SEC Number 39274
File Number

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
(Company's Full Name)

11th Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City
(Company's Address)

870-0100
(Telephone Number)

December 31
(Fiscal Year ending)
(month & day)

17-A
(Form Type)

Amendment Designation (If Applicable)

December 2007
(Period Ended Date)

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17- A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE REVISED SECURITIES ACT AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1.	For the fiscal year ended	December 31, 2007
2.	SEC Identification Number	39274
3.	BIR Tax Identification No.	049-000-506-020
4.	Exact name of issuer as specified in its charter	Trans-Asia Oil and Energy Development Corporation
5.	Province, Country or other jurisdiction of incorporation or organization	Philippines
6.	Industry Classification Code	(SEC Use Only)
7.	Address of principal office	11th Floor, Phinma Plaza 39 Plaza Drive, Rockwell Center Makati City 1200
8.	Issuer's telephone number, including area code	(632) 870-0100
9.	Former name, former address, and former fiscal year, if changed since last report	

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Number of shares of common stock outstanding	1,657,585,092 shares
Amount of debt outstanding	P 111,878,683

11. Are any or all of these securities listed on a Stock Exchange?

Yes X No

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 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 twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes X No

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

Yes X No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. I a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

NA

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

NA

15. Documents incorporated by reference

a) Annual Report to security holders
b) Information Statement filed pursuant to SRC Rule 20

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PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

The primary business of Trans-Asia is petroleum exploration and production.

Petroleum exploration involves the search for commercially exploitable subsurface deposits of oil and gas through geological, geophysical and drilling techniques. A petroleum discovery is made when significant amounts of oil and/or gas are encountered in a well and are flowed to the surface. Following a discovery, additional wells (appraisal or delineation wells) are drilled to determine whether the petroleum accumulation could be economically extracted or not. If the results are positive, the oil or gas field is developed by drilling production wells, and installing the necessary production facilities such as wellheads, platforms, separators, storage tanks, pipelines and others.

Trans-Asia Oil and Energy Development Corporation (Trans-Asia) was established by the Philippine Investment Management, Inc. (PHINMA) on September 8, 1969.

Trans-Asia was PHINMA's second major involvement in the field of energy. In 1959, PHINMA established Filoil Refinery Corporation, the first oil refinery managed and controlled by Filipinos. At the height of the world oil crisis in 1973, the Philippine government acquired Filoil and made it a part of Petrophil Corporation, now Petron Corporation.

In both Filoil and Trans-Asia, the vision was to create a vehicle for building the nation's economy through self-reliance in energy.

The history of Trans-Asia reflects that of the Philippine exploration industry, with periods of moderate activity and times of significant success. The company was in the consortium that produced oil in Cadlao in 1981. The Cadlao discovery produced 11 million barrels of oil in the 1980's.

In 1987, it led the first all-Filipino consortium to drill and produce oil from a high-angle directional well, in the Tara field. The Company also joined a consortium in 1988 that produced oil from the North Matinloc field.

Since then, Trans-Asia has continued to be active in some of the most important petroleum exploration plays, particularly in large and high-potential areas. It is at present represented in 4 service contracts.

In the minerals sector, Trans-Asia has explored for Nickel (Zambales), Copper (Benguet, Quezon and Ilocos Norte), Silica (Quezon), Gold (Benguet and Camarines Norte), Coal (Batan, Cantanduanes and Cebu). The company has an existing Mineral Production Sharing Agreement over an area in Jose Panganiban, Camarines Norte that is prospective for Copper, Gold and other metals and Mining Lease Contracts covering pozzolanic tuff deposits in Rizal.

To balance its involvement in the high-risk business of exploration, Trans-Asia diversified to other industries such as cement manufacturing, coal trading and power generation.

Trans-Asia currently has investments in electricity trading, power generation (by itself and also through Trans-Asia Power Generation Corporation and CIP II Power Corporation), renewable energy (Trans-Asia Renewable Energy Corporation), mining (Trans-Asia Gold and Minerals Development Corporation) and housing development (Phinma Property Holdings Corporation).

The company has been in the business for more than 38 years and has earned a reputation as a prudent and serious operator with strong technical teams highly regarded in the energy industry.

Product and Distribution

The principal products of petroleum production are crude oil and natural gas. Crude oil is usually sold at market price in its natural state at the wellhead after removal of water and sediments, if any. Depending on the location of the oil field, the oil produced may be transported via offshore tankers and/or pipeline to the refinery. On the other hand, natural gas may be flared, reinjected to the reservoir for pressure maintenance, or sold, depending on the volume of reserves and other considerations. Natural gas is commonly transported by pipeline. However, if the deposit is very large and the market is overseas, the gas may be liquefied into liquefied natural gas (LNG) and transported using specialized tankers.

Competition

While competition for market of petroleum is hardly an issue, Trans-Asia's competitors compete on two fronts, namely: 1) petroleum acreage and 2) investment capital.

The Department of Energy (DOE) awards petroleum contracts to technically and financially capable companies on a first-come, first-serve basis. Thus, Trans-Asia competes with foreign firms and local exploration companies such as PNOC Exploration Corporation, The Philodrill Corporation, Oriental Petroleum and Minerals Corporation, Basic Consolidated, Inc. for acquisition of prospective blocks. In mid-2003, the DOE initiated a bid round system over certain areas offshore Palawan and the Sulu Sea and promoted such to the international industry. While there is competition in the acquisition of exploration rights, the huge financial commitments associated therewith also provide opportunities for partnership, especially between local and foreign companies. Under a service contract, a substantial financial incentive is given to consortia with at least 15% aggregate Filipino equity. Thus, many foreign firms invite local exploration companies to join their venture to take advantage of said benefit and vice versa.

Trans-Asia and other listed companies also compete for risk capital in the securities market. This may be in the form of initial public offerings, rights offerings, upward change in capitalization and other vehicles. These domestic companies may also seek full or partial funding of projects from foreign companies through farmouts of interest (dilution of equity in exchange for payment of certain financial obligations).

Trans-Asia is a recognized leader in the local petroleum industry. The Company is comparatively financially robust and has low level of debt. The technical expertise of its staff is recognized by its foreign partners and the DOE. In view of these strengths, Trans-Asia remains a strong competitor in the local exploration and production industry.

Supply Agreement with the Government

Under The Oil and Gas Act of 1972, every service contractor that produces petroleum is authorized to take and dispose of either domestically or internationally all petroleum produced under the contract subject to supplying the domestic requirements of the country on a pro-rata basis. Once there is production of petroleum, the Company is obliged to sell first to the Government of its produce. If the Government refuses to buy, the Company can sell or dispose its produce to the market.

There is a ready market for oil produced locally inasmuch as imported oil which comprised about 37**%** of the Philippines' primary energy mix in year 2006. Heavy dependence on foreign oil supply is not expected to change significantly over the next ten years. On a case to case basis, the government has allowed the export of locally produced crude oil in the past. The domestic natural gas industry is at the nascent stage, with supply coming from a single offshore field. Domestic gas production accounted for about 4% of the country's primary energy mix in year 2006. The government is actively promoting the use of natural gas for power, industry, commercial and transport applications, owing to environmental considerations and the need to diversify energy supply.

Contracts and Agreements

In a service contract, a private enterprise that seeks to develop domestic oil and gas resources is deemed a contractor that must provide all required services, technology and financing, and assume all exploration risks. In the event of commercial production, the service contractor is paid a stipulated service fee, in addition to reimbursement of validated investments.

Petroleum exploration and production is a high-risk business. The worldwide commercial success rate is 3%, i.e. only 1 out of 30 exploratory wells results in a commercial discovery. It is also capital-intensive. Pre-drill geological and geophysical studies may run up to a few millions of dollars. The cost of a single offshore exploratory well could exceed $10 million, whereas field development costs could reach hundreds of millions of dollars. To manage exploration risks, oil exploration firms usually form consortia or joint ventures.

Trans-Asia is at present a co-contractor in 4 service contracts with the Philippine government. The Company has no production of oil or gas at this time, inasmuch as its petroleum operations are in the exploratory stage and fields where it has participation are in suspension mode.

The following are the contracts and agreements entered into by Trans-Asia:

Service Contract No. 6

- Awarded on 1 September 1973; valid until 28 February 2009.

- Presently covers three (3) contract blocks, namely: Cadlao Production Area (3,400 ha), Block A (108,000 ha.) and Block B (53,300 ha.), all in offshore Northwest Palawan.

- The Company has 1.65% royalty interest in the Cadlao Production Area; 7.78% working interest and 2.475% carried interest in Block A, and 14.063% working interest and 2.475% carried interest in Block B.

- SC 6 basically grants the Contractor the exclusive right to explore, develop and produce petroleum resources within the contract area. The Contractor assumes all exploration risks. In the event of commercial production, the Government and Contractor share in the profit on a 60:40 basis. The exploration period is 7 years, extendible by 3 years. The production period is 25 years, extendible by 15 years.

- Cadlao Oil field commenced production in 1981. The field has been shut-in since 1990 when production was suspended to allow transfer of its dedicated floating production facility to another field. Consequently, the Cadlao field did not generate revenues in the last three (3) fiscal years.

- As a royalty interest holder, the Company does not share in joint expenditures for the field. Hence, the Company did not spend for compliance with environmental laws. In-house expenditures for the project amounted to P 66,392 in 2005, P 24,748 in 2006 and P 7,397 in 2007.

- In Year 2004, the consortium received two (2) separate proposals for the reactivation of production of the Cadlao field. No agreements were reached.

- Block A and Block B were retained from the original contract area in 1988, subject to performance of meaningful exploration work in either of the blocks in each contract year. The

Block A and Block B consortia have complied with this conditionality by drilling exploratory and appraisal wells, and conducting various geological and geophysical studies. An economically marginal field discovery was made in Block A, but such field has not been developed to this date.

- In 2005, the Block A consortium received farm-in proposal for exploration of the block. Said proposal was under review as of yearend.

- No significant operation was done in Block A and Block B in year 2006.

- In year 2007, a foreign company acquired the participating interest of one of two equity holders in the Cadlao Production Area, and commenced negotiations with the other equity owner regarding reactivation of production of the Cadlao field. Any future revival of oil production (and thus, revenue generation) would likely hinge on the successful conclusion of an agreement between the participating interest holders.

- On March 7, 2007, the Block A consortium signed a farm-in agreement with a foreign company. Under the agreement, the farminee has the option to acquire 70% interest in the block by carrying the original partners in the costs of drilling one or two wells and in the first phase development in the area.

- Trans-Asia and most of the consortium members executed an option agreement with two foreign companies granting the latter the right to conduct at their sole cost 3 to 6 month exclusive due diligence and the option to acquire 70% interest in the block. Implementation of the agreement is suspended pending signing of all partners.

- Expenditures incurred by the Company in Block A in the last three (3) fiscal years are as follows : P 501,992 (2005), P 178,761 (2006) and P 556,205 (2007). On the other hand, expenditures in Block B are : P 98,018 (2005), P 31,435 (2006) and P 11,384 (2007). No revenues were derived from the Company's activities in said blocks during the same period.

- No expenditures were made in compliance with environmental laws inasmuch as the work performed were all desk/computer activities.

Service Contract No. 14

- Awarded on 17 December 1975; valid until 16 December 2010.

- SC 14 Block B-1 (860 ha.) was carved out of the original SC 14 contract area as production area of the North Matinloc oil field, offshore Northwest Palawan.

- SC 14 Tara Production Area (950 ha.) was carved out of the original SC 14 contract area as production area of the Tara oil field, offshore Northwest Palawan.

- The Company has 6.103% participating interest in SC 14 B-1 and 22.50% participating interest in SC 14 Tara Production Area.

- The principal terms of SC 14 are the same as those listed under SC 6 above.

- North Matinloc field went on stream in 1989. The field was shut in in 1991 when it reached economic limit. The Tara field, on the other hand, commenced production in 1987. The field was suspended in 1990 due to technical reasons. The two fields remain shut-in to this date.

- No activities other than physical inspection of field facilities were conducted during the last three (3) fiscal years.

- Expenditures incurred by the Company under SC 14 Block B-1 in the last three (3) fiscal years are as follows: P 9,714 (2005), P 31,529 (2006), and P 7,157 (2007).

- Expenditures incurred by the Company under SC 14 Tara Production Area in the last three (3) fiscal years are as follows: P 14,729 (2005), P 66,010 (2006), and P 7,277 (2007). No revenues were derived from such activities. No amounts were spent in compliance with environmental laws.

- In Year 2005, partners reviewed separate farm-in proposals for the reactivation of the North Matinloc and Tara fields. No agreements were reached.

- In year 2007, Trans-Asia and most of the partners signed an option agreement with two foreign companies granting the latter the right to conduct at their sole cost 3 to 6 month exclusive due diligence on the areas and the option to acquire 70% interest in each of the block. Any future revival of oil production in these fields (and thus, revenue generation) would likely depend on the farminees exercising their option to acquire interest in the blocks.

Service Contract No. 41

- Awarded on 19 June 1998; valid until 10 May 2005.

- Covers an 493,800 ha. offshore block in the southern part of the Sulu Sea.

- Trans-Asia has 1.161% participating interest.

- The basic terms of SC 41 are similar to those of SC 6 and SC 14.

- In Year 2004, the SC 41 consortium drilled two (2) exploratory wells, both of which failed to find petroleum deposits. Continued participation of the Company in the project depended on the Company's assessment of the remaining prospectivity of the block, and technical and economic risks.

- The Company's expenditures under SC 41 in the last three (3) fiscal years are as follows: P 739,329 (2005) and none in 2006 and 2007. No revenues were derived from the project during the same period.

- The Company's share of costs incurred in compliance with environmental laws amounted to some P 30,000. Compliance with environmental laws had no effect on project operations.

- Trans-Asia withdrew from SC 41 effective 10 April 2005.

Service Contract No. 51

- Awarded on 8 July 2005; exploration period valid for 7 years, production period for 25 years.

- Originally covered 444,000 hectares offshore and onshore block in the eastern Visayas region. Contract area reduced to 332,000 hectares following mandatory relinquishment.

- Trans-Asia initially had 33.34% participating interest.

- The consortium committed to undertake a new 250-km seismic programs over the Cebu Strait and an engineering study of the Veltaba – 1 subcommercial gas discovery in offshore Northwest Leyte, within the first 18 months of the contract term. The partners have successive options to drill exploratory wells during the balance of the 7-year exploration period.

- Trans-Asia signed a Farm-In Agreement with two foreign companies on 5 August 2005 thereby diluting its participating interest to 6.67% in exchange for a carry in costs of certain work programs.

- Due to non-availability of a seismic-boat the SC 51 consortium was unable to undertake the committed seismic survey. The DOE granted the consortium's request to fulfill same within the second sub-phase of the Exploration Period ending January 2008.

- The SC 51 consortium elected to enter the second sub-phase of the Exploration Period with 3D seismic program commitment as approved by the DOE. The 3D seismic survey was completed in mid 2007.

- The SC 51 consortium elected to enter the third sub-phase of the Exploration Period which entails a commitment to drill one well by March 7, 2009.

- The Company's expenditures under SC 51 are P 259,306 in 2006 and P 1,741,400 in 2007. No revenues were derived from the project during the same period.

Service Contract No. 55

- Awarded on 5 August 2005; exploration period valid for 7 years, production period for 25 years.

- Covers 900,000 ha. Offshore West Palawan

- Trans-Asia has 15% participating interest.

- The consortium committed to undertake a work program consisting of a new 400 – km 2D seismic survey, processing and interpretation of 358 km of 200 km of vintage 2D seismic data, gravity and magnetic data, within the first 18 months of the contract term. The partners have successive options to drill up to four wells during the balance of the seven – year exploration period.

- The consortium acquired 456 km of 2D seismic data in 2006.

- The consortium acquired 954 km of 2D seismic over the area in 2007.

- Pursuant to the Service Contract, the consortium elected to extend the first sub-phase of the Exploration Period until February 4, 2008.

- The consortium elected to enter the second sub-phase of the Exploration Period which entails a commitment to drill one ultra deepwater well by August 4, 2009.

- The Company's expenditures under SC 55 are P 719,797 in 2006and P 830,572 in 2007. No revenues were derived from the project during the same period.

Camarines Norte - Mineral Production Sharing Agreement (MPSA)

- The Company was awarded an MPSA over 333 ha. block located in municipality of Jose Panganiban on July 28, 2007. The MPSA was registered by the Mines and Geosciences Bureau in December 2007.

- Activities in 2005 and 2006 were devoted to fulfilling the documentary and other requirements relevant to said application. The Company had no exploration activities in the field.

- A small scale mining permittee in the Company's mining claims completed its sulphide minerals recovery project in Barangay Larap. Some 7,827 metric tons of pryrite were extracted and sold. Under a Consent agreement, the Company received royalty equivalent to 5% of the sales proceeds of pyrite. The relevant Small Scale Mining Permit granted by the provincial government is effective from 20 February 2004 to 19 February 2006. However, the Consent agreement expired on 19 February 2005.

- The Company granted Consent to a small scale mining permittee effective on 19 September 2005 to extract and market white clay deposits in a certain area in Barangay Sta. Milagrosa. The permittee extracted 6,136 metric tons of white clay in 2005. The company received royalty equivalent to 5% of the sales proceeds of white clay.

- The Company incurred the following expenditures in the last three (3) fiscal years: P 1,050,608 (2005), P 1,247,692 (2006) and P 809,233 (2007). Revenues generated were P 162,316 (2005), P 174,387 (2006) and none in 2007.

- No expenditures were made in compliance with environmental laws inasmuch as the Company did not undertake any field operations.

Rizal Mining Leases

- The Company has two (2) Mining Lease Contracts with the Mines and Geosciences Bureau: Mining Lease Contract No. MRD - 491 and Mining Lease Contract No. MRD - 492, both of which were granted on 24 June 1988 and would expire on 23 June 2013.

- Mining Lease Contract No. MRD - 491 covers a 414-ha. block in the towns of Teresa, Baras and Morong, Rizal, whereas Mining Lease Contract No. MRD - 492 covers a 248-ha. block in Teresa and Morong, Rizal.

- Said Mining Leases grant Lessee the exclusive right to extract and utilize all mineral deposits within the boundary lines of the mining claims, subject to payment of rentals, royalties and taxes to the government.

- The Company maintains its rights to the leases by submission of affidavits of annual work obligation to the Mines and Geosciences Bureau and payment of rental to the concerned municipalities, on a yearly basis.

- No operations were conducted in the leases in the last three (3) fiscal years. Expenditures incurred during the same period were as follows: P 52,311 (2005), P 46,751 (2006) and P 42,441 (2007). No revenues were generated.

- No expenditures were incurred in compliance with environmental laws.

Electricity Supply Agreement with Guimelco

- Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco) signed on 12 November 2003; valid for ten (10) years, term extendible by mutual agreement. Following are among the significant provisions of the ESA:

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

- Above agreement provides for the construction, operation and maintenance of a 3.4 MW bunker C-fired power plant by the Company in Guimaras. The power plant will sell electricity on a priority dispatch basis to Guimelco at the rate approved by the Energy Regulatory Commission.

- Installation of the power plant and construction of related facilities were completed in February 2005. Commercial operation commenced on June 26, 2005.

- Expenditures incurred in the last three (3) fiscal years were as follows: P 38.2 million (2005), P 53.5 million (2006) and P 32.4 million (2007). Revenues generated were P 39.2 million in 2005, P 58.7 million in 2006 and P 46.7 million in 2007. None was spent in compliance with environmental laws in 2005 up to 2007. Compliance with environmental laws had no effect on project operations.

Electricity Supply Agreements with Holcim

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

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

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

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

Concession Agreement

- CIPP has a concession agreement with Carmelray-JTCI Corporation (CJC), the developer of CIP II in Calamba, Laguna, where the CIPP power plant is located. The cooperation period under the concession agreement shall end in 2027, subject to extension. CJC has the option to purchase the power plant or the distribution system, or both at the end of the cooperation period or any extension thereof. The purchase price for the power plant shall be its net book value and that for the distribution system shall be US$1.

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

Exploration Right Agreement with Balatoc Kalinga Tribe, Inc.

- The Company entered into a Memorandum of Agreement with Balatoc Kalinga Tribe, Inc. and Balatoc Tribe Exploration and Mining Corporation (BTEMC) on July 27, 2007 granting TA Oil the exclusive right to conduct exploration work over the Batong Buhay property in Barangay Balatoc, Pasil, Kalinga, subject to an Exploration Permit to be granted to BTEMC by the Department of Environment and Natural Resources (DENR), and the exclusive option to develop and operate said property under a successor mineral agreement with the government.

- The National Commission on Indigenous People (NCIP) had earlier formally recognized the Balatoc tribe's priority right to develop, extract or exploit any natural resources within their ancestral domain in Barangay Balatoc, Pasil, Kalinga, pursuant to the Indigenous Peoples Rights Act of 1997 and directed the Balatoc tribe to submit their project application to the DENR.

Governing Laws and Regulations

P.D. 87 or The Oil Exploration and Development Act of 1972

Petroleum exploration and production in the Philippines, where TA currently operates, is basically governed by P.D. 87, the Oil and Gas Act of 1972 and other rules and regulations promulgated by DOE. P.D. 87 established the service contract system which declares that all petroleum within the country's territory belonged to the state.

P.D. 87, as amended, also known as "The Oil Exploration and Development Act of 1972" declares the policy of the State to hasten the discovery and production of indigenous petroleum through utilization of government and/or private resources, local and foreign, calculated to yield maximum benefit to the Filipino people and revenues to the Philippine government and to assure just returns to participating private enterprises, particularly those that will provide services, financing, and technology and fully assume all exploration risks. The government may undertake petroleum exploration and production or may indirectly undertake the same through Service Contracts. Under a Service Contract, a Contractor is entitled to a service fee of up to 40 % of net production proceeds. Operating expenses are deductible up to 70 % of gross production proceeds. A Filipino Participation Incentive Allowance equivalent to a maximum 7.5 % of the gross proceeds is granted to a Contractor with at least 15 % Filipino participation. Incentives to Service Contractors include: exemption from all taxes except income tax; income tax obligation paid out of government's share; exemption from all taxes and duties for importation of materials and equipment for petroleum operations; easy repatriation of investments and profits; free market determination of crude oil prices; subcontractor subject to special income tax rate of 8 % of gross Philippine income and foreign employees of service contractor and subcontractor subject to special tax rate of 15 % of Philippine income.

A Service Contract has a maximum 10 years exploration period and a maximum 40 years development and production period. Signature bonus, discovery bonus, production bonus and training allowance are payable to the Philippine government. Other pertinent laws and issuances include P.D. 1857, a law amending certain sections of P.D. 87 offering improved fiscal and contractual terms to service contractors with special reference to deepwater oil exploration; DOE Circular No. 2003-05-005, a circular that establishes the procedures for the Philippine contracting round in petroleum prospective areas; DOE Circular No. 2003-05-006, a circular that provides the guidelines to the financial and technical capabilities of a viable petroleum exploration and production company; Executive Order No.66, and order designating the DOE as the lead agency in developing the natural gas industry; and DOE Circular 2002-08-005, a circular setting the interim rules and regulations governing the transmission, distribution and supply of natural gas.

To encourage domestic petroleum exploration, the DOE launched in mid-2000 a three-year Window of Opportunity timed with the development and initial production of the Malampaya field. Special incentives and lenient terms await companies exploring areas in offshore Palawan, the Sulu Sea, and offshore Mindoro proximate to the Malampaya infrastructure and the proposed Trans-Asean gas pipeline route.

This year, the Department of Energy is putting nine oil and gas exploration blocks up for auction in its third energy contracting round. The DOE expects 20 consortia to submit bids and is hoping that the blocks will attract around US$360 million in investment, according to DOE Undersecretary Guillermo R. Balce.

R.A. 8371 or The Indigenous Peoples' Rights Act of 1997

Republic Act 8371 or "The Indigenous Peoples' Rights Act (IPRA) of 1997" requires the free and prior informed consent of the IPs who will be affected by any mining exploration. [1]Under IPRA, indigenous peoples (IP) are granted certain preferential rights to their ancestral domains and all resources found therein. Ancestral domains are defined as areas generally belonging to IPs, subject to property rights within ancestral domains already existing or vested upon the effectivity of the IPRA, comprising lands, inland waters, coastal areas, and natural resources, held under a claim of ownership, occupied or possessed by IPs by themselves or through their ancestors, communally or individually since time immemorial, continuously to the present, except when interrupted by war, force majeure or displacement by force, deceit, stealth, or as a consequence of government projects or any voluntary dealings entered into by the government and private persons, and which are necessary to ensure their economic, social and cultural welfare.

Under the IPRA, no concession, license, lease or agreement shall be issued by any government agency without the Certification Precondition (CP) from the National Commission on Indigenous Peoples (NCIP). The CP states that the Free, Prior and Informed Consent (FPIC) has been obtained from the concerned IPs. For areas not occupied by IPs, a Certificate of Non-Overlap is issued instead by the NCIP. For areas occupied by IPs, the applicant and representatives from the NCIP will conduct consultations and consensus-building to obtain the consent of the IPs. The FPIC is manifested through a Memorandum of Agreement with the IPs, traditionally represented by their elders. The CP is then issued by the NCIP stating that the FPIC has been obtained from the IPs concerned.

TA usually deals with IPs for its mining exploration. No mining is allowed without first negotiating an agreement with the IPs who will be affected by mining operations.

R.A. 1972 or Philippine Mining Act of 1995

Republic Act No. 7942 or "The Philippine Mining Act of 1995" is the governing law that regulates mineral resources development in the country. One of the primary objectives of this act is to revitalize the ailing Philippine mining industry by providing fiscal reforms and incentives and maintaining a viable inventory of mineral reserves to sustain the industry through the infusion of fresh capital through direct investments to finance mineral exploration and/or development activities. The Mining Act specifies the Department of Environment and Natural Resources (DENR) as the primary agency responsible for the conservation, management, development, and proper use of the country's mineral resources, and its Mines and Geosciences Bureau (MGB) as directly in charge of the administration and disposition of mineral lands and mineral resources.

[1] "Investor's Prospectus on Philippine Mining" Minerals Development Council 2007, Association of Southeast Asian Nations, <http://www.aseansec.org>

The Mining Act introduced a new system of mineral resources exploration, development, utilization and conservation, with due regard to other laws (e.g., Presidential Decree 1586, on environmental impact statement and other issues related to environmental management; RA No. 7586 or the National Integrated Protected Areas System (NIPAS) Act of 1992; RA No. 7160 or the Local Government Code of 1991; and RA No.7916 or the Special Economic Zone Act of 1995).

[2]The Mining Act recognizes fully the rights of indigenous peoples and respects their ancestral lands. No mineral agreements and mining permits are granted in ancestral lands/domains except with prior informed consent from indigenous peoples for areas as verified by the DENR Regional Office and/ or appropriate offices as actually occupied by indigenous peoples under a claim of time immemorial possession.

R.A. 9136 or The Oil Electric Power Industry Reform Act of 9136

The power generation business of TA is governed by Republic Act 9136, or the Electric Power Industry Reform Act (EPIRA) of 2001. The EPIRA triggered the implementation of a series of reforms in the Philippine Power Industry. The two major reforms are the restructuring of the electricity supply industry and the privatization of the National Power Corporation (NPC). The restructuring of the electricity industry calls for the separation of the different components of the power sector namely, generation, transmission, distribution and supply. On the other hand, the privatization of the National Power Corporation (NPC) involves the sale of the state-owned power firm's generation and transmission assets (e.g., power plants and transmission facilities) to private investors. These two reforms are aimed at encouraging greater competition and at attracting more private-sector investments in the power industry. A more competitive power industry will in turn result in lower power rates and a more efficient delivery of electricity supply to end-users.

RA 9136 also mandated the Department of Energy (DOE) to establish the Wholesale Electricity Spot Market (WESM). The Act also mandates the Department of Energy, jointly with the electric power industry participants, to formulate the detailed rules that will govern the conduct of the WESM. TA is a wholesale aggregator since November 2006, while TA Power is a wholesale generator since October 2006 and actively trading electricity in the Wholesale Electricity Spot Market (WESM).

R. A. 8749 or "Clean Air Act of 1972"

Republic Act No. 8749, otherwise known as the Philippine Clean Air Act of 1972", is a comprehensive air quality management program which aims to achieve and maintain healthy air for all Filipinos. Under the Clean Air Act, the Department of Energy and Resources is mandated to formulate a national program on how to prevent, manage, control, and reverse air pollution using regulatory and market based instruments, and set-up a mechanism for the proper identification and indemnification of victims of any damage or injury resulting from the adverse environmental impact of any project, activity or undertaking. To uphold the Clean Air Act, [3]the Government is promoting energy security thru a policy of energy independence, sustainability and efficiency. These involve:

- increasing oil and gas exploration;
- strengthening of the Philippine national oil company (PNOC) to spearhead the development of
- indigenous energy resources and building global partnerships and collaborative undertakings;

[2] Mines and Geosciences Bureau Policy and Legislation <http://www.mgb.gov.ph>

[3] **"**Permanent Mission of the Republic of the Philippines to the United Nations" *Philippine Statement by Hon.Margarita R,Songco,Deputy Director General National Economic and Development Authority 14th Session of the Commission on Sustainable Development,11 May 2006, New York <http://www.un.int/>*

- pursuing the development of renewable energy such as geothermal, wind, solar, hydropower, and biomass, and the vigorous utilization of the cleaner development mechanism and the emerging carbon market;

- the expansion in the use of natural gas; and

- adoption of energy efficiency promotion strategies.

In support of the Clean Air Act, TA is participating in the oil and gas exploration and sourcing of renewable energy sources. This is evident in the oil and gas exploration, Jatropha seedling plantation and wind tower projects of TA and its subsidiaries.

R. A. 7916 or "PEZA law"

Republic Act No. 7196 or "The Special Economic Zone Act of 1995 (PEZA law)" created the Philippine Economic Zone Authority (PEZA), the government agency mandated to implement the law which aims to encourage and promote the establishment and development of special economic zones (SEZ) in identified and selected areas in the country. Special economic zones are areas, at least 25 hectares in extent, which has existing or even a potential factor for development as industrial, agro-industrial center, a place ideal for tourism, recreational, or commercial use, banking, investment, and financial center, or for information technology functions.

Under PEZA Law, firms which are registered with PEZA and are located within SEZ are entitled to fiscal and non-fiscal incentives. The following are examples of the incentives being offered to PEZA-registered companies (subject to the nature of the enterprise):

- Tax-and duty-free importation of capital equipment, raw materials, spare parts, supplies, breeding stocks, and genetic materials
- Income Tax Holiday (ITH) of four (4) years or six (6) years for non-pioneer and pioneer enterprises, respectively
- A special tax rate of 5% of gross income earned in lieu of all national and local taxes after the availment of the ITH
- Tax credit for import substitution
- Exemption from wharfage dues, export tax and import fees
- Tax credit on domestic capital equipment
- Additional deduction for incremental labor expenses and training expenses
- Unrestricted use of consigned equipment

The following types of enterprises are eligible to such incentives: export enterprises, free-trade zone enterprises, service enterprises, domestic market enterprises, pioneer enterprises, utilities enterprises, facilities enterprises, tourism enterprises and ecozone developers/operators.

Two of the subsidiaries of TA are PEZA-registered enterprises: CIP II Power Corp. (CIPP) and Bacnotan Industrial Park Corporation (BIPC). CIP II is a utility enterprise engaged in the sole generation and distribution of electricity within the Carmelray Industrial Park II, which is one of special economic zone in Calamba Laguna. BIPC on the other hand is an ecozone developer.

Cost and Effects of Compliance with Environmental Laws

Petroleum service contractors are mandated to comply with all environmental laws and rules and regulations in all phases of exploration and production operations. Environmental compliance certificates or certificates of non-coverage, if applicable, are obtained from the Environmental Management Bureau of the Department of Environment and Natural Resources in coordination with the DOE.

Related Party Transactions

During the last two (2) years, the Company was not a party in any transaction in which a Director or Executive Officer of the Company, any nominees for election as a director, any security holder owning more than 10% of the Company's issued and outstanding shares and/or any member of his immediate family had a material interest thereon.

Trans-Asia is controlled by PHINMA through a management contract. Under an existing management agreement, Trans-Asia pays PHINMA a fixed monthly management fee plus an annual incentive based on a certain percentage of the net income. PHINMA has a general management authority with the corresponding responsibility over all operations and personnel of the Company, including planning, direction, supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. The management contract will expire on August 31, 2008. The Board of Directors of the Company desires to continue availing of management services being rendered by PHINMA and therefore recommends the renewal of the existing Management Contract for a period of five (5) years from September 1, 2008 under the terms and conditions which may be in the best interest of the Company. As of March 17, 2008, PHINMA owns 426,839,683 shares, which represent 25.75% of total outstanding shares of stock of the Company.

The management contract between Trans-Asia Power Generation Corporation [TA Power (50% joint venture)] and PHINMA has been renewed for another five (5) years starting September 1, 2006, renewable thereafter upon mutual agreement.

TA Power leases office space on the property owned by Trans-Asia.

Manpower

As of December 31, 2007, Trans-Asia has total employees of 78, 36 employees for its Makati office, 11 employees for its power station in Guimaras island and 31 employees for its power station in Calamba, Laguna. Of the total employees, 22 are managers and officers, 16 are supervisors, and 40 are non-supervisory employees. The Company has the intention of hiring additional employees for the ensuing months.

Trans-Asia has no Collective Bargaining Agreement (CBA) with its employees. No employees were on strike for the past three (3) years nor are they planning to go on strike.

Aside from compensation, Trans-Asia's employees are given medical, hospitalization, vacation and sick leave, and personal accident insurance benefits. Also, the Company has a retirement fund which is part of the Phinma Jumbo Retirement Plan. It is a funded, noncontributory defined benefit pension plan covering all full-time employees of Phinma and its affiliates. The benefits are based on tenure and remuneration during the years of employment.

Major Risks Involved in Each of the Businesses of the Company and Subsidiaries

Exploration Risk

The exploration projects may not yield oil or mineral deposits in commercial quantities and which may adversely affect the recovery of the Company's investments.

The major risk associated with the Company's core business is exploration risk. There is no certainty of finding commercial petroleum or mineral deposits below the surface of the earth. Commercial deposits of petroleum or minerals lie deep in the bowels of the earth whose exact location and depth below the surface is the ultimate objective of exploration work. Unfortunately, no instrument or methodology has yet been invented that would directly point to the existence of a commercial deposit. Present methods used in exploration are indirect probes whose data are subject to interpretation or “best judgment”. This is where the risk emanates. But the risk is mitigated by careful and judicious application of scientific methods and data analysis that have been proven effective in other environments.

To manage exploration risk, TA employs rigorous scientific methods to identify and quantify exploration risk using geological and risk-economic yardsticks. The following approaches are used, as applicable:

1. *Use of technical expertise and state-of-the-art technology.* Technical expertise refers to tapping the professional and special capabilities of experienced people or teams with proven success records in resource determination or delineation. State-of-the-art technology refers to “computer-based” analysis and interpretation of exploration data which enable one to reasonably visualize subsurface conditions that could host commercial volumes of oil or minerals.
2. *Phased exploration programs with clear exit points.* Exploration is carried out in phases or stages depending on the complexity of the problem at hand. The phases are so conceived such that one phase leads logically to the subsequent phase. But at the end of each phase, the exploration people are given a chance to assess their position and consequently decide whether to proceed or exit from the work program. It follows that encouraging results from a certain phase given incentive to proceed to the next phase, otherwise the participant should withdraw if he thinks the chances of success are slim.
3. *Determination of participation levels based on available risk capital, expenditure commitments and success chance.* To what extent the company participates in any given exploration program is a function of risk capital at its disposal, the expenses required the bankroll the exploration program and the chance of success from said exploration program. It is quite clear that given a program with high success chance but whose required expenditure commitment is stiff, participation would be somewhat constrained by disposable capital.
4. *Investment in exploration projects with varying risk profiles.* This approach simply dictates that less risky projects or where one has more than even chance of succeeding should be preferred over the rest.
5. *Participation in exploration consortia, in the event 100% equity is not warranted by risk assessment.* Where the assessment says the risk is too high for a single entity to assume, it would be prudent to spread the risk by entertaining participation by other parties.
6. *Distribution of participation in many rather than one or a few contracts or tenements. This is akin to ‘not putting all eggs in one basket’.* This approach suggests participation in many projects with widely varying assessment of risk. The logic is based loosely on the dictum “win some here, lose some there.” For example, given ten exploration projects to participate in, it’s possible that you reap great success in five of them and fail in the other five, then hope that the success of five translates to a magnitude that would allow recovery of “failure” in the other five. This resembles what is commonly regarded as averaging effect.
7. *Use of options, whenever feasible.* Some exploration projects are designed in such manner that “options” for entry and exit are provided. This is meant to cater to a wide spectrum of risk tolerance by the incoming party. Options are usually cheap or affordable at the early stages of the project. Then it gradually increases as the exploration progresses to such level where the risk is easily discernible and the potential rewards are more or less foreseeable. Under this scenario, the investor is given some flexibility as to when he should enter the project.
8. *Dilution of interest in phases of work which entails heavy expenditures or high risk e.g. drilling.*
   As the exploration program advances towards its conclusion, the magnitude of expenditure increases tremendously to the point that those who were able to gain entry at the early stages could not on no longer afford to the current requirements financially. One way to mitigate the burden and at the same time remain in the running is to allow

dilution or reduction in one's participating interest. The main objective is staying in the game until the very end when the rewards become due.

9. *Copping of annual exploration expenditures to projected company income for the year.* This approach is putting a self-imposed ceiling on how much money may be used for participation in exploration projects. It goes without saying that this expenditure level is affordable – i.e. in the vent of failure, the company is still able to survive and its financial footing still on firm ground.
10. *Investment in less risky, non-exploration ventures or projects to balance risk exposure.* This approach simply states the company must invest in low risk ventures and with guaranteed revenue stream to offset the potential ill effects of risky exploration ventures, instead of drawing from the operating capital or borrowing to fund them.

Foreign Currency Risk

The Company's results of operation and financial condition may be adversely affected by changes in foreign currency rates.

The major risks of the Company are volatile foreign exchange rates that affect fuel prices and cost of spare parts and equipment. Foreign Currency risk is a risk of loss form carrying out operations, or holdings assets and liabilities, in a foreign currency. The size of the risk has increased in recent years because of the growth in international trade and financing and the increased magnitude of exchange rate fluctuations.

To mitigate the risks, the Company implements cost efficiency measures, increase foreign exchange holdings and renegotiate with its buyer as provided in the Energy Supply Agreement (ESA).

Foreign currency risk is being managed by holdings of cash and securities in Philippine peso, US dollar or Euro denominated currencies according to an approved currency exposure allocation scheme. The portfolio is biased in favor of Euro and US dollar since the costs of parts and engines for the power plants of the Company and its affiliate and subsidiary and the plan to expand the capacity of CIPP and to fund petroleum and mineral exploration projects are denominated in Euro and US dollar.

Foreign exchange risks on US dollar and Euro are managed by constant monitoring of the political and economic environments and trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

Interest Rate Risk

Changes in market interest rates may adversely affect the value of financial instruments held by the Company.

TA holds financial instruments composed of cash and short-term deposits, corporate promissory notes and bonds, government bonds, listed shares of stocks, and investments in mutual and trust funds, in Philippine peso, US dollar and Euro currencies. These are used to finance the Company's operations and investments.

These financial instruments are primarily exposed to interest rate risk. Relative value of financial instruments may decline as a result of changes in market interest rates.

The Company's principal financial instruments are managed by PHINMA's Treasury. PHINMA's Treasury minimizes the interest rate risk by protecting the Company's profits from interest rate volatility through fixing of interest rate costs. Interest on these fixed-rate financial instruments is set until the maturity of the instrument. The other financial instruments of the Company are non-interest-bearing investments and are therefore not subject to interest rate volatility.

Credit Risk

Adverse business results of the issuers of securities held by the Company may negatively affect the value of TA's investments.

The Company may face credit risk as investor. Credit risk is a risk that the issuer of a security, such as a bond, may default on interest and/or principal payments or become bankrupt. If either event occurs, the Company stands to lose part or all of its investments.

In order to mitigate the credit risk, investments are restricted only to the Company's duly accredited domestic and foreign banks and mutual funds. Even if a maximum of 20% of the Company's investible funds can be invested in one bank/mutual fund, PHINMA's Treasury allocates funds according to its periodic assessment of the banks'/funds' financial soundness and business performance. For Unit Investment Trust Fund (UITF) and Mutual Funds, fund placements cannot exceed 10% of the UITF's or Mutual Fund's total funds. UITF's and Mutual Funds' investment performances are reviewed weekly and monthly.

Investments in nonrated securities, primarily corporate bonds or affiliates are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies/updates from the major rating agencies are used as references (S and P, Moody's). All major investments are discussed and approved by the Investment Committee.

Exposure limits are tracked for every transaction; major transaction executions are supervised by a senior Treasury Officer of PHINMA. Market and portfolio reviews are done at least once a week during the weekly Treasury meeting and as often as necessary should market conditions require so. Weekly and monthly reports are given to the Chief Financial Officer.

Collection Risk

The Company may not collect all of its receivables.

The Company carries collection risk when it does not demand up-front cash payment for delivered products or rendered services. The Company must be able to collect promptly from its customers to be able to pay its obligations and finance its operation.

