtakes during the quarter, involving 969,862 barrels. These cargoes were sold to repeat buyers SK Energy of South Korea, ThaiOil, and GS Caltex – Singapore. As of 30 June 2014, about 78,220 barrels were on board the FPSO Rubicon Intrepid.

6.0 Service Contract 14 C-2 (West Linapacan)

During the second quarter of the year, operator RMA WL Limited continued to prepare for well drilling in the West Linapacan block. They reported that they have already prepared to contract for the drilling rig and have placed tenders and/or orders for some of the equipment and services to be required. The operator is looking at possible drilling in the 4th quarter of 2014. They plan to drill two wells (WL A7 and WL A8) on the West Linapacan structure, with an option for an exploration well in the West Linapacan B structure.

7.0 Service Contract No. 53 (Onshore Mindoro)

In lieu of the suspended Mini-Sosie test seismic program, the consortium had been tasked by the DOE to implement a Test Seismic Reprocessing Program. By end-June 2014, operator Pitkin Petroleum had sourced and continued to prepare seismic data tapes for shipment to, and transcription by, Spectrum Data in Perth, Australia.

Preparations for the drilling of Progreso-2 in December 2014 continued. Pitkin had awarded the contract for the provision of well head equipment, while contracts for other equipment and services are also being finalized. The consortium, during a Technical Committee Meeting held in April 2014, agreed in principle to drill another well (Progreso-3) back-to-back with Progreso-2, subject to agreement on the final well location. Endorsements of the drilling project by the local communities

have already been secured except for the certificate of Non-Overlap from the National Commission for Indigenous Peoples (NCIP).

8.0 Service Contract No. 74 (Linapacan)

Operator Pitkin reported that copying of the Western Geco TQ3D field tapes for re-processing is ongoing. They are also waiting for DOE approval for EZ Data, the DOE's partner for the Philippines Energy Contracting Round, to be allowed to sell datasets for the 2D seismic within and around SC 74.

Operator Pitkin also reported the completion of the petrophysical analysis of the Linapacan B-1 and Linapacan A-1A wells.

Meanwhile, the second leg of the Onshore Northwest Palawan field program remained on hold pending receipt of the Strategic Environmental Plan from the Palawan Council for Sustainable Development.

9.0 SWAN Block

Philodrill continues to wait for PNOC-Exploration Corporation's update on their review of the proposal to acquire participation in Philodrill's Nido 1X-1 project for a potential interest swap in their service contracts which now cover the former SWAN Block, located offshore NW Palawan.

PART II – OTHER INFORMATION

There were NO items for disclosure that were not made under SEC Form 17C during the current interim period (01 January to 30 June 2014).


SIGNATURES

Pursuant to the requirements of Securities Regulation Code, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

By: _____



Date: _____
FRANCISCO A. NAVARRO
President


Date: 8/13/14
REYNALDO E. NAZARE
Treasurer & VP-Administration

THE PHILODRILL CORPORATION
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SEC FORM 17Q

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*These schedules, which are required by Part IV(e) of RSA 48, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's financial statements or the notes to financial statements.

THE PHILODRILL CORPORATION

Consolidated Statements of Financial Position

	(Unaudited) June 30	(Audited) December 31
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	347,315,408	93,984,475
Receivables	494,255,052	459,898,315
Crude oil inventory	29,384,304	116,874,750
Other current assets	796,644	2,386,336
Total Current Assets	871,751,408	673,143,876
Noncurrent Assets		
Property and equipment - net	881,660,372	926,721,222
Investments in associates	283,620,287	278,805,093
Available-for-sale (AFS) financial assets	354,697,853	354,522,489
Deferred oil exploration costs	917,948,762	895,142,259
Advances to a related party - net of current portion	50,000,000	50,000,000
Investment in bonds	86,383,350	87,857,705
Deferred income tax assets	23,650,853	16,519,067
Other noncurrent assets	14,025,477	13,812,700
Total Noncurrent Assets	2,611,986,954	2,623,380,535
TOTAL ASSETS	3,483,738,362	3,296,524,411
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	42,768,858	47,778,604
Income tax payable	20,154,600	6,040,546
Dividends payable	27,416,377	24,621,568
Total Current Liabilities	90,339,835	78,440,718
Noncurrent Liability		
Retirement benefit liability	0	7,321,721
TOTAL LIABILITIES	90,339,835	85,762,439
Equity		
Capital stock - P0.01 par value		
Authorized - 200 billion shares		
Issued	1,568,018,150	1,568,003,703
Subscribed	350,669,903	350,684,351
Subscriptions receivable	(175,334,940)	(175,342,164)
Paid in capital from sale of treasury shares	1,624,012	1,624,012
Share in other comprehensive (loss) of an associate	(303,238)	(303,238)
Net unrealized loss on decline in value of AFS financial assets	(154,284,996)	(154,460,360)
Retained earnings	1,803,009,636	1,620,555,668
Total Equity	3,393,398,527	3,210,761,972
TOTAL LIABILITIES AND EQUITY	3,483,738,362	3,296,524,411

THE PHILODRILL CORPORATION

Consolidated Statements of Comprehensive Income

	Jan 1 to Jun 30 2014	Jan 1 to Jun 30 2013	Apr 1 to Jun 30 2014	Apr 1 to Jun 30 2013
PETROLEUM REVENUE	603,442,403	346,750,400	287,195,142	163,292,746
COSTS AND EXPENSES				
Share in costs and operating	(270,562,849)	(178,054,846)	(135,367,087)	(89,822,422)
General and administrative	(50,437,859)	(40,537,774)	(23,140,213)	(15,113,126)
	(321,000,708)	(218,592,620)	(158,507,300)	(104,935,548)
OTHER INCOME (CHARGES)				
Equity in net earnings of associates - net	8,815,195	4,780,527	6,384,595	2,447,127
Interest income	16,493,574	19,651,951	8,073,147	9,759,156
Foreign exchange gains (losses)	(7,302,106)	20,213,524	(8,350,432)	23,698,396
Others	3,122,706	5,004,646	2,850,324	4,750,828
	21,129,369	49,650,648	8,957,634	40,655,507
INCOME (LOSS) BEFORE INCOME TAX	303,571,064	177,808,428	137,645,476	99,012,705
PROVISION FOR INCOME TAX	25,245,168	21,183,843	10,951,076	10,277,274
NET INCOME (LOSS)	278,325,896	156,624,585	126,694,400	88,735,431
OTHER COMPREHENSIVE INCOME (LOSS)				
Changes in fair value of available-for-sale financial assets	175,365	(110,382,284)	7,293,114	(177,124,814)
TOTAL COMPREHENSIVE INCOME (LOSS)	278,501,261	46,242,301	133,987,514	(88,389,383)

Earnings (loss) per share was computed as follows:

Net income (loss)	278,325,896	156,624,585	126,694,400	88,735,431
Weighted average no. of shs	191,868,805,358	191,868,805,358	191,868,805,358	191,868,805,358
Income (Loss) per share	0.00145	0.00082	0.00066	0.00046

THE PHILODRILL CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)

	January 1 to June 30 2014	January 1 to June 30 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	278,325,896	156,624,585
Adjustments for:		
Depletion, depreciation and amortization	86,787,499	2,999,769
Equity in net losses (earnings) of associates - net	(8,815,195)	(4,780,527)
Operating loss before working capital changes	356,298,200	154,843,827
Decrease (increase) in:		
Receivables	(27,013,705)	105,439,105
Crude oil inventory	87,490,446	(33,452,714)
Other current assets	1,589,691	(4,417,611)
Retirement benefits assets	(8,202,504)	1,236,603
Increase in accounts payable and accrued expenses	9,104,307	(23,638,844)
Net cash from (used in) operating activities	419,266,436	200,010,366
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash dividends received	4,000,000	4,000,000
Reductions in (additions to):		
Property and equipment	(41,726,649)	(192,639,340)
Deferred oil exploration costs and other inv	(23,539,362)	(6,642,316)
Advances to affiliated companies - net	620,697	(697,075)
Other noncurrent assets	(12,157,818)	(11,903,986)
Net cash from (used in) investing activities	(72,803,132)	(207,882,717)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (Payments) of:		
Subscriptions receivable	7,224	1,123,375
Dividends payable	(93,139,594)	(1,175,044)
Net cash from (used in) financing activities	(93,132,370)	(51,669)
NET INCREASE (DECREASE) IN CASH	253,330,933	(7,924,021)
CASH, BEGINNING	93,984,475	612,958,442
CASH, ENDING	347,315,408	605,034,421