In order to manage the collection risk, the Company assesses the financial health of its customers, and extend credit (or not) accordingly. To ensure prompt payment, the Company grants discount if the customer pays within a specified period. Obligations not paid to the Company on due date shall bear interest computed from the first day after it becomes due and payable, equivalent to the prevailing interest rate or the specified rate in the agreement. Overdue accounts are charged with interest.

So far, the Company's customers have good credit standing. In case a customer encounters financial difficulty, the Company may reduce power supply, cut off credit entirely or demand payment in advance to reduce exposure to collection risk and subsequent payment defaults.

Liquidity Risk

The Company's working capital may be insufficient to meet its near term financial demands.

The Company may be exposed to liquidity risk, when the Company's working capital becoming insufficient to meet near term financial demands. Liquidity risk must be mitigated as it tends to compound credit risk.

This is managed by continuous monitoring of the weekly/monthly cash flows as well as the annual plans of the Company. Liquidity risks are managed by restricting investments principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

Maturities of each investment are spread out into various lengths of time as may be required by the Company's plans and cash flow needs. The average duration adheres to the guideline provided by the Investment Committee.

Environmental Risk

The Company's operation may cause damage to its environment and may adversely affect its financial condition and results of operations.

The Company and its subsidiaries are exposed to environmental risks. These are risks that can affect the health and viability of living things and the condition of the physical environment. It can be caused by the release of pollutants to air, land or water. Pollutants include waste, emissions (e.g. fumes, smoke, etc) and noise. Environmental damage can also be caused by irresponsible use of energy and natural resources. Environmental issues can have a significant impact on a company's bottom line and stock price.[4]

The Company abides by a number of different environmental laws, regulations, expectations and reporting requirements while it also faces growing constraints in accessing petroleum and mineral reserves, and producing electricity, as the continued search for new sources of oil and energy conflicts with growing efforts to protect and preserve ecosystems and communities.

The Company complies with all the environmental regulations as prescribed by the Department of Environment and Natural Resources, as actualization of these environmental risks could have an adverse effect on the results of operations and financial position of the Company and might lead to higher exposures to liquidity risk. The Company regularly assesses the environmental impact of its business activities and implements control measures to minimize the environmental risks. Costs are being incurred for:

a. prevention, control, abatement or elimination of releases into the air, land and water of pollutants,
b. training of personnel in the event accidents happen to mitigate potential damages,
c. proper disposal and handling of wastes at operating facilities, and
d. promote renewable energy sources.

Social Responsibility Risk

The Company's results of operations and financial condition may be adversely affected by risks associated with its efforts in relation to corporate social responsibility.

[4] " Environmental Risks Could Reduce Shareholder Value of Oil and Gas Companies." <http://www.energyvortex.com>

It is no longer possible for a company to focus solely on deriving value only for its shareholders; it must face and respond to societal needs as well. The Philippine government and society at large have begun a robust campaign to ensure that companies address societal issues and articulate strategy to be profitable and responsible at the same time. [5]The only way by which companies can achieve this is to first gain the trust of their key stakeholders. Whether these be investors, regulators, employees, Non-Governmental Organizations (NGOs), or others, it is fundamental that operations are conducted in a responsible and sustainable way.

[6]The issue of social responsibility or corporate social responsibility (CSR) - broadly defined to include such concepts as sustainability, sustainable development, triple bottom line, corporate citizenship, and sustainable enterprise management (including environmental issues) - is now challenging the very foundations of the business strategies of the world's leading organizations. CSR is, however, one of the most complex challenges facing businesses today. To many, it is a guiding principle that underpins corporate vision, strategy and decision-making. To others, it represents a series of emerging issues that must be "managed" by the company in order to maintain its "license to operate". Either way, the responsible, sustainable company realizes short-term success and builds a stable platform for future growth and profitability, while at the same time, acknowledging it's social and environmental responsibilities and the needs and concerns of a wide range of stakeholders.

Often operating in environmentally sensitive areas and nearby residential communities, The Company and its subsidiaries are at risk with regard to the ethical, social, and environmental challenges encompassed by CSR. There is growing pressure on the Company in relation to their impacts on, and role within, society and the communities where it operates. It also faces complex issues as the people in some areas are often economically disadvantaged and characterized by an absence of the right skills, inadequate governance, a weak supplier base and inadequate physical and social infrastructure. In addition, the Company must adapt to a variety of local conditions, regulations and cultural differences.

In order to manage these challenging issues, the Company focuses not only on financial issues but also on non-financial issues, which has brought a range of benefits in terms of driving continuous improvement in health, safety and environmental performance and risk management, in staff recruitment, retention and motivation, and in terms of reputation enhancement. The Company works hand-in- hand with the host community, in providing medical outreach, jobs and education support. The Company also has begun to recognize that their prospects of gaining new commercial opportunities are enhanced by being the type of company that governments, partners, and suppliers want to work with on non-financial as well as commercial criteria. These are embodied in the Company's vision of aggressively seeking opportunities primarily in the services sector that will allow the organization to address the basic needs of the society, while being globally competitive and generating attractive stakeholder values.

The Company is also continuously managing social issues responsibly, as this is essential for the Company to manage both risks to their operations and reputation and to maintain its social license to operate. This is true, as one of the subsidiaries of the Philippine Investment Management (PHINMA) Inc., which is actively developing and promoting CSR strategies, policies, procedures and reporting frameworks. PHINMA sponsored for two consecutive years the [7]Asian CSR Awards which was held last September 25-26, 2006. This is Asia's premier Awards program on corporate social responsibility. The program recognizes and honors Asian companies for outstanding, innovative and world-class products, services, projects and programs in CSR. These projects should demonstrate the company's leadership, sincerity and on-going commitment in incorporating ethical values, compliance

[5] " Public Policy for Corporate Social Responsibility." World Bank Institute Series on Corporate Responsibility, Accountability, and Sustainable Competitiveness. July 2003 <http://info.worldbank.org>

[6] Leschinskaya, Ksenia and Grinberg, Tatiana. " Corporate Social Responsibility in the Energy Sector." CSR Article - Business Risk Services, Ernst & Young. April 2007 <http://www.ey.com>

[7] "The Foremost Event on Corporate Social Responsibility in Asia Takes Place in September 2006. Will you be there?" News from: Asian Forum on Corporate Social Responsibility. July 2006 <http://www.csrwire.com>

with legal requirements, respect for individuals, involvement in communities and protection of the environment into the way they do business.

Competition

Competition in the businesses of the Company is intense, which may adversely affect the Company's ability to compete.

The Company and its subsidiaries are subject to intense competition. Some competitors may have substantially greater financial and other resources, which may allow them to undertake more aggressive marketing and to react more quickly and effectively to changes in the markets and in consumer and government preferences. In addition, the entry of new competitors could reduce the Company's sales and profit margins. Each of the Company's businesses may be particularly affected by competition as follows:

- *Oil exploration.* , TA competes with foreign and local exploration companies such as Premier Oil, Petronas Carigali Overseas, PNOC Exploration Corporation, The Philodrill Corporation, and Oriental Petroleum and Minerals Corporation for acquisition of prospective blocks.[8]In 2007, the Department of Energy (DOE) is putting nine oil and gas exploration blocks up for auction in its third energy contracting round. The DOE expects 20 consortia to submit bids and is hoping that the blocks will attract around US$360 million in investment, according to DOE Undersecretary Guillermo R. Balce. The winners of the round will be announced in July. Using Business Monitor International's base case oil price assumptions (OPEC basket = US$55.00/bbl in 2007, followed by US$50/bbl in 2008, and an average US$45/bbl in 2009-11), the Philippines' oil import costs are set to be around US$5.36 billion in 2007 and US$5.02 billion by 2011. The Philippine Government is therefore hoping to boost domestic production in order to reduce this import bill.

  [9]The nine blocks for auction are located offshore in shallow and deepwater within the prospective basins of East Palawan, Mindoro-Cuyo, Cagayan, Central Luzon, Visayas and Agusan-Davao. Companies awarded acreage will be permitted a seven-year exploration period, with the option to extend such period for a further three years. Production period will last 25 years, with a 15-year extension option. The government will receive 60% of the net income, with contractors receiving 40%. 35% corporate tax will be paid out of the government's share. There will be an incentive of 1.5%-7.5% of gross profits to any contractor that has at least 15% Filipino participation.

- *Mineral exploration.* TA competes with foreign and local exploration companies for mineral prospects in the country. The Philippines being located in the Pacific "Rim of Fire", has proven ore deposits, particularly of gold, copper, nickel and chromite. The Mines and Geosciences Bureau (MGB) of the Department of Environment and Natural Resources (DENR) is the lead government agency for the administration and disposition of mineral lands and mineral resources. In the country. [10]The MGB has identified twenty-four (24) priority mineral exploration and development projects that are expected to become operational on or before 2010. Aside from the priority projects, the MGB is continuously monitoring various exploration prospects all over the country in order to sustain the momentum gained from initial mining activities. Among those in the pipeline are twelve (12) copper / copper-gold projects, twenty-four (24) gold projects, three (3) nickel projects, a bauxite project and a sulfur project, in various stages of planning and development.

  The mining industry is on revival mode following a Supreme Court decision in 2004 which upheld the constitutionality of the 1995 Philippine Mining Act, thereby relaxing foreign ownership restrictions on large-scale exploration, development and utilization of mineral resources. [11]Since then, several foreign investors have been establishing themselves in the Philippine mining scene,

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[8] " Philippines Launches Exploration Bidding Round." Oil and Gas Insight – Asia, Business Monitor International. May 2007 <http://www.oilangasinsight.com>

[9] Ibid

[10] "Philippines: Mining Sector Opportunites." US Commercial Service Report,,Edu Niala November 2006

taking advantage of the country's largely untapped mineral prospects, strong global demand for metals and other minerals, a favorable policy environment, and a pool of skilled and competent local mining workforce.

Among the most established players in the Philippine mining scene are Lepanto Consolidated Mining, the biggest gold producer in the country and Philex Mining Corporation, engaged mainly in copper-gold production. Both companies operate large-scale underground mines. Other notable operators include medium scale nickel mining companies such as Rio Tuba Mining Corporation, Cagdianao Mining Corporation, Hinatuan Mining Corporation and Taganito Mining Corporation. Medium-scale chromite mines are being operated by the likes of Benguet Corporation, Crau Minerals, Heritage Resources and Krominco, while medium-scale gold producers include TVI, Benguet Corp., and the state-owned Philippine Mining Development Corporation (formerly Natural Resources Mining Development Corporation).

In recent years, a number of foreign companies have ventured into mining exploration and related activities in the Philippines. U.S. based Phelps Dodge Exploration is studying copper-rich areas in southern Philippines. Other foreign entities currently doing exploration work in different parts of the country include Australian (BHP Billiton, El Dore, Indophil Resources, Medusa Mining, Pelican Resources, Oceana Gold/Climax, Red 5), Canadian (Crew Gold, Ivanhoe Mines, Philex Gold, Pan Oro, TVI Pacific and Sur American Gold) and British (Anglo-American, Carbon Mining, Coral Resources, Thistle Mining, Toledo Mining, Metals Exploration) entities. Asian companies have also joined the fray, including those from Japan (Pan Pacific Copper), China (Jinchuan) and Korea (Korea Resources).

- *Real estate development.* Bacnotan Industrial Park Corporation (BIPC), where TA has investment, competes against a number of commercial developers, information technology or cyber parks, industrial estates and economic zones for companies seeking a cost-effective location for back-office functions. BIPC is the landowner and developer of Batangas Union Industrial Park (BUIP), an industrial park designed to host light to heavy industries and located at Calaca, Batangas. It is about 110 kilometers from Manila and is situated in a natural cove along Balayan Bay. At present, BUIP is host to the following companies: Bacnotan Steel Industries, Inc., Steel Corporation of the Philippines, JY International Marketing, Inc., Jandrick Arvin Realty and Development Corporation, Taurus Arrastre and Stevedoring Services, Asian Chemical Corp., Petroterminals Phils. Corp., Century Chemicals Corporation and Rezcoat, Inc. BIPC is targeting companies especially those that are sea-transport extensive to consider using the port or better yet, consider transferring their manufacturing, warehousing or assembly facility within its industrial park.

  The country has a number of information technology or cyber parks, economic zones, and industrial estates, which grant incentives including income tax holidays, tax exemptions or tax credits, and deductions in labor and training expenses to locators by either the Board of Investments (BOI) or the Philippine Economic Zone Authority (PEZA). The National Capital Region alone hosts 17 investment sites, according to the BOI and PEZA. BIPC, within the vicinity of Laguna and Batangas, competes with Carmelray Industrial Corporation (Carmelray Industrial Park I & II), Filinvest Land Inc. (Filinvest Technology Park), First Batangas Industrial Park, Inc. (First Philippine Industrial Park), Greenfield Development Corporation (Greenfield Automotive Park & Sta. Rosa Business Park), Laguna Technopark Inc. (Laguna Technopark), Lima Land, Inc. (Lima Technology Center), Philippine Townships, Inc.(Philtown Technology Park), Science Park of the Philippines, Inc.(Light Industry & Science Park I, II & III), and Starworld Corporation (Laguna International Industrial Park).

- *Power Generation.* TA, CIPP, and TA Power compete with Meralco and other power generating companies in supplying power to the company's customers. Should a substantial number of the company's customers buy power from third party suppliers and regulatory authorities allow open access to ecozones, this could have a material adverse impact to the company's results of operations and financial condition.

[12] The Department of Justice, in an opinion, said PEZA had regulatory powers over electricity providers in special economic zones. The justice position effectively removed the authority of the Energy Regulatory Commission over power firms operating within the zones. PEZA Director General Lilia De Lima said, this will help them implement lower power rates in the zones in response to the call of Trade Secretary Peter Favila to entice more investors. The lower rates will apply in Peza-administered economic zones in Bataan, Baguio, Cavite and Mactan in Cebu. [13]PEZA is also looking at lowering power rates in privately owned ecozones. [14]Apart from making the PEZA responsible for regulating ecozone power distributors, the Department of Energy will also declare open access in the country's public and private ecozones, giving locators there a chance to choose their power supplier.

As of September 30, 2007, Meralco and other power generating companies have no direct distribution lines connecting them to the company's customers. Power from third party suppliers will have to pass through the company's distribution lines to reach the company's customers for which an added cost may be charged. Furthermore, existing off-take agreements assure a certain level of demand from the company's customers. Under Electricity Supply Agreement between TA and Guimelco, TA agrees to supply electricity generated by the power plant to Guimelco, and Guimelco agrees to take and pay for electricity delivered by TA Oil. In the case of CIPP, under the Power Supply Agreement with locators and Concession Agreement with CJC (park developer), CIPP has the exclusive right to supply power to the park. For TA Power, Holcim being 50% owner of TA Power no other power generation company will be allowed to supply electricity to its plant in Bulacan.

Risks from a Change in Existing or Probable Government Regulations

The Company is subject to complex laws and regulations that can adversely affect the cost, manner or feasibility of doing business.

The exploration, production and sale of oil and mineral deposits, power generation and real estate development are subject to extensive national and local laws and regulations. The Company and its subsidiaries may incur substantial expenditures to comply with these laws and regulations, which may include permitting costs, adoption and implementation of anti-pollution equipment, methods and procedures, and payment of taxes and royalties.

Under these laws, the Company could be subject to claims for personal injury or property damages, including natural resource damages, which may result from the impacts of its operations. Failure to comply with these laws also may result in the suspension or termination of the Company’s operations and subject it to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase the Company’s costs of compliance. Any such liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on the Company’s financial condition and results of operations.

Political Risks

Instabilities in the Philippine political environment may adversely affect the Company’s business, financial condition and results of operation.

There can be no assurance that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies conducive to sustained economic growth in the Philippines. Any political instability, including major public protests or the

[12] “PEZA Starts Power Rate Cut.” Manila Standard Today, August 2007
[13] “Lower electricity costs in ecozones readied” The Manila Times, Euan Paulo C. Añonuevo, September 2007
[14] “ERC loses jurisdiction over power plants in ecozones to PEZA.” Inquirer, Abigail L. Ho., September 2007

involvement of the military in politics, and terrorist activities, may have an adverse effect on the Company's results of operation and financial conditions.

Suppliers Risk

Disruptions to the supply of fuel could result in substantial reduction in higher power plant operating cost, and may have an adversely effect the company's financial performance and financial position.

The company purchases bunker-c fuel from Shell, Petron, and Caltex, the three major oil suppliers in the country, for its power generation business. Any delay in fuel deliveries or disruptions in fuel supply may result in unplanned plant shutdowns. To meet its commitment of providing continuous power to its customers, the company would have to produce power using back-up diesel generators which are more costly to operate. A prolonged use of the backup generators would adversely affect the company's results of operations and financial position.

To mitigate this risk, the company maintains substantial inventory of fuel and temporary backup generator sets to ensure continuous electricity production Furthermore, if any of the major suppliers fails to deliver, the company may buy fuel from other vendors under the supply agreement between TA and its suppliers. With the established good relationship with the other suppliers, TA could obtain competitive alternate sources and arrange the timely delivery of fuel.

Agreement Risk

Changes to, or termination of, our arrangements with our partners could have an adverse impact on the Company's business operations.

To reduce exploration risks, the company participates in joint operating or consortium agreements for exploration projects. The agreements include sharing of revenues, costs and technical expertise for the projects. Changes to, or termination of, such arrangements may impede the success of the projects.

In order to mitigate the risk, TA ensures that its partners for any the business ventures are credible and reliable. TA also make certain that every agreement it entered into have remedy provisions that the defaulting or terminating party shall remain liable for its proportionate share in accordance with its participating interest at the time of default of all costs, expenses and all liabilities.

Subsidiaries and Affiliates

The Company's subsidiaries and affiliates, and its percentage of ownership are as follows:

Name of Company	Percentage of Ownership
Trans-Asia Renewable Energy Corporation	100.00%
Trans-Asia (Karang Besar) Petroleum Corporation	100.00%
CIP II Power Corporation (CIPP)	100.00%
Trans-Asia Gold and Minerals Development Corp. (TA Gold)	100.00%
Trans-Asia Power Generation Corporation (TA Power)	50.00%
Bacnotan Industrial Park Corporation (BIPC)	30.00%
Asia Coal Corporation (Asia Coal)	28.18%
Atlas Holdings Corporation (AHC)	10.00%

Trans-Asia Renewable Energy Corporation (Renewable) and Trans-Asia (Karang Besar) Petroleum Corporation. Renewable and Karang Besar are wholly owned subsidiaries of TA. These two corporations were incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 2, 1994 and September 28, 1994, respectively. Renewable is engaged in the development and utilization of renewable sources of energy (e.g. wind) while Karang Besar is engaged in oil exploration and well development. Both have not started commercial operations.

CIP II Power Corporation (CIPP). On December 28, 2006, the Company purchased 100% of the shares of stock of CIPP, a wholly owned subsidiary of Ascendas Utilities PTE Limited (Ascendas), a Singaporean corporation. CIPP operates a 21 MW Bunker C-fired power plant in Carmelray Industrial Park II (CIP II) Special Economic Zone in Calamba City, Laguna and the sole provider of power in the industrial park. It was incorporated and registered with the SEC on June 2, 1998 and with the Philippine Economic Zone Authority (PEZA) on June 23, 1998, an ecozone utilities enterprise, particularly to develop and operate a power supply and distribution system at CIP II Special Economic Zone in Brgy. Punta and Tulo, Calamba City, Laguna. As a PEZA registered company, CIPP is entitled to certain tax incentives which include, among others, a special 5% gross income tax rate as applicable.

Trans-Asia Gold and Minerals Development Corp. (TA Gold). TA Gold was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 2, 2007. TA Gold is primarily engaged in the business of mining and mineral exploration within the Philippines and other countries. TA Gold will develop the mineral projects set forth by the Company.

Trans-Asia Power Generation Corporation (TA Power). Trans-Asia embarked on diversification to leverage its risks associated with its main line of business. Besides petroleum operation, Trans-Asia ventured into the business of energy development, principally power generation. It formed TA Power in a joint venture with Holcim Philippines, Inc. (HPI, formerly Union Cement Corporation). TA Power was incorporated on March 14, 1996. It is involved in the operation and maintenance of a power generation plant, including the related facilities, machinery and equipment. The power plant has a plant capacity of 52 MW and is the sole supplier of HPI's electricity requirements of the HPI plant in Norzagaray, Bulacan. Electricity produced is governed by a sales agreement between TA Power and HPI. Aside from supplying electricity to HPI, TA Power is trading electricity in the Wholesale Electricity Spot Market (WESM). The Energy Regulatory Commission granted TA Power a certificate of registration as a Wholesale Generator in October 2006 for its participation in the WESM.

TA Power was registered with the Board of Investments under the Omnibus Investments Code (OIC) of 1987, otherwise known as Executive Order No. 226, as an operator of a bunker "C" fired power plant on a preferred status. As a registered enterprise, TA Power is entitled to certain tax and nontax incentives under the provisions of the OIC subject to certain requirements under the terms of its registration. These incentives include, among others, income tax holiday for six years which expired in February 2004.

Bacnotan Industrial Park Corporation (BIPC). BIPC was incorporated and registered with the SEC on March 7, 1996 to engage in real estate development. It was also registered with the Housing and Land Use Regulatory Board under Executive Order No. 648 and was granted a license to sell on March 31, 2000. BIPC began its commercial operations in June 2000 with the Batangas Union Industrial Park (BUIP). BIPC is the landowner and developer of BUIP, a 110-hectare industrial park designed to host light to heavy industries with its own port facility. BUIP's locators include companies engaged in the businesses of industrial chemicals, painting and roofing materials and fuel trading. It is about 110 kilometers from Manila and is situated in a natural cove along Balayan Bay in Calaca, Batangas.

Asia Coal Corporation (Asia Coal). Asia Coal was incorporated in the Philippines on August 7, 1991 to engage in the trading of coal. The heightening of competition in the Philippine coal market plus the entry of new traders in 2000 which caused a drastic drop in trading margins put Asia Coal's ability to generate profits under great uncertainty. Thus, the shareholders of Asia Coal decided to cease all trading operations beginning November 1, 2000. Since then, Asia Coal's activity has been limited to money market placements.

On April 26, 2005, the Philippine Securities and Exchange Commission approved the reduction of its authorized capital stock from Php20 million, consisting of 200,000 shares, with a par value of Php100 per share, to Php5 million, consisting of 50,000 shares, with the same par value.

Atlas Holdings Corporation (AHC). AHC was incorporated and registered with the SEC on February 28, 1984. On December 8, 2004, its Board of Directors approved the change in its corporate name from Atlas Cement Corporation to Atlas Holdings Corporation and the change in primary purpose from engaging in the manufacture, development, processing, exploiting and sale of cement and other products there from to investing, holding, purchasing, acquiring, leasing, contracting, otherwise in real and personal properties. These were subsequently approved by the SEC on February 9, 2005. It is owned 90% by Bacnotan Consolidated Industries, Inc. and 10% by Trans-Asia. As of December 31, 2006, its total assets amounted to Php504 million invested in equity investments and various financial instruments. Last year also, AHC realized a net income of Php62 million and declared and paid cash dividend of Php11 million.

Item 2. Properties

Trans-Asia owns the following fixed assets:

Properties	Location	Amount
Land	Calamba City, Laguna	57,983,000
Building and improvements	Makati City, Guimaras and Calamba City, Laguna	97,640,394
Machinery and equipment	Guimaras and Calamba City, Laguna	552,398,223
Wells, platforms and other facilities	Palawan	20,346,661
Transportation equipment	Makati City, Guimaras and Calamba City, Laguna	14,101,769
Mining and other equipment	Makati City, Guimaras	7,759,271
Office furniture, equipment and others	Makati City, Guimaras and Calamba City, Laguna	26,855,814
Total		**777,085,132**
Less: Accumulated depletion, depreciation and amortization		113,650,442
Net		**663,434,690**

Source: Audited financial statements as of December 31, 2007

Machinery and equipment includes to a 3.4 MW power station constructed by the Company in the island of Guimaras. This includes cost of construction, plant and equipment and other direct costs. The installation of the power plant and construction of related facilities were completed in February 2005. The power plant was mortgaged in favor of a bank which provided a term loan. On September 27, 2007, the bank released the chattel mortgage.

Building and improvements are located in the Phinma Plaza, Rockwell Center, Makati City. It includes the Company's share in the construction cost of Phinma Plaza which was completed in October 2001. It is where the Company holds its office. Included also in building and improvements are leasehold improvements located in Guimaras and Calamba City, Laguna.

Wells, platforms and other facilities are located in Palawan. These assets were fully depreciated. Transportation equipment covers vehicles used by officers and personnel based in Makati, Guimaras and Calamba City, Laguna. Mining equipment, office furniture, and equipment are being used in Makati, Guimaras, Calamba City, Laguna and Pangasinan. The Company has complete ownership of the above properties which have no mortgages or liens.

One of its subsidiaries, Trans-Asia Renewable Energy Corporation, has a wind tower constructed in Sual, Pangasinan. Construction of the wind tower was completed on December 21, 2005. The wind measurement in Sual, Pangasinan has not reached the required level to operate the wind tower commercially. In august 2007, the wind tower was transferred in San Lorenzo, Guimaras. On the other hand, Trans-Asia (Karang Besar) Petroleum Corporation has no properties.

CIPP operates a 21 MW Bunker C-fired power plant in CIP II Special Economic Zone in Calamba City, Laguna.

For the next 12 months, the Company might acquire furniture & fixtures, office equipment and transportation equipment which will utilize company's funds or bank loans. Total cost of the expenditures is not yet available.

Item 3. Legal Proceedings

There are no pending legal proceedings involving claims for damages the aggregate amount of which exceeds 10% of the current assets of the registrant or any of its subsidiaries. Likewise, no legal proceedings of such nature were terminated during the fourth quarter of the calendar year covered by this report.

Item 4. Submission of Matters to a Vote of Security Holders

As of March 17, 2008, there were 1,657,585,092 shares of Trans-Asia common stock outstanding and entitled to vote at the Annual Stockholders' Meeting. Only holders of the Company's stock of record at the close of business on March 17, 2008 acting in person or by proxy on the day of the meeting are entitled to notice and to vote at the Annual Stockholders' Meeting held on April 16, 2008.

Cumulative voting is allowed for election of the members of the Board of Directors. Each stockholder may vote the number of shares of stock standing in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected and provided, however, that no delinquent stock shall be voted.

No meeting was held during the fourth quarter of the fiscal year that required the vote of security holders, through the solicitation of proxies or otherwise.

PART II – SECURITIES OF THE REGISTRANT

Item 5. Market for Issuer's Common Equity and Related Stockholders Matters

Market Price

Trans-Asia's common shares are listed with the Philippine Stock Exchange. Below are the high and low sales prices for January – March 2008 and for the calendar years 2007, 2006 and 2005:

Period	High	Low
Calendar Year 2008		
January	1.38	1.00
February	1.28	1.02
March	1.14	1.10
Calendar Year 2007 *(adjusted prices due to stock rights offering with ex-date of November 20, 2007)*		
First Quarter	1.44	0.98
Second Quarter	1.69	1.21
Third Quarter	1.47	0.94
Fourth Quarter	2.04	1.10
Calendar Year 2006		
First Quarter	1.00	0.89
Second Quarter	1.26	0.89
Third Quarter	1.20	0.91
Fourth Quarter	1.20	0.99
Calendar Year 2005 *(adjusted for 30% stock dividend with ex-date of September 30, 2005)*		
First Quarter	1.40	0.80
Second Quarter	1.04	0.80
Third Quarter	1.04	0.80
Fourth Quarter	1.04	0.92

Stockholders

The Company had 3,407 registered shareholders as of February 29, 2008. The following table sets forth the top 20 shareholders of the Company, their nationality, the number of shares held, and the percentage of ownership as of February 29, 2008.

No.	Name of Stockholders	Citizenship	No. of Shares Held	% of Ownership
1	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Filipino	Filipino	1,205,669,683	72.74%
2	Philippine Investment Management, Inc.	Filipino	201,850,615	12.18%
3	Bacnotan Consolidated Industries, Inc.	Filipino	75,154,065	4.53%
4	Emar Corporation	Filipino	24,855,958	1.50%
5	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Non-Filipino	Foreign	15,747,571	0.95%
6	Dr. Anita Ty	Filipino	4,042,593	0.24%
7	Eugene L. Lim	Filipino	3,590,000	0.22%
8	Albert Mendoza &/or Jeannie Mendoza	Filipino	2,987,967	0.18%
9	Albert Awad	American	2,912,188	0.18%
10	Phil. Remnants Co., Inc.	American	2,801,218	0.17%
11	Conrado S. Chua	Filipino	2,142,486	0.13%
12	R. Coyiuto Securities, Inc.	Filipino	2,058,494	0.12%
13	Epifania S. Godinez	Filipino	1,817,825	0.11%
14	John Peter Yu and/or Juan Yu	Filipino	1,580,000	0.10%
15	David Go Securities Corp.	Filipino	1,506,091	0.09%
16	Teresita A. Dela Cruz	Filipino	1,502,221	0.09%
17	Belek, Inc.	Filipino	1,484,002	0.08%
18	Joseph D. Ong	Filipino	1,397,663	0.08%
19	William How &/or Benito How	Chinese	1,333,914	0.08%
20	Active Research and Management Corp.	Filipino	1,333,914	0.08%

Total number of shareholders as of February 29, 2007 – 3,403

Dividends

The Company's Board of directors is authorized to declare cash or stock dividends or a combination thereof. A cash dividend declaration requires the approval of the Board and no shareholder approval is necessary. A stock dividend declaration requires the approval of the Board and shareholders representing at least two-thirds of the Company's outstanding capital stock. Holders of outstanding shares on a dividend record date for such shares are entitled to the full dividend declared without regard to any subsequent transfer of shares.

There are no limitations for the Company's declaration of dividends to its stockholders.

On March 14, 2005, the Company declared a 4% cash dividend and an additional 4% special cash dividend to all shareholders of record as of March 30, 2005, and paid on April 12, 2005. Furthermore, the Company declared a 30% stock dividend to all shareholders of record as of September 23, 2005 and paid on October 19, 2005.

On March 27, 2006, the Company declared a 4% cash dividend which was paid on May 23, 2006 to all shareholders of record as of April 26, 2006.

On April 2, 2007, the Company declared a 4% cash dividend which was paid on May 23, 2007 to all shareholders of record as of April 19, 2007.

No stock dividend was declared for the calendar years 2006 and 2007.

As of December 31, 2007, Trans-Asia's retained earnings amounted to P 1 billion, of which P 422.4 million were equity in net earnings of investee companies that are not available for dividend declaration.

Sale of Unregistered or Exempt Securities Within the Past Three (3) Years

Trans-Asia had no unregistered or exempt securities, hence no sale of said securities within the last three (3) years.

PART III – FINANCIAL INFORMATION

Item 6. Management's Discussion and Analysis of Operations

To balance its involvement in the high-risk business of petroleum exploration, Trans-Asia has invested in other industries in order to maintain its financial stability. At present, Trans-Asia has substantial investments in power generation (Trans-Asia Power Generation Corporation, Guimaras Power Plant and CIP II Power Corporation), mining (Trans-Asia Gold and Minerals Development Corporation), real estate (PHINMA Plaza and Bacnotan Industrial Park Corporation) and in holding company (Atlas Holdings Corporation). As a result, it has gained financial resources that strengthen it as a corporation and further support its commitment to energy development. Also, it continues to seek investments that will optimize the utilization of these financial resources while its petroleum ventures await maturation and further development.

In view of the high risk and capital intensive nature of oil exploration, particularly during the drilling and development stages, your Company continues to farm-out interest in its exploration acreage. However, to enable your Company to survive the periods of low exploration activity resulting from the cyclical nature of exploration interest in the Philippines, the Company has as much as possible pursued the minimum program required to maintain its rights over prospective acreage while pursuing cost cutting measures. At the same time, through its membership in the Petroleum Association of the Philippines, it has worked with the Department of Energy (DOE) to encourage petroleum exploration through policies and incentive programs such as the "Window of Opportunity in the Philippine Petroleum Exploration."

Trans-Asia continues to eye opportunities that arise from the privatization and liberalization of the power sector. The Company is looking at bidding for other state-owned power plants that are up for auction by the Power Sector Assets and Liabilities Management Corporation (PSALM), which is tasked to privatize the government's energy assets.

Calendar Year 2007

The price of crude oil continued its climb through year 2007 and broke through the psychological barrier of US$100 per barrel for the first time at the start of year 2008. Sustained high oil regime constitutes a serious threat to the growth of developing economies like the Philippines considering that available and affordable energy is essential to economic growth and progress. Likewise, prices of basic metals used in industry, manufacturing, commerce and construction such as iron, copper and nickel as well as precious metals, like gold and platinum, continued to soar thereby increasing the cost of equipment, supplies and maintenance. Nonetheless, these record levels of commodity prices also present special opportunities to energy and mineral resource companies such as Trans-Asia.

As this challenge of high energy prices is faced by nations with inadequate energy supply like the Philippines, Trans-Asia, a pioneer in petroleum exploration in the Philippines, has intensified its efforts to search for oil and gas in our country particularly in prospective areas in offshore Palawan and offshore Cebu. At the same time, the Company is expanding downstream energy operations initiated by the acquisition of the Carmelray Industrial Park Power Plant in December 2006, by actively participating in electricity trading and by evaluating new and renewable energy ventures such as geothermal and wind energy.

Minerals, like energy, are essential not just for socioeconomic development but also for making life better for everyone. Thus to provide focus in the mineral exploration and development efforts, Trans-Asia organized Trans-Asia Gold and Mineral Resources Development Corporation (TA Gold) on July 2, 2007. This revitalization of the Company's mineral ventures will be building on mineral properties in Rizal and Camarines Norte as other opportunities in the mineral industry are assessed and evaluated.

The support of the stockholders of the Company for the expansion of its thrusts in energy and mineral resources development, as expressed in the complete subscription of the offering of additional shares which ended last December 11, 2007, is indeed very timely. Despite the brewing uncertainties that are developing in the first quarter of 2008, the Company maintain a fundamentally positive outlook underscored by the basic needs addressed by its programs as management prudently balances the high risk investments in petroleum and mineral exploration with diversification and by forging strategic alliances.

Petroleum Exploration and Production

<u>SC 6 (Northwest Palawan)</u>

Cadlao

A foreign company acquired the participating interest of one of two equity holders.

Negotiations between said company and the other partners regarding reactivation of the field continued.

The Cadlao field was flowing close to 1000 barrels of light crude oil (46^{o}API) per day in 1991 when production was suspended to allow the transfer of its dedicated floating production facility to another field.

Block A

The Block A consortium signed a Farm-In Agreement with Vitol GPC Investments S. A. of Switzerland on March 7, 2007.

Under said agreement, Vitol will undertake at its sole cost, technical evaluation of the contract area over a period of one year, after which it will decide whether to earn 70% participating interest in the block or not. If Vitol decides to earn such interest, Vitol will carry the original consortium members in the cost of one or two wells, and in the first phase of the first development in the block.

Technical evaluation of the area is in progress.

Block B

Trans-Asia and most of the consortium members executed an option agreement with Blade Petroleum (Australia) and Venturoil BVI (British Virgin Islands) granting the latter two companies the right to conduct at their sole cost 3 - to 6 - month exclusive due diligence on the area and the option to acquire 70% interest in the block.

SC 14 (Northwest Palawan)

Trans-Asia and most members of the SC 14B -1 North Matinloc and SC 14 Tara consortia signed separate option agreements with Blade Petroleum and Venturoil BVI granting the latter two companies the right to undertake at their sole cost 3 - to 6 - month exclusive technical evaluation of said contract blocks and the option to acquire 70% interest in each of the blocks.

SC 51 (East Visayas)

Due to the tight rig market, the consortium proposed to the Department of Energy the consolidation of the 2nd and 3rd sub-phases of the Exploration Period that would enable the drilling of the well committed under the 2nd sub-phase, during the 3rd sub-phase, and the conduct of a 3D seismic survey during the current 2nd sub-phase.

The DOE subsequently approved the proposed amendments to the work program and adjusted the duration of the concerned sub-phases. The consortium submitted the final report of the engineering study on the sub-commercial Villaba gas discovery to the DOE in August 2007.

Partners completed a 146 sq. km. 3D seismic survey in the Cebu Strait on July 6, 2007. However, the conduct of a programmed 261 – km. 2D seismic survey in the same area, which would have fulfilled the outstanding 250 – km. 2D seismic obligation under the 1st sub-phase of the Exploration Period, was deferred following instructions from the DOE, in the light of opposition from interest groups based in Bohol.

Processing of the newly-acquired 3D seismic data was completed in December 2007 and interpretation commenced immediately thereafter.

SC 55 (Offshore West Palawan)

The consortium elected to extend the term of the 1st sub-phase of the Exploration Period by one year to February 4, 2008 due to non-availability of an ultra deepwater drilling rig.

Processing of 456 km. of 2D seismic data acquired in October 2006, 358 km. of 2002 2D lines and 745 km. of 1980s 2D profiles, were completed in August 2007.

Partners acquired 954 km. of 2D seismic data in June 2007 to provide additional coverage over selected leads in the block. Processing of said data was about 85% complete as of yearend.

Interpretation of the 2006 - series and vintage seismic data was completed in December 2007.

Area 8 PECR 2006 (Camotes Sea)

Trans-Asia and NorAsian Energy Philippines, Inc. signed a Participation Agreement governing their joint application for a service contract over an 800,000-hectare block in the Camotes Sea, that was on offer under the 2006 Philippine Energy Contracting Round (PECR).

Trans-Asia and NorAsian submitted their joint bid on May 29, 2007.

In a letter dated August 22, 2007, the DOE informed the consortium of the selection of its proposal for priority consideration.

Preliminary contract negotiations were completed.

Pursuant to the Participation Agreement, Trans-Asia will hold 30% participating interest in the service contract once it is awarded.

Uganda Block EA5

Trans-Asia evaluated an exploration opportunity in Uganda.

Minerals

MPSA 252 - 2007 - V (Camarines Norte)

The Department of Environment and Natural Resources awarded Trans-Asia on July 28, 2007 a Mineral Production Sharing Agreement (MPSA) covering a 333-hectare area in the municipality of Jose Panganiban.

Mines and Geosciences Bureau Regional Office No. 5 in Daraga, Albay, however, registered the MPSA only in December 2007 following conclusion of their investigation of a mining right claim by a third party over a portion of the MPSA block.

The contract area includes the former mine site of Philippine Iron Mines, Inc., which produced iron and copper until the mid-1970s. The block is also prospective for gold, uranium, molybdenum and other metals.

The work program for the first two years of the MPSA consists of geological field work, geophysical surveys and exploratory drilling.

Discussions with an international mining company interested in participating in the exploration of the area, continued.

Batong Buhay EPA (Kalinga)

Trans-Asia signed on July 27, 2007 a Memorandum of Agreement with Balatoc Kalinga Tribe, Inc. (BKTI) and Balatoc Tribe Exploration and Mining Corporation (BTEMC) granting Trans-Asia the exclusive right to conduct exploration work on the Batong Buhay property, subject to the award of an Exploration Permit to BTEMC by the DENR, and the exclusive option to develop and operate said property under a successor mineral agreement with the government.

The Batong Buhay copper-gold mine closed in early 1986 due to peace and order problems, after producing about 1 million tons of ore. Almost all of the drilled resource remains in the ground.

In a Resolution dated February 13, 2007, the National Commission on Indigenous Peoples (NCIP) formally acknowledged and granted to the Balatoc Sub -Tribe of Kalinga, the priority right to harvest, develop, extract or exploit any natural resources within their ancestral domain in Barangay Balatoc, Municipality of Pasil.

BTEMC, mining arm of BKTI, the indigenous peoples organization recognized by NCIP, submitted an Exploration Permit Application (EPA) to the Mines and Geosciences Bureau - Cordillera Administrative Region (MGB - CAR) over a 498 - hectare block which includes the former Batong Buhay mine site.

The EPA is pending with MGB - CAR.

EPA II – 000084 (Isabela)

Trans-Asia filed in April 2007 an Exploration Permit Application covering a 4,172 - hectare area in the municipality of Dinapigue. A regional study done by Japan International Cooperation Agency in 1987 identified the area as prospective for copper and gold.

MGB Regional Office No. 2 notified Trans-Asia in September 2007 that the approved Notice of Application is ready for release for publication, posting and radio announcement.

Trans-Asia requested said office the assignment of its EPA to its newly-organized, wholly-owned subsidiary, Trans-Asia Gold and Minerals Development Corporation.
The proposed transfer of the EPA is under processing.

EPA - IVB - 161 and EPA - IVB - 165 (Palawan)

Trans-Asia filed two Exploration Permit Applications covering parcels of land in Puerto Princesa City.

Results of preliminary geological investigations showed that the areas of interest had limited potential for nickel and/or chromite deposits.

Consequently, Trans-Asia informed the Mines and Geosciences Bureau that it no longer wishes to pursue said EPAs.

Other Areas

Trans-Asia evaluated other mineral exploration opportunities in Palawan, Agusan del Norte, Benguet, Camarines Sur and Kalinga.

Power Development

Trans-Asia Power Generation Corporation (TA Power), 50% owned by Trans-Asia, completed its ninth year of commercial operation. The 52 MW Bunker fired plant of TA Power in Norzagaray, Bulacan supplied 186 GWh of electricity to adjoining Holcim cement plant. The TA Power Plant was able to sell to the Wholesale Electricity Supply Market excess power totaling 49 GWh which were principally generated during peak hours when hourly rates are significantly higher than other times of the day. This enabled TA Power to register a 46% increase in power sales over the 2006 level and a slightly higher average electricity rate despite declining grid rates. Hence, the higher fuel prices in 2007 notwithstanding, the Power Company's net income of P141.7 million is 25% higher than the previous year.

In Guimaras, its 3.4 MW bunker C-fired power plant in the municipality of Jordan continued to operate as a peaking plant. As a result, the Guimaras plant achieved a net income of P11 million in 2007.

In a related development of alternative energy in Guimaras island, the Company's wholly owned subsidiary, Trans-Asia Renewable Energy Corporation (TA Renewable), transferred to a site in San Lorenzo, the wind measuring devices and facilities it used for the evaluation of a site in Pangasinan. Results of initial wind measurements in the Guimaras site during the "high wind" months are very encouraging.

On December 13, 2006, the Company acquired all the issued and outstanding shares of CIP II Power Corporation from Ascendas Utilities Pte. Ltd. of Singapore. CIP II Power Corporation operates a 21 MW power plant that supplies electricity to more than 50 companies and factories located inside the Calmeray Industrial Park II in Calamba City, Laguna. The power plant and its distribution system underwent major repairs and rehabilitation in 2007. It delivered 89GWh of electricity to its customers during the year that generated gross revenues of P578-M. The spiraling prices of its fuel, however, took its toll on the company's operation compounded by the softening of power rates. It led to a net loss of P17-M before reversal of impairment.

Electricity Trading and Marketing

On November 22, 2006, the Energy Regulatory Commission (ERC) granted Trans-Asia a Certificate of Registration as a Wholesale Aggregator (WA), making it the first such licensee in the country. The license authorizes Trans-Asia to consolidate electric power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). Trans-Asia was also granted the Retail Electricity Supplier's (RES) License on December 6, 2006. As RES, the Company is allowed to supply electricity to the contestable market, pursuant to EPIRA.

The Company also obtained membership in the Wholesale Electricity Spot Market (WESM) as a Supplier on September 20, 2007. Through electricity trading, the Company was able to realize savings in the operation of Trans-Asia Power (TA Power). Trans-Asia Power also obtained membership in the WESM as a trading participant. Following installation of market trading facilities in Trans-Asia's Makati office, TA Power participated in electricity trading managed by Philippine Electricity Market Corporation. This includes selling of excess generation to WESM.

This diversification of the Companies activities in the downstream energy sector provides a mechanism for mitigating the impact of surging fuel prices.

Financial Performance

Consolidated revenues rose to P 1.46 billion in 2007 compared with P 675 million in the previous year due to the following:

- Generation revenues increased to P 624.6 million from P 58.7 million brought about mainly by the revenues from CIP II Power Corporation (CIPP) which was acquired on December 28, 2006.
- Company's share in generation revenues of a joint venture rose to P 749 million from P 530 million on account of higher energy sales and power rate.
- Dividend income of P 8.8 million from Atlas Holdings Corporation (AHC) was reported in 2007 against P 770 thousand in the previous year.
- Other income improved to P 36.9 million from P 29 million as a result of higher service income from the contract entered into by the Company in connection with a possible participation strategy in the Wholesale Electricity Spot Market (WESM).

In spite of the rise in total consolidated revenues, the Company reported lower results for the following:

- Company's share in other income of a joint venture decreased to P 5.6 million from P 15.7 million due to its lower level of placements brought about by declaration of cash dividends.
- Interest and other financial income declined to P 32.8 million from P 39.3 million on account of lower market value of financial assets.
- Rental income decreased from P 2.1 million to P 2.5 million as a result of the termination of lease contract with a tenant.

Consolidated costs and expenses grew to P 1.35 billion in 2007 from P 591 million the year before on account of the following:

- Cost of power generation increased to P 556 million from P 53.5 million brought about by the cost of generation from CIPP which was acquired on December 28, 2006.
- General and administrative expenses rose to P 178.9 million from P 67.4 million due to the expenses incurred by CIPP, professional fees and higher depreciation and amortization reported by the Company.

- Company's share in cost of power generation of a joint venture grew to P 594.8 million from P 423.4 million due to higher energy sales and depreciation.
- Company's share in general and administrative expenses of a joint venture increased to P 49.8 million from P 37.6 million on account of higher management and professional fees in 2007.
- Foreign exchange loss increased to P 75.9 million from P 32.8 million due to peso appreciation.
- Interest and other financial charges rose to P 14.4 million from P 5.5 million on account of higher interest expense in 2007 brought about by the P 165 million loan borrowed on December 28, 2006 to finance the acquisition of CIPP.

In spite of the rise in total consolidated cost and expenses, the Company reported favorable results for the following:

- Gain from derivatives of P 92.8 million was reported in 2007 compared with P 24 million last year brought about by the Non-Deliverable Forward Contracts entered into by the Company.
- Equity in net earnings of associates increased to P 5 million from P 2.9 million brought about by higher net income posted by Bacnotan Industrial Park Corporation.
- Gain on sale of available-for-sale financial investments of P 1.1 million was reported in 2007 against P 63 thousand in 2006 brought about by higher market value.
- Gain on sale of property and equipment of P 82 thousand was reported in 2007.
- Provision for impairment loss on available-for-sale investments declined to P 20 thousand from P 255 thousand due to improvement in market value of said investments.
- A reversal of impairment loss of P 3.4 million was reported in 2007.

Excess of net fair value of an acquired company's identifiable assets and liabilities over cost of P 271 million was recognized in 2006 from the acquisition of CIPP.

Provision for income tax increased to P 3.6 million in 2007 from P 1.1 million in 2006 due to higher taxable income in 2007. Benefit from deferred income tax of P 12.4 million was reported in 2007 against provision for deferred income tax of P 2.5 million last year as a result of the tax effect of the amortization of intangible assets. Company's share in income tax of a joint venture increased to P 35.9 million from P 24.9 million brought about by higher taxable income.

As a consequence of the foregoing factors, net income decreased to P 78.3 million in 2007 compared with P 327.2 million the year before, the latter, however, was inclusive of the excess of net fair value of an acquired company's identifiable assets and liabilities over cost of P 271 million recognized from the acquisition of CIPP.

Total consolidated assets grew to P 3.3 billion as of December 31, 2007 from P 2.7 billion in 2006. Total consolidated liabilities fell to P 469.6 million from P 578.9 million while equity increased to P 2.8 billion from P 2.1 billion.

Following are the material changes in the balance sheet accounts:

- Cash and cash equivalents grew to P 1.2 billion from P 254.9 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of P 8.6 million was reported in 2007.
- Investments held for trading decreased to P 134 million from P 397 million. The Consolidated Statements of Cash Flows show the details of materials changes in investments held for trading.
- Receivables increased to P 118.2 million from P 73.2 million brought about by higher service income and higher generation revenues in 2007.

- Fuel and spare parts rose to P 56 million from P 23.4 million mainly as a result of the inventories from the acquisition of CIPP.
- Other current assets dropped to P 44.8 million from P 110.3 million due to the liquidation of the P 80 million escrow fund used in the acquisition of CIPP.
- Company's share in current assets of a joint venture declined to P 144 million from P 287.9 million on account of cash dividends the joint venture paid in July and August.
- Property, plant and equipment increased to P 663.4 million from P 645.9 million due to the major repairs incurred in CIPP's power plant.
- Investments in associates decreased to P 160.4 million from P 205.6 million as a result of the reclassification of AHC shares to available-for-sale investments.
- Available-for-sale investments grew to P 224 million from P 123.2 million brought about by higher market value of said investments and reclassification of AHC shares.
- Investment property decreased to P 3.6 million from P 3.8 million on account of depreciation expenses in 2007.
- Intangible assets declined to P 185.4 million from P 193.3 million brought about by amortization expense reported in 2007.
- Other noncurrent assets decreased to P 333 thousand from P 370 thousand as a result of reclassification of long-term receivable.
- Company's share in noncurrent assets of a joint venture declined to P 376.9 million from P 428.2 million due to depreciation expenses.
- Accounts payable and other current liabilities increased to P 191 million from P 102.9 million brought about by higher accrued expenses.
- The current and noncurrent portion of interest-bearing loans and borrowings were fully paid in 2007.
- Due to stockholders grew to P 5.3 million from P 1.2 million due to the checks issued for payment of cash dividend but were returned for various reasons.
- Income tax payable of P 1.8 million was reported in 2007.
- The rise in Company's share in current liabilities of a joint venture to P 140.9 million from P 114.8 million was brought about by the increase in trade and nontrade payables of the joint venture.
- Locators' deposits decreased to P 17.5 million from P 22.9 million due to the adoption of PAS 39 "Financial Instruments: Recognition and Measurement.".
- Deferred tax liabilities increased to P 85.6 million from P 80.7 million as a result of the rise in appraised value of property and equipment.
- Pension and other post-employment benefits increased to P 6.4 million from P 5.7 million due to additional accrual of post-employment benefits in 2007.
- Other current liabilities increased to P 7.1 million from P 3.5 million brought about by the cash received from Ascendas Utilities Pte Ltd to cover any possible tax deficiencies of CIPP for the previous years before the acquisition of CIPP by the Company.
- Company's share in noncurrent liabilities of a joint venture declined to P 13.8 million from P16.9 million on account of lower deferred tax liability.
- Capital stock and additional paid-in capital increased to P 1.6 billion and P 54.7 million, respectively, due to the proceeds received from the stock rights offering last December 2007.
- Unrealized fair value gains on available-for-sale investments rose to P 77.9 million from P 27.7 million due to higher market value of the said investments.
- The growth in Company's share in unrealized fair value gains on financial assets of a joint venture to P 16.2 million from P 5 million was brought about by higher market value of the said financial assets.
- Retained earnings increased slightly to P 1.06 billion from P 1.03 billion due to the net income earned in 2007.

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

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

   Current ratio improved to 5.06:1 as of December 31, 2007 from 2.71:1 as of December 31, 2006 mainly on account of rise in cash and cash equivalents from the proceeds from stock rights offering, cash dividends received from TA Power and full payment of all interest-bearing loans and borrowings.

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

   The ratio of current assets to total assets increased to 51.5% as of December 31, 2007 from 41.7% as of December 31, 2006 due to rise in cash and cash equivalents.

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

   Debt/equity ratio further improved to 0.16:1 as of December 31, 2007 from 0.27:1 as of December 31, 2006 brought about by the full payment of all interest-bearing loans and borrowings.

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

   The rate of return on equity decreased to 3.1% for the calendar ended December 31, 2007 compared with 16.22% last year due to lower net income recorded in 2007.

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

   Earnings per share declined to P 0.07 from P 0.30 on account of lower net income reported in the calendar year 2007 and higher average number of common outstanding shares brought about by the stock rights offering in 2007.

During the Calendar Year 2007:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- The Company had two reportable segments namely: oil exploration and power generation. The fund placements are incidental to the Company's power generation activities arising from management of the Company's funds. The exploration costs are shown as "deferred exploration costs" in the consolidated balance sheets.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- The Company had not been involved in any business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material contingencies and any other events or transactions that occurred that were material to an understanding of the current interim period.
- There were no operations subject to seasonality and cyclicality.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affected adversely the liquidity of the Company.

- There were no trends, events or uncertainties occurred that had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There were no events that trigger direct or contingent financial obligation that was material to the Company.
- There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period.

Dividends

On April 2, 2007, the Company declared a 4% cash dividend in favor of all shareholders of record as of April 19, 2007, which was paid on May 16, 2007.

Outlook

High energy and metal prices have persisted without any indications of downward adjustments. While there is concern over the peaking of oil supply on a global scale, the petroleum potential of the Philippines is just starting to be probed and developed. As this year starts, we are encouraged by the successful testing of the Galoc field in offshore Palawan. The Company looks towards the successful completion of the processing and interpretation of exploration data from its acreage which could provide the basis for drilling exploratory wells.

There are likewise opportunities in exploring and developing the mineral resources of the Philippines. Building on its existing leases and MPSA, the Company anticipates a heightened level of mineral exploration spearheaded by its subsidiary, Trans-Asia Gold.

In the business of power generation, higher fuel prices pose a serious challenge which may be offset with suitable electricity trading opportunities in the spot electricity market. However, as the power industry restructuring and reform reach completion with the privatization of the government's power assets, there could be opportunities of expanding its power ventures. These would be carefully evaluated in the light of increased competition that accompanies liberalization of the power industry.

The Company has the intention of hiring additional employees for the ensuing months.

For the next 12 months, the Company might acquire furniture & fixtures, office equipment and transportation equipment which will utilize company's funds or bank loans. Total cost of the expenditures is not yet available.

Calendar Year 2006

On November 15 last year, PHINMA celebrated its 50th Anniversary. It was a special occasion *"to honor the past and to empower the future"*. As a member of the PHINMA Group of Companies, it was a fitting reminder also of our roots, and to rededicate ourselves: *to making life better* for ourselves, for our country and for others.

In 2006, a succession of super typhoons and their destructive impact on life, property, and livelihood have greatly underlined the importance of energy access, availability and affordability. The Company continued to pursue its mission to look for oil in its oil exploration activities. It continued to generate and supply electricity to its dedicated customers and partners in Bulacan and Guimaras. It continued with its due diligence studies to grow the Company by participating in the planned privatization of NPC's generation assets and to construct the partnerships necessary to participate credibly in the forthcoming bidding. It took steps to be ready and accredited to participate in the operation of the Wholesale Electricity Spot Market (WESM).

If energy is the lifeblood of economic and commercial activity, minerals and the metals derived from them are likewise essential to our general welfare and progress. Minerals and metals derived from the earth provide us roofs and shelter, transport electricity to our homes and factories and constitute a significant part of our appliances, vehicles and equipment, just to cite a few examples of how important minerals can be to our daily needs.

In line with the large increases in the price of oil and gas, the price of minerals have also greatly increased spurred by the sustained growth of China and India. Prices of these basic commodities breached record levels with crude oil reaching over $75/barrel and uranium reaching $75/lb from less than $10/lb in 2000. Copper, which was about $0.70/lb, reached $4/lb last May before settling at about $2.50/lb by year-end. Similarly, molybdenum which was less than $5/lb in mid-2002 is now more than $25/lb. These price movements upgrade the prospectivity of the Company's petroleum and mineral properties where these commodities could be found. Hence, the Company has revisited the mining sector where it also used to be.

Concerns over energy security as well as the environment have favored renewable energy resources which are not depleted through time and are climate-friendly. Thus, the Company had submitted a bid for a geothermal energy project and has started a Jatropha seedling plantation. Biodiesel is produced from oil extracted from the nuts of Jatropha.

Efforts to improve the competitiveness of the Philippines through reform and liberalization of the electric power industry are underway. The Company continues to derive revenues from power generation as it also prepares to seize new opportunities in the restructuring of the power industry.

Petroleum Operations

The record-breaking high petroleum prices supported the concept of reactivating dormant production operations in areas in Northwest Palawan, namely, Cadlao, Tara and North Matinloc where Trans-Asia has some minor or carried interest. Farm-out discussions were held with companies interested in reactivating production in these fields, which have been shut-in since the early 1990's.

Farm-in offers for Service Contract 6 Block A (where the Octon, Esperanza and Saddle Rock discoveries were drilled) and Block B were also considered and discussed by partners.

Under Service Contract 51, farminee NorAsian Energy Limited signified its election to drill the first exploratory well in Cebu Strait before 07 January 2008. Upon request of the Service Contract 51 consortium partners, the Department of Energy approved the deferment of completion of the committed 250-km seismic survey to the sub-phase of the Exploration Period ending 07 January 2008.

The Company and its partners in Service Contract 55 (in deepwater offshore Southwest Palawan) acquired last October 456-km of seismic data over the primary prospect in the block. The prospect is interpreted to be a large limestone structure in 2000 meters of water. Processing of these seismic data, along with over 1300 km of data acquired from earlier seismic surveys, is on-going.

Petroleum Exploration and Production

<u>SC 6 (Northwest Palawan)</u>

Cadlao

Farm-out negotiations with a group interested in reviving Cadlao production continued.

The Cadlao field was flowing close to 1000 barrels of light crude oil (46^{o}API) per day in 1991 when production was suspended to allow transfer of its dedicated floating production facility to another field.

Block A

The Company proposing joint development of the Octon oil deposit with a nearby undeveloped field concluded that such concept is not economically feasible. The company submitted a revised offer focusing on the exploration area outside Octon, where the SC 6 consortium has identified a number of prospects and leads.

Partners reviewed the new farm-in proposal.

Block B

A company conducted due diligence on the block for possible farm-in.

SC 14 (Northwest Palawan)

Farm-out discussions were held with a company that expressed interest in reactivating production of the North Matinloc and Tara fields.

Both fields were suspended in the early 1990s due to economic reasons.

SC 51 (East Visayas)

The consortium was unable to acquire 250-km of new seismic data committed under the first sub-phase of the Exploration Period due to the non-availability of a seismic vessel.

Pursuant to the Farm-In Agreement dated August 5, 2005, farminee NorAsian Energy Limited signified its election to drill the first exploratory well under SC 51. Subsequently, the consortium opted to enter the second sub-phase of the Exploration Period, which entails an obligation to drill one well. Upon request of partners, the DOE approved the deferment of completion of the committed 250-km seismic survey to the second sub-phase of the Exploration Period ending January 7, 2008.

SC 55 (Offshore West Palawan)

In October 2006, the consortium acquired 456-km of dense-grid 2D seismic data over the primary prospect in the block, a huge interpreted limestone buildup in 2000 meters of water.

Processing of said data, together with 358-km of 2002-vintage lines and 745-km of 1980s German research seismic profiles, is underway.

Technical discussions were pursued with a gravity/magnetic processing contractor for the merging and interpretation of German research marine gravity and magnetic records with previous data.

Non-Oil Business

Minerals

The Company's application for a Mineral Production Sharing Agreement (MPSA) over a 585 – hectare block in Jose Panganiban, Camarines Norte was endorsed by the Mines and Geosciences Bureau (MGB) Regional Office in Daraga, Albay to the MGB Central Office in Quezon City. The area is prospective for iron, copper, gold, molybdenum and uranium. The area applied for was reduced to 333 hectares upon exclusion of areas where mining is prohibited (e.g. beaches and swamps).

A number of foreign and local mining companies expressed interest in joining the Company in the exploration and development of this mineral property in Camarines Norte.

Besides this property in Camarines Norte, the Company evaluated prospective areas in Benguet and in Mindanao.

Camarines Norte

The Mines and Geosciences Bureau Regional Office in Daraga, Albay endorsed Trans-Asia's application for a Mineral Production Sharing Agreement over a 585 – hectare block in Jose Panganiban, Camarines Norte to the MGB Central Office in Quezon City.

The area of interest includes the former mine site of Philippine Iron Mines which is prospective for iron, copper, gold, molybdenum and uranium deposits.

Processing of the MPSA continued. The coverage of the MPSA was reduced to 333 hectares to exclude areas prohibited from mining, such as swamps and beaches.

Discussions were held with a number of foreign and local groups interested in joint exploration of metallic resources within Trans-Asia's claim area.

Other Areas

Trans-Asia evaluated mineral exploration opportunities in Benguet, Surigao del Norte, Surigao del Sur, Agusan del Norte and Agusan del Sur.

Power Generation

On-Going Operations

In spite of crude prices breaching the $70/barrel level compounded by lower energy sales, Trans-Asia Power Generation Corporation (TA Power), 50% owned by the Company, continued to maintain its profitability as improved average power rates to the Bulacan plant of Holcim Philippines, Inc. partly offset the effects of crude price volatility. Combined with cost management practices and programs for improved efficiencies, TA Power realized a Net Income of P115.7 million for 2006.

The Guimaras power plant, after shifting to peaking mode as approved by the Energy Regulatory Commission (ERC) also contributed over P11 million in earnings before interest, tax, depreciation and amortization (EBITDA) to the Company. This positive development arose in spite of an overall decrease in the blended power cost passed on by the local rural electric cooperative to its constituents in the island-province. As envisioned, the power plant proved to be a reliable source of electricity to the island when on its own, it served the entire island's power supply for 15 days in August 2006. The submarine cable connecting the island to the grid was again accidentally severed and it took all of 15 days to get it back to service.

Portfolio Expansion

On December 28, 2006 the Company acquired CIP II Power Corporation (CIPP) located in Calamba City, Laguna expanding its power portfolio by 21 MW. CIPP is a PEZA-registered utility provider that generates and distributes power to the locators in the CIP II Industrial Park. These locators, numbering about 50 and comprising mostly of manufacturers of semiconductor parts, requires uninterruptible and high quality power. The said acquisition thus ushered the Company into the distribution business, even if only in a limited scale and brought the Company's total generation portfolio to 76.4 MW.

Electricity Trading

In preparation for the wholesale electricity trading contemplated by the establishment of the Wholesale Electricity Spot Market (WESM), the Company applied for registration as a Wholesale Aggregator and a Retail Electricity Supplier with the ERC.

The Company became the first Wholesale Aggregator (WA) in the Philippines when the ERC granted Trans-Asia on November 22, 2006 a Certificate of Registration as a Wholesale Aggregator. The Certificate of Registration, valid for five (5) years and renewable at the end of the term, authorizes Trans-Asia to consolidate electric power demand of distribution utilities on a group basis pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA).

The ERC granted the Company a Retail Electricity Supplier's (RES) License on December 6, 2006. This license, valid for three years and renewable at the end of the term allows Trans-Asia to supply electricity to large consumers (with at least 1 MW demand, initially) forming the contestable market under the EPIRA.

The Company's subsidiary, TA Power, obtained membership in the WESM as a trading participant. Following installation of market trading facilities in Trans-Asia's Makati office, TA Power participated in electricity trading trial runs managed by Philippine Electricity Marketing Corporation.

Renewable Energy

Geothermal Energy

The Company was the sole bidder for the purchase of geothermal steam from PNOC Energy Development Corporation's field in Palinpinon, Negros Oriental. Consequently, the auction was declared a failed bid.

Wind

The Company's wholly owned subsidiary, Trans-Asia Renewable Energy Corporation, completed one year of wind measurements under a Pre-Commercial Contract covering a 729- hectare block in Sual, Pangasinan. An evaluation of the moderate wind speeds recorded at an average of 5 to 6 meters per second, showed that the financial viability of a wind farm development on the site is unlikely. Hence, Trans-Asia Renewable is pulling out the wind measuring devices and relocating them to another site.

Alternative Fuels

The Company's wholly owned subsidiary, Trans-Asia Renewable Energy Corporation, completed one year of wind measurements under a Pre-Commercial Contract covering a 729- hectare block in Sual, Pangasinan. An evaluation of the moderate wind speeds recorded at an average of 5 to 6 meters per second, showed that the financial viability of a wind farm development on the site is unlikely. Hence, Trans-Asia Renewable pulled out the wind measuring devices and relocated them to another site.

Financial Performance

Consolidated revenues declined to P 683.9 million in 2006 from P 731.6 million in 2005 due to the following:

- Company's share in generation revenues of a joint venture decreased to P 529.7 million from P 576.4 million on account of lower energy sales.
- Company's share in other income of a joint venture fell to P 15.7 million from P 23.2 million, the latter was composed primarily of cash dividend from Bacnotan Consolidated Industries, Inc. (BCII).
- Dividend income of P 0.8 million was reported in 2006 against P 43.7 million from BCII for the same period last year.

In spite of the drop in total consolidated revenues in 2006, the Company reported favorable results for the following:

- Generation revenues from Guimaras power plant, which started commercial operations on June 26, 2005, rose to P 58.7 million from P 39.2 million.
- Interest and other financial income increased to P 41.9 million from P 32.5 million brought about by the sale of bonds, improved market value of financial assets and higher placement rates.
- Equity in net earnings of associates rose to P 2.9 million from P 1 million on account of higher net income reported by Atlas Holdings Corp. (AHC).
- Rental income slightly increased to P 2.5 million from P 2.4 million as a result of additional lease contract entered into by a lessee with the Company.
- Other income grew to P 31.6 million from P 13.1 million from the contract entered into by the Company for the preparation of a technical study on energy.

Consolidated costs and expenses decreased to P 599.1 million in 2006 from P 622.4 million in due to the following:

- Drop in Company's share in cost of sales of joint venture to P 423.4 million from P 473.8 million due to lower energy sales.
- General and administrative expenses decreased to P 67.4 million from P 77.1 million, the latter was brought about by the set-up costs of the Guimaras power plant and expenses in the application for increase in capital stock and project development.
- Due to the gain from Non-Deliverable Forward Contract entered into by the Company, foreign exchange loss dropped to P 8.8 million from P 36.9 million.
- Interest and other financial charges decreased to P 8.2 million from P 11.5 million on account of lower interest expense in 2006 brought about by the partial payment of loan last December 2005.
- Provision for impairment loss of available-for-sale financial assets dropped to P 0.3 million from P 5.8 million due to improved market values of these assets.
- Gain on sale of available-for-sale financial assets of P 63.1 thousand was reported in 2006 against P 44 thousand loss incurred in 2005.

In spite of the fall in total consolidated costs and expenses in 2006, the following items increased:

- Cost of power generation from the operation of Guimaras power plant, which started commercial operations on June 26, 2005, rose to P 53.5 million from P 38.2 million.
- Company's share in general administrative expenses of a joint venture slightly increased to P 37.6 million from P 35.2 million due to additional taxes and licenses.
- A reversal of provision for probable and impairment losses of P 56 million was reported in 2005.
- A gain on sale of property and equipment of P 113.6 thousand was reported in 2005.

- Provision for income tax increased to P 1.1 million from P 0.3 million brought about by higher income subject to minimum corporate income tax in 2006.
- Provision for deferred income tax of P 2.5 million was reported in 2006 on account of higher market value of financial assets. Benefit from deferred income tax of P 6.2 million was reported in 2005.
- Company's share in income tax of a joint venture rose to P 24.9 million from P 14.5 million brought about by higher taxable income.

Excess of the net fair value of an acquired company's identifiable assets and liabilities over cost of P 271 million was recognized in 2006 from the acquisition of CIP II Power Corporation (CIPP).

As a result of the foregoing factors, net income rose to P 327.2 million in 2006 compared with P 100.5 million in 2005.

Total consolidated assets grew to P 2.7 billion as of December 31, 2006 from P 2 billion in 2005. Total consolidated liabilities rose to P 578.8 million from P 167.7 million while stockholders' equity increased to P 2.2 billion from P 1.86 billion.

Following are the material changes in the balance sheet accounts:

- Cash and cash equivalents declined to P 254.9 million from P 344.7 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of P 40.6 million in 2005 were converted to bonds, FXTN and UITF and resulted in the increase in financial assets through profit and loss to P 397 million from P 302.6 million.
- Receivables, fuel and spare parts, other current assets and plant, property and equipment grew to P 73.2 million, P 23.4 million, P 110.3 million and P 645.9 million, respectively, mainly as a result of the acquisition of CIPP.
- Company's share in current assets of a joint venture increased to P 287.9 million from P 224.2 million due to increase in trade receivables of the joint venture.
- Increase in investment in associates of P 205.6 million from P 203.8 million was brought about by the improvement in net income of AHC.
- Available-for-sale investments rose to P 123.2 million from P 97.2 million as a result of higher market value of said investments and additional shares purchased.
- Investment property decreased to P 3.8 million from P 4.1 million on account of depreciation expenses in 2006.
- Intangible assets increased to P 193.3 million from P 131.7 million as result of the acquisition of CIPP.
- Other noncurrent assets grew to P 369.5 thousand from P 242.5 thousand due to reclassification of outstanding deposits.
- Company's share in noncurrent assets of a joint venture declined to P 428.2 million from P 456.3 million due to depreciation expenses.
- Accounts payable and other current liabilities increased to P 135 million from P 31.6 million mainly as a result of the acquisition of CIPP.
- Interest-bearing loans and borrowing rose to P 204.2 million from P 4.7 million to finance the acquisition of CIPP.
- The increase in Company's share in current liabilities of a joint venture to P 115 million from P 79.3 million was brought about by the higher trade and nontrade payables.
- Noncurrent interest-bearing loans and borrowings declined to P 25.9 million from P 32.5 million due to payment of amortization of loan.
- Deferred tax liability of P 80.7 million mainly from excess of the net fair value of an acquired company's identifiable assets and liabilities over cost as a result of the acquisition of CIPP reported in 2006.
- Company's share in noncurrent liabilities of a joint venture declined to P 16.9 million from P 18.4 million due to lower deferred tax liability.

- Regarding stockholders' equity section, unrealized fair value gains on available-for-sale financial assets increased to P 27.7 million from P 12.2 million due to higher market value of the said financial assets.
- The increase in Company's share in unrealized fair value gains on available-for-sale financial assets of a joint venture from P 4.5 million to P 5.5 million was brought about by higher market value of the said financial assets.
- Retained earnings rose to P 1 billion from P 742.3 million due to the increase in net income from the excess of the net fair value of an acquired company's identifiable assets and liabilities over cost recognized from the acquisition of CIPP.
- Parent company shares of stock held by a joint venture improved to P 3.7 million from P 3.1 million due to higher market value of the Company's shares of stock as of December 31, 2006.

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

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

   Current ratio dropped to 2.5:1 as of December 31, 2006 from 8.05:1 as of December 31, 2005 mainly on account of rise in current portion of long-term debt, accounts payable and other current liabilities and short-term debt.

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

   The ratio of current assets to total assets decreased to 41.8% as of December 31, 2006 from 46.2% as of December 31, 2005 brought about by the acquisition of CIPP.

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

   Debt/equity ratio rose to 0.27:1 as of December 31, 2006 from 0.09:1 as of December 31, 2005 due to short-term debt that financed the acquisition of CIPP and higher company share in current liabilities of a joint venture in 2006.

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

   The rate of return on equity improved to 16.22% in 2006 as compared with 4.2% last year due to higher net income in 2006.

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

   Earnings per share increased to P 0.30 from P 0.10 due to higher net income reported in 2006.

Dividends

In line with Management's intent to endeavor to pay regular dividends whenever possible, the Company declared on 27 March 2006 a 4% cash dividend which was paid on 23 May 2006.

Calendar Year 2005

There were numerous challenges that all of us faced in 2005 - natural disasters, here and abroad; unabated increases of energy prices which broke through ever-higher levels, continuing turmoil and conflict in many parts of the world and political unrest in our own country. As we prepare this report, there is every indication that the difficulties encountered last year are still with us today. Numerous lives were lost in February 2006 by the stampede in Pasig City that occurred early that month. Later in the month, a landslide in Southern Leyte buried entire families along with their children who were at school. For all of us, and especially for the bereaved families affected, these are tragic reminders of how ultimately petty are the quarrels that keep us apart as a nation.

Record-breaking oil prices past $55/bbl had been attained. There was hope that events might normalize and bring them back below $50/bbl to the vicinity of $45/bbl in 2006. The growth in global demand for energy and minerals, spurred by the sustained economic growth of China and India, the continuing strong demand in the developed countries, and the narrow margin of reserve oil production capacity have resulted in further unprecedented increases in crude oil prices which are pushing towards $70/bbl this year.

These price increases have been echoed in metals such as gold, copper and iron. The Philippines is highly rated in the global ranking of its mineral resource potential particularly in gold, copper, and nickel. It occupies (2003 data) a very low production ranking against its potential and even just against the position it had already attained nearly twenty years ago. Its underlying resource fundamentals, however, are sound. Recent decisions of the Supreme Court have upheld the constitutionality of certain provisions of the 1995 Mining Act. More recently it has affirmed the constitutionality of the Financial and Technical Assistance Agreements (FTAA), which allows up to 100% foreign participation in mining.

These are underlining the improving policy environment for mineral exploration in the Philippines. They are reinforcing the revival of investor interest not only in the Philippine mining industry but also in the petroleum sector as well. The development is important because both industry sectors are highly dependent on foreign investments and advanced technology.

Despite high energy prices and political uncertainties, the Philippine economy performed positively in 2005. It was greatly supported by strong inward currency remittances from our overseas workers, which progressively strengthened the Philippine peso.

Against the foregoing global and national backdrop of challenges, the Company has also managed to achieve positive results. They are not in the level attained in 2004, when your Company benefited greatly from the realization of a non-recurring profit from our investment in Atlas Holdings. During the year just passed, we have forged alliances in oil exploration to preserve our rights over several promising consortia areas. We have sought this to enable us to participate on a carried basis in the implementation of work programs committed to the Department of Energy (DOE), and to earn substantial farm-in payments in the process. We continue to pursue opportunities to optimize utilization of our oil and mineral assets, to assess alternative energy options and to evaluate investment prospects offered by the implementation of reforms in the power industry sector in the Philippines.

Petroleum Operations

High petroleum prices and indirect reaffirmation of the “service contract” concept long-applied in oil exploration supported efforts to bring about a resumption of production in dormant fields in northwest Palawan. These include the Cadlao, Tara and North Matinloc fields where your Company has an interest. Terms for the possible reactivation of production of Tara and North Matinloc were negotiated with Basic Petroleum and its partner, Forum Energy of the U.K. Extensive discussions among the interested parties were conducted on the feasibility of resuming production of Cadlao. Discussions on the joint development of the Octon and Galoc fields also commenced during 2005 and have progressed this year to the point where coordination with the Department of Energy is necessary. Much of the foregoing discussions, unfortunately, have not yet resulted in decisive implementation although there are some exceptions. Meanwhile, the international oil industry has been reporting record profits. Their exploration budgets have been greatly increased. There is feverish oil exploration activity going on internationally. Drilling rigs and seismic vessels are in short supply despite premium rates on offer. The DOE is thus encouraging efforts to consolidate in-country requirements for drilling and seismic services to enable our oil exploration sector to offer multiple contracts.

Trans-Asia's participation in the forgoing areas is deliberately small to spread the exploration risk. As a result, the Company do not drive the direction of the concerned consortia although it must be said that it has a commonality of interest.

In at least two areas, Trans-Asia has significant interests. Trans-Asia's acreage in the Visayan basin and deepwater offshore West Palawan offers good prospects for petroleum. The DOE awarded a Petroleum Service Contract (SC 51) on July 8, 2005 to Trans-Asia (34.34%) and two other Filipino partners covering a 440,000 hectare onshore and offshore block in the East Visayas region. Trans-Asia and its partners subsequently signed a Farm-In Agreement with AustralAsian Energy Ltd. and Ottoman Energy Ltd. on August 5, 2005. Farminees undertook to carry Trans-Asia and its partners in the cost of the work program and first option well in return for an 80% participating interest in the contract. The DOE approved the farm-in on September 29, 2005. This diluted Trans-Asia's interest from 34.34% to 6.67% but spared us our share of the exploration cost and of drilling one of two possible deep-water prospects not far from shore. It also breathed new life into our past costs over the area.

Trans-Asia, AustralAsian Energy Ltd., and Ottoman Energy Ltd. entered into a Participation Agreement on March 15, 2005 providing for joint application to the DOE for a Petroleum Service Contract over a 900,000 hectare ultra deepwater (water depths of 5,000 ft or more) area offshore West Palawan. Under this agreement, AustralAsian Energy and Ottoman Energy would carry Trans-Asia in the cost of the obligatory work program and in the cost of the first option well. Trans-Asia has 15% participating interest in SC 55 and is designated Technical Operator for the committed work program. The DOE awarded the Service Contract on August 5, 2005.

Non-Oil Business

Minerals. The perceptible improvement in the mineral policy environment in the Philippines brought about by the reversal of the Supreme Court decision on the constitutionality of certain provisions in the Philippine Mining Act, along with high metal prices for iron and copper, have likewise generated considerable interest in your Company's mineral claims in Camarines Norte. As Trans-Asia pursues a Mineral Production Sharing Agreement over these claims, several foreign companies from different parts of the globe have approached Trans-Asia to discuss participation in the exploration and development of this mineral property. Two of these have submitted a framework under which due diligence could be pursued.

In view of the improved circumstances prevailing in the Philippine mineral sector and the favorable mineral potential of the country, the Company is planning to increase its activities in this sector.

Power Generation. Trans-Asia Power Generation Corporation (TA Power), 50% owned by your Company, continued to supply all the power requirements of the Bulacan cement plant as well as part of the requirements of the Bacnotan cement plant, owned by Holcim Phils. TA Power continued to improve its profitability as increased tariff rates offset the impact of higher fuel prices in 2005 and the almost 10% drop of electricity sales (213 million kWh) in 2005. The continued increases in fuel oil prices pose a challenge for the Company in 2006. Trans-Asia Power, however, fully paid its foreign loans in October 2005. This is now a debt-free project.

President Gloria Macapagal Arroyo led the inauguration of the *Guimaras Power Plant* in April 2005. This 3.4 MW diesel power plant now provides reliable and good quality electricity to Guimaras Island. By year-end, the plant delivered 5.9 million kWh to the Guimaras Electric Cooperative (Guimelco).

In addition to these ongoing power projects, the Company has been preparing for opportunities offered by the privatization of power plants under the Electric Power Industry Reform Act (EPIRA), particularly the geothermal and coal-fired power plants. There has been considerable delay, however, in the setting of bid dates for a number of the generating plants and the implementation of the EPIRA.

Renewable Energy. A survey and identification of a potential wind energy site in Sual, Pangasinan was completed in May 2005. The Company entered into a pre-Commercial Contract with the Department of Energy effective October 2005. A 40 meter high wind measurement tower was erected in December 2005. This tower along with others Trans-Asia may add, will monitor and measure wind characteristics for the next 12 to 18 months.

Since renewable energy projects could qualify for incentives under the Clean Development Mechanism (CDM) of the Kyoto Protocol, The Company has also been closely following developments pertaining to this process in the Philippines.

Financial Performance

Despite the many challenges confronted in 2005, the Company reported a net income of P100.5 million. Consolidated revenues declined to P 731.6 million in 2005 from P 880.5 million in 2004 due to the following:

- Equity in net earnings of associates fell to P 1 million against P 310.5 million, the latter was brought about by the non-recurring gain generated by Atlas Holdings from the sale of its Union Cement Holdings shares.
- Rental income declined to P 2.4 million from P 2.9 million as a result of the termination of lease contract with a tenant of the Company's property in Legaspi Village, Makati City.
- Other income decreased to P 1.9 million from P 2.5 million due to lower building expenses charged to tenants as a result of the termination of lease contract mentioned above.

In spite of the drop in total consolidated revenues, the Company reported favorable results for the following:

- Company's share in generation revenues of joint venture increased to P 576.4 million from P 484.2 million on account of higher power sales.
- Company's share in other income of joint venture grew to P 23.2 million from P 20.6 million due to the sale of Euro bonds and foreign exchange gains.
- Trans-Asia reported generation revenues of P 39.2 million from its Guimaras power plant which started commercial operations in June 2005.
- Interest and other financial income rose to P 26.1 million from P 13.7 million due to higher fund placements.
- Income from projects increased to P 11.2 million from P 2.3 million on account of the farm-in income from Participation Agreement with AustralAsian Energy Limited and Ottoman Energy Limited.
- Trans-Asia reported unrealized gain on change in fair value of financial assets of P 6.4 million.

Consolidated costs and expenses increased to P 622.4 million in 2005 from P 585.4 million in 2004 due to the following:

- Company's share in cost of sales of joint venture rose to P 473.8 million from P 395.4 million due to higher energy sales and fuel cost.
- Company's share in general and administrative expenses rose to P 35.2 million from P 31.1 million from higher management and professional fees.
- Trans-Asia incurred P 38.2 million for cost of power generation from its Guimaras power plant.
- Foreign exchange loss of P 36.9 million was incurred in 2005 brought about by the peso appreciation. Foreign exchange gain of P 2.8 million was registered in 2004.
- Trans-Asia incurred P 11.5 million interest and other financial expenses from the long-term debt which partly financed the construction and installation of a 3.4 MW Bunker C-fired diesel power plant in Guimaras Island.
- A provision for impairment loss of available-for-sale investments of P 5.8 million was recorded in 2005.
- Loss on sale of marketable equity securities of P 44 thousand was incurred in 2005 as compared to P 9 thousand in 2004.

In spite of the rise in total consolidated costs and expenses, the following items decreased:

- General and administrative expenses dropped to P 77.1 million from P 82.2 million brought about by lower management and professional fees.
- A reversal of provision for probable and impairment losses of P 56 million was reported in 2005 against P 100 million set-up in 2004.
- Decline in value of marketable equity securities of P 395 thousand was reported in 2004. No provision was set-up in 2005.
- Provision for income tax decreased to P 277 thousand from P 626 thousand brought about by lower income subject to minimum corporate income tax.
- Benefit from deferred income tax rose to P 6.2 million from P 977 thousand on account of the peso appreciation.
- Decrease in Company's share in income tax of joint venture to P 14.4 million from P 20 million brought about by the drop in its taxable income.
- Gain on sale of property and equipment dropped to P 0.1 million from P 20.9 million, the latter was attributed to the sale of the Company's property in Legaspi Village, Makati City.

Total consolidated assets decreased to P 2 billion as of December 31, 2005 from P 2.2 billion as of December 31, 2004 due to the drop in the company's share in the assets of its joint venture, Trans-Asia Power, which had pre-paid its entire foreign currency obligations. Cash and cash equivalents and short-term investments fell to P 344.8 million and P 40.6 million, respectively. This was brought about by adoption of Philippine Accounting Standards (PAS) 39, "Financial Instruments: Recognition and Measurement." Under this standard, financial assets are classified into four (4) categories depending on the features of the financial asset. Trans-Asia classified the P 302.6 million from cash and cash equivalents and short-term investments to financial assets at fair value through profit or loss. Receivables declined to P11.9 million from P 33.9 million as a consequence of the collection of the receivable from the sale of fixed assets. Inventories of fuel and spare parts of P 3.4 million were reported as of December 31, 2005. Other current assets rose to P 12.9 million from P 9.4 million on account of additional input taxes.