THE PHILODRILL CORPORATION**Consolidated Statements of Changes in Equity**

	Unaudited	
	June 2014	June 2013
CAPITAL STOCK - P0.01 par value		
Authorized - 200 billion shares		
Issued		
Balance at the beginning of year	1,568,003,703	1,565,575,119
Issuances for the period	14,447	2,246,750
Balance at end of second quarter	1,568,018,150	1,567,821,869
Subscribed		
Balance at the beginning of year	350,684,351	353,112,935
Issuances for the period	(14,448)	(2,246,750)
Balance at end of second quarter	350,669,903	350,866,185
Subscriptions receivable		
Balance at the beginning of year	(175,342,164)	(176,556,456)
Collection of subscriptions receivable	7,224	1,123,375
Balance at end of second quarter	(175,334,940)	(175,433,081)
Paid in capital from sale of treasury		
Balance at the beginning of year	1,624,012	1,624,012
Movements during the period	0	0
Balance at end of second quarter	1,624,012	1,624,012
Unrealized Losses on Decline in Market Value of Long-term Investments		
Balance at the beginning of year	(154,460,360)	(21,845,809)
Adjustment during the period	175,364	(110,382,282)
Balance at end of second quarter	(154,284,997)	(132,228,092)
Share in other comprehensive income of an associate		
Balance at the beginning of year	(303,238)	(106,914)
Movements during the period	0	0
Balance at end of second quarter	(303,238)	(106,914)
Retained Earnings		
Balance at the beginning of year	1,620,618,143	1,544,079,156
Cash dividend declared	(95,934,403)	(95,934,403)
Net income (loss) for the period	278,325,896	156,624,585
Balance at end of second quarter	1,803,009,636	1,604,769,338
Total Stockholders' Equity	3,393,398,526	3,217,313,317

THE PHILODRILL CORPORATION
 SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS
 EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)
 FOR THE QUARTER ENDED JUNE 30, 2014

Name and Designation of Debtor	Beginning Balance	Additions	Amounts Collected	Amounts Written off	Current	Not Current	Ending Balance
Various officers and employees	2,391,879	1,153,781	923,315		2,622,345		2,622,345
	2,391,879	1,153,781	923,315	0	2,622,345	0	2,622,345

THE PHILODRILL CORPORATION
 SCHEDULE C - LONG TERM INVESTMENTS IN SECURITIES
 (NONCURRENT MARKETABLE EQUITY SECURITIES,
 OTHER LONG TERM INVESTMENTS IN STOCK
 INVESTMENTS IN BONDS AND OTHER DEBT SECURITIES)
 FOR THE QUARTER ENDED JUNE 30, 2014