Property and equipment increased to P 199.7 million from P 176.4 million due to completion of the construction of the 3.4 MW power plant in Guimaras Island. Investment in associates decreased to P 203.8 million from P 234.5 million from the cash dividends received from Atlas Holdings Corporation and cash received from the reduction of Asia Coal's authorized capital stock. Investments at cost of P 89.4 million was recorded in 2004 but was classified as available-for-sale investments in 2005 with the adoption of PAS 39. Deferred exploration and development costs rose to P 131.8 million from P 71.1 million due to the P 56 million reversal of provision for probable losses in 2005. Other noncurrent assets of P 242 thousand represented loan receivable from Guimelco.

Total consolidated liabilities fell to P 167.7 million from P 357.6 million as the Company's share in liabilities of joint venture dropped from the prepayment of its entire foreign currency obligations. Accounts payable and other current liabilities decreased to P 31.6 million from P 34.5 million due to settlement of some accounts. Long-term debt totaling P 37.2 million in 2005 represented a term loan used to partly finance the construction and installation of Guimaras power plant. There was no deferred tax liability in 2005 due to the peso appreciation but a P 6.2 million was recorded in 2004.

Equity increased to P 1.86 billion as of December 31, 2005 as compared to P 1.81 billion as of December 31, 2004. Capital stock grew to P 1.1 billion from P 840.6 million due to the stock dividends paid in the year 2005. An unrealized gain on change in fair value of available-for-sale investments of P 12.2 million was recognized in 2005 brought about by the adoption of PAS 39. Unrealized gain on change in fair value of financial assets of joint venture of P 1 million was reported in 2005. Retained earnings fell to P 742.3 million from P 967.4 million on account of the cash and stock dividends paid during the year. Parent company's shares of stock held by joint venture increased to P 3.1 million from P 2.1 million due to higher market value of Trans-Asia's shares of stock.

Dividends

It will be recalled that Trans-Asia received significant, non-recurring income from Atlas Holdings Corporation dividends in 2004. Trans-Asia in turn shared these dividends in 2005 by paying out a 4% cash dividend, supplemented by an additional 4% special cash dividend and a further 30% stock dividend. On March 27, 2006, your Board of Directors declared a 4% cash dividend payable on May 23, 2006 to all stockholders of record as of April 26, 2006.

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

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

   Current ratio improved to 8.05:1 as of December 31, 2005 from 5.15:1 as of December 31, 2004 on account of rise in liquid assets (cash and cash equivalents, short-term investments and financial assets at fair value through profit or loss) and drop in Company's share in current liabilities of joint venture.

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

   The ratio of current assets to total assets increased to 46.24% as of December 31, 2005 from 45.3% as of December 31, 2004 mainly due to hike in liquid assets.

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

   Debt/equity ratio decreased to 0.09:1 as of December 31, 2005 from 0.19:1 as of December 31, 2004 on account of the fall in liabilities from Company's share in total liabilities of joint venture, Trans-Asia Power, which fully paid its entire foreign currency obligations.

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

The rate of return on equity declined to 5.46% for the year ended December 31, 2005 as compared to 15% the year before due to drop in net income to P 100.5 million in 2005 as compared to P 275.5 million in 2004.

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

Earnings per share declined to P 0.10 from P 0.26 due to lower net income for the year ended December 31, 2005 and higher number of shares issued and outstanding.

During the period under review, there were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affected adversely the liquidity of the company. Likewise, no trends, events or uncertainties occurred that had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations. There were no significant elements of income or loss that did not arise from continuing operations that had a material effect on the financial condition or results of operations. There were no seasonal aspects that had material effects on the financial condition or results of operations of the Company.

There were no events that trigger direct or contingent financial obligation that was material to the Company. Likewise, there were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period.

To balance its involvement in the high-risk business of petroleum exploration, Trans-Asia has invested in other industries in order to maintain its financial stability. At present, Trans-Asia has substantial investments in power generation (Trans-Asia Power Generation Corporation), real estate (PHINMA Plaza and Bacnotan Industrial Park Corporation) and in holding company (Atlas Holdings Corporation, formerly Atlas Cement Corporation). As a result, it has gained financial resources that strengthen it as a corporation and further support its commitment to energy development. Also, it continues to seek investments that will optimize the utilization of these financial resources while its petroleum ventures await maturation and further development.

In view of the high risk and capital intensive nature of oil exploration, particularly during the drilling and development stages, your Company continues to farm-out interest in its exploration acreage. However, to enable your Company to survive the periods of low exploration activity resulting from the cyclical nature of exploration interest in the Philippines, your Company has as much as possible pursued the minimum program required to maintain its rights over prospective acreage while pursuing cost cutting measures. At the same time, through its membership in the Petroleum Association of the Philippines, it has worked with the Department of Energy to encourage petroleum exploration through policies and incentive programs such as the "Window of Opportunity in the Philippine Petroleum Exploration."

Trans-Asia continues to eye opportunities that arise from the privatization and liberalization of the power sector.

Item 7. Information on Independent Accountant and other Related Matters

External Audit Fees and Services

The Company's external auditors, SyCip Gorres Velayo & Co. (SGV) billed the amount of P 1,100,000 in 2006 and P 986,000 in 2005 for professional services rendered for the audit of the Company's annual financial statements and services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagement for 2006 and 2005. The estimated audit fee for 2007 is P 900,000.

Apart from the foregoing, no professional services for tax accounting compliance, advice, planning and any other form of tax services were rendered or fees billed by SGV for 2006 and 2005 for Trans-Asia Oil and Energy Development Corporation. Trans-Asia Power Generation Corporation paid the amount of P 292,500 and P 130,000 in 2006 and 2005, respectively for tax compliance review for the year ended December 31, 2005.

In 2007, SGV billed and was paid the amount of P 666,535 for the due diligence procedures performed on selected accounts of CIP II Power Corporation in 2006. There were no other fees rendered or fees billed for products and services provided by SGV other than the services reported above for 2005.

The Audit Committee discusses with the external auditor before the audit commences the nature and scope of the audit. It pre-approves audit fees, plans, scope and frequency one (1) month before the conduct of external audit. It evaluates and determines non-audit work by external auditor and keep under review the non-audit fees paid to external auditor both in relation to their significance to the audit and in relation to the Company's total expenditure on consultancy.

The Audit Committee, the Board of Directors and the Stockholders of the Company approve the engagement of SGV.

The members of the Audit Committee are the following:

1.	Mr. Alfredo M. Velayo	Chairman
2.	Dr. Francisco L. Viray	Member
3.	Mr. Reynaldo V. Paulino	Member
4.	Mr. Ricardo V. Camua	Member

Item 8. Financial Statements

The consolidated financial statements of Trans-Asia and subsidiaries included in the 2007 Annual Report to Stockholders are incorporated herein for reference.

The schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The accounting firm of SyCip Gorres Velayo & Co. (SGV) has been the Company's Independent Public Accountant since 1969. The same auditing firm has been endorsed by the Audit Committee to the Board. The Board, in turn, approved the endorsement and will nominate the appointment of the said auditing firm for stockholders' approval at the scheduled Annual Meeting of Stockholders. Said auditing firm has accepted the Company's invitation to stand for re-election this year.

Audit services of SGV for the calendar year ended December 31, 2007 included the examination of the parent and consolidated financial statements of the Company, assist in the preparation of annual income tax return and other services related to filing of reports made with the Securities and Exchange Commission.

The representatives of the principal accountants (SGV & Co.) are expected to be present at the Annual Stockholders' Meeting and will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

There was no event in the past five (5) years where SGV and the company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosures or auditing scope or procedures.

The Company is in compliance with SRC Rule 68, paragraph 3(b)(iv) requiring the rotation of external auditors or engagement partners who have been engaged by the company for a period of five (5) consecutive years or more as of December 31, 2002. The engagement partner to conduct the audit for Calendar Year 2008 is Ms. Bennette A. Daplas-Bachoco, an SEC accredited auditing partner of SGV. This will be the fifth year of Ms. Bachoco. The engagement of the partner is subject to the approval by the shareholders of the appointment of SGV as the external auditor for Calendar year 2008.

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

Item 10. Directors and Executive Officers of the Issuer

A. Directors and Executive Officers

Directors

The Company's Board of Directors is responsible for the overall management and direction of the Company. The Board meets regularly on a monthly basis, or as often as required, to review and monitor the Company's financial position and operations.

The directors of the Company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

The officers are likewise elected annually by the Board of Directors and serve for one (1) year and until their respective successors have been elected and qualified.

None of the members of the Board of Directors directly owns more than 2% of Trans-Asia Oil and Energy Development Corporation shares.

Listed are the incumbent directors of the Company with their qualifications which include their ages, citizenship, current and past positions held and business experience for the past five years.

Directors	Age	Citizenship	Position
Ramon V. del Rosario, Sr.	90	Filipino	Director and Chairman of the Board
Oscar J. Hilado	70	Filipino	Director and Vice Chairman
Francisco L. Viray	59	Filipino	Director, President and CEO
Roberto M. Laviña	57	Filipino	Director, EVP, CFO and Treasurer
Antonio V. del Rosario	75	Filipino	Director
Magdaleno B. Albarracin, Jr.	71	Filipino	Director
Ramon R. del Rosario, Jr.	63	Filipino	Director
Reynaldo V. Paulino	71	Filipino	Director
Alfredo M. Velayo	86	Filipino	Director
Raymundo O. Feliciano	82	Filipino	Director
Ricardo V. Camua	64	Filipino	Director

Ramon V. del Rosario, Sr. is currently Chairman of the Board of the Company. He is a Certified Public Accountant with a Bachelor of Science in Commerce degree from De La Salle College. He was one of the founders of PHINMA in 1956. Presently, he sits on the Board of various companies managed by the Philippine Investment-Management (PHINMA), Inc. under various capacities. Mr. del Rosario has served as the Philippine Ambassador Extraordinary and Plenipotentiary to Canada, Germany and Japan from 1978 to 1992. He is the father of Mr. Ramon R. del Rosario, Jr. He has been a Director of the Company since its incorporation in 1969. He has been the Chairman of the Board of Directors for 18 years and is presently the Chairman of the Nomination Committee of the Company.

Oscar J. Hilado is the Vice Chairman of the Board of the Company. He is a Certified Public Accountant with a Bachelor of Science in Commerce degree from De La Salle College in Bacolod and a Masters degree in Business Administration from Harvard University. He joined the PHINMA Group in 1964 and has since then been a member of the Board of Directors of various PHINMA-managed companies. Mr. Hilado is also a director of Trans-Asia Gold and Minerals Development Corporation, AB Capital and Investment Corporation, A. Soriano Corporation, First Philippine Holdings Corporation and Manila Cordage Corporation. He has been a Director of the Company since its incorporation in 1969. For 11 years, he has been the Vice-Chairman of the Board of Directors and for 14 years, he has been the Chairman of the Executive Committee of the Company.

Francisco L. Viray is the President and Chief Executive Officer of the Company. He obtained his Bachelor of Science and Masters in Electrical Engineering degrees from the University of the Philippines and his Doctorate in Engineering degree from West Virginia University. He joined the PHINMA Group in 1999, a year after he served as Secretary of the Department of Energy from 1994 to 1998. He is currently the President and Chief Executive Officer of Trans-Asia Power Generation Corporation, CIP II Power Corporation and Trans-Asia Gold and Minerals Development Corporation. Dr. Viray was a director of Holcim Philippines, Inc. (formerly Union Cement Corporation) for two years from April 19, 2001 up to April 16, 2003. He was a member of the Board of Petron Corporation from July 2001 up to November 2004. He was a member of the Board of Manila Electric Company from August 23, 2004 to June 2, 2006. From 2001 up to the present, he has been the Secretary General/President of Energy Council of the Philippines. He has been a Director of the Company since 1998.

Roberto M. Laviña has a Bachelor of Arts in Economics degree from Ateneo de Manila University and a Masters in Business Management degree from Asian Institute of Management. He finished his Program for Management Development at Harvard University in 1988. He has been the President and a Member of the Board of T-O Insurance Brokers, Inc. since 1998. He became PHINMA's Senior Executive Vice President/Chief Operating Officer (COO) in 2005 and is concurrently the Chief Financial Officer of the PHINMA Group. He is also the Executive Vice President/Chief Financial Officer of Phinma Property Holdings Corporation (1988 to present) and Trans-Asia Gold and Minerals Development Corporation. He is the Senior Vice President and Treasurer of Bacnotan Consolidated Industries, Inc. (1998 to present) and SVP/CFO of Trans-Asia Power Generation Corporation (1996 to present). He has been the Chief Financial Officer and Treasurer of the Company for 16 years. He became the Executive Vice President on April 2, 2004 and was elected as a Director of the Company on April 12, 2005.

Antonio V. del Rosario is the Chairman of Trans-Asia Power Generation Corporation. He was the President and Chief Executive Officer of Trans-Asia Power Generation Corporation from 1996 to 2002 and has been the Chairman of its Board of Directors from 2003 up to the present. He is the immediate past President and Chief Executive Officer of Trans-Asia Oil and Energy Development Corporation, which he served for 14 years until his retirement in April 2007. He is an officer and/or a member of the Board of Directors of a number of companies including Atlas Holdings Corporation, Asia Coal Corporation, Filmag Holdings, Inc. and Trans-Asia Gold and Minerals Development Corporation. He is the President of Energy Development Corporation of the Philippines. He is an Honorary Chairman of the Global World Energy Council, which he served as Chairman from 2002 to 2004. He began his career in energy in FILOIL. Then, commencing with the Oil Crisis years of the 1970s, continued on to the Philippine National Oil Company and the Ministry of Energy where he rose to the position of Executive Vice President and Deputy Minister, respectively. Mr. Del Rosario is a Life member of the Management Association of the Philippines, the Manila Polo Club and the Alabang Country Club, Inc.

Magdaleno B. Albarracin, Jr. obtained his Bachelor of Science in Electrical Engineering degree from the University of the Philippines and Master of Science in Electrical Engineering degree from the University of Michigan. He finished his Masters in Business Administration from the University of the Philippines and Doctorate in Business Administration from Harvard University. Dr. Albarracin joined the PHINMA Group in 1971 as a consultant. He is currently the Vice-Chairman of PHINMA and Chairman of its Executive Committee. He is also Vice Chairman of Araullo University and Cagayan De Oro College and President of Holcim Philippines and Bacnotan Industrial Park Corporation. He is also a member of the Board of Directors of Trans-Asia Gold and Minerals Development Corporation and AB Capital and Investment Corporation. He has been a Director of the Company since 1986.

Ramon R. del Rosario, Jr. obtained his Bachelor of Arts and Bachelor of Science in Commerce degrees from De La Salle University and Masters in Business Administration degree from Harvard University. He is the President and CEO of PHINMA, President of Bacnotan Consolidated Industries, Inc., Chairman and Chief Executive Officer of AB Capital and Investment Corporation, and Chairman of the Boards of Trustees of Araullo University and Cagayan de Oro College. He is the Chairman of the Board and Chairman of the Executive Committee of Trans-Asia Gold and Minerals and Development Corporation. He is a director of several PHINMA managed companies and currently serves as a member of the Boards of Directors and Chairman of the Audit Committees of Ayala Land, Inc. and Roxas Holdings, Inc. Mr. del Rosario served as Secretary of Finance of the Philippines in 1992-1993. He is the Chairman of the Makati Business Club, Philippine Business for Education (PBED) and De La Salle Philippines, Inc. He has been a Director of the Company since 2002.

Reynaldo V. Paulino is a Certified Public Accountant and holds a Bachelor of Science in Business Administration degree. He has been a director of Asia Coal Corporation since its incorporation in 1991. He was a member of the Board of Directors of Trans-Asia Power Generation Corporation from 1996 up to 2003. He started as Vice President of Philippine Investment-Management (PHINMA), Inc. in 1976 and retired as Senior Executive Vice President on December 31, 2000. He was the Senior Vice President of Union Cement Corporation in 1984 and retired from the said corporation as Senior Executive Vice President on December 31, 2000. He has been a Director of the Company since 1988.

Alfredo M. Velayo is a Certified Public Accountant and has a Bachelor of Science in Commerce degree from the University of Sto. Tomas. For the past 23 years, he has been the Treasurer and a member of the Board of Directors of Filmag Holdings, Inc. He has been the Chairman of Amvel Corporation since 1976 and KVY Realty Corporation since 1997. He is the President of William Shaw Foundation, Inc. He has been a Director of the Company since 1982 and the Chairman of the Audit Committee and Compensation Committee for the past 5 years.

Raymundo O. Feliciano is a Certified Public Accountant with a Bachelor of Science in Commerce degree from Far Eastern University. For more than five years, he has been the Chairman and President of ROF Management and Development Corporation and the Chairman of East Asia Gas & Oil Exploration Co., Inc. and B. U. Properties Corporation. In September 2002, he was elected as director of Filmag Holdings, Inc. and remains so to date. He has been a Director of the Company since its incorporation in 1969.

Ricardo V. Camua has a Bachelor of Science in Electrical Engineering degree from Mapua Institute of Technology. Since 2000, he has been the President, Chief Executive Officer and a member of the Board of Directors of Manila Cordage Company. For the past seven years, Mr. Camua has been a member of the Board of Manco Insurance Agents, Inc. and Manco Farms. In September 2002, he was elected director of Filmag Holdings, Inc. and remains so to date. He is a Director of Manco Synthetics, Inc. (MSI) and Tupperware Realty Corporation (TRC). He has been a Director of the Company since 1996.

Independent Directors

The following independent directors are not officers or substantial shareholders of Trans-Asia Oil and Development Corporation nor are they directors or officers of its related companies:

1. Mr. Alfredo M. Velayo
2. Mr. Raymundo O. Feliciano
3. Mr. Ricardo V. Camua
4. Mr. Reynaldo V. Paulino

Executive Officers

None of the Officers of the Company owns more than 2% of Trans-Asia Oil and Energy Development Corporation shares.

Listed are the incumbent officers of the Company with their qualifications which include their ages, citizenship, current and past positions held and business experience for the past five years.

Executive Officers	Age	Citizenship	Position
Francisco L. Viray	59	Filipino	President and CEO
Roberto M. Laviña	57	Filipino	EVP, CFO and Treasurer
Rosario B. Venturina	59	Filipino	Sr. Vice President – Business Development
Ponciano L. Dimayuga	52	Filipino	Sr. Vice President – Finance
Juan J. Diaz	77	Filipino	Corporate Secretary
Raymundo A. Reyes, Jr.	55	Filipino	Vice President – Exploration
Rizalino G. Santos	56	Filipino	Vie President – Electricity Trading and Marketing
Frederick C. Lopez	54	Filipino	Vice President – Materials Management
Carlos I. Arguelles	60	American	Vice President/Compliance Officer
Miguel Romualdo T. Sanidad	50	Filipino	Assistant Corporate Secretary
Danilo L. Panes	51	Filipino	Assistant Vice President
Benjamin S. Austria	62	Filipino	Senior Consultant

Francisco L. Viray was elected President and Chief Executive Officer of the Company in April 2, 2007. He obtained his Bachelor of Science and Masters in Electrical Engineering degrees from the University of the Philippines and his Doctorate in Engineering degree from West Virginia University. He joined the PHINMA Group in 1999, a year after he served as Secretary of the Department of Energy from 1994 to 1998. He is currently the President and Chief Executive Officer of Trans-Asia Power Generation Corporation, CIP II Power Corporation and Trans-Asia Gold and Minerals Development Corporation. Dr. Viray was a director of Holcim Philippines, Inc. (formerly Union Cement Corporation) for two years from April 19, 2001 up to April 16, 2003. He was a member of the Board of Petron Corporation from July 2001 up to November 2004. He was a member of the Board of Manila Electric Company from August 23, 2004 to June 2, 2006. From 2001 up to the present, he is the Secretary General/President of Energy Council of the Philippines. He is a Director of the Company since 1998. He was the Executive Vice President of the Company from April 2, 2004 up to April 2, 2007.

Roberto M. Laviña has a Bachelor of Arts in Economics degree from Ateneo de Manila University and a Masters in Business Management degree from Asian Institute of Management. He finished his Program for Management Development at Harvard University in 1988. He has been the President and a Member of the Board of T-O Insurance Brokers, Inc. since 1998. He became PHINMA's Senior Executive Vice President/Chief Operating Officer (COO) in 2005 and is concurrently the Chief Financial Officer of the PHINMA Group. He is also the Executive Vice President/Chief Financial Officer of Phinma Property Holdings Corporation (1988 to present) and Trans-Asia Gold and Minerals Development Corporation. He is the Senior Vice President and Treasurer of Bacnotan Consolidated Industries, Inc. (1998 to present) and SVP/CFO of Trans-Asia Power Generation Corporation (1996 to present). He has been the Chief Financial Officer and Treasurer of the Company for 16 years. He became the Executive Vice President on April 2, 2004 and was elected as a Director of the Company on April 12, 2005.

Rosario B. Venturina is a Certified Public Accountant with Bachelor of Arts and Bachelor of Science in Commerce degrees from the College of the Holy Spirit. She started as Vice President of Trans-Asia Power Generation Corporation in 1996 and was promoted to Senior Vice President in 1999. She joined Trans-Asia Oil and Energy Development Corporation in 1995. She has been the Senior Vice President for Business Development of the Company for the past 12 years.

Ponciano L. Dimayuga is a Certified Public Accountant with a Bachelor of Science in Commerce degree from the Polytechnic University of the Philippines. He obtained his Masters degree in Business Administration from De La Salle University. He started as Assistant Comptroller of the Company, Asia Coal Corporation and Filmag Holdings, Inc. in 1993. He was promoted and presently occupies the position of SVP-Finance for the Company; VP-Finance for Asia Coal and Trans-Asia Power Generation Corporation and Assistant Comptroller for Filmag Holdings, Inc. He is also the Senior Vice President for Finance and Chief Financial Officer of CIP II Power Corporation, Senior Vice President for Finance for Trans-Asia Gold and Minerals Development Corporation and Vice President for Finance for Trans-Asia Renewable Energy Corporation and Trans-Asia (Karang Besar) Petroleum Corporation. He was the Vice President for Finance of the Company for 9 years.

Juan J. Diaz is a member of the Philippine Bar and has a Master of Laws degree from Harvard Law School. He has been Corporate Secretary of the Company for 28 years.

Raymundo A. Reyes, Jr. has a Bachelor of Science in Chemistry and Master of Science in Geology degrees from the University of the Philippines. From 1976-1987, he was a Senior Geologist of PNOC. He started with the Company as Exploration Manager and was promoted to Assistant Vice President for Exploration from 1987 to 1994. He is the Vice President for Exploration of the Company since 1994.

Rizalino G. Santos finished his Bachelor and Master of Science degrees in Electrical Engineering at University of the Philippines. His relevant course/program participation includes training in energy and electricity planning by the Energy Center of Pennsylvania, Institute of

International Education (IIE), and International Atomic Energy Agency (IAEA). He also attended study tours on electric utility practices, deregulation and privatization in US, UK, Germany, Japan and New Zealand. Prior to becoming an Independent Power Systems Consultant, he was the Vice-President for Market Operations of TRANSCO from March 2003 to October 2004. He was a director and Vice President of the Philippine Electricity Market Corp. (PEMC) from December 2003 to March 2004. Before the creation of TRANSCO in 2002, he had been with the National Power Corporation (NPC) for nineteen years, working mainly at the Corporate Planning Group where he was responsible for the Power Development Program (PDP). He joined Trans-Asia Oil on August 1, 2006 as Vice President for Electricity Trading and Marketing.

Frederick C. Lopez has a Bachelor of Science in Industrial Engineering degree from the University of the Philippines. He obtained his Masters of Science in Management Engineering degree from the Rensselaer Polytechnic Institute at Troy, New York, in the United States. Mr. Lopez has rejoined PHINMA as Vice President for Materials Management of the Trans Asia Oil and Energy Group in August 2007. He first joined the PHINMA Group in 1980 as Manager of the Corporate Planning Department. From there, he had several assignments in the PHINMA Cement Group as Vice President for Materials Management of Union Cement Corporation and Vice President of the PHINMA Construction Materials Group of Companies consisting of Bacnotan Consolidated Industries Inc., Bacnotan Cement Corporation, Davao Union Cement Corporation, Hi Cement Corporation, Central Cement Corporation, Bacnotan Steel Industries Inc., and Bacnotan Steel Corporation. Mr. Lopez directed and managed the procurement of materials and services of the PHINMA Cement Group, GI Roofing Sheets and the Steel Rebars Manufacturing operations for 15 years. He is presently Vice President for Materials Management for Trans Asia Oil and Energy Development Corporation, Trans Asia Power Generation Corporation and CIP II Power Corporation. The Board of Directors of the Company approved the appointment of Mr. Lopez on August 21, 2007.

Carlos I. Arguelles has a Bachelor of Science degree in Commerce - Accounting and a Bachelor of Arts - Economics degree from De La Salle College. He obtained his Masters degree in Business Administration from University of San Francisco. From 2003 up to the present, he is the Vice President - Compliance Officer for Corporate Governance of the Company, Bacnotan Consolidated Industries, Inc., and other Phinma managed companies. He was the Vice President - Business Risk Management and Credit Department Head of Union Cement Corporation in 2000. He was Vice President - Comptroller of Hi Cement Corporation and Rizal Cement Company, Inc. in 1998 and 1990, respectively. His length of service in the Phinma Group of companies is 17 years.

Miguel Romualdo T. Sanidad has a Bachelor of Science in Business Economics and Bachelor of Laws degrees from the University of the Philippines. From 1997 up to the present, he is the Assistant Vice President – Legal Counsel of PHINMA. He is the Corporate Secretary of AB Capital group and other PHINMA-managed companies. He was the Assistant Corporate Secretary for 11 years and is presently the Corporate Secretary of Filmag Holdings, Inc.

Danilo L. Panes is a licensed Mining Engineer and obtained his Bachelor of Science in Mining Engineering degree from the Mapua Institute of Technology. He joined the Company in May 1996 as Project Development Manager. He became an Assistant Vice President in May 2006.

Benjamin S. Austria has a Bachelor of Science in Geology degree from the University of the Philippines. He obtained his Masters and Doctorate in Geology degrees from Harvard University. He is a member of the Board of Directors of Trans-Asia Gold and Minerals Development Corporation. He has been the Executive Secretary of Petroleum Association of the Philippines since 1999. From 2000 up to the present, he is the Executive Director of the Energy Council of the Philippines. Since 2006, Dr Austria has been Chairman of the Energy Committee of the Philippine Chamber of Commerce and Industry. He was a member of the Board of Directors of the Company for 10 years, Director Ex-Officio and Executive Vice President of the Company for 4 years. He is the Senior Adviser of the Company since April 2003.

Significant Employee

Other than the aforementioned Directors and Executive Officers identified in the item on Directors and Executive Officers, there are no other significant employees of the Company who may have significant influence in the Company's major and/or strategic planning and decision-making.

Family Relationships

Ambassador Ramon V. del Rosario, Sr. is the father of Mr. Ramon R. del Rosario, Jr.

Retirement of Officer

On April 2, 2007, Mr. Antonio V. del Rosario, then President and CEO, retired from the Company. He is still one of the Directors of the Company.

Involvement in Certain Legal Proceedings

To the knowledge and/or information of the Company, the above-named nominees for election as directors of the Company, its present members of the Board of directors or its Executive Officers are not, presently or during the last five (5) years, involved or have been involved in any material legal proceeding affecting/involving themselves and/or their properties before any court of law or administrative body in the Philippines or elsewhere. To the knowledge and/or information of the Company, the said persons have not been convicted by final judgement of any offense punishable by the laws of the Republic of the Philippines or of the laws of any other nation/country.

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of the property is the subject.

Item 11. <u>Executive Compensation</u>

For the calendar years ended December 31, 2007, 2006 & 2005, the total salaries, allowances and bonuses paid to the directors and executive officers as well as estimated compensation of directors and executive officers for calendar year 2008 are as follows:

Name/Position	Year	Salaries	Bonus	Others
CEO and Top 4 (Total Compensation) Francisco L. Viray, President and CEO Roberto M. Laviña, Executive Vice President & CFO Rosario B. Venturina, Senior Vice-President – Business Development Raymundo A. Reyes, Jr., Vice-President for Exploration Rizalino G. Santos, Vice-President – Electricity Trading and Marketing				
	2008	9,195,543 (a)		36,000 (a)
	2007	6,204,610	20,243,482 (b)	43,500
	2006	6,365,800	3,043,352 (c)	71,250
	2005	5,797,779	2,785,706 (d)	183,750

All other Officers and Directors As a Group (Total Compensation)
Unnamed

	2008	5,747,895 (a)		162,000 (a)
	2007	5,493,561	13,150,903 (b)	255,000
	2006	3,449,799	4,780,504 (c)	157,500
	2005	1,007,559	4,559,829 (d)	1,200,250

(a) Estimated compensation of directors and executive officers for the ensuing year
(b) Includes estimated bonus accrued in 2007 but payable in 2008.
(c) Includes bonus accrued in 2006 but paid in 2007.
(d) Includes bonus accrued in 2005 but paid in 2006.

Compensation of Directors

The Directors receive allowances, per diem and bonus based on net income of the Company for each fiscal year.

There are no other existing arrangements/agreements to which said directors are to be compensated during the last completed fiscal year and the ensuing year.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no existing contract between the Company and the executive officers or any significant employee.

Under Article VI Section I of the Company's By-Laws, the officers of the Corporation shall hold office for one year and until their successors are chosen and qualified in their stead. Any officer elected or appointed by the majority of the Board of Directors may be removed by the affirmative vote of the Board of Directors.

Officers who are not members of the Board of Directors of the Company receive salaries, bonuses and other benefits as part of their compensation plan.

Warrants and Options Outstanding

On April 2, 2007, the Board of Directors and stockholders approved a total of 100 million shares set aside from the unsubscribed portion of the corporation's 2 billion authorized shares for (a) stock grants for officers and managers of the corporation, and (b) stock options for directors, officers and employees of the corporation and its subsidiaries and affiliates for the purposes and under terms and conditions as determined by the Executive Committee of the Board of Directors. On January 8, 2008, the Securities and Exchange Commission approved the Company's Executive Stock Grants Plan and Stock Option Plan. Pursuant to the Company's undertaking dated October 11, 2007, independent directors are excluded from the proposed stock options.

The table below shows the allocation of shares for the stock options plan:

1. Options allocated to CEO & Executive Officers

Name	Position	Allocation of Stock Options
Ramon V. del Rosario, Sr.	Chairman	3,000,000
Oscar J. Hilado	Vice Chairman	2,000,000
Francisco L. Viray	President & CEO	3,000,000
Roberto M. Laviña	EVP/CFO & Treasurer	1,750,000
Rosario B. Venturina	SVP - Business Development	1,000,000
Ponciano L. Dimayuga	SVP – Finance	1,000,000
Juan J. Diaz	Corporate Secretary	500,000
Raymundo A. Reyes, Jr.	VP - Exploration	750,000
Rizalino G. Santos	VP - Electricity Trading and Marketing	750,000
Carlos I. Arguelles	VP - Compliance Officer	200,000
Danilo L. Panes	Assistant Vice President	500,000
Miguel Romualdo T. Sanidad	Asst. Corporate Secretary	75,000
Benjamin S. Austria	Senior Consultant	200,000
Total		14,725,000

2. Options allocated to all other directors and officers as a group

Unnamed		11,250,000

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

Approved Number Of Shares

Up to 100 million shares from the company's 2 billion authorized capital

A.) Executive Stock Grants Plan

Purpose	To motivate officers to achieve the company's goals, to help make their personal goals & corporate goals congruent & reward them for the resulting increase in value of Trans-Asia Oil shares
Coverage	For all officers of the PHINMA Energy Group, including unclassified Managers who are covered by the Variable Compensation Plan
Share Price	20% discount on weighted average closing price for 20 trading days before the date of grant but not lower than par value of P1.00 per share
Vesting Period	Upon achievement of company's goals & the determination of the payout under the Variable Compensation Plan

Payout Scheme	As 20% of the officer's annual Variable Compensation
Holding Period From Grant Date	For 1st stock grants, 1/3 of shares hold for 1 year; 1/3 of shares hold for 2 years & the balance hold for 3 years. For succeeding stock grants, all shares hold for 3 years. These shall be annotated on the stock certificates.
Administration Of The Plan	Stock Option Committee The Stock Option Committee shall have the power to amend or modify the terms and conditions of the Plan provided that no amendment shall, in any way, affect the rights already acquired and vested prior to the amendment thereof.

B.) Stock Options Plan

Coverage	Directors, permanent officers & employees of T/A Oil and its affiliates/subsidiaries
Option Price	At weighted average closing price for 20 trading days prior to date of grant but should not be lower than par value of P1.00 per share
Period Of Option	Valid for 3 years from date of grant: Up to 33% of the allocated shares can be exercised on the 1st year from date of grant; Up to 66% of the allocated shares can be exercised on the 2nd year from date of grant; and Up to 100% of the allocated shares can be exercised on the 3rd year from date of grant.
Payment Of Shares	Cash payment required upon exercise of option.
Right To Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.
Administration Of The Plan	Stock Option Committee The Stock Option Committee shall have the power to amend or modify the terms and conditions of the Plan provided that no amendment shall, in any way, affect the rights already acquired and vested prior to the amendment thereof.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The table below shows the persons or groups known to Trans-Asia Oil and Energy Development Corporation as of February 29, 2008 to directly or indirectly the record or beneficial owners of more than 5% of the company's voting securities:

Title of Class of Shares	Name & Address of Record Owner & relationship with Issuer	Name & Address of Beneficial Owner & relationship with Record Owner	Citizenship	No. of Shares Held	% Held
Common	AB Capital Securities, Inc.[1] 8th Floor Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City Stockholder	PHINMA for 224,989,068 shares and BCII for 374,177,556 shares are the beneficial owners. Mr. Oscar J. HIlado, Chairman of the Board of PHINMA and BCII, is the person appointed to exercise voting power.	Filipino	689,605,715	41.60%
Common	Philippine Depository and Trust Corporation[2] MSE Bldg., Ayala Avenue, Makati City Stockholder		Filipino 31.13% Foreign 0.95%	531,811,539	32.08%
Common	Philippine Investment Management (PHINMA), Inc.[3] 12th Floor Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City Stockholder	PHINMA, which is also the record owner. Mr. Oscar J. Hilado, Chairman of the Board, is the person appointed to exercise voting power.	Filipino	201,850,615	12.18%
Common	Bacnotan Consolidated Industries Inc. (BCII)[4] Level 12 Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City Stockholder	BCII, which is also the record owner. Mr. Oscar J. Hilado, Chairman of the Board, is the person appointed to exercise voting power.	Filipino	75,154,065	4.53%

[1] **AB Capital Securities, Inc. (ABCSI)** has been one of the Philippines leading stock brokerage firms. It is one of the pioneers in online stock trading. With over thirty years of industry presence, ABCSI has become a major player in the Philippine financial markets. ABCSI is one of the PCD participants.

[2] **Philippine Depository and Trust Corporation ("PDTC")** is a wholly-owned subsidiary of Philippine Central Depository, Inc. ("PCD") which acts as trustee-nominee for all shares lodged in the PCD system. It was formerly known as PCD Nominee Corporation. The beneficial owners of such shares are PCD's participants who hold the shares on their behalf or in behalf of their clients.

PCD is a private institution established in March 1995 to improve operations in securities transactions. PCD seeks to provide a fast, safe and highly efficient system for securities settlement. The PCD was organized to implement an automated book-entry system of handling securities transaction in the Philippines. None of the participants under the PDTC account owns more than 5% of the company's voting securities.

[3] **Philippine Investments Management (PHINMA), Inc.** is formerly known as Philippine Investments Management Consultants, Inc. PHINMA was established in 1956 by a group of Filipino industrialists. It has become the management and holding company of some corporations that have played a key role in the Philippines' basic industries. These include, amongst others, the manufacture of cement, steel, and other construction materials, paper and packaging, energy, trading, education, and property development. PHINMA's mission is to create and manage enterprises in development-oriented industries in order to foster economic development while guided by a commitment to care for the community and for the environment.

PHINMA's principal stockholders are EMAR Corporation, a Filipino company principally owned by Ambassador Ramon V. del Rosario and the members of his immediate family, Mariposa Properties, Inc. which is owned by Mr. Oscar J. Hilado and the members of his immediate family and Dr. Magdaleno B. Albarracin, Jr. In so far as EMAR Corporation and Mariposa Properties, Inc. are concerned, the Del Rosario and Hilado Families are expected to direct the voting of the shares held by the said corporations.

[4] **Bacnotan Consolidated Industries, Inc. (BCII)**, was incorporated on 12 March 1957. Its principal activity is investments in shares of various subsidiaries and affiliates engaged in the manufacture of galvanized and pre-painted coils and sheets, property development, power and energy development, education and industrial park. The ultimate parent company of BCII and its subsidiaries is Philippine Investments Management (PHINMA), Inc. BCII is listed in the Philippine Stock Exchange. The principal stockholders of BCII are PHINMA and Philippine Depository and Trust Corporation.

Security Ownership of Management

The table below shows the securities beneficially owned by all directors' nominees and executive officers of Trans-Asia Oil and Energy Development Corporation as of February 29, 2008:

Title of Class	Name of Beneficial Owner	Citizenship	Amount	Nature	% of Class
Common	Ramon V. del Rosario, Sr.	Filipino	2	Direct	0.00%
Common	Oscar J. Hilado	Filipino	600,000	Direct	0.04%
Common	Antonio V. del Rosario	Filipino	79,005	Direct	0.00%
Common	Magdaleno B. Albarracin, Jr.	Filipino	1,003,891	Direct	0.06%
Common	Reynaldo V. Paulino	Filipino	129,339	Direct	0.01%
Common	Raymundo O. Feliciano	Filipino	419,220	Direct	0.02%
Common	Ricardo V. Camua	Filipino	470,841	Direct	0.03%
Common	Ramon R. del Rosario, Jr.	Filipino	4,722,035	Direct	0.28%
			6,215,232	Indirect	0.37%
Common	Alfredo M. Velayo	Filipino	468	Direct	0.00%
Common	Francisco L. Viray	Filipino	165,631	Direct	0.01%
Common	Roberto M. Laviña	Filipino	646,806	Direct	0.04%
Common	Juan J. Diaz	Filipino	33,657	Direct	0.00%
Common	Frederick C. Lopez	Filipino	43,384	Direct	0.00%
Common	Benjamin S. Austria	Filipino	1,415,942	Direct	0.09%
Common	Ponciano L. Dimayuga	Filipino	50,000	Direct	0.00%
	Rosario B. Venturina	Filipino	0		0.00%
	Raymundo A. Reyes, Jr.	Filipino	0		0.00%
	Rizalino G. Santos	Filipino	0		0.00%
	Carlos I. Arguelles	American	0		0.00%
	Miguel Romualdo T. Sanidad	Filipino	0		0.00%
	Danilo L. Panes	Filipino	0		0.00%
	Directors & Officers as a Group		**15,995,453**		**0.96%**

Voting Trust Holders of 5% or more

None of the directors and officers owns 5% or more of the outstanding capital stock of the Company. The Company is not also aware of any person holding 5% or more of the Company's outstanding shares under a voting trust agreement or similar agreement.

Changes in Control

There are no arrangements that may result in a change in control of the registrant, nor has there been any change in control since the beginning of the last fiscal year and for the last three years.

Item 13. Certain Relationship and Related Transactions

During the last two (2) years, the Company was not a party in any transaction in which a Director or Executive Officer of the Company, any nominees for election as a director, any security holder owning more than 10% of the Company's issued and outstanding shares and/or any member of his immediate family had a material interest thereon.

The Company has a management contract with Philippine Investment-Management (PHINMA), Inc. up to August 31, 2008 renewable thereafter upon mutual agreement. Under this contract, PHINMA has a general management authority with the corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. PHINMA owns 426,839,683 shares, which represent 25.75% of total outstanding shares of stock of the Company.

PART V – CORPORATE GOVERNANCE

Item 14. Compliance Program

I. Compliance Policy

In accordance with the State's policy to actively promote corporate governance reforms aimed to raise investor confidence, develop capital market and help achieve high sustained growth for the corporate sector and the economy, the Board of Directors, Management and Employees of Trans-Asia commit to the principles and best practices contained in the Manual on Good Corporate Governance approved in August 2002 and amended on April 2, 2004 and January 15, 2008.

To ensure adherence of the Company to corporate principles and best practices contained in the Manual, a Compliance Evaluation System was developed by the Company's Compliance Officer and approved by the Board of Directors on June 18, 2003.

II. Compliance Evaluation System

A. Develop a Corporate Governance Evaluation Form indicating compliance risk, reference to Code of Corporate Governance and/or Manual, compliance risk owners, compliance frequency, compliance status, compliance plan and timetable.

B. Identify Compliance Risk Owners.

C. Conduct an annual compliance survey by accomplishing the Corporate Governance Evaluation Form.

D. Compliance Monitoring

1. Include compliance requirements on organizational and procedural control in internal audit plan and activities.
2. Obtain external and internal audit findings on the effectiveness of implementation and oversight of Company's accounting and financial processes.
3. Obtain Agenda and Minutes of meetings of the Board, Audit Committee, Nomination Committee and Executive Compensation Committee.
4. Attend Board meetings periodically.
5. Conduct compliance checks thru direct interface with compliance risk owners and/or internal audit and/or legal department.

E. Identify and monitor compliance violations.

1. Advise responsible Compliance Risk Owners of compliance violation.

2. Require plan of compliance to include a definitive timetable from the Compliance Risk Owners.
3. Review plan of compliance and monitor implementation.
4. Identify unresolved compliance issues and agree on a revised plan and deadline for regularization.
5. Compile unresolved compliance violations not regularized by the agreed revised deadline and determine possible penalties.

F. Accomplish Corporate Governance Evaluation Form at the end of the Company's calendar year.

G. Report to the Chairman of the Board the extent of compliance to the Manual including recommendation of non-compliance penalties for review and approval of the Board.

H. Submit to the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE) a certification on the extent of the Company's compliance with the Manual for the completed year.

I. Subject Manual to periodic review and recommend appropriate changes to the Chairman for endorsement and approval of the Board

As a result of the Compliance Program, the internal workings of the Company will be transparent leading to disclosure of all material information, a dominant theme of Good Corporate Governance.

III. Compliance Certification

As of December 31, 2007, the Company has substantially complied with the principles and best practices contained in the Manual on Good Corporate Governance and as required by the Manual, the Compliance Officer, on January 22, 2008, submitted the Corporate Governance Compliance Certification (SEC Form MCG-220) to the Securities and Exchange Commission and the Philippine Stock Exchange. Since there were no major deviations from the Manual, the Corporation has not imposed any sanctions on any director, officer and employee.

The Manual on Good Corporate Governance was amended on January 15, 2008 as follows:

2.1.2(4) Issue a certification every 30th day of January on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s of the latter's deviation from the same.

2.3.3.4(5) Submit to the Commission, every 30th day of January, an annual certification as to the attendance of the directors during Board meetings signed by the corporate secretary and countersigned by the chairperson of the board of directors.

4.2 A director shall be required to attend a seminar on corporate governance conducted by a duly recognized private or government institute, before assuming as such, or within a period of six (6) months from the date of his election.

IV. Compliance Monitoring and Improving Corporate Governance

The Compliance Officer and the Internal Auditor monitor compliance with the Manual. In addition, the SEC and PSE websites are constantly monitored for relevant circulars or memorandums for improving and updating the corporate governance of the Corporation and amending the Manual, if necessary.

PART VI – EXHIBITS AND SCHEDULES

Item 15. Exhibit and Reports on SEC Form 17-C

List of Exhibits

Exhibit A	-	Consolidated Audited Financial Statements for the Calendar Year 2007
Exhibit B	-	Supplementary Schedules to the Consolidated Financial Statements
Exhibit C	-	Parent Company Audited Financial Statements for the Calendar Year 2007

Reports on SEC Form 17-C

The Company filed the following reports on SEC 17-C during the fiscal year 2007 covered by this report:

Date of Filing	Items Reported
January 03, 2007	Trans-Asia Oil's sworn certification on the attendance of its directors in board meetings for the year 2006.
February 13, 2007	Corporate Governance Compliance Certification for the Calendar Year 2006.
February 16, 2007	At the meeting of the Board of Directors of Trans-Asia Oil and Energy Development Corp. (Trans-Asia Oil) held February 16, 2007, the date, time and place of the 2007 annual shareholders meeting was set for April 2, 2007 at 2:30 p.m. at the New World Renaissance Hotel, Ballroom I in Makati City. The record date for the determination of shareholders entitled to vote at the said meeting is March 2, 2007. At the regular meeting of the Board of Directors of Trans-Asia Oil held February 16, 2007, the company reported a consolidated net income of P 327,214,427.00 for the year 2006.
March 7, 2007	Submission of the required Certification of the Department of Energy dated March 1, 2007 in compliance with Section 17.15 of the PSE Revised Disclosure Rules.
March 8, 2007	Trans-Asia Oil, together with other members of the SC 6 Block A consortium, entered into a Farm-in Agreement with Vitol GPC Investments S.A. of Switzerland in respect of subject Petroleum Service Contract. Under said Farm-in Agreement, Vitol will undertake at its sole cost and risk geological, geophysical and engineering studies

in the block over a one-year period. At the end of the study period, Vitol will decide whether it will acquire seventy percent (70%) participating interest in the block, or withdraw. If Vitol decides to proceed, it will carry the original SC 6 Block A partners in the cost of drilling of one (1) well.

The Farm-in Agreement is subject to approval of the Department of Energy.

Trans-Asia currently owns 7.78% participating interest in SC 6 Block A.

April 2, 2007

At its regular meeting of the Board of Directors of Trans Asia Oil and Energy Development Corporation (Trans-Asia) held on April 2, 2007, the following actions were taken:

1) A cash dividend of P 0.04 per share was declared in favor of all shareholders of record as of April 19, 2007, payable on May 16, 2007;
2) Subject to approval by the shareholders, a total of 100 million shares were set aside from the unsubscribed portion of the corporation's 2 billion authorized shares for (a) stock grants for officers and managers of the corporation, and (b) stock options for directors, officers and employees of the corporation and its subsidiaries and affiliates for the purposes and under terms and conditions as determined by the Executive Committee of the Board of Directors pursuant to authority from the Board;
3) An amendment to the corporation's Manual on Good Corporate Governance was approved which requires the submission to the Securities and Exchange Commission of the annual report of directors' attendance at board meetings within 15 days from the end of every fiscal/calendar year instead of "at the end of every fiscal year."
4) The incorporation of a wholly owned subsidiary of the corporation, whose principal purpose will be to explore and develop mineral resources with an authorized capital of P 100 million and P 25 million subscribed and paid, was approved.

At the annual meeting of the shareholders of the corporation held on April 2, 2007, the following actions were taken:

1) All the incumbent directors of the corporation were reelected;
2) The auditing firm of Sycip Gorres Velayo and Company was reappointed as external auditor for the year 2007.
3) The aforementioned stock grants/stock options as approved by the Board of Directors were approved;

At the organization meeting of the Board of Directors, the Board approved a stock rights offering to all shareholders of 1 share for every 2 shares held, at the price of P1.10 per share; the record date to be determined later.

At the same organization meeting of the Board, the following officers were elected:

Ramon V. del Rosario	Chairman of the Board
Oscar J. Hilado	Vice Chariman
Francisco L. Viray	President & CEO
Roberto M. Laviña	EVP/CFO/Treasurer
Juan J. Diaz	Corporate Secretary
Rosario B. Venturina	SVP for Bus. Dev't.
Raymundo A. Reyes, Jr.	VP for Exploration
Ponciano L. Dimayuga	VP – Finance
Carlos I. Arguelles	VP – Compliance Officer
Rizalino G. Santos	VP – Electricity Trading and Marketing
Miguel Romualdo T. Sanidad	Asst. Corp. Secretary
Danilo L. Panes	Asst. Vice President
Benjamin S. Austria	Senior Consultant
Mariano Godinez	Senior Adviser to the Board

Also, at the same organization meeting of the Board, the various Committees of the Board were organized as follows:

Executive Committee/Stock Option Committee:

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

Audit Committee:

Alfredo M. Velayo	-	Chairman
Francisco L. Viray	-	Member
Reynaldo V. Paulino	-	Member
Ricardo V. Camua	-	Member

Nominations Committee:

Ramon V. del Rosario	-	Chairman
Antonio V. del Rosario	-	Member
Raymundo O. Feliciano	-	Member

Compensation Committee:

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

April 10, 2007

This refers to the items published in the April 9, 2007 issue of the Manila Standard Today. Trans-Asia officials denied that they said that they were allocating $ 500 million for expenditures this year, which included the budget for the company's planned acquisition of the Masinloc facility set to be auctioned in July 2007. Trans-Asia confirmed that the Company has submitted a letter of intent to the Power Sector Assets and Liabilities Management Corporation for the

Masinloc facility as reported to the shareholders, during the meeting held on April 2, 2007.

April 26, 2007	Certifications on qualification of Independent Directors of Trans-Asia.
May 21, 2007	Relative to the stock rights offering of Trans-Asia, the following resolutions were adopted at the regular meeting of the Board of Directors held on May 21, 2007: "RESOLVED, that the record date for the rights offering approved by this Board of Directors at its meeting held on April 2, 2007 be on July 19,2007 or on such other date as this Corporation's duly authorized representatives and the Philippine Stock Exchange (the 'Exchange') may set or determine after approval of listing by the Echange; "RESOLVED FURTHER, that this Corporation's President & CEO Mr. Francisco L. Viray, PhD, Executive Vice President/Chief Financial Officer/Treasurer Mr. Roberto M. Laviña, Vice President for Finance Mr. Ponciano L. Dimayuga and each of them, be authorized as they are hereby authorized, to represent this Corporation in connection with the said issuance of shares and rights offering, registration or exemption from registration of shares before the Securities and Exchange Commission (SEC), listing of shares with the Exchange, and to sign, execute and deliver such application for registration or exemption from registration of shares, application for listing, and any and all documents to be used in the rights offering and sale of shares, and hereby confirming that all documents and materials signed by any of the above named officers in connection with the said sale of shares shall be considered to have been approved by this Corporation's Board of Directors."
June 18, 2007	At the regular meeting of the Board of Directors of Trans-Asia held on June 18, 2007, the following actions were taken: 1) The change in the capital structure of the wholly owned subsidiary to be incorporated to explore and develop mineral resources, to an authorized capital of P 400 million, subscribed capital of P 100 million and paid-in capital of P 25 million; amending the previous authority from the Board given last April 2, 2007 to incorporate the said subsidiary with an authorized capital of P 100 million and subscribed and paid in capital of P 25 million. 2) The promotion of Mr. Ponciano L. Dimayuga to Senior Vice President – Finance.
July 30, 2007	Trans-Asia Oil and Energy Development Corporation ("Trans-Asia") entered into a Memorandum of Agreement with Balabac Kalinga Tribe, Inc. and Balabac Tribe Exploration and Mining Corporation ("BTEMC") granting Trans-Asia the exclusive right to conduct exploration work

over the Batong Buhay property in Barangay Balatoc, Pasil, Kalinga subject to an Exploration Permit to be granted to BTEMC by the Department of Environment and Natural Resources ("DENR") and the exclusive option to develop and operate said property under a successor mineral agreement with the government.

The National Commission on Indigenous Peoples ("NCIP") had earlier formally recognized the Balatoc tribe's priority right to develop, extract or exploit any natural resources within their ancestral domain in Barangay Balatoc, Pasil, Kalinga, pursuant to the Indigenous Peoples Rights Act of 1997 and directed the Balatoc tribe to submit their project application to the DENR.

August 1, 2007

This refers to PSE's letter dated July 30, 2007 addressed to VP-Compliance Officer, Mr. Carlos I. Arguelles, requesting additional information on the Memorandum of Agreement entered into by Trans-Asia Oil and Energy Development Corporation, Balatoc Kalinga Tribe, Inc. and Balatoc Tribe Exploration and Mining Corporation.

a. We regret to inform you that, due to certain strategic and sensitive information contained in said MOA pertaining to the mining rights of the concerned indigenous people, we are unable to provide you a copy of same.
b. Trans-Asia concluded the MOA to become the private sector partner of the Balatoc tribe for the exploration, development and production of mineral resources within the Batong Buhay property. The property includes a former copper-gold mine which suspended operations in the 1980s primarily due to the then prevailing peace and order conditions in the area.
c. Balatoc Kalinga Tribe, Inc. is the indigenous people's organization of the Balatoc tribe of Kalinga, whereas Balatoc Tribe Exploration and Mining Corporation is the corporate mining arm of BKTI. BTEMC will be 100% equity holder upon award of the Exploration Permit by the government. On the other hand, Trans-Asia will be Operator. An Operating Agreement between BTEMC and Trans-Asia will be negotiated in due course.
d. The effect of the transaction on the financial condition of Trans-Asia could not be determined at this time inasmuch as the project is still in the exploration stage.

August 10, 2007

Trans-Asia Oil and Energy Development Corporation signed on August 9, 2007 a Mineral Production Sharing Agreement ("MPSA") with the Department of Environment and Natural Resources covering a 333 – hectare block in Jose Panganiban, Camarines Norte. The date of effectivity of the MPSA is July 28, 2007.

Said MPSA grants Trans-Asia the exclusive right to explore, develop and produce mineral deposits within the property, which includes the former mine site of Philippine Iron Mines,

	Inc. PIM produced iron and copper from the mine until the early 1970s.
August 21, 2007	At the regular meeting of the Board of directors if Trans-Asia Oil and Energy Development Corporation held August 21, 2007, the Board approved the appointment of Mr. Frederick C. Lopez as Vice President for Materials Management.
September 28, 2007	The Department of Energy has approved the Farm-in Agreement dated March 7, 2007 between members of the SC 6 Block A consortium and Vitol GPC Investments S.A. of Switzerland. Under said Farm-in Agreement, Vitol will undertake at its sole cost and risk geological, geophysical and engineering studies in the block over a one-year period. At the end of the study period, Vitol will decide whether it will acquire seventy percent (70%) participating interest in the block, or withdraw. If Vitol decides to proceed it will carry the original SC 6 Block A partners in the cost of drilling of one (1) well. Trans-Asia currently owns 7.78% participating interest in SC 6 Block A.
October 18, 2007	Otto Energy Limited, parent company of Trans-Asia's Service Contract No. 55 partner and Operator, NorAsian Energy Limited, recently released the results of preliminary hydrocarbon volumetric estimates for the Marantao prospect in offshore west Palawan, which indicate potential for a significant oil and/or gas discovery. Mean prospective resource for the Marantao prospect based on geophysical mapping is estimated at 1,812 bcf gas plus 567 million barrels of oil. In case only oil is found in the reservoir, prospective resource may range from 320 million barrels to 2,682 million barrels. In case only gas is contained in the reservoir, prospective resource may range from 721 bcf to 5,605 bcf. Some 950 km of newly acquired 2D seismic data that were acquired over the block in June 2007 are undergoing digital processing, prior to interpretation in November 2007. Otto Energy Limited and NorAsian Energy Limited will be seeking a farm-in partner for drilling the Marantao prospect in late 2008 or early 2009. Trans-Asia has 15% participating interest in Service Contract No. 55.
November 15, 2007	Trans-Asia signed three (3) separate Option Agreements with Blade Petroleum Philippines Ltd. and VentuOil BVI covering the following petroleum service contract blocks: SC 14 Tara Production Area, SC 14 North Matinloc and SC 6 Block B.

Under each Option Agreement, the Blade Petroleum – Venture Oil joint venture will conduct technical due diligence on subject contract block over a three-month period, which may be extended by the joint venture to six months. Before the end of the aforementioned option period, the joint venture may exercise its option to acquire 70% participating interest in any or all of the blocks, in exchange for carrying Trans-Asia and other original consortium partners in all expenditures up to production of first oil. Oil production in the Tara and North Matinloc fields were suspended in 1990, whereas SC 6 Block B is in the exploratory stage.

Trans-Asia's participating interests in SC 14 Tara Production Area, SC 14 North Matinloc and SC 6 Block B are 22.50%, 6.103% and 14.063%, respectively.

The Option Agreement are subject to the approval of the Department of Energy.

November 15, 2007	Trans-Asia has fixed the record date of November 23, 2007 and the offering period of from November 28, 2007 to December 11, 2007 for its latest stock rights offering involving a total of 552,528,364 shares with total peso value of P 607,781,2800.40 at the rate of one (1) new common share for every two (2) common shares held at the offer price of P 1.10 share. Ex-date is November 20, 2007.

Signatures

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 11, 2007.

Trans-Asia Oil and Energy Development Corporation

By:

FRANCISCO L. VIRAY President and CEO	**RAYMUNDO A. RYES, JR.** VP – Exploration
ROBERTO M. LAVIÑA EVP, Treasurer and CFO	**MICHELLE M. BAUTISTA** Assistant Comptroller
PONCIANO L. DIMAYUGA SVP - Finance	**JUAN J. DIAZ** Corporate Secretary

(Republic of the Philippine)
Makati City) S.S.

SUBSCRIBED AND SWORN to before me this APR 1 4 2008 affiant(s) exhibiting to me his/her Community Tax Certificate, as follows:

Name	CTC No.	Date of Issue	Place of Issue
Francisco L. Viray	13254837	February 27, 2008	Manila
Roberto M. Laviña	19344449	February 29, 2008	Makati
Ponciano L. Dimayuga	19599167	February 16, 2008	Muntinlupa
Raymundo A. Reyes, Jr.	19935425	January 25, 2008	Parañaque
Michelle M. Bautista	2356666	March 31, 2008	Parañaque
Juan J. Diaz	17720404	February 28, 2007	Makati

NOTARY PUBLIC

MIGUEL [illegible] T. SANIDAD
NOTARY PUBLIC
APPOINTMENT [illegible] (2008-2009)
UNTIL [illegible]
PTR NO. [illegible] MAKATI CITY
IBP NO. [illegible] MAKATI CITY
ROLL NO. [illegible]

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TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

* *These schedules, which are required by Section 17.2 of SRC Rule 68.1, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.*

Trans-Asia Oil
and Energy Development
Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES & EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
Mandaluyong City

The management of Trans-Asia Oil and Energy Development Corporation and Subsidiaries (the "Company") is responsible for all information and representations contained in the consolidated balance sheets as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in equity and cash flows for the years ended December 31, 2007, 2006, and 2005. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, have audited the consolidated financial statements of the Company in accordance with auditing standards generally accepted in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the Stockholders and the Board of Directors.

RAMON V. DEL ROSARIO, SR.
Chairman of the Board

FRANCISCO L. VIRAY	**ROBERTO M. LAVIÑA**
President & Chief Executive Officer	EVP & Chief Financial Officer

(REPUBLIC OF THE PHILIPPINES)
Makati City) S.S.

SUBSCRIBED AND SWORN to before me this March 6, 2008 affiant(s) exhibiting to me his/her Community Tax Certificate, as follows:

Name	CTC No.	Date of Issue	Place of Issue
Ramon V. del Rosario, Sr.	24046689	15 February 2008	Quezon City
Francisco L. Viray	13254837	27 February 2008	Manila
Roberto M. Laviña	193444449	29 February 2008	Makati City

MIGUEL ROMUALDO T. SANIDAD
NOTARY PUBLIC
APPOINTMENT NO. M-245 (2008-2009)
UNTIL DECEMBER 31, 2009
PTR NO. 1002522 1/11/08, MAKATI CITY
IBP NO. 737439, 1/11/08, MAKATI CITY
ROLL NO. 33861

NOTARY PUBLIC

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Trans-Asia Oil and Energy Development Corporation

We have audited the accompanying consolidated financial statements of Trans-Asia Oil and Energy Development Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trans-Asia Oil and Energy Development Corporation and Subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Bennette A. Daplas-Bachoco

Bennette A. Daplas-Bachoco
Partner
CPA Certificate No. 86740
SEC Accreditation No. 0112-AR-1
Tax Identification No. 129-433-970
PTR No. 0017588, January 3, 2008, Makati City

February 27, 2008

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 29 and 30)	**₱1,211,421,333**	₱254,915,532
Short-term investments (Notes 29 and 30)	**8,639,904**	–
Investments held for trading (Notes 8 and 30)	**134,058,401**	397,057,220
Receivables - net (Notes 9, 17, 26, 29 and 30)	**118,256,864**	73,196,351
Fuel and spare parts - at cost	**56,063,302**	23,421,878
Other current assets (Notes 6 and 30)	**44,734,135**	110,330,063
Company’s share in current assets of a joint venture (Note 14)	**143,971,808**	287,865,627
Total Current Assets	**1,717,145,747**	1,146,786,671
Noncurrent Assets		
Property, plant and equipment - net (Notes 6, 10 and 17)	**663,434,690**	645,862,417
Investments in associates (Note 11)	**160,450,341**	205,610,529
Available-for-sale investments (Notes 12 and 30)	**224,250,497**	123,199,290
Intangible assets - net (Notes 6 and 15)	**185,401,954**	193,269,662
Investment property - net (Note 13)	**3,577,060**	3,837,210
Other noncurrent assets (Note 9)	**332,678**	369,542
Company’s share in noncurrent assets of a joint venture (Note 14)	**376,962,029**	428,169,673
Total Noncurrent Assets	**1,614,409,249**	1,600,318,323
	₱3,331,554,996	₱2,747,104,994
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16, 26, 29 and 30)	**₱191,145,077**	₱102,878,555
Interest-bearing loans and borrowings (Notes 17, 29 and 30)	**–**	204,248,389
Due to stockholders (Notes 26 and 30)	**5,340,277**	1,241,686
Income tax payable	**1,846,742**	–
Company’s share in current liabilities of a joint venture (Note 14)	**140,899,105**	114,782,276
Total Current Liabilities	**339,231,201**	423,150,906

(Forward)

	December 31	
	2007	2006
Noncurrent Liabilities		
Interest-bearing loans and borrowings - net of current portion (Notes 17 and 30)	**₱–**	₱25,952,644
Customers' deposits (Notes 29 and 30)	**17,558,403**	22,896,434
Pension and other post-employment benefits (Note 25)	**6,415,541**	5,729,511
Deferred tax liabilities - net (Note 24)	**85,584,751**	80,740,981
Other noncurrent liabilities	**7,107,382**	3,513,984
Company's share in noncurrent liabilities of a joint venture (Notes 14 and 24)	**13,775,254**	16,956,231
Total Noncurrent Liabilities	**130,441,331**	155,789,785
Equity		
Capital stock (Note 18)	**1,657,585,092**	1,105,056,728
Additional paid-in capital (Note 18)	**54,693,308**	8,194,721
Unrealized fair value gains on available-for-sale investments (Note 12)	**77,866,896**	27,736,507
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture (Note 14)	**16,252,343**	4,979,588
Retained earnings (Note 18)	**1,059,408,694**	1,025,344,031
Parent Company shares of stock held by a joint venture (Note 14)	**(3,923,869)**	(3,147,272)
Total Equity	**2,861,882,464**	2,168,164,303
	₱3,331,554,996	₱2,747,104,994

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2007	2006	2005
REVENUES			
Generation revenue (Note 1)	**₱624,589,469**	₱58,699,781	₱39,249,255
Company's share in revenue of a joint venture (Note 14):			
Generation	**749,144,599**	529,703,050	576,394,092
Other income	**5,627,758**	15,691,261	23,178,880
Interest and other financial income (Notes 8 and 30)	**32,832,924**	39,260,011	29,685,383
Dividend income	**8,837,802**	770,315	43,747,099
Other income	**38,996,948**	31,500,979	2,379,691
	1,460,029,500	675,625,397	714,634,400
COSTS AND EXPENSES			
Cost of power generation (Notes 20, 22 and 23)	**556,133,685**	53,510,047	38,227,105
General and administrative expenses (Notes 21, 22, 23, 25 and 26)	**178,914,549**	67,381,491	77,085,338
Company's share in costs and expenses of a joint venture (Note 14):			
Cost of power generation	**594,815,726**	423,410,100	473,835,373
General and administrative expenses	**49,858,311**	37,623,597	35,222,613
OTHER EXPENSES (INCOME)			
Net gain on derivatives (Note 30)	**(92,830,292)**	(24,010,010)	–
Foreign exchange loss (Note 29)	**75,911,720**	32,857,587	36,888,051
Interest and other financial charges (Note 30)	**14,376,966**	5,481,495	8,618,714
Equity in net earnings of associates (Note 11)	**(5,009,578)**	(2,948,151)	(996,726)
Reversal of allowance for impairment on investment in an associate (Note 11)	**(3,405,227)**	–	–
Loss (gain) on sale of available-for sale investments	**(1,075,355)**	(63,083)	44,009
Gain on sale of property and equipment	**(82,167)**	–	(113,611)
Impairment loss on available-for-sale investments (Note 12)	**20,000**	255,000	5,795,740
Reversal of impairment losses on deferred exploration costs (Note 15)	**–**	–	(56,000,000)
Others	**(13,020,541)**	(2,623,598)	(13,110,758)
	1,354,607,797	590,874,475	605,495,848
INCOME BEFORE EXCESS OF THE NET FAIR VALUE OF AN ACQUIRED COMPANY'S IDENTIFIABLE ASSETS AND LIABILITIES OVER COST	**105,421,703**	84,750,922	109,138,552
EXCESS OF THE NET FAIR VALUE OF AN ACQUIRED COMPANY'S IDENTIFIABLE ASSETS AND LIABILITIES OVER COST (Note 6)	**–**	271,021,316	–
INCOME BEFORE INCOME TAX (Carried Forward)	**105,421,703**	355,772,238	109,138,552

	Years Ended December 31		
	2007	2006	2005
INCOME BEFORE INCOME TAX (Brought Forward)	**₱105,421,703**	₱355,772,238	₱109,138,552
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 14 and 24)			
Current	**3,596,825**	1,097,140	276,852
Deferred	**(12,376,872)**	2,543,681	(6,167,005)
Company's share in income tax of a joint venture	**35,934,818**	24,916,992	14,488,282
	27,154,771	28,557,813	8,598,129
NET INCOME	**₱78,266,932**	₱327,214,425	₱100,540,423
Basic/Diluted Earnings Per Share (Note 27)	**₱0.07**	₱0.30	₱0.10

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Retained Earnings (Note 18)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 12)	Company's Share in Unrealized Fair Value Gains on Available-for-Sale Investments of a Joint Venture (Note 14)	Parent Company Shares of Stock Held by a Joint Venture (Note 14)	Total
Balance at January 1, 2007	**₱1,105,056,728**	**₱8,194,721**	**₱1,025,344,031**	**₱27,736,507**	**₱4,979,588**	**(₱3,147,272)**	**₱2,168,164,303**
Cash dividends - ₱0.04 per share	**–**	**–**	**(44,202,269)**	**–**	**–**	**–**	**(44,202,269)**
Proceeds from stock rights offering, net of ₱8.8 million direct issuance costs	**552,528,364**	**46,498,587**	–	–	–	–	**599,026,951**
Increase in Parent Company's shares held by joint venture	–	–	–	–	–	**(776,597)**	**(776,597)**
	1,657,585,092	**54,693,308**	**981,141,762**	**27,736,507**	**4,979,588**	**(3,923,869)**	**2,722,212,388**
Increase in fair value gains of available-for-sale investments	–	–	–	**50,130,389**	–	–	**50,150,389**
Increase in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	**11,272,755**	–	**11,272,755**
Net income for the year	–	–	**78,266,932**	–	–		**78,266,932**
Total income for the year	**–**	**–**	**78,266,932**	**50,130,389**	**11,272,755**	**–**	**139,670,076**
Balance at December 31, 2007	**₱1,657,585,092**	**₱54,693,308**	**₱1,059,408,694**	**₱77,866,896**	**₱16,252,343**	**(₱3,923,869)**	**₱2,861,882,464**
Balance at January 1, 2006	₱1,105,056,728	₱8,194,721	₱742,331,875	₱12,223,435	₱1,042,940	(₱3,147,272)	₱1,865,702,427
Cash dividends - ₱0.04 per share	–	–	(44,202,269)	–	–	–	(44,202,269)
	1,105,056,728	8,194,721	698,129,606	12,223,435	1,042,940	(3,147,272)	1,821,500,158
Increase in fair value gains of available-for-sale investments	–	–	–	15,513,072	–	–	15,513,072
Increase in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	3,936,648	–	3,936,648
Net income for the year	–	–	327,214,425	–	–	–	327,214,425
Total income for the year	–	–	327,214,425	15,513,072	3,936,648	–	346,664,145
Balance at December 31, 2006	₱1,105,056,728	₱8,194,721	₱1,025,344,031	₱27,736,507	₱4,979,588	(₱3,147,272)	₱2,168,164,303
Balance at January 1, 2005	₱840,601,987	₱8,194,721	₱967,363,627	₱–	₱–	(₱2,139,334)	₱1,814,021,001
Cash dividends - ₱0.08 per share	–	–	(67,901,410)	–	–	–	(67,901,410)
Stock dividends	255,304,091	–	(255,304,091)	–	–	–	–
Issuance during the year	9,150,650	–	–	–	–	–	9,150,650
Effect of change in accounting for financial instruments	–	–	(1,515,799)	–	–	(1,007,938)	(2,523,737)
Share in effect of change in accounting for financial instruments of a joint venture	–	–	(850,875)	–	1,042,940	–	192,065
	1,105,056,728	8,194,721	641,791,452	–	1,042,940	(3,147,272)	1,752,938,569
Fair value gains on available-for-sale investments	–	–	–	12,223,435	–	–	12,223,435
Net income for the year	–	–	100,540,423	–	–	–	100,540,423
Total income for the year	–	–	100,540,423	12,223,435	–	–	112,763,858
Balance at December 31, 2005	₱1,105,056,728	₱8,194,721	₱742,331,875	₱12,223,435	₱1,042,940	(₱3,147,272)	₱1,865,702,427

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱105,421,703**	₱355,772,238	₱109,138,552
Adjustments for:			
Company's share in income before income tax of a joint venture	**(110,098,320)**	(81,730,092)	(88,018,283)
Interest and other financial income (Note 30)	**(32,832,924)**	(39,260,011)	(29,685,383)
Depreciation and amortization (Note 23)	**63,352,797**	15,309,818	12,775,952
Unrealized foreign exchange loss	**81,551,309**	8,847,576	36,888,051
Net gain on derivatives	**(92,830,292)**	–	–
Interest and other financial charges (Note 30)	**14,376,966**	5,481,495	8,618,714
Equity in net earnings of associates (Note 11)	**(5,009,578)**	(2,948,151)	(996,726)
Dividend income	**(8,837,802)**	(770,315)	(43,747,099)
Provisions for (reversal of):			
Impairment loss on investment in an associate	**(3,405,227)**	–	–
Impairment loss on available-for-sale investments	**20,000**	255,000	5,795,740
Impairment losses on deferred exploration costs (Note 15)	**–**	–	(56,000,000)
Loss (gain) on sale of available-for-sale investments	**(1,075,355)**	(63,083)	44,009
Gain on sale of property and equipment	**(82,167)**	–	(113,611)
Excess of the net fair value of an acquired company's identifiable assets and liabilities over cost (Note 6)	**–**	(271,021,316)	–
Others	**(1,354,197)**	–	–
Operating income (loss) before working capital changes	**9,196,913**	(10,126,841)	(45,300,084)
Decrease (increase) in:			
Receivables	**(44,802,202)**	3,187,936	22,977,206
Fuel and spare parts	**(32,669,967)**	305,330	(3,367,064)
Other current assets	**82,617,879**	(16,589,271)	(3,538,573)
Increase (decrease) in accounts payable and other current liabilities	**88,494,487**	(4,755,433)	(16,498)
Net cash generated from (used for) operations	**102,837,110**	(27,978,279)	(29,245,013)
Interest received	**32,435,871**	15,894,962	21,085,706
Interest paid	**(10,520,429)**	(4,211,854)	(7,839,333)
Income taxes paid	**(279,663)**	(1,097,140)	(276,852)
Company's share in net cash flows provided by operating activities of a joint venture	**167,971,271**	80,778,955	98,182,020
Net cash provided by operating activities	**292,444,160**	63,386,644	81,906,528
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary, net of cash acquired (Note 6)	**–**	(191,133,115)	–
Additions to:			
Investments held for trading	**(491,117,726)**	(1,050,488,621)	(296,368,191)
Property and equipment	**(68,979,220)**	(1,438,116)	(35,883,412)
Short-term investments	**(8,639,904)**	–	–
Deferred exploration costs	**(3,948,825)**	(2,436,991)	(4,639,044)
Available-for-sale investments	**(2,763,482)**	(11,077,040)	(10,036,116)

(Forward)

	Years Ended December 31		
	2007	2006	2005
Cash dividends received	**₱8,837,802**	₱1,870,315	₱71,301,659
Proceeds from:			
Sale/redemption of investments held for trading	**702,657,454**	974,601,245	–
Settlement of currency forward contracts	**86,488,761**	–	–
Sale of available-for-sale investments	**3,087,785**	314,164	4,617,806
Sale of property and equipment	**213,000**	–	181,555
Termination of short-term investments	**–**	40,630,886	43,358,658
Cash received from an associate for the return of capital	**3,405,227**	–	–
Cash received from the reduction of an associate's capital stock (Note 11)	**–**	–	4,227,300
Decrease (increase) in other noncurrent assets	**36,864**	205,613	(242,477)
Company's share in net cash flows provided by (used in) investing activities of a joint venture	**133,269,167**	(29,535,935)	34,703,119
Net cash provided by (used in) investing activities	**362,546,903**	(268,487,595)	(188,779,143)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock, net of issuance costs	**599,026,951**	–	9,150,650
Short-term loans and borrowings	**–**	165,000,000	–
Long-term loans and borrowings, net of debt issue costs	**–**	–	77,661,966
Payments of:			
Cash dividends	**(44,202,269)**	(44,202,269)	(67,901,410)
Short-term loans and borrowings	**(204,934,019)**	–	–
Long-term loans and borrowings	**(27,272,727)**	(5,454,545)	(40,000,000)
Increase (decrease) in due to stockholders	**4,098,591**	6,322	(1,578)
Increase in other noncurrent liabilities	**3,223,574**	–	–
Increase in customers' deposits	**805,143**	–	–
Company's share in net cash flows used in financing activities of a joint venture	**–**	–	(232,922,938)
Net cash provided by (used in) financing activities	**330,745,244**	115,349,508	(254,013,310)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
Effect of foreign exchange rate changes on cash and cash equivalents of venturer	**(30,387,685)**	(8,847,577)	(36,888,051)
Company's share in effect of foreign exchange rate changes on cash and cash equivalents of a joint venture	**(150,016)**	598,690	1,697,103
Net effect of foreign exchange rate changes on cash and cash equivalents	**(30,537,701)**	(8,248,887)	(35,190,948)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURE	**955,198,606**	(98,000,330)	(396,076,873)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**266,468,912**	364,469,242	760,546,115
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱1,221,667,518**	₱266,468,912	₱364,469,242

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Trans-Asia Oil and Energy Development Corporation (TA Oil or "Parent Company"), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Renewable Energy Corporation (Renewable), Trans-Asia (Karang Besar) Petroleum Corporation, CIP II Power Corporation (CIPP) and Trans-Asia Gold and Minerals Development Corporation (TA Gold) (collectively referred to as "the Company") are incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The Parent Company is involved in power generation, oil and mineral exploration, exploitation and production. In 2004, the Parent Company entered into an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the province of Guimaras. The Parent Company completed the construction of a 3.4 megawatt (MW) bunker C-fired diesel generator power station in the island in February 2005 and started commercial operations on June 26, 2005 (see Note 28). The other activities of the Company are investments in various operating companies and financial instruments. As of December 31, 2007, its largest investment is 50% interest in Trans-Asia Power Generation Corporation (TA Power). Its subsidiaries, Renewable and Karang Besar, on the other hand, have not yet started commercial operations. On December 28, 2006, the Parent Company acquired CIPP, a company registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna. On July 2, 2007, TA Gold was incorporated and registered with the SEC to primarily engage in the business of mining and mineral exploration within the Philippines and other countries.

The Energy Regulatory Commission (ERC) granted TA Oil a certificate of registration as a Wholesale Aggregator in November 2006 and TA Power a certificate of registration as a Wholesale Generator in January 2007.

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

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

The consolidated financial statements of the Company were authorized for issuance by the Board of Directors (BOD) on February 27, 2008.

2. Basis of Preparation

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

Statement of Compliance
The accompanying consolidated financial statements, which are prepared for submission to the SEC, have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its wholly owned subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

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

In addition, the Company's share of each of the assets, liabilities, income and expenses of its jointly controlled venture, TA Power, is included as a separate line item in the consolidated financial statements based on the account grouping (see Notes 4 and 14, "Interest in a Joint Venture").

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except as follows:

New and Amendments to PFRS and Philippine Interpretations Effective in 2007
The Company has adopted the following new and amended PFRS during the year:

- Philippine Accounting Standard (PAS) 1, "Presentation of Financial Statements" (Amendment - Capital Disclosures); and
- PFRS 7, "Financial Instruments - Disclosures."

The principal effects of these changes are as follows:

- PAS 1, "Presentation of Financial Statements" (Amendment – Capital Disclosures)

  This amendment to PAS 1 requires additional disclosures on the level of the Company's capital and the objectives, policies, and processes for managing capital. These new disclosures are shown in Note 29.

- PFRS 7, “Financial Instruments - Disclosures”

  This new standard incorporates the disclosure requirements for financial instruments contained in PAS 32, “Financial Instruments - Disclosure and Presentation” and replaces PAS 30, “Disclosures in the Financial Statements of Companies and Similar Financial Institutions”. This standard requires new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk (see Note 29).

  The new disclosures are included throughout the consolidated financial statements except for the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments as required by paragraphs 31–42 of PFRS 7, in accordance with the transition relief provided by the Financial Reporting Standards Council. While there has been no effect on the financial position or results, comparative information has been revised where needed.

The Company adopted the following new accounting standards which are effective January 1, 2007 but the effect is not material to the Company’s consolidated financial statements or are not relevant or applicable to the Company:

- Philippine Interpretation IFRIC 7, “Applying Restatement Approach Under PAS 29 - Financial Reporting in Hyperinflationary Economies”; and
- Philippine Interpretation IFRIC 9, “Reassessment of Embedded Derivatives.”

<u>Future Changes in Accounting Policies</u>
The Company did not opt for the early adoption of the following new and revised PFRS and Philippine Interpretations that have been approved, but are not yet effective:

- PFRS 8, “Operating Segments” (effective for annual periods beginning on or after January 1, 2009)

  This PFRS adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, “Segment Reporting,” and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Company will apply PFRS 8 in 2009.

- PAS 1, “Presentation of Financial Statements (Revised)” (effective for annual periods beginning on or after January 1, 2009)

  The revision is intended to improve users’ ability to analyze and compare the information given in financial statements. The Company will apply the revised standard in 2009.

- PAS 23, "Borrowing Costs (Revised)" (effective for annual periods beginning on or after January 1, 2009)

  PAS 23 has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial time to get ready for its intended use or sale. The Company will apply the revised standard in 2009.

- Philippine Interpretation IFRIC 11, "IFRS 2 - Group and Treasury Share Transactions" (effective for annual periods beginning on or after March 1, 2007)

  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company will adopt this interpretation in 2008.

- Philippine Interpretation IFRIC 12, "Service Concession Arrangements," (effective for annual periods beginning on or after January 1, 2008)

  This interpretation covers contractual arrangements arising from private entities providing public services and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Company is still evaluating the effect of this interpretation.

- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes" (effective for annual periods beginning on or after July 1, 2008)

  This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's consolidated financial statements as no such schemes currently exist.

- Philippine Interpretation IFRIC 14/PAS 19, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after January 1, 2008)

  This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, "Employee Benefits." The Company expects that this interpretation will have no impact on the financial position or results of operations of the Company as all defined benefit schemes have currently no surplus plan asset.

4. **Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

Financial assets are classified into the following categories: Financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- Financial Assets and Liabilities at FVPL

  Financial assets or financial liabilities classified in this category included those that are designated by management on initial recognition as at FVPL when the following criteria are met:

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

  b. The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

  c. The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

  <u>Other Financial Assets or Financial Liabilities Held for Trading</u>
  Other financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income. Interest earned or incurred is recorded in interest and other financial income or charges, respectively, while dividend income is recorded when the right to receive payment has been established.

  The Company's investments in mutual and common trust funds, bonds and treasury notes are classified as financial assets held for trading (see Note 8).

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

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

- Loans and Receivables

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

The Company's cash and cash equivalents, short-term investments, receivables and cash in escrow are classified as loans and receivables.

- HTM Investments

Quoted nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Such assets are carried at amortized cost using the effective interest method.

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

The Company did not classify any financial asset under HTM investments.

- AFS Investments

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

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

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

The Company's investments in listed and unlisted equity securities and golf club shares are classified as AFS investments (see Note 12).

Other Financial Liabilities

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

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

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

The Company's accounts payable and other current liabilities, interest-bearing loans and borrowings, due to stockholders and customers' deposits are classified as other financial liabilities.

Impairment of Financial Assets

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

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. Bad debts are written-off when identified. The amount of the loss shall be recognized in profit or loss.

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

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 the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

AFS Investments. For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions as accounting hedges. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

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

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

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

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

Financial Liability. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

<u>Property, Plant and Equipment</u>
Property, plant and equipment, except land, are stated at cost less accumulated depletion, depreciation and amortization and impairment in value. Land is stated at cost less any impairment in value.

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

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

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

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

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

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

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

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

Investments in Associates

The Company's investments in its associates are accounted for under the equity method of accounting. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The consolidated statement of income reflects the Company's share of the results of operations of the associates. Unrealized gains arising from transactions with associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

When the Company's accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances, the Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

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

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

Investment Property
Investment property is carried at cost, including transaction costs, net of accumulated depreciation. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 years.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Deferred Exploration Costs
The Company follows the full cost method of accounting for exploration costs determined on the basis of each service contract (SC)/geophysical survey and exploration contract (GSEC) area. Under this method, all exploration costs relating to each SC/GSEC are tentatively deferred to the extent that the capitalized costs do not exceed the value of those reserves, pending determination of whether the contract area contains oil and gas reserves in commercial quantities, net of an allowance for impairment losses.

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

Deferred exploration costs are assessed for impairment when:

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

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

Business Combinations

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

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Customer contracts acquired through business combinations are assessed to have finite useful life and amortized on a straight-line basis over the useful economic life of five years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Generation Revenue. Revenue from the sale of electricity are recognized during the period when electricity is generated. Revenue from take-or-pay arrangement is recognized in accordance with the terms of the ESA in relation to the electricity generated.