Name of Issuing Entity and Description of Investment	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE		Dividends Received Accrued from Investments Not Accounted for by the Equity Method
	Number of Shares or Principal Amount of Bonds and Notes	Amount in Pesos	Equity in Earnings (Losses) of Investees for the Period	Others	Distribution of Earnings by Investees	Others	Number of Shares or Principal Amount of Bonds and Notes	Amount in Pesos	
Investments in associates:									
Penta Capital Investment Corp.	1,600,000	227,939,883	6,027,000		4,000,000		1,600,000	229,966,883	
Penta Capital Holdings, Inc.	300,000	53,295,809	357,595				300,000	53,653,404	
		281,235,692	6,384,595	0	4,000,000	0		283,620,287	0
Amount shown under the caption "Available For Sale Investments"									
Atlas Consolidated Mining and Development Corporation	19,502,293	430,148,018					19,502,293	430,148,018	2,850,000
Vulcan Industrial & Mining Corp.	3,200,000	4,150,876				0	3,200,000	4,150,876	
United Paragon Mining Corp.	6,839,068,254	72,983,955					6,839,068,254	72,983,955	
Philippine Gold	325,000	10,877,340					325,000	10,877,340	
CJH Golf Club, Inc.	17	1,700,000					17	1,700,000	
		519,860,189	0	0	0	0		519,860,189	2,850,000
less-allowance for decline in market value		172,455,449				(7,293,114)		165,162,335	
		347,404,740		0		(7,293,114)		354,697,854	2,850,000
		628,640,432	6,384,595	0	4,000,000	(7,293,114)	0	638,318,141	2,850,000

THE PHILODRILL CORPORATION
SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES
FOR THE QUARTER ENDED JUNE 30, 2014

Name of Affiliate	Beginning Balance	Ending Balance
Alakor Corporation	173,266,401	172,893,601
Anglo Philippine Holdings Corporation	50,000,000	50,000,000
Fil-Energy Corporation	4,753,762	4,753,762
United Paragon Mining Corporation	1,055,838	1,055,838
	229,076,001	228,703,201

THE PHILODRILL CORPORATION
SCHEDULE F - ACCUMULATED DEPLETION, DEPRECIATION AND AMORTIZATION
FOR THE SECOND QUARTER ENDED JUNE 30, 2014

Classification	Beginning Balance	Additions Charged to Costs and Expenses	Retirements	Other Changes- Additions (Deductions)	Ending Balance
Wells, platforms and other facilities	404,556,655	40,911,805			445,468,460
Office condominium units and improvements	9,735,946	123,936			9,859,882
Office furniture, fixtures and equipment	6,422,212	132,604			6,554,816
Transportation equipment	6,487,700	567,540			7,055,240
	427,202,514	41,735,885	0	0	468,938,398

THE PHILODRILL CORPORATION
 SCHEDULE G - INTANGIBLE ASSETS AND OTHER ASSETS
 FOR THE SECOND QUARTER ENDED JUNE 30, 2014

Classification	Beginning Balance	Additions at Cost	Charged to Costs and Expenses	Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balance
Deferred oil exploration and development costs	898,302,841	19,645,921				917,948,762
	898,302,841	19,645,921	0	0	0	917,948,762

THE PHILODRILL CORPORATION
 SCHEDULE M - CAPITAL STOCK
 FOR THE QUARTER ENDED JUNE 30, 2014

Title of Issue	Authorized	Issued and Outstanding	Subscribed	Number of shares Reserved for Options, etc.	Number of shares held by Directors, Officers and Employees	Others
Common shares at P0.01 par value	200,000,000,000	156,801,815,000	35,066,990,300	0	768,642,355	191,100,162,945

THE PHILODRILL CORPORATION
SCHEDULE N - AGING OF ACCOUNTS RECEIVABLES
FOR THE SECOND QUARTER ENDED JUNE 30, 2014

1) AGING OF ACCOUNTS RECEIVABLE

Type of Accounts Receivable	Total	1 month	2-3 months	4-6 months	7 months to 1 year	1-2 years	3-5 years	5 years above	past due accts & items in litigation
a) Trade receivables									
1) Account with contract operator	208,247,256	147,249,600	60,997,656						
less allowance for doubtful accounts	0								
Net Trade Receivables	208,247,256	147,249,600	60,997,656	0	0	0	0	0	0
b) Non-trade receivables									
1) Accrued interest receivable	52,608,359	1,726,171	3,721,728	5,311,334	6,530,245	19,152,445		16,166,436	
less allowance for doubtful accounts	0								
2) Account with officers and employees	2,622,344	129,172			2,493,172				
3) Advances to related companies	228,703,203			5,000,000	30,000,000	187,893,601		5,809,602	
less allowance for doubtful accounts									
4) Others	2,073,890				2,073,890				
less allowance for doubtful accounts	0								
Net Non-Trade Receivables	286,007,796	1,855,343	3,721,728	10,311,334	41,097,307	207,046,046	0	21,976,038	0
Net Receivables	494,255,052	149,104,943	64,719,384	10,311,334	41,097,307	207,046,046	0	21,976,038	0

2) ACCOUNTS RECEIVABLE DESCRIPTION

Type of Accounts Receivable	Nature/Description	Collection Period
a) Trade receivables		
1) Account with contract operator	share in crude oil revenue net of share in production costs	30 days
b) Non-trade receivables		
1) Accrued interest receivable	interest receivable on advances	
2) Account with officers and employees	other advances to officers and employees	
3) Advances to related companies	loans and advances to related parties	

THE PHILODRILL CORPORATION
SCHEDULE O - FINANCIAL RATIOS
JUNE 30, 2014

Profitability Ratios:

June 2014

December 2013

Return on assets	7.99%	9.56%
Return on equity	8.20%	9.82%
Gross profit margin	55.16%	50.36%
Net profit margin	46.12%	43.44%

Liquidity Ratios:

Current ratio	9.65 :1	8.58 :1
Quick ratio	9.32 :1	7.06 :1

Financial Leverage Ratios:

Asset to equity ratio	1.03 :1	1.03 :1
Debt to equity ratio	0.03 :1	0.03 :1

Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for crude oil inventory which is valued at net realizable value (NRV) and quoted AFS financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company and its subsidiary's functional and presentation currency, rounded off to the nearest peso, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or reclassification of items in the consolidated financial statements. An additional consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies as discussed below in changes in accounting policies and disclosures.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31 of each year, after eliminating intercompany balances and transactions. The financial statements of the subsidiary are prepared for the same reporting year as the Parent Company using consistent accounting policies. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent Company controls an investee if and only if the Parent Company has all of the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the Parent Company's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests

- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

The subsidiary is consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continues to be consolidated until the date that such control ceases.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations [based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations] which became effective on January 1, 2013.

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

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.
- 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, *Financial Instruments: Presentation*. 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 affect disclosures only and have no significant impact on the Group's financial position or performance. The Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangement, the amendment does not have an impact on the Group.

- *PFRS 10, Consolidated Financial Statements*
 The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standard Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The application of PFRS 10 has no impact to the Group since the Parent Company's subsidiary is wholly owned.
- *PFRS 11, Joint Arrangements*
 PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed 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 amendment does not have an impact on the Group since the Group has no related joint venture arrangement.
- *PFRS 12, Disclosure of Interests in Other Entities*
 PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. The new standard has no impact to the Group's financial position or performance since the Parent Company's subsidiary is wholly owned and the adoption of PFRS 12 will affect disclosures only.
- *PFRS 13, Fair Value Measurement*
 PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 20.

- *PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*
 The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time will be presented separately from items that will never be recycled. The amendments were applied retrospectively and resulted to modification of presentation of items in OCI in the consolidated statements of comprehensive income.
- *PAS 19, Employee Benefits (Revised)*
 On January 1, 2013, the Group adopted the Revised PAS 19, *Employee Benefits*.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses at the end of the previous period exceeded ten percent (10%) of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs

as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

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

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

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

The Revised PAS 19 has been applied retrospectively from January 1, 2012, in accordance with its transitional provisions. Consequently, the Group has restated its reported results throughout the comparative periods presented and reported the cumulative effect as at January 1, 2012 as adjustment to opening balances.

The adoption did not have a material effect on the statement of cash flows and earnings per share (EPS).

Change of Presentation

Upon adoption of the Revised PAS 19, the presentation of the consolidated statement of comprehensive income was updated to reflect these changes. Net interest is now shown under "Interest income" line item (previously in "Personnel costs" under general and administrative expenses). This presentation better reflects the nature of net interest since it corresponds to the compounding effect of long-term net defined retirement benefit liability (net defined retirement benefit asset).

In the past, the expected return on plan assets reflected the individual performance of the plan assets, which were regarded as part of the operating activities.