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

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

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

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

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

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

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

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

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

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

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

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

Operating Leases
Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

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

Impairment of Non-financial Assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash

flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Foreign Currency Transactions
Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date. Exchange gains or losses arising from the settlement or restatement of monetary items at rates different from those at which they were initially recorded during the year are credited or charged directly to current operations.

Income Tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

Segment Reporting
For purposes of financial reporting, the following are the Company's reportable segments: oil and mineral exploration and power generation. The investment activities are incidental to the Company's power generation activities arising from management of the Company's excess funds. There are no activities in the oil and mineral exploration segment except incurrence of exploration costs, shown as deferred exploration costs under "Intangible assets" account in the consolidated balance sheet.

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

Subsequent Events

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

5. Significant Accounting Estimates and Judgments

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

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

Judgments

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

Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease. TA Oil's ESA with Guimelco and TA Power's ESA with Holcim Philippines, Inc. (Holcim) qualify as lease on the basis that TA Oil and TA Power sell all their output to Guimelco and Holcim, respectively. These arrangements call for a take-or-pay arrangement where payment is made on the basis of the availability of the power plant and not on actual deliveries. These lease arrangements are determined to be operating leases where a significant portion of the risks and rewards of ownership are retained by TA Oil and TA Power. Accordingly, the power plant assets are recorded as part of the cost of property, plant and equipment and the fees billed to Guimelco and Holcim are recorded as operating revenues.

Fair Value of Financial Assets. Where the fair values of financial assets recorded on the consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility.

Estimates

Estimating Allowances for Doubtful Accounts. The Company maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the customer, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, past-due status and terms) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying value of receivables as of December 31, 2007 and 2006 is ₱118.2 million and ₱73.2 million, respectively (see Note 9).

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

The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred tax assets were recognized in the consolidated balance sheet as of December 31, 2007 and 2006 amounted to ₱369.1 million and ₱314.7 million, respectively (see Note 24).

Estimating Useful Lives of Property, Plant and Equipment. The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of December 31, 2007 and 2006 is ₱663.4 million and ₱645.9 million, respectively. Details are disclosed in Note 10 to the consolidated financial statements.

Impairment of Deferred Exploration Costs. The carrying value of deferred exploration costs is reviewed for impairment when there are indications that the carrying amount exceeds the recoverable amount. The carrying value of deferred exploration costs is ₱138.1 million and ₱134.2 million as of December 31, 2007 and 2006, respectively. Details are disclosed in Note 15 to the consolidated financial statements.

Impairment of Property, Plant and Equipment, Intangible Assets and Investment Property. The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value in use of the cash-generating units. There are no additional impairment losses provided in 2007, 2006 and 2005. The carrying value of property, plant and equipment as of December 31, 2007 and 2006 is ₱663.4 million and ₱645.9 million, respectively. Details are disclosed in Note 10 to the consolidated financial statements. The carrying value of intangible assets as of December 31, 2007 and 2006 is ₱185.4 million and ₱193.3 million, respectively. Details are disclosed in Note 15 to the consolidated financial statements. The carrying value of investment property as of December 31, 2007 and 2006 is ₱3.6 million and ₱3.8 million, respectively. Details are disclosed in Note 13 to the consolidated financial statements.

Estimating the Fair Values of CIPP's Identifiable Assets and Liabilities. Where the fair values of CIPP's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections. Details are disclosed in Note 6 to the consolidated financial statements.

Impairment of Investments in Associates. The carrying value of investments in associates is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount. The carrying value of investments in associates as of December 31, 2007 and 2006 is ₱160.4 million and ₱205.6 million, respectively. Details are disclosed in Note 11 to the consolidated financial statements.

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% more of the original cost of investment, and "prolonged", greater than 6 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying value of AFS investments as of December 31, 2007 and 2006 is ₱224.3 million and ₱123.2 million, respectively. Details are disclosed in Note 12 to the consolidated financial statements.

Pension and Other Post-employment Benefits. The determination of the Company's obligation and cost for pension and other post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. The assumptions described in Note 25 to the consolidated financial statements include among others, discount rates, expected returns on plan assets and rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

6. **Acquisition of CIP II Power Corporation (CIPP)**

On December 28, 2006, the Company purchased 100% of the shares of stock of CIPP, a wholly owned subsidiary of Ascendas Utilities Pte Ltd (Ascendas), a Singaporean corporation. CIPP operates a 21 MW Bunker C-fired power plant in CIP II Special Economic Zone in Calamba, Laguna.

The fair value of the identifiable assets and liabilities of CIPP as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair Value Recognized on Acquisition	Carrying Value
	(In Thousands)	
Cash	₱36,196	₱36,196
Receivables	60,319	60,319
Inventories	20,360	20,360
Prepayments	1,138	1,138
Property, plant and equipment (see Note 10)	459,750	260,667
Intangible - customer contracts (see Note 15)	59,083	–
	636,846	378,680
Bank loans	32,661	32,661
Trade payables	32,717	32,717
Other liabilities	74,934	74,934
Deferred tax liability	78,197	279
	218,509	140,591
Net assets	418,337	₱238,089
Total cost of combination	147,316	
Excess of fair value of net assets over acquisition cost	₱271,021	

The excess of fair value of net assets over acquisition cost is presented as a separate line item in the 2006 consolidated statement of income.

The total cost of combination is ₱147.3 million and comprises of cash placed in an escrow fund out of which payments were made to Ascendas of ₱145.0 million and costs directly attributable to the acquisition of ₱2.3 million.

The Company agrees to make additional payments to Ascendas after the acquisition date, as and when the payment therefore is actually collected from the customers of CIPP, in the maximum amount of ₱50.0 million. Such additional payments shall be sourced from 50% of incremental revenues from the Base Electricity Rate resulting from the approval by the ERC of the unbundling power rates for CIPP, and such ERC-approved unbundled rates exceed Manila Electric Company's rates for industrial consumers, provided that:

- Ascendas shall continue to assist CIPP in the latter's representation with the ERC to have the CIPP power rates unbundled;

- the balance of 50% of such incremental revenues shall accrue to and be retained by the Company; and

- such sharing of the incremental revenues from the Base Electricity Rate shall in no case earlier than acquisition date.

The Company determined that such additional payments are not probable and cannot be measured reliably as of acquisition date. As of December 31, 2007 and 2006, the Company has not accrued any additional payment arising from such incremental revenues.

The cash outflow related to the acquisition is as follows:

	Amount
Cash placed in escrow fund	₱225,000,000
Costs directly attributable to the acquisition	2,329,802
Cash of acquired subsidiary	(36,196,687)
Net cash outflow	191,133,115
Excess cash in escrow fund for the account of the Company	(80,014,123)
	₱111,118,992

Excess cash in escrow fund of ₱80.0 million is presented as other current assets in the 2006 consolidated balance sheet. In 2007, the Company and Ascendas agreed on the final settlement of the acquisition of ₱135.2 million and the remaining cash placed in escrow fund was reverted to the Company's unrestricted funds.

From the date of acquisition, CIPP has contributed an insignificant amount to the net income of the Company for the year ended December 31, 2006. If the combination had taken place at the beginning of the year, the net income for the Company would have been ₱313.4 million and revenue would have been ₱826.0 million in 2006.

7. Cash and Cash Equivalents

	2007	2006
Cash on hand and in banks	**₱124,981,827**	₱51,176,047
Short-term deposits	**1,086,439,506**	203,739,485
	₱1,211,421,333	₱254,915,532

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of the following at December 31:

	2007	2006
Cash and cash equivalents of venturer	**₱1,211,421,333**	₱254,915,532
Share in cash and cash equivalents of a joint venture (see Note 14)	**10,246,185**	11,553,380
	₱1,221,667,518	₱266,468,912

8. Investments Held for Trading

	2007	2006
Investments in bonds and Fixed Treasury Notes (FXTNs)	**₱134,058,401**	₱318,511,470
Investments in Unit Investment Trust Funds (UITFs) and mutual funds	**–**	78,545,750
	₱134,058,401	₱397,057,220

9. Receivables

	2007	2006
Trade	**₱87,302,887**	₱65,449,319
Due from related companies (see Note 26)	**24,287,915**	24,685,802
Others	**33,468,794**	9,863,962
	145,059,596	99,999,083
Less allowance for doubtful accounts	**26,802,732**	26,802,732
	₱118,256,864	₱73,196,351

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

Due from related companies includes a long-outstanding receivable of ₱23.5 million from a company under common control of PHINMA, fully provided with allowance for doubtful accounts, as of December 31, 2007 and 2006.

Other receivables include interest receivable of ₱6.4 million and ₱6.1 million as of December 31, 2007 and 2006, respectively.

The Parent Company extended a loan to Guimelco with face value amounting to ₱532,382 with interest of 12.7% per annum and a monthly amortization of ₱18,726 beginning May 2005 up to February 2008. The monthly amortization will be offset against the monthly rental of ₱20,000 under the lease contract between Guimelco and TA Oil. In case the lease contract is terminated prior to the full settlement of the loan, the remaining outstanding balance becomes due and demandable.

The outstanding balance of the loan receivable as of December 31, 2007 and 2006 is ₱36,865 and ₱242,477, respectively. The amount due within the next twelve months after year end of 2007 and 2006 totaled ₱36,865 and ₱205,612, respectively and is included as part of other receivables. The noncurrent portion of the loan receivable amounted to ₱36,865 as of December 31, 2006 and is included as part of "Other noncurrent assets" account in the 2006 consolidated balance sheet.

Due from related companies amounting to ₱23.5 million and other receivables amounting to ₱3.3 million were impaired and fully provided for as of December 31, 2007 and 2006. There was no movement in the allowance for doubtful accounts in 2007 and 2006.

As of December 31, the aging analysis of receivables is as follows:

	2007						
		Neither Past Due nor	**Past Due but not Impaired**				**Past Due and**
	Total	**Impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**Impaired**
				(In Thousands)			
Trade	**₱87,303**	**₱76,466**	**₱4,681**	**₱578**	**₱442**	**₱5,136**	**₱–**
Due from related companies	**24,288**	**756**	**–**	**–**	**–**	**–**	**23,532**
Others	**33,469**	**30,159**	**7**	**32**	**–**	**–**	**3,271**
Total	**₱145,060**	**₱107,381**	**₱4,688**	**₱610**	**₱442**	**₱5,136**	**₱26,803**

	2006						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 days	30-60 days	60-90 days	90-120 days	Impaired
				(In Thousands)			
Trade	₱65,449	₱64,625	₱552	₱272	₱–	₱–	₱–
Due from related companies	24,685	1,153	–	–	–	–	23,532
Others	9,865	6,594	–	–	–	–	3,271
Total	₱99,999	₱72,372	₱552	₱272	₱–	₱–	₱26,803

10. Property, Plant and Equipment

	Land	Buildings and Improvements	Machinery and Equipment	Wells, Platforms and Other Facilities	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Total
Cost:								
At January 1, 2006	₱–	₱88,589,427	₱102,596,427	₱20,346,661	₱7,053,935	₱4,408,164	₱24,671,250	₱247,665,864
Additions	–	–	–	–	943,714	298,902	195,500	1,438,116
Acquisition of CIPP (see Note 6)	57,983,000	1,893,103	399,801,796	–	50,000	–	22,613	459,750,512
At December 31, 2006	57,983,000	90,482,530	502,398,223	20,346,661	8,047,649	4,707,066	24,889,363	708,854,492
Additions	–	7,157,864	50,000,000	–	6,766,620	3,052,205	2,002,531	68,979,220
Disposal	–	–	–	–	(712,500)	–	(36,080)	(748,580)
At December 31, 2007	**57,983,000**	**97,640,394**	**552,398,223**	**20,346,661**	**14,101,769**	**7,759,271**	**26,855,814**	**777,085,132**
Accumulated depreciation and impairment:								
At January 1, 2006	–	13,823,028	3,508,016	20,346,661	1,745,569	607,683	7,911,450	47,942,407
Depreciation	–	4,913,458	5,262,024	–	1,203,686	486,876	3,183,624	15,049,668
At December 31, 2006	–	18,736,486	8,770,040	20,346,661	2,949,255	1,094,559	11,095,074	62,992,075
Depreciation	–	6,206,846	39,098,163	–	1,919,800	597,094	3,454,211	51,276,114
Disposal	–	–	–	–	(581,667)	–	(36,080)	(617,747)
At December 31, 2007	**–**	**24,943,332**	**47,868,203**	**20,346,661**	**4,287,388**	**1,691,653**	**14,513,203**	**113,650,442**
Net book value:								
At December 31, 2007	**₱57,983,000**	**₱72,697,062**	**₱504,530,020**	**₱–**	**₱9,814,381**	**₱6,067,618**	**₱12,342,609**	**₱663,434,690**
At December 31, 2006	57,983,000	71,746,044	493,628,183	–	5,098,394	3,612,507	13,794,289	645,862,417
At January 1, 2006	–	74,766,399	99,088,411	–	5,308,366	3,800,481	16,759,800	199,723,457

Included under “mining and other equipment” is a wind tower constructed in Sual, Pangasinan. Construction of the wind tower was completed on December 21, 2005. The Company has not operated the wind tower as the result of wind measurement in Sual, Pangasinan has not reached the required level to operate the wind tower commercially. In August 2007, the wind tower was transferred in San Lorenzo, Guimaras. Test run is on-going.

11. Investments in Associates

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

	2007	2006
Acquisition costs:		
Balance at beginning of year	**₱231,240,140**	₱231,240,140
Reclassification	**(20,500,000)**	–
Return of capital	**(3,405,227)**	–
Balance at end of year	**207,334,913**	231,240,140
Accumulated equity in net losses:		
Balance at beginning of year	**(20,665,133)**	(22,513,284)
Equity in net earnings for the year	**5,009,578**	2,948,151
Reclassification	**(29,669,766)**	–
Dividends received	**–**	(1,100,000)
Balance at end of year	**(45,325,321)**	(20,665,133)
	162,009,592	210,575,007
Less accumulated impairment:		
Balance at beginning of year	**4,964,478**	4,964,478
Reversal	**(3,405,227)**	–
Balance at end of year	**1,559,251**	4,964,478
	₱160,450,341	₱205,610,529

The percentage of ownership and the carrying values of investments in associates which are accounted for under the equity method are as follows:

	Percentage of Ownership	**2007**	2006
Bacnotan Industrial Park Corporation (BIPC)	30.00	**₱159,768,775**	₱154,746,700
Atlas Holdings Corporation (AHC)	10.00	**–**	50,169,766
Union Aggregates Corporation (UAC)*	31.25	**–**	–
Asia Coal Corporation (Asia Coal)*	28.18	**681,566**	694,063
		₱160,450,341	₱205,610,529

** Ceased operations*

Information with regard to the Company's significant associates is shown below:

<u>BIPC</u>

	2007	2006
Cash and cash equivalents	**₱10,105,857**	₱18,024,762
Investments in UITFs and mutual fund	**7,955,162**	2,083,040
Installment contract receivables	**54,379,063**	–
Input tax and other current and noncurrent assets	**16,512,057**	13,150,148
Land and development costs	**395,980,999**	418,017,846
Property and equipment - net	**141,887,247**	151,037,974
Total (Carried Forward)	**626,820,385**	602,313,770

	2007	2006
Total (Brought Forward)	**₱626,820,385**	₱602,313,770
Accounts payable and accrued expenses	**(20,995,196)**	(19,037,821)
Deferred gross profit	**(17,289,161)**	(13,441,496)
Estimated liability for land development	**(16,259,384)**	(14,114,732)
Deposits for construction costs	**(15,194,516)**	(15,599,864)
Other taxes payable	**(826,084)**	(467,694)
Long-term debt	**(23,693,459)**	(23,829,828)
	(94,257,800)	(86,491,435)
Net assets	**₱532,562,585**	₱515,822,335
Revenue	**₱81,907,824**	₱24,478,617
Costs and expenses	**(66,315,670)**	(37,124,569)
Other income	**1,639,347**	1,798,506
Benefit from (provision for) income tax	**(491,251)**	5,276
Net income (loss)	**₱16,740,250**	(₱10,842,170)

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On January 17, 2008, the Company, together with the other shareholders of BIPC, entered into a Memorandum of Agreement with Phoenix Petroleum Philippines, Inc. (Phoenix) for the sale of all the issued and outstanding common shares of BIPC to Phoenix. Total consideration to be paid to TA Oil is ₱197.6 million.

<u>AHC</u>

	2006
Current assets	₱504,187,256
Current liabilities	(3,738,703)
Net assets	₱500,448,553
Revenue	₱69,621,834
Expenses	(7,553,349)
Provision for income tax	(67,170)
Net income	₱62,001,315

AHC is a holding company whose primary purpose is to invest, hold, purchase, acquire, lease, contract, or otherwise in real and personal properties.

In 2007, the Company discontinued the use of equity method on its investment in AHC as it ceases to have significant influence over AHC. Accordingly, investment in AHC shares with carrying amount of ₱50.2 million was reclassified to available-for-sale investments.

On March 29, 2006, the BOD of AHC declared cash dividends of ₱5 a share payable to all stockholders of record as of declaration date. Such dividends were paid on April 5, 2006. The Company received ₱1.1 million cash dividends from AHC.

12. Available-for-Sale Investments

	2007	2006
Shares of stock:		
Listed	**₱105,557,479**	₱62,336,038
Unlisted	**95,463,018**	45,293,252
Golf club shares	**23,230,000**	15,570,000
	₱224,250,497	₱123,199,290

AFS investments are stated at fair value as of December 31, 2007 and 2006 except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Gains from change in fair value recognized directly in equity in 2007, 2006 and 2005 amounted to ₱50.1 million, ₱15.5 million and ₱12.2 million, respectively. Impairment loss in 2007, 2006 and 2005 amounting to ₱20.0 thousand, ₱0.3 million and ₱5.8 million, respectively, has been recognized directly in profit or loss.

13. Investment Property

	2007	2006
Cost	**₱4,893,663**	₱4,893,663
Accumulated depreciation:		
Balance at beginning of the year	**1,056,453**	796,303
Depreciation	**260,150**	260,150
Balance at end of year	**1,316,603**	1,056,453
	₱3,577,060	₱3,837,210

Investment property is stated at cost less accumulated depreciation and any impairment losses. The fair value of the investment property based on the latest valuation by an independent firm of appraisers is ₱5.8 million and ₱4.4 million as of December 31, 2007 and 2006. The valuation undertaken considers the sales of similar or substitute properties and related market data and establishes value estimate by processes involving comparison.

14. Interest in a Joint Venture

The Company has a 50% interest in TA Power, which is engaged in power generation.

The Company's proportionate share in the assets and liabilities of TA Power as of December 31, 2007 and 2006 and income and expenses for the years ended December 31, 2007, 2006 and 2005, before elimination of intercompany transactions and balances, are as follows:

	2007	2006
Current assets	**₱143,971,808**	₱287,865,627
Noncurrent assets*	**376,962,029**	428,169,673
	520,933,837	716,035,300
Current liabilities	**(141,654,654)**	(114,961,324)
Noncurrent liabilities (see Note 24)	**(13,775,254)**	(16,956,231)
	(155,429,908)	(131,917,555)
Net assets	**₱365,503,929**	₱584,117,745

* *Net of investment in shares of stock of the Parent Company of ₱3.9 million and ₱3.1million in 2007 and 2006, respectively.*

	2007	2006	2005
Revenue	**₱749,144,599**	₱529,703,050	₱576,394,092
Cost of power generation	**(594,815,726)**	(423,410,100)	(473,835,373)
General and administrative expenses	**(52,893,405)**	(40,295,851)	(37,758,869)
Other income - net	**5,747,467**	15,732,993	23,218,433
Income before income tax	**107,182,935**	81,730,092	88,018,283
Provision for income tax	**(35,934,818)**	(24,916,992)	(14,488,282)
Net income	**₱71,248,117**	₱56,813,100	₱73,530,001

Details of the Company's share in the current and noncurrent assets and current and noncurrent liabilities of the joint venture as of December 31, 2007 and 2006, after elimination of intercompany balances, are as follows:

	2007	2006
Current assets:		
Cash and cash equivalents	**₱10,246,185**	₱11,553,380
Investments held for trading	**–**	135,053,702
Trade and other receivables	**65,220,613**	74,956,512
Fuel and spares - at cost	**56,977,076**	44,371,757
Prepaid expenses and other current assets	**11,527,934**	21,930,276
	₱143,971,808	₱287,865,627
Noncurrent assets:		
Property, plant and equipment - net	**₱325,757,883**	₱389,246,220
Available-for-sale investments	**51,204,146**	38,923,453
	₱376,962,029	₱428,169,673

	2007	2006
Current liabilities:		
Trade and other payables	**₱137,231,493**	₱111,316,468
Due to related parties	**379,140**	565,082
Derivative liability	**788,472**	400,726
Provisions	**2,500,000**	2,500,000
	₱140,899,105	₱114,782,276
Noncurrent liability -		
Deferred tax liability - net (see Note 24)	**₱13,775,254**	₱16,956,231

Details of the Company's share in the cost of power generation and general and administrative expenses of the joint venture for the years ended December 31, 2007, 2006 and 2005, after elimination of intercompany transactions, are as follows:

	2007	2006	2005
Cost of power generation:			
Fuel	**₱468,790,194**	₱347,371,015	₱383,842,682
Depreciation and amortization	**62,381,205**	34,479,493	34,548,873
Repairs and maintenance	**33,236,386**	10,968,426	25,891,389
Labor	**15,212,465**	15,737,022	13,762,161
Taxes and licenses	**7,957,142**	8,468,263	7,963,369
Insurance	**3,876,081**	3,997,563	4,339,822
Security, janitorial and professional fees	**1,281,841**	799,829	981,096
Others	**2,080,412**	1,588,489	2,505,981
	₱594,815,726	₱423,410,100	₱473,835,373
General and administrative expenses:			
Management and professional fees	**₱26,561,227**	₱17,507,821	₱17,585,291
Salaries and directors' fees	**13,557,560**	7,107,987	6,702,612
Employee benefits	**2,115,496**	5,165,825	4,480,904
Depreciation and amortization	**1,236,810**	841,126	901,028
Taxes and licenses	**1,230,157**	1,515,333	753,811
Transportation and travel	**986,185**	1,030,547	942,593
Entertainment, amusement and recreation	**15,389**	19,337	43,363
Others	**4,155,487**	4,435,621	3,813,011
	₱49,858,311	₱37,623,597	₱35,222,613

In order to optimize the capacity and profitability of TA Power's power plant especially with the rising price of bunker fuel, TA Power started to participate in the Wholesale Electricity Spot Market (WESM) in January 2007. As such, engines have been subjected to frequent start and stop operations which increases the wear and tear rate of the engines.

Consequently, the remaining useful life of the power plant was shortened from 11 years to 6 years in 2007. This increased the annual depreciation of TA Power by ₱56.5 million in 2007.

15. **Intangible Assets**

	2007	2006
Deferred exploration costs	**₱138,135,822**	₱134,186,997
Customer contracts	**47,266,132**	59,082,665
	₱185,401,954	₱193,269,662

Following are the details and movements of intangible assets:

	Oil Exploration Costs	Mineral Explorations Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Cost:					
At January 1, 2006	₱286,351,058	₱7,571,955	₱293,923,013	₱–	₱293,923,013
Additions	1,189,299	1,247,692	2,436,991	–	2,436,991
Acquisition of CIPP (see Note 6)	–	–	–	59,082,665	59,082,665
At December 31, 2006	287,540,357	8,819,647	296,360,004	59,082,665	355,442,669
Additions	3,139,591	809,234	3,948,825	–	3,948,825
At December 31, 2007	**290,679,948**	**9,628,881**	**300,308,829**	**59,082,665**	**359,391,494**
Allowance for impairment loss and amortization:					
At January 1, 2006	162,173,007	–	162,173,007	–	162,173,007
Additions	–	–	–	–	–
At December 31, 2006	162,173,007	–	162,173,007	–	162,173,007
Amortization	–	–	–	11,816,533	11,816,533
At December 31, 2007	**162,173,007**	**–**	**162,173,007**	**11,816,533**	**173,989,540**
Net book value:					
At December 31, 2007	**₱128,506,941**	**₱9,628,881**	**₱138,135,822**	**₱47,266,132**	**₱185,401,954**
At December 31, 2006	125,367,350	8,819,647	134,186,997	59,082,665	193,269,662
At January 1, 2006	124,178,051	7,571,955	131,750,006	–	131,750,006

Deferred Exploration Costs

In 2005, the Company reversed ₱56.0 million allowance for impairment loss as a result of farm-in offers that the Company estimates to receive on its exploration costs.

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

	2007	2006
SC No. 6 (Northwest Palawan)	**₱113,028,483**	₱112,460,894
SC No. 41 (Sulu Sea)	**51,673,917**	51,673,887
SC No. 42 (North Palawan)	**33,880,927**	33,880,927
SC No. 51/GSEC No. 93 (East Visayas)	**32,363,323**	30,621,923
GSEC No. 94 (Offshore West Palawan)	**28,228,563**	28,228,563
Offshore North Mindoro-West Batangas	**17,290,300**	17,290,300
GSEC No. 91 (Southwest Palawan)	**8,103,315**	8,103,315
SC No. 55 (Offshore West Palawan)	**5,570,140**	4,739,568
Others	**540,980**	540,980
	₱290,679,948	₱287,540,357

The foregoing deferred oil exploration costs represent the Company's share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and are covered by operating agreements which set forth the participating interests, rights and obligations of the contractors.

The following summarizes the status of the Company's projects:

a. SC No. 6 Block A

The Block A consortium signed a Farm-In Agreement with Vitol GPC Investments S. A. (Vitol) of Switzerland on March 7, 2007.

Under the said agreement, Vitol will undertake at its sole cost, technical evaluation of the contract area over a period of one year, after which it will decide whether to earn 70% participating interest in the block or not. If Vitol decides to earn such interest, Vitol will carry the original consortium members in the cost of one or two wells, and in the first phase of the first development in the block.

Technical evaluation of the area is in progress as of December 31, 2007.

b. SC No. 6 Block B

TA Oil and most of the consortium members executed an option agreement on October 11, 2007 with Blade Petroleum (Australia) and Venturoil BVI (British Virgin Islands) granting the latter two companies the right to conduct at their sole cost 3–6 month exclusive due diligence on the area and the option to acquire 70% interest in the block.

c. SC No. 51

Due to the tight rig market, the consortium proposed to the DOE the consolidation of the 2nd and 3rd sub-phases of the Exploration Period that would enable the drilling of the well committed under the 2nd sub-phase, during the 3rd sub-phase, and the conduct of a 3D seismic survey during the current 2nd sub-phase.

The DOE subsequently approved the proposed amendments to the work program and adjusted the duration of the concerned sub-phases. The consortium submitted the final report of the engineering study on the sub-commercial Villaba gas discovery to the DOE in August 2007.

Partners completed a 146 sq. km. 3D seismic survey in the Cebu Strait on July 6, 2007. However, the conduct of a programmed 261 km. 2D seismic survey in the same area, which would have fulfilled the outstanding 250 km. 2D seismic obligation under the 1st sub-phase of the Exploration Period, was deferred following instructions from the DOE, in the light of opposition from interest groups based in Bohol.

Processing of the newly-acquired 3D seismic data was completed in December 2007 and interpretation commenced immediately thereafter.

d. SC No. 55

The consortium elected to extend the term of the 1st sub-phase of the Exploration Period by one year to February 4, 2008 due to non-availability of an ultra deepwater drilling rig. Prior to the expiration of the extension, the consortium elected to enter the 2nd sub-phase of the Exploration Period from February 5, 2008 to August 5, 2009.

Processing of 456 km. of 2D seismic data acquired in October 2006, 358 km. of 2002 2D lines and 745 km. of 1980s 2D profiles were completed in August 2007.

Partners acquired 954 km. of 2D seismic data in June 2007 to provide additional coverage over selected leads in the block. Processing of said data was about 85% complete as of December 31, 2007.

Interpretation of the 2006 series and vintage seismic data was completed in December 2007.

e. Minerals

The Department of Environment and Natural Resources awarded TA Oil on July 28, 2007 a Mineral Production Sharing Agreement (MPSA) covering a 333-hectare area in the municipality of Jose Panganiban, Camarines Norte.

Mines and Geosciences Bureau Regional Office No. 5 in Daraga, Albay, however, registered the MPSA only in December 2007 following conclusion of their investigation of a mining right claim by a third party over a portion of the MPSA block.

The contract area includes the former mine site of Philippine Iron Mines, Inc., which produced iron and copper until the mid-1970s. The block is also prospective for gold, uranium, molybdenum and other metals.

The work program for the first two years of the MPSA consists of geological field work, geophysical surveys and exploratory drilling.

Discussions with an international mining company interested in participating in the exploration of the area continued.

<u>Customer Contracts</u>
Customer contracts were acquired through business combinations. This account will be amortized evenly over their useful economic life of five years until 2011.

16. Accounts Payable and Other Current Liabilities

	2007	2006
Trade and nontrade accounts payable	**₱108,455,684**	₱89,919,830
Accrued expenses	**50,593,778**	2,011,373
Accrued directors' and annual incentives (see Note 26)	**24,714,168**	5,176,849
Output tax	**6,115,611**	5,502,891
Due to related parties (see Note 26)	**775,473**	206,802
Deferred rent income	**35,278**	35,278
Others	**455,085**	25,532
	₱191,145,077	₱102,878,555

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

17. Interest-bearing Loans and Borrowings

Current

Included in current interest-bearing loans and borrowings as of December 31, 2006 are:

- ₱165.0 million Philippine peso-denominated loans from a local bank which were used to finance the acquisition of CIPP. The loans have a fixed interest rate of 7.8% and with maturity on March 28, 2007 and January 9, 2007. The loans are secured by financial assets amounting to US$3.2 million and ₱20.0 million which are under the custody of the creditor bank. These loans were fully paid and the collaterals were released in August 2007.

- ₱32.7 million U.S. dollar denominated loan of CIPP from a local bank with maturity on June 26, 2007. This loan was preterminated in January 2007.

Noncurrent

Long-term debt as of December 31, 2006 represents a term loan in the amount of ₱80.0 million used to finance the construction and installation of a 3.4 MW Bunker C-fired diesel power plant in Guimaras Island. The loan has a fixed interest rate of 12.7% payable quarterly and a term of seven years, inclusive of one year grace period on principal payment, which will mature on September 30, 2011. The loan is payable in equal quarterly amortization of ₱1.8 million. On December 27, 2005, the Company paid ₱40.0 million. The interest rate was converted from a fixed rate to a variable rate in 2005. This loan was fully paid in June 2007.

The loan is secured by: (i) a chattel mortgage on various machinery and equipment that constitute the 3.4 MW Bunker C-fired power plant located at Barangay San Miguel, Jordan, Guimaras; (ii) assignment of rights over the ESA with Guimelco; (iii) assignment of contract receivables from Guimelco; and (iv) assignment to the bank of proceeds from Performance Bond required from contractors and suppliers of the Company.

Machinery and equipment with net carrying amount of ₱90.8 million as of December 31, 2006, have been pledged as security for the loan. The bank released the chattel mortgage on September 27, 2007.

18. Equity

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

	Number of Shares		
	2007	2006	2005
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000	2,000,000,000
Issued:			
Balance at beginning of year	**1,105,056,728**	1,105,056,728	840,601,987
Issuance during the year	**552,528,364**	–	9,150,650
Stock dividend during the year	**–**	–	255,304,091
Balance at end of year	**1,657,585,092**	1,105,056,728	1,105,056,728

On June 20, 2007, the SEC approved the stock rights offering of 552.5 million shares of the Company at the rate of 1 share for every 2 shares held as of record date of November 23, 2007, at a price of ₱1.10 per share. The offer period commenced on November 28, 2007 and ended on December 11, 2007. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to ₱599.0 million. The proceeds will be used to finance plant expansion, to fund petroleum and mineral explorations and for general corporate purposes.

As of December 31, 2007, the Company's retained earnings balance is ₱1.1 billion while paid-up capital is ₱1.7 billion. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱422.5 million and ₱611.5 million as of December 31, 2007 and 2006, respectively, are not currently available for dividend distribution.

Dividends declared and paid in 2007, 2006 and 2005 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 14, 2005	Special cash	₱0.04 per share	₱33,950,705	March 30, 2005
March 14, 2005	Cash	0.04 per share	33,950,705	March 30, 2005
March 14, 2005	Stock	30%	255,304,091	September 23, 2005
March 27, 2006	Cash	0.04 per share	44,202,269	May 23, 2006
April 2, 2007	Cash	0.04 per share	44,202,269	April 19, 2007

19. Employee Stock Options and Executive Stock Grants

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

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

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

As allowed under PFRS 1, "First Time Adoption of Philippine Financial Reporting Standards," the Company availed of the exemption from applying PFRS 2, "Share-based Payment," to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005.

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares: (a) stock grants for officers and managers of the Company, and (b) stock options for directors, officers and employees of TA Oil and its subsidiaries and affiliates (referred to herein as the "New Plan") under the terms and conditions as determined by the Executive Committee of the BOD. As of December 31, 2007, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

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

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

<u>Stock Options</u>
Following are the specific terms of the Company's New Plan:

Coverage	Directors, permanent, officers and employees of TA Oil and its subsidiaries/affiliates
Exercise price	At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of ₱1.00 per share
Vesting period	• Up to 33% of the allocated shares on the 1st year from date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.

Right to Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

20. **Cost of Power Generation**

	2007	2006	2005
Fuel	**₱431,687,436**	₱38,351,380	₱29,356,287
Depreciation and amortization (see Note 23)	**40,493,918**	6,077,911	4,011,004
Rental	**34,683,972**	315,789	210,526
Labor (see Note 22)	**14,640,028**	4,184,612	2,676,547
Repairs and maintenance	**12,276,662**	971,628	594,786
Concession and other fees (see Note 28)	**11,869,307**	–	–
Employee benefits (see Note 22)	**2,956,775**	889,523	636,918
Insurance	**2,379,831**	637,365	396,965
Taxes and licenses	**2,012,146**	1,737,931	18,602
Others	**3,133,610**	343,908	325,470
	₱556,133,685	₱53,510,047	₱38,227,105

21. **General and Administrative Expenses**

	2007	2006	2005
Salaries and directors' fees (see Note 22)	**₱63,250,167**	₱12,877,985	₱12,375,479
Management and professional fees (see Note 26)	**51,639,133**	21,575,692	28,129,401
Depreciation and amortization (see Note 23)	**22,858,879**	9,231,907	8,764,948
General exploration	**10,865,130**	2,615,382	149,805
Building maintenance and repairs	**8,529,744**	5,930,587	5,779,410
Transportation and travel	**4,223,163**	3,202,162	4,095,621
Insurance, dues and subscriptions	**3,529,905**	1,565,039	4,173,752
Taxes and licenses	**2,235,847**	1,183,445	3,068,728
Employee benefits (see Note 22)	**1,968,942**	3,136,575	1,548,106
Office supplies	**1,747,788**	1,473,182	1,422,946
Retirement (see Notes 22 and 25)	**2,864,900**	894,000	1,276,000
Rent	**1,531,041**	245,091	250,826
Donation and contribution	**305,317**	853,398	3,331,515
Entertainment, amusement and recreation	**75,912**	31,722	41,896
Others	**3,288,681**	2,565,324	2,676,905
	₱178,914,549	₱67,381,491	₱77,085,338

22. **Personnel Expenses**

	2007	2006	2005
Salaries and directors' fees included under:			
Cost of power generation	**₱14,640,028**	₱4,184,612	₱2,676,547
General and administrative expenses	**63,250,167**	12,877,985	12,375,479
Deferred exploration costs	**2,091,316**	2,216,415	2,424,847
Retirement (see Note 25)	**2,864,900**	894,000	1,276,000
Employee benefits included under:			
Cost of power generation	**2,956,775**	889,523	636,918
General and administrative expenses	**1,968,942**	3,136,575	1,548,106
	₱87,772,128	₱24,199,110	₱20,937,897

23. **Depreciation and Amortization**

Depreciation and amortization related to the following assets:

	2007	2006	2005
Depreciation expense of property, plant and equipment and investment property included under:			
Cost of power generation	**₱40,493,918**	₱6,077,911	₱4,011,004
General and administrative expenses	**11,042,346**	9,231,907	8,764,948
	51,536,264	15,309,818	12,775,952
Amortization of intangibles included under -			
General and administrative expenses (see Note 15)	**11,816,533**	–	–
	₱63,352,797	₱15,309,818	₱12,775,952

24. **Income Tax**

The Company's deferred tax liabilities amounting to ₱85.6 million and ₱80.7 million as of December 31, 2007 and 2006, respectively, pertain to the tax effect of the difference between fair values and carrying amounts of net assets arising from the acquisition of CIPP and unrealized fair value gains on investments held for trading.

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

	2007	2006
Unrealized foreign exchange losses	**₱107,191,734**	₱16,904,329
NOLCO	**71,986,618**	112,019,200
Allowance for impairment losses	**6,712,782**	6,712,782
Accrued expenses	**5,088,322**	6,651,926
MCIT	**4,691,155**	2,000,265
Unamortized past service cost	**4,024,685**	4,686,665
Asset retirement obligation	**3,883,808**	240,000
Allowance for doubtful accounts	**3,270,365**	3,270,365
Allowance for probable losses on mineral exploration	**162,173,007**	162,173,007
Unrealized marked to market loss	**65,644**	25,529
Deferred rent income	**35,278**	35,278
	₱369,123,398	₱314,719,346

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

The Company's share in deferred tax assets (liabilities) of a joint venture is as follows:

	2007	2006
Capitalized unrealized foreign exchange gains	**(₱14,055,179)**	(₱16,820,529)
Unrealized foreign exchange gains	**(52,505)**	(901,398)
Past service costs and accrued retirement	**332,430**	765,696
	(₱13,775,254)	(₱16,956,231)

MCIT amounting to ₱4.7 million and NOLCO totaling to ₱72.0 million can be claimed as deduction from income tax due and regular taxable income, respectively, as follows:

	Amount	
Expiry Date	MCIT	NOLCO
December 31, 2008	₱276,852	₱60,162,413
December 31, 2009	1,097,140	9,251,527
December 31, 2010	3,317,163	2,572,678
	₱4,691,155	₱71,986,618

MCIT amounting to ₱0.6 million and ₱0.4 million expired in 2007 and 2006, respectively. NOLCO amounting to ₱42.6 million and ₱25.1 million expired in 2007 and 2006, respectively.

The reconciliation between the effective income tax rates and the statutory income tax rates follows:

	2007	2006	2005
Applicable statutory income tax rates	**35.00%**	35.00%	32.50%
Increase (decrease) in tax rate resulting from:			
Dividend income exempt from tax	**(2.93)**	.–	(13.03)
Equity in net earnings of associates	**(1.66)**	(0.29)	(0.30)
Excess of the net fair value of an acquired Company's identifiable assets and liabilities over cost	–	(26.66)	–
Reversal of allowance for impairment losses on deferred exploration costs	–	–	(16.68)
Others	**(4.65)**	(0.02)	5.39
Effective income tax rates	**25.76%**	8.03%	7.88%

25. **Pension and Other Post-employment Benefits**

The Company has a funded, noncontributory defined benefit retirement plan covering all of its regular and full time employees.

Pension and other post-employment benefits consist of accruals for:

	2007	2006
Net pension liability	**₱2,921,800**	₱3,141,700
Vacation and sick leave	**3,493,741**	2,587,811
	₱6,415,541	₱5,729,511

Employee benefits included under costs of power generation and general and administrative expenses consist of:

	2007	2006	2005
Net pension benefit expense	**₱2,864,900**	₱894,000	₱1,276,000
Vacation and sick leave	**1,992,404**	572,139	741,639
	₱4,857,304	₱1,466,139	₱2,017,639

The following tables summarize the components of provision for retirement benefits included in the consolidated statement of income and accrued retirement costs included under “Pension and other post-employment benefits” account in the consolidated balance sheet, which are based on the latest actuarial valuation:

	2007	2006	2005
Components of provision for retirement benefits:			
Current service cost	**₱2,769,900**	₱1,609,600	₱1,166,000
Interest cost	**1,748,900**	1,721,600	1,598,400
Expected return on plan assets	**(1,540,800)**	(1,927,300)	(1,339,800)
Recognized actuarial gain	**(113,100)**	(509,900)	(148,600)
Provision for retirement benefits for the year	**₱2,864,900**	₱894,000	₱1,276,000
Actual return on plan assets	**₱650,400**	₱1,384,400	₱8,774,900

The net benefit liability that was recognized in the consolidated balance sheet as of December 31, 2007 and 2006 are as follows:

	2007	2006
Present value of benefit obligation (PVBO)	**₱14,719,700**	₱26,964,400
Fair value of plan assets	**15,576,500**	28,114,200
Funded status	**856,800**	1,149,800
Unrecognized net actuarial gains	**(3,778,600)**	(4,291,500)
Net pension liability	**(₱2,921,800)**	(₱3,141,700)

The movements in the PVBO are as follows:

	2007	2006
Balance at beginning of year	**₱26,964,400**	₱16,053,900
Current service cost	**2,769,900**	1,609,600
Interest cost	**1,748,900**	1,721,600
Actual benefits paid	**(12,746,500)**	–
Transfer in (out)	**(3,526,400)**	3,526,400
Actuarial losses (gains)	**(490,600)**	4,052,900
Balance at end of year	**₱14,719,700**	₱26,964,400

The changes in the fair value of plan assets are as follows:

	2007	2006
Balance at beginning of year	**₱28,114,200**	₱21,973,100
Expected return on plan assets	**1,540,800**	1,927,300
Actual contribution	**3,084,800**	1,230,300
Actual benefits paid	**(12,746,500)**	–
Transfer in (out)	**(3,526,400)**	3,526,400
Actuarial losses	**(890,400)**	(542,900)
Balance at end of year	**₱15,576,500**	₱28,114,200

The assumptions used to determine PVBO and fair value of plan assets are as follows:

	2007	2006
Discount rate	**7.50%–7.51%**	6.60%
Expected rate of return on plan assets	**6.00%**	5.28%
Rate of increase in compensation	**8.00%–9.00%**	9.00%

The overall expected rate of return on plan assets is determined based on the prevailing return on government securities applicable to the period over which the obligation is to be settled.

The Company expects to contribute ₱2,321,600 to its defined benefit pension plan in 2008.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2007	2006
Equities	**89%**	79%
Mutual Funds and UITFs	**9%**	7%
Others	**2%**	14%

Experience adjustments on plan assets and plan liabilities are ₱890,400 and ₱1,784,900 loss, respectively, in 2007.

Experience adjustments on plan assets and plan liabilities are ₱651,800 gain and ₱542,900 loss, respectively, in 2006.

26. **Related-Party Transactions**

PHINMA
The Parent Company is controlled by PHINMA through a management agreement. Under the existing management agreement, the Parent Company pays PHINMA a fixed monthly management fee plus an annual incentive based on a certain percentage of the Parent Company's net income. The management agreement with PHINMA was renewed for another five years starting September 1, 2003. Total management fees, including annual incentive, amounted to ₱14.3 million, ₱5.9 million and ₱8.4 million for the years ended December 31, 2007, 2006 and 2005, respectively. Net payable to PHINMA (included under "Accounts payable and other current liabilities" account) amounted to ₱11.0 million and ₱2.5 million as of December 31, 2007 and 2006, respectively.

TA Power
TA Power leases and occupies part of the office space owned by the Parent Company. Rental income earned amounted to ₱1.2 million in 2007 and ₱1.3 million each in 2006 and 2005, net of the Company's interest. Net receivable from TA Power amounted to ₱0.7 million and ₱0.2 million as of December 31, 2007 and 2006, respectively, net of the Company's interest. Outstanding receivable from TA Power (included under "Receivables" account) amounted to ₱0.7 million and ₱0.2 million as of December 31, 2007 and 2006, respectively.

PHINMA Property Holdings Corporation (PPHC)
PPHC is likewise controlled by PHINMA through a management agreement. PPHC bills the Company for the management of the building where the Company's office is located. There was no management fee incurred in 2007 and 2006. Net payable to PPHC amounted to ₱0.1 million as of December 31, 2007. Net receivable from PPHC amounted to ₱1.0 million as of December 31, 2006.

Directors
The Company recognized bonus to directors computed based on net income before the effect of the application of the equity method of accounting. Directors' bonus amounted to ₱13.3 million in 2007, ₱3.0 million in 2006 and ₱6.0 million in 2005. The related unpaid amount included under the "Accounts payable and other current liabilities" account in the consolidated balance sheet amounted to ₱13.3 million and ₱3.0 million as of December 31, 2007 and 2006, respectively.

Compensation of key management personnel of the Company are as follows:

	2007	2006
Short-term employee benefits	**₱33,026,497**	₱12,465,648
Post-employment benefits:		
Retirement benefits	**408,771**	499,881
Sick leave and vacation leave	**418,821**	140,298
	₱33,854,089	₱13,105,827

Stockholders
Amounts due to stockholders for unclaimed dividends totaled ₱5.3 million and ₱1.2 million as of December 31, 2007 and 2006, respectively.

27. EPS Computation

	2007	2006	2005
(a) Net income	**₱78,266,932**	₱327,214,425	₱100,540,423
Common shares outstanding at beginning of year (see Note 18)	**1,105,056,728**	1,105,056,728	840,601,987
Weighted average number of shares issued during the year	**21,192,869**	–	7,242,750
Weighted average number of stock dividends	–	–	202,115,738
(b) Weighted average common shares outstanding	**1,126,249,597**	1,105,056,728	1,049,960,475
Basic/Diluted EPS (a/b)	**₱0.07**	₱0.30	₱0.10

The Company's outstanding stock option has no dilutive effect in 2007, 2006 and 2005. Also, the Company does not have any potential common share nor other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

28. **Commitments**

Electricity Supply Agreement with Guimelco

On November 12, 2003 and July 26, 2004, the Company signed an ESA and amendment to the ESA, respectively, with Guimelco, a nonstock, nonprofit cooperative (see Note 1). Under the ESA, the Company agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel generator power station and to supply Guimelco with electricity based on the terms and conditions set forth in the ESA. Following are the significant provisions of the ESA, among others:

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

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

Electricity Supply Agreements with Holcim

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

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

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

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

Operating Lease Commitment

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

	2007	2006
Within one year	**₱240,000**	₱240,000
After one year but not more than five years	**1,200,000**	1,200,000
More than five years	**320,000**	560,000
	₱1,760,000	₱2,000,000

Concession Agreement

CIPP has a concession agreement with Carmelray-JTCI Corporation (CJC), the developer of CIP II in Calamba, Laguna, where the CIPP power plant is located. The cooperation period under the concession agreement shall end in 2027, subject to extension. CJC has the option to purchase the power plant or the distribution system, or both at the end of the cooperation period or any extension thereof. The purchase price for the power plant shall be its net book value and that for the distribution system shall be US$1.

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

Exploration Right Agreement with Balatoc Kalinga Tribe, Inc.

The Company entered into a Memorandum of Agreement with Balatoc Kalinga Tribe, Inc. and Balatoc Tribe Exploration and Mining Corporation (BTEMC) on July 27, 2007 granting TA Oil the exclusive right to conduct exploration work over the Batong Buhay property in Barangay Balatoc, Pasil, Kalinga subject to an Exploration Permit to be granted to BTEMC by the Department of Environment and Natural Resources (DENR) and the exclusive option to develop and operate said property under a successor mineral agreement with the government.

The National Commission on Indigenous People (NCIP) had earlier formally recognized the Balatoc tribe's priority right to develop, extract or exploit any natural resources within their ancestral domain in Barangay Balatoc, Pasil, Kalinga, pursuant to the Indigenous Peoples Rights Act of 1997 and directed the Balatoc tribe to submit their project application to the DENR.

Electric Power Industry Reform Act

Republic Act No. 9136, the Electric Power Industry Reform Act of 2001 (EPIRA), and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;

(2) Creation of a WESM; and

(3) Open and non-discriminatory access to transmission and distribution systems.

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

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

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

29. **Financial Risk Management Objectives and Policies**

I. Objectives and Investment Policies

The PHINMA Group Treasury manages and invests the funds of the Company and invests in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine Peso, U.S. dollar, Euro and Japanese yen. It is responsible for the sound and prudent management of the Company's financial assets that finance the Company's operations and investments in enterprises.

PHINMA Group Treasury focuses on the following major risks that may affect its transactions. These are:

1) Foreign currency risk
2) Credit or counterparty risk
3) Liquidity risk
4) Market risk

Professional competence, prudence, clear and strong separation of office functions, due diligence and use of risk management tools are exercised at all times in the handling of the funds of the Company. An Investment Committee, comprised of some of the Company's BOD, reviews and approves policies, controls and strategies for investments and risk management.

Basic investment policies as approved by the Investment Committee are:

1) Safety of principal

2) Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee.

3) Exposure limits:

   a. For banks/fund managers: maximum 20% of total fund of each company per bank/fund

   b. For peso investments: minimal corporate exposure except for registered bonds for non-affiliates

   c. Limits on third currencies outside US dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee

   d. For total foreign currencies: maximum 50% of total portfolio

   e. For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review

II. Risk Management Process

1) Foreign Currency Risk

<u>Definition</u>
The PHINMA Group Treasury manages holdings of cash and securities not only in Philippine peso but also substantially in U.S. dollar and other third currencies. Any depreciation of the U.S. dollar and other currencies against the Philippine Peso posts material foreign exchange losses that will diminish the market values of these investments.

<u>Management of Risk</u>

   a. Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange.

   b. Regular discussions with banks are done to get multiple perspectives on currency trends/forecasts.

   c. Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.

   d. Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.

   e. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's foreign currency-denominated assets and liabilities as of December 31, 2007 and 2006 are as follows (in thousands):

	U.S. Dollar		Euro		Yen	Won
	2007	2006	**2007**	2006	2006	2006
Assets:						
Cash and cash equivalents	**$8,768**	$2,101	**EUR–**	EUR696	¥58,397	Won–
Short-term investments	**209**	–	–	–	–	–
Investments in bonds and FXTNs	**2,001**	5,342	–	225	–	–
Investments in UITFs and mutual funds	–	1,181	–	82	–	–
Other receivables	**90**	–	–	–	–	–
	11,068	8,624	**–**	1,003	58,397	–
Liabilities -						
Accounts payable and other current liabilities	**(44)**	(8)	**(80)**	–	–	(1,329)
Notes payable	–	(657)	–	–	–	–
	(44)	(665)	**(80)**	–	–	(1,329)
Net foreign currency-denominated assets (liabilities)	**$11,024**	$7,959	**(EUR80)**	EUR1,003	¥ 58,397	(Won1,329)
Peso equivalent	**₱455,071**	₱391,041	**(₱4,878)**	₱64,927	₱24,124	(₱70)

In translating foreign currency-denominated financial assets and liabilities into peso amounts, the exchange rates used were ₱41.28 to US$1.00 and ₱60.55 to EUR 1.00 as of December 31, 2007 and ₱49.03 to US$1.00, ₱64.60 to EUR 1.00, ₱0.41 to Yen 1.00 and ₱0.052 to Won 1.00 as of December 31, 2006.

The following table demonstrates the sensitivity to a reasonable possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax and equity (due to the changes in the fair value of monetary assets and liabilities) as of December 31, 2007:

	Effect on	
Increase (Decrease) in U.S. Dollar Exchange Rate	Profit Before Tax	Equity
	(In Millions)	
(₱0.25)	₱0.92	₱0.60
(0.50)	0.31	0.20
0.25	2.10	1.37
0.50	2.70	1.76

2) Credit or Counterparty Risk

Definition

Credit or counterparty risk is the risk due to uncertainty in a counterparty's ability to meet its obligations. Traditionally this credit event applies to bonds, whether government bonds or corporate bonds, where the holders are concerned that the counterparty to whom they have made a “loan” might default on a payment (coupon or principal).

Management of Risk

a. Investments are coursed thru or transacted with duly accredited domestic and foreign banks and mutual funds up to a maximum of 20% of the Company’s investible funds. For UITF and mutual funds, fund placements cannot exceed 10% of the UITF’s or mutual funds’ total funds. Individual limits are further established for one bank/mutual fund on the basis of their valuation, financial soundness, business performance and reputation/expertise. Banks’, UITF’s and mutual funds’ performance as well as their fund level, investment mix and duration are reviewed at least once a month or as often as required.

b. Investments in non-rated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies/updates from the major rating agencies are used as references (S & P, Moody’s) in addition to a comprehensive credit and business review.

c. For temporary investments in affiliates, transactions are done on an arms-length basis taking into account the affiliates’ financial standing and ability to pay. Interest rates are based on a formula that considers the average of the borrowing and lending rates of the parties and maturity dates are strictly complied with.

d. Discussions are done on every major investment by Treasury *en banc* before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a senior Treasury Officer supervises major transaction executions.

e. Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.

f. A custodian bank for peso instruments and foreign currency instruments has been appointed based on their track record on such service and the bank’s financial competence.

g. Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

With respect to credit risk arising from the receivables of the Company, the Company's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

2007	Neither Past Due nor Impaired Class A	Class B	Class C	Past Due not Impaired	Past Due Individually Impaired	Total
Trade and other receivables:						
Trade receivables from customers:						
Guimelco	₱5,182,610	₱–	₱–	₱922,935	₱–	₱6,105,545
Locators	2,900,881	42,269,167	26,113,134	9,914,160	–	81,197,342
Due from related companies	755,549	–	–	–	23,532,366	24,287,915
Others	30,159,463	–	–	38,965	3,270,366	33,468,794
	₱38,998,503	₱42,269,167	₱26,113,134	₱10,876,060	₱26,802,732	₱145,059,596

The Company uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Collateralized accounts with excellent paying habits
Class B	Secured accounts with good paying habits
Class C	Unsecured accounts

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, short-term investments, AFS investments, investments held for trading and derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company has assessed the credit quality of the following financial assets:

a. Cash and cash equivalents, short-term investments, investments held for trading and derivative instruments as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.

b. Quoted equity instruments were assessed as high grade since the share prices were projected to move upward and it can be fully recovered.

c. Unquoted equity instruments were assessed as high grade since these are shares of stock of PHINMA-managed companies.

There are no significant concentrations of credit risk within the Company.

3) Liquidity Risk

<u>Definition</u>
Liquidity risk is financial risk due to uncertain liquidity of a bond or asset in the portfolio. Uncertain liquidity can happen if the credit rating of a corporate bond, hence its acceptability, falls. If the issuing company encounters unexpected problems (like regulatory reversals), it experiences sudden unexpected cash outflows, or some other event seriously affecting its tradability or when counterparties avoid trading with or

lending to the corporation or when the Central Bank through the banking system curtails credit.

Liquidity risk also happens under market conditions where banks cut credit supply. Liquidity risk can also be simple mismatching of investment maturities with cash flow requirements such that gains have to be sacrificed because of the mismatch.

Management of Risk

a. Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.

b. Continuous monitoring of the weekly/monthly cash flows as well as frequent updates of the annual plans of the Company.

c. Investment maturities are spread on a weekly, monthly, and annual basis as indicated in the Company's plans. Average duration of investments should adhere to the investment parameters approved by the Investment Committee.

d. When necessary, placements are pre-terminated or securities liquidated; but this is largely avoided.

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2007 based on contractual undiscounted payments.

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱69,326,579	₱39,129,105	₱–	₱–	₱–	₱108,455,684
Accrued expenses	50,593,778	–	–	–	–	50,593,778
Accrued directors' and annual incentives	24,714,168	–	–	–	–	24,714,168
Due to related parties	775,473	–	–	–	–	775,473
Others	455,082	–	35,278	–	–	490,360
Due to stockholders	5,340,277	–	–	–	–	5,340,277
Customers' deposits	–	–	8,175,005	14,815,404	–	22,990,409
Other noncurrent liability	–	–	–	3,223,574	–	3,223,574
	₱151,205,357	₱39,129,105	₱8,210,283	₱18,038,978	₱–	₱216,583,723

Security deposits from customers of CIPP amounted to ₱23.0 million (gross of unamortized discount of ₱5.4 million) and ₱22.9 million as of December 31, 2007 and 2006, respectively.

4) Market Risk

Definition

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or changes in business/economic changes. Interest rate or foreign exchange rates or risk appetite are market factors of market risk as the summation of the three defines the value of an instrument or asset.

Management of Risk

a. Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers are done to get multiple perspectives on interest rate trends/forecasts.

b. Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.

c. "Red Lines" are established then reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that the Treasury Group uses as guides whether to buy, hold or sell bonds as approved by the Investment Committee or, in cases of high volatility, by the CFO.

d. In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates/prices in relation to strategies.

e. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

Interest Rate Risk

The following table sets out the carrying amount (in thousands), by maturity, of the Company's financial assets and liabilities that are exposed to interest rate risk:

	Interest Rates	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Total
2007 Fixed Rate							
Special savings account (SSA)	3-6%	₱1,086,439	₱–	₱–	₱–	₱–	₱1,086,439
Short-term investments	4.2-4.5%	8,640	–	–	–	–	8,640
Investments in bonds and FXTNs	8.125-17.5%	84,923	27,019	6,766	15,350	–	134,058

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above table are noninterest-bearing investments and are therefore not subject to interest rate volatility.

The following table demonstrates the sensitivity to a reasonable possible change in the interest rates, with all other variables held constant, of the Company's profit before tax and equity:

	Increase	Effect on	
2007	(Decrease) in Basis Points	Profit Before Tax	Equity
FXTN	25	(₱248,439)	(₱198,751)
Special deposit account (SDA)	25	1,062,629	850,103
SSA	25	400,343	320,274
FXTN	(25)	248,439	198,751
SDA	(25)	(1,062,629)	(850,105)
SSA	(25)	(400,343)	(320,274)

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Based on the historical movement of the stock exchange index, the Company's assessment of reasonable possible change was determined to be an increase of 21.06%, resulting to a possible effect in the equity of ₱12.6 million.

III. Monitoring of Risk Management Process

Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

1) Weekly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenged based on current and forecasted developments on the financial and political events.

2) Monthly portfolio reports are submitted to the CFO that includes an updated summary of global and domestic events of the past month and the balance of the year.

3) Quarterly presentation of the investment portfolio to the Investment Committee to discuss and secure approvals on strategy changes.

4) Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.

5) One on one coaching sessions are scheduled to assist, train and advise personnel.

6) Periodic review of Treasury risk profile and control procedures.

7) Periodic specialized audit to ensure active risk oversight.

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2007 and December 31, 2006.

The Company monitors capital using the debt-to-equity ratio, which is total current and noncurrent liabilities divided by total equity. The Company monitors its debt-to-equity ratio to keep it at a level acceptable to the Company. Capital includes all the items appearing in the equity section of the consolidated balance sheet. The Company's policy is to keep debt-to-equity ratio below the maximum ratio of 2:1.

	2007	2006
	(In Thousands)	
Total liabilities	**₱469,673**	₱578,941
Total equity	**2,861,882**	2,168,164
Debt-to-equity ratio	**0.16:1**	0.27:1

30. Financial Instruments

Fair Values

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

	Carrying Amount		Fair Value	
	2007	2006	**2007**	2006
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱1,211,421,333**	₱254,915,532	**₱1,211,421,333**	₱254,915,532
Short-term investments	**8,639,904**	–	**8,639,904**	–
Receivables:				
Trade	**87,302,887**	65,449,319	**87,302,887**	65,449,319
Due from related companies	**755,549**	1,153,436	**755,549**	1,153,436
Others	**30,198,428**	6,593,596	**30,198,428**	6,593,596
Cash in escrow fund*	**–**	80,014,123	**–**	80,014,123
	1,338,318,101	408,126,006	**1,338,318,101**	408,126,006
Financial assets at FVPL:				
Investments held for trading	**134,058,401**	397,057,220	**134,058,401**	397,057,220
Derivative asset*	**34,001,351**	15,508,980	**34,001,351**	15,508,980
	168,059,752	412,566,200	**168,059,752**	412,566,200
AFS investments:				
Quoted	**129,787,480**	77,906,038	**129,787,480**	77,906,038
Unquoted	**94,463,017**	45,293,252	**94,463,017**	45,293,252
	224,250,497	123,199,290	**224,250,497**	123,199,290
Total financial assets	**₱1,730,628,350**	₱943,891,496	**₱1,730,628,350**	₱943,891,496

	Carrying Amount		Fair Value	
	2007	2006	**2007**	2006
Financial Liabilities				
Financial liability at FVPL -				
Derivative liability**	**₱–**	₱25,529	**₱–**	₱25,529
Other financial liabilities:				
Accounts payable and other				
current liabilities	**185,029,466**	97,350,135	**185,029,466**	97,350,135
Interest-bearing loans				
and borrowings:				
Notes payable	**–**	197,661,292	**–**	197,661,292
Long-term debt	**–**	32,539,741	**–**	32,539,741
Customers' deposits	**17,558,403**	22,896,434	**20,081,531**	22,896,434
Due to stockholders	**5,340,277**	1,241,686	**5,340,277**	1,241,686
Other noncurrent liability	**3,223,574**	–	**2,792,642**	–
	211,151,720	351,689,288	**213,243,916**	351,689,288
Total financial liabilities	**₱211,151,720**	₱351,714,817	**₱213,243,916**	₱351,714,817

** Presented as part of other current assets.*

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

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

Cash and Cash Equivalents, Short-term Investments, Receivables, Notes Payable, Accounts Payable and Other Current Liabilities, Due to Stockholders. Carrying amount approximates fair value due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair values of investments held for trading and listed AFS investments. The fair values of unlisted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS in the near future.

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

The Company has outstanding currency forward contracts with an aggregate notional amount of US$11.5 million and weighted average contracted forward rate of ₱44.208 to US$1.00 as of December 31, 2007, and an aggregate notional amount of US$3.7 million and weighted average contracted forward rate of ₱53.313 to US$1.00 as of December 31, 2006. The Company is in a Selling USD position. The net fair value gains on these currency forward contracts as of December 31, 2007 and 2006 amounted to ₱32.6 million and ₱15.5 million, respectively, and were included in "Other current assets" account in the consolidated balance sheet.

The net movements in fair value changes of freestanding forward currency transactions are as follows:

	2007	2006
Balance at beginning of year	**₱15,508,980**	₱–
Net changes in fair value during the year	**103,603,681**	24,010,010
Fair value of settled contracts	**(86,488,761)**	(8,501,030)
Balance at end of year	**₱32,623,900**	₱15,508,980

The net changes in fair value during the year are included in the “Net gain on derivatives” account in the consolidated statement of income.

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

The net movements in fair value changes of these embedded derivatives are as follows:

	2007	2006
Balance at beginning of year	**(₱25,529)**	(₱25,529)
Net changes in fair value during the year	**(10,773,389)**	–
Fair value of settled contracts	**12,176,369**	–
Balance at end of year	**₱1,377,451**	(₱25,529)

The net changes in fair value during the year are included in the “Net gain on derivatives” account in the consolidated statement of income.

Customers’ Deposits. The fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rates used range from 4.04% to 5.68% in 2007.

Other Noncurrent Liability. The fair value of the Company’s long-term payable to Ascendas is based on the discounted value of the expected future cash flow using applicable interest rate for similar type of instrument. Discount rate used was 5.81%.

Long-term Debt. The carrying value of floating rate loan that reprice on a quarterly basis, at the least, approximates fair value as of balance sheet date. The carrying value approximates fair value because of recent and regular repricing based on market conditions.

Details of interest and other financial income and interest and other financial charges are as follow:

<u>Interest and Other Financial Income</u>

	2007	2006	2005
Interest income	**₱32,749,179**	₱20,032,926	₱22,380,051
Net gains on investments held for trading:			
Gain on redemption/sale of investments held for trading	**2,281,987**	13,472,572	3,700,613
Unrealized gains (loss) from changes in fair value of investments held for trading	**(629,718)**	8,433,662	6,447,717
Amortization of bond premium/discount	**(1,568,524)**	(2,679,149)	(2,842,998)
	₱32,832,924	₱39,260,011	₱29,685,383

Interest and Other Financial Charges

	2007	2006	2005
Interest expense on loans and borrowings	**₱9,403,484**	₱4,298,624	₱6,739,249
Amortization of debt issuance cost	**2,005,713**	791,551	332,321
Amortization of discount on customers' deposits	**1,274,365**	–	–
Accretion of asset retirement obligation	**369,824**	370,840	263,144
Other financial charges	**1,323,580**	20,480	1,284,000
	₱14,376,966	₱5,481,495	₱8,618,714

31. **Subsequent Events**

a. TA Oil signed a MOA on January 17, 2008 whereby it agreed to sell all of its 1,800,000 shares in BIPC to Phoenix for the total price of ₱197,653,846.

   Another party to the said MOA is TA Power, which likewise agreed to sell all of its 300,000 shares in BIPC to the same buyer for ₱32,942,308.

b. TA Oil and H. L. Nathurmal of India signed a Memorandum of Understanding on February 5, 2008 regarding possible cooperation in the fields of mining and energy in the Philippines, India and ASEAN countries. Goa-based H. L. Nathurmal is engaged in iron and manganese mining, power generation, pharmaceutical and trading.

c. TA Oil and its wholly-owned subsidiary, TA Gold, entered into an Operating Agreement on February 14, 2008 regarding the former's MPSA with the Philippine government covering a 333 hectare area in Jose Panganiban, Camarines Norte.

   Under said Operating Agreement, TA Oil grants TA Gold the exclusive right to explore, develop and operate the contract area for commercial mineral production.

   The MPSA was awarded on July 28, 2007. The contract area includes the former mine site of Philippine Iron Mines, Inc., which produced iron and copper until the mid-1970's. It is also a prospective mine site for gold, molybdenum and uranium.

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SEC Accreditation No. 0012-F

Report of Independent Auditors
On Supplementary Schedules

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Trans-Asia Oil and Energy Development Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated February 27, 2008. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code (SRC) Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bennette A. Daplas-Bachoco

Bennette A. Daplas-Bachoco
Partner
CPA Certificate No. 86740
SEC Accreditation No. 0112-AR-1
Tax Identification No. 129-433-970
PTR No. 0017588, January 3, 2008, Makati City

February 27, 2008

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule A. Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments)
For the Year Ended December 31, 2007

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
Investment in Fixed Treasury Notes (FXTNs)				
Multinational Investment Bancorporation	12,000,000	₱ 13,125,600	₱ 13,125,600	₱ 1,155,833
First Metro Investment Corporation	18,500,000	22,825,700	22,825,700	1,482,694
International Exchange Bank	10,000,000	10,750,000	10,750,000	689,444
Metropolitan Bank and Trust Company	2,100,000	2,433,689	2,433,689	44,123
Equitable PCI Bank	1,789,000	1,791,505	1,791,505	152,363
Rizal Commercial and Banking Corporation	501,328	519,275	519,275	40,663
Investment in Bonds in US $				
Hongkong & Shanghai Banking Corporation Limited	57,792,000	57,813,466	57,813,466	1,374,280
ING Bank	24,768,000	24,799,166	24,799,166	719,247
		₱ 134,058,401	₱ 134,058,401	₱ 5,658,649

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule C. Non-current Marketable Equity Securities, Other Long-term Investments, and Other Investments
For the Year Ended December 31, 2007

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 of 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 of Principal Amount of Bonds and Notes	Amount in Pesos	
At Equity:									
Baenotan Industrial Park Corporation	1,800,000	154,746,701	5,022,075	-	-		1,800,000	159,768,776	
Atlas Holdings Corporation	220,000	50,169,766		-	-	50,169,766	220,000	-	
Asia Coal Corporation	14,091	694,063	(12,497)		-	-	14,091	681,566	
Union Aggregates Corporation	156,250	4,964,477	-	-	-	3,405,227	156,250	1,559,250	
							-		
		210,575,007	5,009,578	-	-	53,574,993	-	162,009,592	-
Accumulated impairment		(4,964,478)	-	-	-	3,405,227	-	(1,559,251)	-
							-		
							-		
		205,610,529	5,009,578	-	-	56,980,220		160,450,341	-

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule C. Non-current Marketable Equity Securities, Other Long-term Investments, and Other Investments
For the Year Ended December 31, 2007

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 of Principal Amount of Bonds and Notes	Amount in Pesos	Acquisitions	Others	Disposals	Others	Number of Shares of Principal Amount of Bonds and Notes	Amount in Pesos	
Available-for-sale financial assets									
Bacnotan Consolidated Industries, Inc.	6,352,421	P 61,618,484	P	P 42,481,815	P	P	7,305,284	P 104,100,299	P -
Phinma Property Holdings Corporation	153,099,208	26,860,093					153,099,208	26,860,093	-
Atlas Holdings Corporation				50,169,765			220,000	50,169,765	8,800,000
Asian Plaza, Inc.	37,684	18,433,158					37,684	18,433,158	-
Manila Southwoods Golf & Country Club	1	630,000					1	630,000	-
Tagaytay Midlands Golf Club, Inc	2	1,240,000					2	1,240,000	-
Dharmala	367,200	1,033,142					367,200	1,033,142	-
Subic Bay Golf & Country Clubs	1	-					1	-	-
Capitol Hills Golf & Country Club, Inc	1	40,000					1	40,000	-
Manila Golf & Country Club	1 share (100 units)	12,500,000		7,500,000			1 share (100 units)	20,000,000	-
Evererest Golf Club Resorts, Inc	1	60,000					1	60,000	-
Puerto Azul Golf & Country Club, Inc	1	50,000		10,000			1	60,000	-
Vulcan	73,486	117,014					73,486	117,014	-
Alabang Country Club, Inc	1	1,050,000		150,000			1	1,200,000	-
Banco de Oro	1,300	59,800	71,868	1,644	42,562		1,500	90,750	-
Philippine Long Distance Telephone Company	-	9,000					700	9,000	-
Piltel	9,000	62,100	35,337	529	37,966		8,000	60,000	-
Philex Mining Corp	7,500	30,375	72,580	45,744	6,199		15,000	142,500	-
SM Prime Holdings	9,000	96,750		4,558	24,300		7,513	77,008	-
Ayala Land	97	1,479	15,137		14,083	1,150	97	1,382	-
BPI	1,200	76,200	135,422		21,890	5,232	3,000	184,500	-
EEI Corporation	6,000	18,900	17,737		35,367	1,270	-	(0)	-
Chemrez	10,000	54,000	24,613		68,613	10,000	-	-	-
DMCI	4,000	24,400	8,361		31,144	1,617	-	-	-
PNOC-EDC	24,000	116,400			76,800	39,600	-	-	-
First Gen	500	28,250	53,245		79,365	2,130	-	-	-
Filinvest Development Corp	10,000	36,500	89,209		125,412	296	-	(0)	-
Globe	50	61,750	220,452	30,721	93,123		140	219,800	-
Megaworld Properties	17,000	41,140	79,556		103,016	17,680	-	-	-
A. Soriano	179	510		80			179	591	
Aboitiz Equity Ventures, Inc.	-		101,601		87,000	801	2,000	13,800	
First Philippine Holdings Corporation	-		98,951	3,266	65,968		500	36,250	
RCBC	-		1,236,217		1,119,933	8,284	4,500	108,000	

Manila Electric Company	-	146,920	563	106,233		500	41,250	
Universal Robina Corporation	-	8,882			1,882	500	7,000	
Aboitiz Power Corporation	-	149,891			6,791	27,000	143,100	
National Reinsurance Corporation	-	38,000		38,000			-	
Vista Land and Lifescape	-	68,533			8,533	10,000	60,000	
Metropolitan Bank and Trust Company	-	140,144			3,894	2,500	136,250	
Atlas Construction, Mining	-	135,372			9,372	9,000	126,000	
Filinvest Land, Inc.	-	23,585		23,585			-	
GMA	-	51,000		51,000			-	
Others	- -					-	-	-
Total	124,349,446	3,022,612	100,398,687	2,251,558	118,533		225,400,653	8,800,000
Allowance for decline in value	(1,150,156)						(1,150,156)	
	123,199,290	3,022,612	100,398,687	2,251,558	118,533		224,250,497	8,800,000
	P 328,809,819	P 8,032,189	P 100,398,687	P 2,251,558	P 57,098,753	-	P 384,700,838	P 8,800,000

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule E. Intangible Assets
For the Year Ended December 31, 2007

Description	Beginning Balance	Additions At Cost	Deductions: Charged to Costs and Expenses	Deductions: Charged to Other Accounts	Other Changes- Additions (Deductions)	Ending Balance
Oil exploration and development costs:						
Service Contract (SC) No. 6	₱ 112,460,894	₱ 567,589	₱ -	₱ -	₱ -	₱ 113,028,483
SC 41	51,673,887	30	-	-	-	51,673,917
SC 42	33,880,927		-	-	-	33,880,927
Geophysical Survey and Exploration Contract (GSEC) No. 93	30,621,923	1,741,400	-	-	-	32,363,323
GSEC No. 94	28,228,563		-	-	-	28,228,563
Offshore North Mindoro - West Batangas	17,290,300		-	-	-	17,290,300
GSEC No. 91	8,103,315		-	-	-	8,103,315
SC 55	4,739,567	830,572	-	-	-	5,570,140
Others	540,981		-	-	-	540,981
Mineral exploration costs	8,819,647	809,234	-	-	-	9,628,880
	296,360,004	3,948,825	-	-	-	300,308,829
Allowance for probable losses	(162,173,007)	-	-	-	-	(162,173,007)
	134,186,997	3,948,825	-	-	-	138,135,822
Customer contracts and relationships	59,082,665			-		59,082,665
Amortization of intangible assets			(11,816,533)			(11,816,533)
	₱ 193,269,662	₱ 3,948,825	₱ (11,816,533)	₱ -	₱ -	₱ 185,401,954

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Schedule F. Long-term Debt *

For the Year Ended December 31, 2007

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount Shown as Current	Amount Shown as Long-term	Remarks
	₱ -	₱ -	₱ -	
	₱ -	₱ -	₱ -	

* - None as of December 31, 2007.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule I. Capital Stock
For the Year Ended December 31, 2007

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common stock	2,000,000,000	1,657,585,092	100,000,000	885,905,137	15,945,453	755,734,502

SGV & Co

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying parent company financial statements of Trans-Asia Oil and Energy Development Corporation, which comprise the parent company balance sheets as of December 31, 2007 and 2006, and the parent company statements of income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

APR 14 2008

Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Trans-Asia Oil and Energy Development Corporation as of December 31, 2007 and 2006, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Bennette A. Daplas-Bachoco

Bennette A. Daplas-Bachoco
Partner
CPA Certificate No. 86740
SEC Accreditation No. 0112-AR-1
Tax Identification No. 129-433-970
PTR No. 0017588, January 3, 2008, Makati City

February 27, 2008

APR 14 2008

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 26 and 27)	**₱1,119,428,587**	₱202,747,291
Short-term investments (Notes 26 and 27)	**8,639,904**	–
Investments held for trading (Notes 7, 26 and 27)	**117,948,232**	392,281,782
Receivables - net (Notes 8, 24, 26 and 27)	**103,842,529**	13,045,995
Fuel and spare parts - at cost	**6,806,978**	3,061,733
Other current assets (Notes 10, 26 and 27)	**40,354,452**	109,064,135
Total Current Assets	**1,397,020,682**	720,200,936
Noncurrent Assets		
Property, plant and equipment - net (Notes 9 and 15)	**181,154,829**	185,611,980
Investments in subsidiaries, associates and interest in a joint venture - at cost (Note 10)	**596,663,917**	588,245,394
Available-for-sale investments (Notes 11, 26 and 27)	**194,580,732**	123,199,290
Deferred exploration costs - net (Note 13)	**138,135,822**	134,186,997
Investment property - net (Note 12)	**3,577,060**	3,837,210
Other noncurrent assets (Note 8)	**332,679**	369,543
Total Noncurrent Assets	**1,114,445,039**	1,035,450,414
	₱2,511,465,721	₱1,755,651,350
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14, 24, 26 and 27)	**₱90,941,830**	₱16,948,368
Current portion of interest-bearing loans and borrowings (Notes 15, 26 and 27)	**–**	171,587,097
Due to stockholders (Notes 24, 26 and 27)	**5,340,277**	1,241,686
Income and withholding taxes payable	**3,522,800**	899,678
Total Current Liabilities	**99,804,907**	190,676,829

(Forward)

	December 31	
	2007	2006
Noncurrent Liabilities		
Interest-bearing loans and borrowings - net of current portion (Notes 15, 26 and 27)	**₱–**	₱25,952,644
Pension and other post-employment benefits (Note 23)	**4,966,394**	5,729,511
Deferred tax liabilities (Note 22)	**–**	2,456,751
Other noncurrent liabilities	**7,107,382**	3,513,984
Total Noncurrent Liabilities	**12,073,776**	37,652,890
Equity		
Capital stock (Note 16)	**1,657,585,092**	1,105,056,728
Additional paid-in capital (Note 16)	**54,693,308**	8,194,721
Unrealized fair value gains on available-for-sale investments (Note 11)	**77,866,896**	27,736,507
Retained earnings (Note 16)	**609,441,742**	386,333,675
Total Equity	**2,399,587,038**	1,527,321,631
	₱2,511,465,721	₱1,755,651,350

See accompanying Notes to Parent Company Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31	
	2007	2006
REVENUES		
Dividend income	**₱308,837,802**	₱61,870,315
Generation revenue (Note 1)	**46,734,117**	58,699,781
Interest and other financial income (Note 27)	**33,125,115**	38,241,302
Other income	**40,152,184**	32,798,592
	428,849,218	191,609,990
COSTS AND EXPENSES		
Cost of power generation (Notes 18, 20 and 21)	**32,449,946**	53,510,047
General and administrative expenses (Notes 19, 20, 21, 23 and 24)	**150,188,212**	66,502,761
OTHER EXPENSES (INCOME)		
Net gain on derivatives (Note 27)	**(103,603,681)**	(24,010,010)
Foreign exchange loss - net (Note 26)	**80,721,881**	32,857,586
Interest and other financial charges (Note 27)	**12,707,355**	5,481,495
Provisions for (reversal of):		
Allowance for impairment on investment in an associate (Note 10)	**(3,405,227)**	–
Impairment loss on investment in a subsidiary (Note 10)	**20,135**	11,053
Impairment loss on available-for-sale investments (Note 11)	**20,000**	255,000
Gain on sale of available-for sale investments	**(1,075,355)**	(63,083)
Gain on sale of property and equipment	**(82,167)**	–
Others	**(7,262,629)**	(3,998,239)
	160,678,470	130,546,610
INCOME BEFORE INCOME TAX	**268,170,748**	61,063,380
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)		
Current	**3,317,163**	1,097,140
Deferred	**(2,456,751)**	2,456,751
	860,412	3,553,891
NET INCOME	**₱267,310,336**	₱57,509,489

See accompanying Notes to Parent Company Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Retained Earnings (Note 16)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 11)	Total
Balance at January 1, 2007	**₱1,105,056,728**	**₱8,194,721**	**₱386,333,675**	**₱27,736,507**	**₱1,527,321,631**
Cash dividends - ₱0.04 per share	**–**	**–**	**(44,202,269)**	**–**	**(44,202,269)**
Proceeds from stock rights offering, net of ₱8.8 million direct issuance costs	**552,528,364**	**46,498,587**	–	–	**599,026,951**
	1,657,585,092	**54,693,308**	**342,131,406**	**27,736,507**	**2,082,146,313**
Fair value gains on available-for-sale investments	–	–	–	**50,130,389**	**50,130,389**
Net income for the year	–	–	**267,310,336**	–	**267,310,336**
Total income for the year	**–**	**–**	**267,310,336**	**50,130,389**	**317,440,725**
Balance at December 31, 2007	**₱1,657,585,092**	**₱54,693,308**	**₱609,441,742**	**₱77,866,896**	**₱2,399,587,038**
Balance at January 1, 2006	₱1,105,056,728	₱8,194,721	₱373,026,455	₱12,223,435	₱1,498,501,339
Cash dividends - ₱0.04 per share	–	–	(44,202,269)	–	(44,202,269)
	1,105,056,728	8,194,721	328,824,186	12,223,435	1,454,299,070
Fair value gains on available-for-sale investments	–	–	–	15,513,072	15,513,072
Net income for the year	–	–	57,509,489	–	57,509,489
Total income for the year	–	–	57,509,489	15,513,072	73,022,561
Balance at December 31, 2006	₱1,105,056,728	₱8,194,721	₱386,333,675	₱27,736,507	₱1,527,321,631

See accompanying Notes to Parent Company Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱268,170,748**	₱61,063,380
Adjustments for:		
Interest and other financial income (Note 27)	**(33,125,115)**	(38,241,302)
Depreciation and amortization (Note 21)	**16,353,854**	15,202,900
Unrealized foreign exchange loss - net	**81,647,500**	8,847,577
Net gain on derivatives	**(103,603,681)**	(24,010,010)
Interest and other financial charges (Note 27)	**12,707,355**	5,481,495
Dividend income	**(308,837,802)**	(61,870,315)
Provisions for (reversal of):		
Allowance for impairment on investment in an associate	**(3,405,227)**	–
Impairment loss in investment in a subsidiary	**20,135**	11,053
Impairment loss on available-for-sale investments	**20,000**	255,000
Gain on sale of available-for-sale investments	**(1,075,355)**	(63,083)
Gain on sale of property and equipment	**(82,167)**	–
Others	**(759,014)**	–
Operating loss before working capital changes	**(71,968,769)**	(33,323,305)
Decrease (increase) in:		
Receivables	**(28,122,615)**	2,704,243
Fuel and spare parts	**(3,745,245)**	305,331
Other current assets	**87,235,247**	(80,654,217)
Increase (decrease) in accounts payable and other current liabilities	**71,328,340**	(5,452,614)
Net cash used for operations	**54,726,958**	(116,420,562)
Interest received	**33,457,072**	14,691,787
Interest paid	**(10,439,067)**	(1,097,140)
Income taxes paid	**–**	(4,211,855)
Net cash provided by (used in) operating activities	**77,744,963**	(107,037,770)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	**(235,266,960)**	(1,043,124,712)
Property and equipment	**(11,767,386)**	(1,349,304)
Deferred exploration costs	**(3,948,825)**	(2,436,991)
Available-for-sale investments	**(2,783,482)**	(11,013,957)
Investment in subsidiaries	**(25,020,135)**	(147,326,722)
Short-term investments	**(8,639,904)**	–
Cash dividends received	**308,837,802**	61,870,315

(Forward)

	Years Ended December 31	
	2007	2006
Proceeds from:		
Sale/redemption of investments held for trading	**₱462,101,297**	₱968,166,033
Settlement of currency forward contracts	**87,333,080**	8,501,030
Sale of available-for-sale investments	**3,087,784**	314,163
Sale of property and equipment	**213,000**	–
Termination of short-term investments	**–**	28,980,895
Decrease (increase) in due from related parties	**(66,749,385)**	425,873
Cash received from an associate for the return of capital	**3,405,227**	–
Decrease (increase) in other noncurrent assets	**36,865**	(127,066)
Net cash provided by (used in) investing activities	**510,838,978**	(137,120,443)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of capital stock, net of issuance costs	**599,026,951**	–
Short-term loans and borrowings	**–**	165,000,000
Payments of:		
Cash dividends	**(40,103,678)**	(44,195,947)
Short-term loans and borrowings	**(172,272,727)**	–
Long-term loans and borrowings	**(27,272,727)**	(5,454,545)
Increase in other noncurrent liabilities	**3,223,574**	–
Net cash provided by financing activities	**362,601,393**	115,349,508
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(34,504,038)**	(8,847,577)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**916,681,296**	(137,656,282)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**202,747,291**	340,403,573
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,119,428,587**	₱202,747,291

See accompanying Notes to Parent Company Financial Statements.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Trans-Asia Oil and Energy Development Corporation (TA Oil or "the Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1969. The Company is involved in power generation, oil and mineral exploration, exploitation and production. In 2004, the Company entered into an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the island province of Guimaras. The Company completed the construction of a 3.4 megawatt (MW) bunker C-fired diesel generator power station in Guimaras in February 2005 and started commercial operations on June 26, 2005 (see Note 25). The other activities of the Company are investments in various operating companies and financial instruments. As of December 31, 2007, its largest investment is 50% interest in Trans-Asia Power Generation Corporation (TA Power). Its subsidiaries, Trans-Asia Renewable Energy Corporation (TA Renewable) and Trans-Asia (Karang Besar) Petroleum Corporation (TA Karang Besar), on the other hand, have not yet started commercial operations. On December 28, 2006, the Company acquired CIP II Power Corporation (CIPP), a company registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna. On July 2, 2007, Trans-Asia Gold and Minerals Development Corporation (TA Gold), a wholly owned subsidiary, was incorporated and registered with the SEC to primarily engage in the business of mining and mineral exploration within the Philippines and other countries.