- *PAS 27, Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance 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 the separate financial statements. The adoption of the amended PAS 27 did not have significant impact on the separate financial statements of the Group.
- *PAS 28, Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, 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.

This amendment only affects the disclosures of the Group and has no impact on its financial position or performance.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
 This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part or 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 new standard has no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2009-2011 cycle)

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

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
 The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for Comparative Information*
 These 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. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Group's position or performance.
- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
 The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have significant impact on the Group's financial position or performance.

- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have significant impact on the Group's financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Standards and Interpretations Issued but not yet Effective

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on its financial statements.

Effective in 2014:

- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.
- *Philippine Interpretation IFRIC 21, Levies (IFRIC 21)*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amendment is not relevant to the Group.
- 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 Group'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. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendment is not relevant to the Group.

Annual Improvements to PFRSs (2010-2012 cycle)

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

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The amendments affect presentation only and have no impact on the Group's financial position or performance.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

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

- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.
- *PAS 24, Related Party Disclosures - Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

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

Annual Improvements to PFRSs (2011-2013 cycle)

The annual improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.
The amendment has no significant impact on the Group's financial position or performance.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.
- *PAS 40, Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.
- *PFRS 9, Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model hedge accounting is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition.

A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities designated as at FVPL using the FVO,

the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in 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 to PFRS 9, including the embedded derivative bifurcation 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 Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting. PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Except for the effect of PAS 19 (Revised), the Group does not expect any significant impact in the financial statements when it adopts the above standards and interpretations. The revised and additional disclosures provided by the standards and interpretations will be included in the financial statements when these are adopted in the future, if applicable.

Presentation of Financial Statements

The Group has elected to present all items of recognized income and expense in one single statement of comprehensive income.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial Recognition and Classification of Financial Instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in the case of a financial asset) or received (in the case of a financial liability). Except for those designated at FVPL, the initial measurement of financial instruments includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, loans and receivables and derivatives designated as hedging instruments in

an effective hedge, as appropriate. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

The Group's financial assets are in the nature of AFS financial assets and loans and receivables. As at December 31, 2013 and 2012, the Group has no financial assets at FVPL, HTM investments and derivatives designated as hedging instruments in an effective hedge.

Also under PAS 39, all financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. Financial liabilities are classified as FVPL, loans and borrowings and derivatives designated as hedging instruments in an effective hedge, as appropriate.

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.

The Group's financial liabilities as at December 31, 2013 and 2012 are of the nature of loans and borrowings. The Group has no financial liabilities at FVPL and derivatives designated as hedging instruments in an effective hedge.

Determination of Fair Value

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each financial reporting date.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Subsequent Measurement

The subsequent measurement of financial instruments depends on their classification as follows:

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity as "Net unrealized loss on decline in value of AFS financial assets".

When the financial asset is disposed of, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of comprehensive income. Interest earned on the investments is reported as interest income using the effective interest rate (EIR) method. Dividends earned on investments are recognized in the consolidated statement of comprehensive income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within twelve months from the end of the reporting period.

As at December 31, 2013 and 2012, the Group classifies its investments in shares of stocks as AFS financial assets (see Note 20).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the EIR method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the EIR. Gains and losses are recognized in the consolidated statement of comprehensive 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 their maturity falls within twelve months from reporting date or within the Group's operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2013 and 2012, the Group's loans and receivables consist of cash and cash equivalents, receivables, investment in bonds and advances to a related party (see Note 20).

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

Loans and Borrowings

This category pertains to financial liabilities that are not held for trading, not derivatives, or not designated at FVPL upon the inception of the liability.

After initial recognition, these liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are

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

As at December 31, 2013 and 2012, the Group classifies its accounts payable and accrued liabilities and dividends payable as loans and borrowings (see Note 20).

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

The Group assesses at each end of the reporting period whether a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost

The Group first assesses whether there is 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, the asset is included in the group of financial assets with similar credit risk and characteristics, and that group of financial assets is collectively assessed for impairment. Those similar credit risk characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of 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 EIR (i.e., the EIR computed at initial recognition). All impairment losses are recorded only through the use of an allowance account. The amount of loss is recognized in consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed what its amortized cost could have been had there been no impairment at the reversal date.

In relation to loans and receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all the amounts due under the original terms of the invoice. Objective impairment evidence may constitute the increased probability of insolvency, or significant financial difficulties, of the debtor. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

AFS financial assets

For AFS financial assets, the Group assesses at end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of comprehensive income, is removed from equity and recognized in consolidated statement of comprehensive income.

Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in consolidated statement of comprehensive income.

If there is objective evidence of impairment on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 of a similar financial asset.

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;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a "pass-through" arrangement; or
- the Group 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 risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement 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 Group'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 Group could be required to repay.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability are discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Interest in Jointly Controlled Operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the

assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the Group recognizes its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Crude Oil Inventory

Crude oil inventory is carried at NRV at the time of production. NRV is the estimated selling price less cost to sell. The estimated selling price is the market value of crude oil inventory based on Platt's Dubai monthly average of the midday crude oil prices for the reporting month and is adjusted taking into account fluctuations of price directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Estimated cost to sell is the cost incurred necessary to complete the sale (e.g., freight charges, transportation costs, etc.).

Investments in Associates

Associates are entities which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income and its share of post-acquisition movements in OCI is recognized in consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions received from an investee reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable/s, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Property and Equipment

Property and equipment are stated at cost less accumulated depletion, depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred and the recognition criteria are met.

The initial cost of property and equipment, other than wells, platforms and other facilities, comprises its purchase price, including import duties, nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. Major maintenance and major overhaul costs that are capitalized as part of property and equipment are depreciated on a straight-line basis over the shorter of

their estimated useful lives, typically the period until the next major maintenance or inspection, and the estimated useful lives of the related property and equipment.

Wells, platforms and other facilities are depleted on a field basis under the unit-of-production (UOP) method based upon estimates of proved developed reserves except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. The depletion base includes the exploration and development cost of producing oil fields.

Depreciation of property and equipment, other than wells, platforms and other facilities, is computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Number of Years
Office condominium units and improvements	20
Transportation equipment	5
Office furniture, fixtures and equipment	3-5

Depletion, depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation, depletion or amortization ceases when an item of property and equipment is fully depreciated, depleted or amortized or at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the asset is derecognized.

When assets are retired or otherwise disposed of, the cost and related accumulated depletion, depreciation and amortization, and any allowance for impairment are removed from the accounts and any gain or loss resulting from their disposals is recognized in consolidated statement of comprehensive income.

The asset's reserves, useful lives and depreciation, depletion 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 and equipment.

Fully depreciated assets are retained in the account until they are no longer in use and no further depreciation is charged to current operations.

Deferred Oil Exploration Costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with exploration are capitalized under "Deferred oil exploration costs" account. The Group's deferred oil exploration costs are specifically identified of each Service Contract (SC)/Geophysical Survey and Exploration Contract (GSEC) area. All oil exploration costs relating to each SC/GSEC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of comprehensive income when incurred.

If no potentially commercial hydrocarbons are discovered, the deferred oil and gas exploration asset is written off through the consolidated statement of comprehensive income. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried under deferred oil exploration costs account while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a

reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as deferred oil exploration costs.

At the completion of the exploration phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the oil and gas exploration costs relating to the SC/GSEC, where oil and gas in commercial quantities are discovered, is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to "Wells, platforms and other facilities" account shown under the "Property and equipment" account in the consolidated statement of financial position.

Deferred oil exploration costs are assessed at each reporting period for possible indications of impairment. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case or is considered as areas permanently abandoned, the costs are written off through the consolidated statement of comprehensive income. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

The recoverability of deferred oil exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

Farm-ins and Farm-outs

The Group does not record any expenditure made by the farminee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any cost previously capitalized in relation to the whole interest. Any cash consideration received directly from the farminee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Impairment of Nonfinancial Assets

The Group assesses at each end of the reporting period whether there is an indication that noncurrent nonfinancial assets, which include nonfinancial other current assets, property and equipment, investments in associates, deferred oil exploration costs and other noncurrent assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments 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 comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each end of the reporting period 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 accumulated 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 comprehensive 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 depreciation 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.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of 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.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in statement of comprehensive income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized in paid-in capital from sale of treasury shares.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of changes in accounting policy and other capital adjustments.

Dividends on Capital Stock

Dividends on common shares are recognized as a liability and deducted from equity when approved by the Parent Company's BOD. Dividends for the year that are approved after the end of the reporting period are dealt with as an event after the reporting period.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Petroleum Revenue

Revenue is derived from sale of petroleum to third party customers. Sale of petroleum is recognized at the time of production based on the Group's participating interest. Revenue is measured at the fair value of consideration received, excluding discounts, and other sales tax or duty based on the Group's participating interest.

Interest Income

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

Dividend Income

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

Costs and Expenses

Costs and expenses are recognized in consolidated statement of comprehensive income when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized in the consolidated statement of comprehensive income in the year in which they are incurred.

Share in Costs and Operating Expenses

Share in costs and operating expenses include production costs of SC-14 and Galoc and transportation costs per lifting and ending inventory which is recognized upon the allocation of the amounts mentioned by the SC. Allocation is done by the use of the Group's participating interest in the SC.

General and Administrative Expenses

Expenses incurred in the direction and general administration of day-to-day operation of the Group are generally recognized when the services are used or the expenses arise.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under the consolidated statement of comprehensive income for the year in accordance with PFRS).

Share-Based Payment

Certain employees (including directors) of the Parent Company receive remuneration in the form of share appreciation right. This entitles the employees to receive cash which is equal to the excess of the market value of the Company's shares over the award price as of a given date.

In valuing cash-settled transactions, the entity measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity remeasures the fair value of the liability at each end of the reporting period and at the date of settlement, with any changes in fair value recognized in consolidated statement of comprehensive income for the period. The fair value is determined using an appropriate pricing model, further details of which are given in Note 12.

Retirement Benefits

The Group has a funded, non-contributory defined benefits retirement plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as "Retirement benefits expense" under personnel costs in the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise.

Remeasurements are not reclassified to the consolidated statement of income in subsequent periods. Remeasurements are recognized in "Retained earnings" after the initial adoption of the Revised PAS 19.

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

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

The standard requires an entity to recognize short-term employee benefits when an employee has rendered service in exchange of those benefits.

Leases

Determination of Whether an Arrangement Contains a Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of 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 a substantial change to the asset.

Where a 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) and at the date of renewal or extension period for scenario (b).

Group as Lessee

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

Basic/Diluted EPS

Basic EPS is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year, and adjusted for the effect of dilutive options.

Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effect of the exercise of all outstanding options has anti-dilutive effect, basic and diluted EPS are stated at the same amount.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior years 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 at the end of the reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Income Tax

Deferred income tax is provided using the liability method all temporary differences at the end of the reporting period 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. Deferred income tax assets are recognized for all deductible temporary differences, and carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) [excess MCIT] and unused tax losses from net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition 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 income nor the taxable income or loss.

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

In respect of deductible temporary differences associated with investment in associates, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 end of the reporting period.

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 income taxes relate to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of 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 passage of time is recognized as an interest expense.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These 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.

Foreign Currency Transactions and Translations

Transactions denominated in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the applicable closing functional currency exchange rate at the end of the reporting period. Foreign exchange gains or losses arising from foreign currency-denominated transactions and translations are recognized in the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Segment Reporting

Currently, the Group has only one business segment. The Group is primarily involved in oil exploration and production. Revenue generated consists mainly of revenue from petroleum operations. Other income is derived from equity in net earnings of associates, gain on sale of AFS investments and gain on sale of Cadlao ORRI. The Group has no geographical segments.

Events After the End of the Reporting Period

Post year-end events that provide additional information about the Group's position at the end of the reporting period (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 to the consolidated financial statements.