The Energy Regulatory Commission (ERC) granted TA Oil a certificate of registration as a Wholesale Aggregator in November 2006 and TA Power a certificate of registration as a Wholesale Generator in January 2007.

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

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

The parent company financial statements of the Company were authorized for issuance by the Board of Directors (BOD) on February 27, 2008.

2. Basis of Preparation

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

Statement of Compliance
The accompanying parent company financial statements, which are prepared for submission to the SEC, have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements presented in accordance with PFRS. These may be obtained at the Company's registered address, 11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City, or the SEC.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

New and Amendments to PFRS and Philippine Interpretations Effective in 2007
The Company has adopted the following new and amended PFRS during the year:

- Philippine Accounting Standard (PAS) 1, "Presentation of Financial Statements" (Amendment - Capital Disclosures); and
- PFRS 7, "Financial Instruments - Disclosures."

The principal effects of these changes are as follows:

- PAS 1, "Presentation of Financial Statements" (Amendment – Capital Disclosures)

  This amendment to PAS 1 requires additional disclosures on the level of the Company's capital and the objectives, policies, and processes for managing capital. These new disclosures are shown in Note 26.

- PFRS 7, "Financial Instruments - Disclosures"

  This new standard incorporates the disclosure requirements for financial instruments contained in PAS 32, "Financial Instruments - Disclosure and Presentation" and replaces PAS 30, "Disclosures in the Financial Statements of Companies and Similar Financial Institutions." This standard requires new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk (see Note 26).

  The new disclosures are included throughout the parent company financial statements except for the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments as required by paragraphs 31–42 of PFRS 7, in accordance with the transition relief provided by the Financial Reporting Standards Council. While there has been no effect on the financial position or results, comparative information has been revised where needed.

The Company adopted the following new accounting standards which are effective January 1, 2007 but the effect is not material to the parent company financial statements or are not relevant or applicable to the Company:

- Philippine Interpretation IFRIC 7, "Applying Restatement Approach Under PAS 29 - Financial Reporting in Hyperinflationary Economies;" and
- Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives."

Future Changes in Accounting Policies
The Company did not opt for the early adoption of the following new and revised PFRS and Philippine Interpretations that have been approved, but are not yet effective:

- PFRS 8, "Operating Segments" (effective for annual periods beginning on or after January 1, 2009)

  This PFRS adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, "Segment Reporting," and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Company will apply PFRS 8 in 2009.

- PAS 1, "Presentation of Financial Statements (Revised)" (effective for annual periods beginning on or after January 1, 2009)

  The revision is intended to improve users' ability to analyze and compare the information given in financial statements. The Company will apply the revised standard in 2009.

- PAS 23, "Borrowing Costs (Revised)" (effective for annual periods beginning on or after January 1, 2009)

  PAS 23 has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial time to get ready for its intended use or sale. The Company will apply the revised standard in 2009.

- Philippine Interpretation IFRIC 11, "IFRS 2 - Group and Treasury Share Transactions" (effective for annual periods beginning on or after March 1, 2007)

  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company will adopt this interpretation in 2008.

- Philippine Interpretation IFRIC 12, “Service Concession Arrangements,” (effective for annual periods beginning on or after January 1, 2008)

  This interpretation covers contractual arrangements arising from private entities providing public services and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Company is still evaluating the effect of this interpretation.

- Philippine Interpretation IFRIC 13, “Customer Loyalty Programmes” (effective for annual periods beginning on or after July 1, 2008)

  This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the parent company financial statements as no such schemes currently exist.

- Philippine Interpretation IFRIC 14/PAS 19, “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (effective for annual periods beginning on or after January 1, 2008)

  This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, “Employee Benefits.” The Company expects that this interpretation will have no impact on the financial position or results of operations of the Company as its defined benefit scheme currently has no surplus plan asset.

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4. **Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

Financial assets are classified into the following categories: Financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. Financial liabilities are classified into the following categories: Financial liabilities at FVPL and other financial liabilities. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

▪ Financial Assets and Liabilities at FVPL

<u>Financial Assets and Financial Liabilities Designated as at FVPL on Initial Recognition</u>
Financial assets or financial liabilities classified in this category included those that are designated by management on initial recognition as at FVPL when the following criteria are met:

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

b. The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

c. The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

The Company has no financial asset designated as at FVPL on initial recognition.

Other Financial Assets or Financial Liabilities Held for Trading
Other financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the parent company balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the parent company statement of income. Interest earned or incurred is recorded in interest and other financial income or charges, respectively, while dividend income is recorded when the right to receive payment has been established.

The Company's investments in mutual and common trust funds, bonds and treasury notes are classified as financial assets held for trading (see Note 7).

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

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

- Loans and Receivables

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

The Company's cash and cash equivalents, short-term investments, receivables and cash in escrow are classified as loans and receivables.

- HTM Investments

  Quoted nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investments when the Company has the positive intention and ability to hold to maturity. Such assets are carried at amortized cost using the effective interest method.

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

  The Company did not classify any financial asset under HTM investments.

- AFS Investments

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

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

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

  The Company's investments in listed and unlisted equity securities and golf club shares are classified as AFS investments (see Note 11).

Other Financial Liabilities

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

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

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

The Company's accounts payable and other current liabilities, interest-bearing loans and borrowings and due to stockholders are classified as other financial liabilities.

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

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. Bad debts are written-off when identified. The amount of the loss shall be recognized in profit or loss.

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

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 the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

AFS Investments. For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the parent company statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the parent company statement of income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions as accounting hedges. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the parent company statement of income. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired or have been transferred;

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial Liability. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

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

Fuel and Spare Parts

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

Investments in Subsidiaries, Associates and Interest in a Joint Venture

The Company's investments in the following subsidiaries, associates and interest in a joint venture are carried at cost less accumulated impairment losses:

	Percentage of Ownership	
	2007	2006
Subsidiaries:		
TA Renewable [a]	**100.00**	100.00
TA Karang Besar [a]	**100.00**	100.00
CIPP [c]	**100.00**	100.00
TA Gold [a] [d]	**100.00**	–
Joint Venture -		
TA Power	**50.00**	50.00
Associates:		
Union Aggregates Corporation (UAC) [b]	**31.25**	31.25
Bacnotan Industrial Park Corporation (BIPC)	**30.00**	30.00
Asia Coal Corporation (Asia Coal) [b]	**28.18**	28.18
Atlas Holdings Corporation (AHC)	–	10.00

(a) Not yet started commercial operations
(b) Ceased commercial operations
(c) Acquired on December 28, 2006
(d) Incorporated on July 2, 2007

A subsidiary is an entity in which the Company has control. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

Under the cost method, the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits of the subsidiaries and associates arising after the dates of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Investment Property
Investment property is carried at cost, including transaction costs, net of accumulated depreciation. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 years.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the parent company statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Deferred Exploration Costs
The Company follows the full cost method of accounting for exploration costs determined on the basis of each service contract (SC)/geophysical survey and exploration contract (GSEC) area. Under this method, all exploration costs relating to each SC/GSEC are tentatively deferred to the extent that the capitalized costs do not exceed the value of those reserves, pending determination of whether the contract area contains oil and gas reserves in commercial quantities, net of an allowance for impairment losses.

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

Deferred exploration costs are assessed for impairment when:

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

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Revenue

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

Generation Revenue. Revenue from the sale of electricity are recognized during the period when electricity is generated. Revenue from take-or-pay arrangement is recognized in accordance with the terms of the ESA in relation to the electricity generated.

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

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

Rental. Rental income is accounted for an straight-line basis over the lease term.

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

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

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

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

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

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

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

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

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

<u>Operating Leases</u>
Operating lease payments are recognized as expense in the parent company statement of income on a straight-line basis over the lease term.

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

<u>Impairment of Non-financial Assets</u>
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and

is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

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

Foreign Currency-denominated Transactions
Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date. Exchange gains or losses arising from the settlement or restatement of monetary items at rates different from those at which they were initially recorded during the year are credited or charged directly to current operations.

Income Tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Contingencies

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

Events After the Balance Sheet Date

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

5. Significant Accounting Estimates and Judgments

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

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

Judgments

Determining Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease. TA Oil's ESA with Guimelco qualifies as lease on the basis that TA Oil sells all its output to Guimelco. This arrangement call for a take-or-pay arrangement where payment is made on the basis of the availability of the power plant and not on actual deliveries. This lease arrangement is determined to be operating lease where a significant portion of the risks and rewards of ownership are retained by TA Oil. Accordingly, the power plant asset is recorded as part of the cost of property, plant and equipment and the fees billed to Guimelco are recorded as operating revenue.

Estimates

Estimating Allowances for Doubtful Accounts. The Company maintains allowance for doubtful accounts based on the result of the individual assessment under PAS 39, "Financial Instrument: Recognition and Measurement." Under the individual assessment, which considers the significant financial difficulties of the customer/debtor, the Company is required to obtain the present value of estimated cash flows using the receivables' original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The methodology and assumptions used for the individual assessment is based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying value of receivables as of December 31, 2007 and 2006 amounted to ₱103.8 million and ₱13.0 million, respectively (see Note 8).

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

The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred tax assets were recognized in the parent company balance sheet as of December 31, 2007 and 2006 amounted to ₱364.8 million and ₱312.9 million, respectively (see Note 22).

Estimating Useful Lives of Property, Plant and Equipment and Investment Property. The Company estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of December 31, 2007 and 2006 is ₱181.2 million and ₱185.6 million, respectively (see Note 9). The carrying value of investment property as of December 31, 2007 and 2006 amounted to ₱3.6 million and ₱3.8 million, respectively (see Note 12).

Impairment of Deferred Exploration Costs. The carrying value of deferred exploration costs is reviewed for impairment when there are indications that the carrying amount exceeds the recoverable amount. The carrying value of deferred exploration costs amounted to ₱138.1 million and ₱134.2 million as of December 31, 2007 and 2006, respectively (see Note 13).

Impairment of Property, Plant and Equipment and Investment Property. The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value in use of the cash-generating units. There are no additional impairment losses provided in 2007 and 2006. The carrying value of property, plant and equipment as of December 31, 2007 and 2006 amounted to ₱181.2 million and ₱185.6 million, respectively (see Note 9). The carrying value of investment property as of December 31, 2007 and 2006 amounted to ₱3.6 million and ₱3.8 million, respectively (see Note 12).

Impairment of Investments in Subsidiaries, Associates and a Joint Venture. The carrying value of these investments is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount. The carrying value of investments in subsidiaries, associates, and a joint venture as of December 31, 2007 and 2006 amounted to ₱596.7 million and ₱588.2 million, respectively (see Note 10).

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% more of the original cost of investment, and "prolonged", greater than 6 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying value of AFS investments as of December 31, 2007 and 2006 amounted to ₱194.6 million and ₱123.2 million, respectively (see Note 11).

Pension and Other Post-employment Benefits. The determination of the Company's obligation and cost for pension and other post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. The assumptions presented in Note 23 to the parent company financial statements include among others, discount rates, expected returns on plan assets and rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

6. **Cash and Cash Equivalents**

	2007	2006
Cash on hand and in banks	**₱120,251,870**	₱14,618,582
Short-term deposits	**999,176,717**	188,128,709
	₱1,119,428,587	₱202,747,291

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

7. **Investments Held for Trading**

	2007	2006
Investments in bonds and Fixed Treasury Notes (FXTNs)	**₱117,948,232**	₱313,736,032
Investments in Unit Investment Trust Funds (UITFs) and mutual funds	**–**	78,545,750
	₱117,948,232	₱392,281,782

8. **Receivables**

	2007	2006
Trade	**₱6,105,545**	₱5,256,588
Due from related companies (see Notes 10 and 24)	**91,758,456**	25,009,071
Others	**32,781,260**	9,583,068
	130,645,261	39,848,727
Less allowance for doubtful accounts	**26,802,732**	26,802,732
	₱103,842,529	₱13,045,995

Trade receivables represent receivables from the Company's sole customer, Guimelco, in accordance with the terms of the ESA between the Company and Guimelco. Trade receivables are noninterest-bearing and are on a 30-day credit terms.

Due from related companies includes a long-outstanding receivable of ₱23.5 million from a company under common control of PHINMA, fully provided with allowance for doubtful accounts, as of December 31, 2007 and 2006.

Other receivables include interest receivable of ₱5.8 million and ₱5.9 million as of December 31, 2007 and 2006, respectively.

The Company extended a loan to Guimelco with face value amounting to ₱532,382 with interest of 12.7% per annum and a monthly amortization of ₱18,726 beginning May 2005 up to February 2008. The monthly amortization will be offset against the monthly rental of ₱20,000 under the lease contract between Guimelco and TA Oil. In case the lease contract is terminated prior to the full settlement of the loan, the remaining outstanding balance becomes due and demandable.

The outstanding balance of the loan receivable as of December 31, 2007 and 2006 is ₱36,865 and ₱242,477, respectively. The amount due within the next twelve months after year end of 2007 and 2006 totaled ₱36,865 and ₱205,612, respectively and is included as part of other receivables. The noncurrent portion of the loan receivable amounted to ₱36,865 as of December 31, 2006 and is included as part of "Other noncurrent assets" account in the 2006 parent company balance sheet.

Due from related companies amounting to ₱23.5 million and other receivables amounting to ₱3.3 million were impaired and fully provided for as of December 31, 2007 and 2006. There was no movement in the allowance for doubtful accounts in 2007 and 2006.

As of December 31, the aging analysis of receivables is as follows:

	2007						
		Neither Past Due nor	**Past Due but not Impaired**				**Past Due and**
	Total	**Impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**Impaired**
Trade	**₱6,106**	**₱5,183**	**₱411**	**₱512**	**₱–**	**₱–**	**₱–**
Due from related companies	**91,758**	**1,716**	**61**	**–**	**–**	**66,449**	**23,532**
Others	**32,781**	**29,478**	**–**	**–**	**32**	**–**	**3,271**
Total	**₱130,645**	**₱36,377**	**₱472**	**₱512**	**₱32**	**₱66,449**	**₱26,803**

	2006						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 days	30-60 days	60-90 days	90-120 days	Impaired
Trade	₱5,257	₱4,433	₱552	₱272	₱–	₱–	₱–
Due from related companies	25,009	1,477	–	–	–	–	23,532
Others	9,583	6,312	–	–	–	–	3,271
Total	₱39,849	₱12,222	₱552	₱272	₱–	₱–	₱26,803

9. **Property, Plant and Equipment**

	Buildings and Improvements	Machinery and Equipment	Wells, Platforms and Other Facilities	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Total
Cost:							
At January 1, 2006	₱88,589,426	₱102,596,427	₱20,346,661	₱7,053,935	₱3,890,134	₱24,671,249	₱247,147,832
Additions	–	–	–	943,715	210,089	195,500	1,349,304
At December 31, 2006	88,589,426	102,596,427	20,346,661	7,997,650	4,100,223	24,866,749	248,497,136
Additions	7,157,864	–	–	3,014,889	–	1,594,633	11,767,386
Disposals	–	–	–	(712,500)	–	(36,080)	(748,580)
At December 31, 2007	**95,747,290**	**102,596,427**	**20,346,661**	**10,300,039**	**4,100,223**	**26,425,302**	**259,515,942**
Accumulated depreciation and impairment:							
At January 1, 2006	13,823,028	3,508,016	20,346,661	1,745,569	607,683	7,911,449	47,942,406
Depreciation	4,913,458	5,262,024	–	1,203,686	379,957	3,183,625	14,942,750
At December 31, 2006	18,736,486	8,770,040	20,346,661	2,949,255	987,640	11,095,074	62,885,156
Depreciation	5,482,283	5,262,024	–	1,553,098	449,034	3,347,265	16,093,704
Disposals	–	–	–	(581,667)	–	(36,080)	(617,747)
At December 31, 2007	**24,218,769**	**14,032,064**	**20,346,661**	**3,920,686**	**1,436,674**	**14,406,259**	**78,361,113**
Net book value:							
At December 31, 2007	**₱71,528,521**	**₱88,564,363**	**₱–**	**₱6,379,353**	**₱2,663,549**	**₱12,019,043**	**₱181,154,829**
At December 31, 2006	69,852,940	93,826,387	–	5,048,395	3,112,583	13,771,675	185,611,980
At January 1, 2006	74,766,398	99,088,411	–	5,308,366	3,282,451	16,759,800	199,205,426

10. **Investments in Subsidiaries, Associates and Interest in a Joint Venture**

The carrying values of investments are as follows:

	2007	2006
Joint venture -		
TA Power	**₱225,000,000**	₱225,000,000
Subsidiaries:		
CIPP	**151,234,202**	147,315,679
TA Gold	**25,000,000**	–
TA Renewable	**14,000,000**	14,000,000
TA Karang Besar	**3,157,082**	3,136,947
	193,391,284	164,452,626
Associates:		
BIPC	**180,600,000**	180,600,000
AHC	**–**	20,500,000
UAC	**12,219,773**	15,625,000
Asia Coal	**14,515,140**	14,515,140
	207,334,913	231,240,140
	625,726,197	620,692,766
Less accumulated impairment losses	**29,062,280**	32,447,372
	₱596,663,917	₱588,245,394

TA Power

The Company's proportionate share in the assets and liabilities of TA Power as of December 31, 2007 and 2006 and income and expenses for the years then ended are as follows:

	2007	2006
Current assets	**₱143,971,808**	₱287,865,627
Noncurrent assets*	**376,962,029**	428,169,673
	520,933,837	716,035,300
Current liabilities	**(141,654,654)**	(114,961,324)
Noncurrent liabilities (see Note 22)	**(13,775,254)**	(16,956,231)
	(155,429,908)	(131,917,555)
Net assets	**₱365,503,929**	₱584,117,745

**Net of investment in shares of stock of the Company of ₱3.9 million and ₱3.1 million in 2007 and 2006, respectively.*

	2007	2006
Revenue	**₱749,144,599**	₱529,703,050
Cost of power generation	**(594,815,726)**	(423,410,100)
General and administrative expenses	**(52,893,405)**	(40,295,851)
Other income - net	**5,747,467**	15,732,993
Income before income tax	**107,182,935**	81,730,092
Provision for income tax	**(35,934,818)**	(24,916,992)
Net income	**₱71,248,117**	₱56,813,100

CIPP
On December 28, 2006, the Company acquired all the outstanding capital stock of CIPP for a total consideration of ₱145.0 million. Costs directly attributable to the acquisition of CIPP of ₱2.3 million was capitalized as part of investment cost. Based on the provisions of the share and purchase agreement between the Company and the seller, Ascendas Utilities Pte Ltd (Ascendas, a Singaporean corporation), the Company set up an escrow fund of ₱225.0 million out of which payments will be made to Ascendas in accordance with the terms of the share and purchase agreement. The excess cash in escrow fund of ₱80.0 million is presented as other current assets in the 2006 parent company balance sheet. Upon final settlement in 2007, the consideration was adjusted to ₱135.2 million. Thereafter, the final balance of the escrow fund was ordered released by the Company and Ascendas. A total of ₱72.5 million was remitted to CIPP out of the original balance of the escrow fund. Such amount was then recorded as receivable by the Company from CIPP. A total of ₱17.3 million was remitted back to the Company from the escrow fund.

In 2007, the Company subscribed to additional 137, 300 shares of CIPP amounting to ₱13,730,000 which was applied against the Company receivable from CIPP. Receivable from CIPP amounted to ₱64.1 million as of December 31, 2007.

Information with regard to the Company’s significant associates is shown below:

BIPC

	2007	2006
Cash and cash equivalents	**₱10,105,857**	₱18,024,762
Investments in UITFs and mutual fund	**7,955,162**	2,083,040
Installment contract receivables	**54,379,063**	–
Input tax and other current and noncurrent assets	**16,512,057**	13,150,148
Land and development costs	**395,980,999**	418,017,846
Property and equipment - net	**141,887,247**	151,037,974
	626,820,385	602,313,770
Accounts payable and accrued expenses	**(20,995,196)**	(19,037,821)
Deferred gross profit	**(17,289,161)**	(13,441,496)
Estimated liability for land development	**(16,259,384)**	(14,114,732)
Deposits for construction costs	**(15,194,516)**	(15,599,864)
Other taxes payable	**(826,084)**	(467,694)
Long-term debt	**(23,693,459)**	(23,829,828)
	(94,257,800)	(86,491,435)
Net assets	**₱532,562,585**	₱515,822,335
Revenue	**₱81,907,824**	₱24,478,617
Costs and expenses	**(66,315,670)**	(37,124,569)
Other income	**1,639,347**	1,798,506
Benefit from (provision for) income tax	**(491,251)**	5,276
Net income (loss)	**₱16,740,250**	(₱10,842,170)

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On January 17, 2008, the Company, together with the other shareholders of BIPC, entered into a Memorandum of Agreement (MOA) with Phoenix Petroleum Philippines, Inc. (Phoenix) for the sale of all the issued and outstanding common shares of BIPC to Phoenix. Total consideration to be paid to TA Oil is ₱197.6 million.

<u>AHC</u>

	2006
Current assets	₱504,187,256
Current liabilities	(3,738,703)
Net assets	₱500,448,553
Revenue	₱69,621,834
Expenses	(7,553,349)
Provision for income tax	(67,170)
Net income	₱62,001,315

AHC is a holding company whose primary purpose is to invest, hold, purchase, acquire, lease, contract, or otherwise in real and personal properties.

In 2007, the Company ceases to have significant influence over AHC, thus, investment in AHC shares with carrying amount of ₱20.5 million was reclassified to AFS investments.

On March 29, 2006, the BOD of AHC declared cash dividends of ₱5 a share payable to all stockholders of record as of declaration date. Such dividends were paid on April 5, 2006. The Company received ₱1.1 million cash dividends from AHC.

11. **Available-for-Sale Investments**

	2007	2006
Shares of stock:		
Listed	**₱105,557,480**	₱62,336,038
Unlisted	**65,793,252**	45,293,252
Quoted golf club shares	**23,230,000**	15,570,000
	₱194,580,732	₱123,199,290

AFS investments are stated at fair value as of December 31, 2007 and 2006 except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Gains from change in fair value recognized directly in equity in 2007 and 2006 amounted to ₱50.1 million and ₱15.5 million, respectively. Impairment loss in 2007 and 2006 amounting to ₱20.0 thousand and ₱0.3 million, respectively, has been recognized directly in profit or loss.

12. **Investment Property**

	2007	2006
Cost	**₱4,893,663**	₱4,893,663
Accumulated depreciation:		
Balance at beginning of the year	**1,056,453**	796,303
Depreciation	**260,150**	260,150
Balance at end of year	**1,316,603**	1,056,453
	₱3,577,060	₱3,837,210

Investment property is stated at cost less accumulated depreciation and any impairment losses. The fair value of the investment property based on the latest valuation by an independent firm of appraisers is ₱5.8 million and ₱4.4 million as of December 31, 2007 and 2006. The valuation undertaken considers the sales of similar or substitute properties and related market data and establishes value estimate by processes involving comparison.

13. **Deferred Exploration Costs**

Following are the details and movements of deferred exploration costs:

	Oil Exploration Costs	Mineral Explorations Costs	Total Deferred Exploration Costs
Cost:			
At January 1, 2006	₱286,351,058	₱7,571,955	₱293,923,013
Additions	1,189,299	1,247,692	2,436,991
At December 31, 2006	287,540,357	8,819,647	296,360,004
Additions	3,139,591	809,234	3,948,825
At December 31, 2007	**290,679,948**	**9,628,881**	**300,308,829**
Allowance for impairment loss:			
At January 1, 2006	162,173,007	–	162,173,007
Additions	–	–	–
At December 31, 2006	162,173,007	–	162,173,007
Additions	–	–	–
At December 31, 2007	**162,173,007**	**–**	**162,173,007**
Net book value:			
At December 31, 2007	**₱128,506,941**	**₱9,628,881**	**₱138,135,822**
At December 31, 2006	125,367,350	8,819,647	134,186,997
At January 1, 2006	124,178,051	7,571,955	131,750,006

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

	2007	2006
SC No. 6 (Northwest Palawan)	**₱113,028,483**	₱112,460,894
SC No. 41 (Sulu Sea)	**51,673,917**	51,673,887
SC No. 42 (North Palawan)	**33,880,927**	33,880,927
SC No. 51/GSEC No. 93 (East Visayas)	**32,363,323**	30,621,923
GSEC No. 94 (Offshore West Palawan)	**28,228,563**	28,228,563
Offshore North Mindoro-West Batangas	**17,290,300**	17,290,300
GSEC No. 91 (Southwest Palawan)	**8,103,315**	8,103,315
SC No. 55 (Offshore West Palawan)	**5,570,140**	4,739,568
Others	**540,980**	540,980
	₱290,679,948	₱287,540,357

The foregoing deferred oil exploration costs represent the Company's share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and are covered by operating agreements which set forth the participating interests, rights and obligations of the contractors.

The following summarizes the status of the Company's projects:

Oil Exploration

a. SC No. 6 Block A

The Block A consortium signed a Farm-In Agreement with Vitol GPC Investments S. A. (Vitol) of Switzerland on March 7, 2007.

Under the said agreement, Vitol will undertake at its sole cost, technical evaluation of the contract area over a period of one year, after which it will decide whether to earn 70% participating interest in the block or not. If Vitol decides to earn such interest, Vitol will carry the original consortium members in the cost of one or two wells, and in the first phase of the first development in the block.

Technical evaluation of the area is in progress as of December 31, 2007.

b. SC No. 6 Block B

TA Oil and most of the consortium members executed an option agreement on October 11, 2007 with Blade Petroleum (Australia) and Venturoil BVI (British Virgin Islands) granting the latter two companies the right to conduct at their sole cost 3–6 month exclusive due diligence on the area and the option to acquire 70% interest in the block.

c. SC No. 51

Due to the tight rig market, the consortium proposed to the DOE the consolidation of the 2nd and 3rd sub-phases of the Exploration Period that would enable the drilling of the well committed under the 2nd sub-phase, during the 3rd sub-phase, and the conduct of a 3D seismic survey during the current 2nd sub-phase.

The DOE subsequently approved the proposed amendments to the work program and adjusted the duration of the concerned sub-phases. The consortium submitted the final report of the engineering study on the sub-commercial Villaba gas discovery to the DOE in August 2007.

Partners completed a 146 sq. km. 3D seismic survey in the Cebu Strait on July 6, 2007. However, the conduct of a programmed 261 km. 2D seismic survey in the same area, which would have fulfilled the outstanding 250 km. 2D seismic obligation under the 1st sub-phase of the Exploration Period, was deferred following instructions from the DOE, in the light of opposition from interest groups based in Bohol.

Processing of the newly-acquired 3D seismic data was completed in December 2007 and interpretation commenced immediately thereafter.

d. SC No. 55

The consortium elected to extend the term of the 1st sub-phase of the Exploration Period by one year to February 4, 2008 due to non-availability of an ultra deepwater drilling rig. Prior to the expiration of the extension, the consortium elected to enter the 2nd sub-phase of the Exploration Period from February 5, 2008 to August 5, 2009.

Processing of 456 km. of 2D seismic data acquired in October 2006, 358 km. of 2002 2D lines and 745 km. of 1980s 2D profiles were completed in August 2007.

Partners acquired 954 km. of 2D seismic data in June 2007 to provide additional coverage over selected leads in the block. Processing of said data was about 85% complete as of December 31, 2007.

Interpretation of the 2006 series and vintage seismic data was completed in December 2007.

<u>Mineral Exploration</u>

The Department of Environment and Natural Resources (DENR) awarded TA Oil on July 28, 2007 a Mineral Production Sharing Agreement (MPSA) covering a 333-hectare area in the municipality of Jose Panganiban, Camarines Norte.

Mines and Geosciences Bureau Regional Office No. 5 in Daraga, Albay, however, registered the MPSA only in December 2007 following conclusion of their investigation of a mining right claim by a third party over a portion of the MPSA block.

The contract area includes the former mine site of Philippine Iron Mines, Inc., which produced iron and copper until the mid-1970s. The block is also a prospective mine site for gold, uranium, molybdenum and other metals.

The work program for the first two years of the MPSA consists of geological field work, geophysical surveys and exploratory drilling.

Discussions with an international mining company interested in participating in the exploration of the area continued.

14. Accounts Payable and Other Current Liabilities

	2007	2006
Trade and nontrade accounts payable	**₱12,065,727**	₱5,734,553
Accrued expenses	**47,852,603**	347,781
Accrued directors' and management fees and annual incentives (see Note 24)	**24,059,742**	5,176,849
Output tax	**5,726,618**	5,335,097
Due to related parties (see Note 24)	**746,779**	293,281
Deferred rent income	**35,278**	35,278
Others	**455,083**	25,529
	₱90,941,830	₱16,948,368

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

15. Interest-bearing Loans and Borrowings

Current

In 2006, current interest-bearing loans and borrowings include ₱165.0 million Philippine peso-denominated loans from a local bank which were used to finance the acquisition of CIPP. The loans have a fixed interest rate of 7.8% and with maturity on March 28, 2007 and January 9, 2007. The loans are secured by financial assets amounting to US$3.2 million and ₱20.0 million which are under the custody of the creditor bank. These loans were fully paid and the collaterals were released in August 2007.

Noncurrent

In 2006, long-term debt represents a term loan in the amount of ₱80.0 million used to finance the construction and installation of a 3.4 MW Bunker C-fired diesel power plant in Guimaras Island. The loan has a fixed interest rate of 12.7% payable quarterly and a term of seven years, inclusive of one year grace period on principal payment, which will mature on September 30, 2011. The loan is payable in equal quarterly amortization of ₱1.8 million. On December 27, 2005, the Company paid ₱40.0 million. The interest rate was converted from a fixed rate to a variable rate in 2005. This loan was fully paid in June 2007.

The loan is secured by: (i) a chattel mortgage on various machinery and equipment that constitute the 3.4 MW Bunker C-fired power plant located at Barangay San Miguel, Jordan, Guimaras; (ii) assignment of rights over the ESA with Guimelco; (iii) assignment of contract receivables from Guimelco; and, (iv) assignment to the bank of proceeds from Performance Bond required from contractors and suppliers of the Company.

Machinery and equipment with net carrying amount of ₱90.8 million as of December 31, 2006, have been pledged as security for the loan. The bank released the chattel mortgage on September 27, 2007.

16. Equity

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

	Number of Shares	
	2007	2006
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000
Issued:		
Balance at beginning of year	**1,105,056,728**	1,105,056,728
Issuance during the year	**552,528,364**	–
Balance at end of year	**1,657,585,092**	1,105,056,728

On June 20, 2007, the SEC approved the stock rights offering of 552.5 million shares of the Company at the rate of 1 share for every 2 shares held as of record date of November 23, 2007, at a price of ₱1.10 per share. The offer period commenced on November 28, 2007 and ended on December 11, 2007. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to ₱599.0 million. The proceeds will be used to finance plant expansion, to fund petroleum and mineral explorations and for general corporate purposes.

Dividends declared and paid in 2007 and 2006 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 27, 2006	Cash	0.04 per share	44,202,269	May 23, 2006
April 2, 2007	Cash	0.04 per share	44,202,269	April 19, 2007

17. Employee Stock Options and Executive Stock Grants

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

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

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

As allowed under PFRS 1, "First Time Adoption of Philippine Financial Reporting Standards," the Company availed of the exemption from applying PFRS 2, "Share-based Payment," to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005.

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares: (a) stock grants for officers and managers of the Company; and, (b) stock options for directors, officers and employees of TA Oil and its subsidiaries and affiliates (referred to herein as the "New Plan") under the terms and conditions as determined by the Executive Committee of the BOD. As of December 31, 2007, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

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

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

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

Coverage	Directors, permanent, officers and employees of TA Oil and its subsidiaries/affiliates
Exercise price	At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of ₱1.00 per share
Vesting period	• Up to 33% of the allocated shares on the 1st year from date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.

Right to Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

18. Cost of Power Generation

	2007	2006
Fuel	**₱17,003,547**	₱38,351,380
Depreciation and amortization (see Note 21)	**6,077,911**	6,077,911
Labor (see Note 20)	**3,529,123**	4,184,612
Repairs and maintenance	**2,035,222**	971,628
Taxes and licenses	**1,731,770**	1,737,931
Employee benefits (see Note 20)	**890,875**	889,523
Insurance	**555,559**	637,365
Rental	**315,789**	315,789
Others	**310,150**	343,908
	₱32,449,946	₱53,510,047

19. General and Administrative Expenses

	2007	2006
Salaries and directors' fees (see Note 20)	**₱59,361,185**	₱12,877,985
Management and professional fees (see Note 24)	**44,904,310**	20,933,817
Depreciation and amortization (see Note 21)	**10,275,943**	9,124,989
General exploration	**10,162,943**	2,615,382
Building maintenance and repairs	**8,298,873**	5,930,587
Insurance, dues and subscriptions	**2,592,627**	1,562,298
Transportation and travel	**2,453,821**	3,060,483
Employee benefits (see Note 20)	**1,798,932**	3,136,575
Taxes and licenses	**1,675,422**	1,164,360
Office supplies	**1,552,507**	1,471,419
Rent	**1,515,726**	245,091
Retirement benefit (see Notes 20 and 23)	**1,464,671**	1,390,465
Donation and contribution	**305,317**	853,398
Entertainment, amusement and recreation	**75,912**	31,723
Others	**3,750,023**	2,104,189
	₱150,188,212	₱66,502,761

20. **Personnel Expenses**

	2007	2006
Salaries and directors' fees included under:		
Cost of power generation	**₱3,529,123**	₱4,184,612
General and administrative expenses	**59,361,185**	12,877,985
Deferred exploration costs	**2,091,316**	2,216,415
Retirement benefit (see Note 23)	**1,464,671**	1,390,465
Employee benefits included under:		
Cost of power generation	**890,875**	889,523
General and administrative expenses	**1,798,932**	3,136,575
	₱69,136,102	₱24,695,575

21. **Depreciation and Amortization**

Depreciation and amortization related to the following assets:

	2007	2006
Property, plant and equipment and investment property included under:		
Cost of power generation	**₱6,077,911**	₱6,077,911
General and administrative expenses	**10,015,793**	8,864,839
Investment property included under - General and administrative expenses	**260,150**	260,150
	₱16,353,854	₱15,202,900

22. **Income Tax**

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

	2007	2006
Unrealized foreign exchange losses	**₱107,191,734**	₱16,904,329
NOLCO	**67,676,599**	110,228,278
Allowance for impairment losses	**6,712,782**	6,712,782
Accrued expenses	**5,042,725**	6,651,926
MCIT	**4,691,155**	2,000,265
Unamortized past service cost	**4,024,685**	4,686,665
Asset retirement obligation	**1,387,808**	873,987
Allowance for doubtful accounts	**3,270,365**	3,270,365
Allowance for impairment loss on deferred exploration costs	**162,173,007**	162,173,007

(Forward)

	2007	2006
Unrealized loss (gain) on embedded derivatives	**(₱59,776)**	₱25,529
Deferred rent income	**35,278**	35,278
Unrealized gain on free-standing derivatives	**(32,623,900)**	–
Unrealized loss (gain) on investments held for trading	**(2,175,296)**	(1,279,946)
	₱327,347,166	₱312,282,465

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

MCIT amounting to ₱4.7 million and NOLCO totaling to ₱67.7 million can be claimed as deduction from income tax due and regular taxable income, respectively, as follows:

		Amount	
Year Incurred	Expiry Date	MCIT	NOLCO
2005	December 31, 2008	₱276,852	₱59,406,576
2006	December 31, 2009	1,097,140	8,270,023
2007	December 31, 2010	3,317,163	–
		₱4,691,155	₱67,676,599

MCIT amounting to ₱0.6 million and ₱0.4 million expired in 2007 and 2006, respectively. NOLCO amounting to ₱12.6 million was applied in 2007. NOLCO amounting to ₱29.9 million and ₱25.1 million expired in 2007 and 2006, respectively.

The reconciliation between the effective income tax rates and the statutory income tax rate follows:

	2007	2006
Applicable statutory income tax rate	**35.00%**	35.00%
Increase (decrease) in tax rate resulting from:		
Dividend income exempt from tax	**(40.31)**	(35.46)
Changes in deferred tax assets not recognized	**3.92**	(8.80)
Interest income subjected to a lower final tax rate	**(1.80)**	(6.41)
Others	**3.51**	21.49
Effective income tax rates	**0.32%**	5.82%

23. Pension and Other Post-employment Benefits

The Company has a funded, noncontributory defined benefit retirement plan covering all of its regular and full time employees.

Pension and other post-employment benefits consist of accruals for:

	2007	2006
Net pension liability	**₱2,161,900**	₱3,141,700
Vacation and sick leaves	**2,804,494**	2,587,811
	₱4,966,394	₱5,729,511

Employee benefits included under costs of power generation and general and administrative expenses consist of:

	2007	2006
Net pension benefit expense	**₱1,055,900**	₱894,000
Contributions to PHINMA and TA Power retirement funds for common employees	**408,771**	496,465
Vacation and sick leaves	**1,303,156**	572,139
	₱2,767,827	₱1,962,604

Total retirement costs for the years ended December 31, 2007 and 2006 amounted to ₱1.5 million and ₱1.4 million, respectively. Retirement costs include the Company's contribution to PHINMA and TA Power's retirement funds pertaining to the Company's share in the retirement benefits of common employees amounting to ₱0.4 million in 2007 and ₱0.5 million in 2006.

The following tables summarize the components of provision for retirement benefits included in the parent company statement of income and accrued retirement costs included under "Pension and other post-employment benefits" account in the parent company balance sheet, which are based on the latest actuarial valuation:

	2007	2006
Components of provision for retirement benefits:		
Current service cost	**₱2,010,600**	₱1,609,600
Interest cost	**1,748,300**	1,721,600
Expected return on plan assets	**(1,540,800)**	(1,927,300)
Recognized actuarial gain	**(113,100)**	(509,900)
	2,105,000	894,000
Adjustment for cross-assigned employees	**(1,049,100)**	–
Provision for retirement benefits for the year	**₱1,055,900**	₱894,000
Actual return on plan assets	**₱650,400**	₱1,384,400

The net benefit liability that was recognized in the parent company balance sheet as of December 31, 2007 and 2006 are as follows:

	2007	2006
Present value of benefit obligation (PVBO)	**₱14,016,000**	₱26,964,400
Fair value of plan assets	**15,576,500**	28,114,200
Funded status	**1,560,500**	1,149,800
Unrecognized net actuarial gains	**(3,722,400)**	(4,291,500)
Net pension liability	**(₱2,161,900)**	(₱3,141,700)

The movements in the PVBO are as follows:

	2007	2006
Balance at beginning of year	**₱26,964,400**	₱16,053,900
Current service cost	**2,010,600**	1,609,600
Interest cost	**1,748,300**	1,721,600
Actual benefits paid	**(12,746,500)**	–
Transfer in (out)	**(3,526,400)**	3,526,400
Actuarial loss (gain)	**(434,400)**	4,052,900
Balance at end of year	**14,016,000**	26,964,400
Adjustment for cross-assigned employees	**(1,049,100)**	–
	₱12,966,900	₱26,964,400

The changes in the fair value of plan assets are as follows:

	2007	2006
Balance at beginning of year	**₱28,114,200**	₱21,973,100
Expected return on plan assets	**1,540,800**	1,927,300
Actual contribution	**3,084,800**	1,230,300
Actual benefits paid	**(12,746,500)**	–
Transfer in (out)	**(3,526,400)**	3,526,400
Actuarial loss	**(890,400)**	(542,900)
Balance at end of year	**15,576,500**	28,114,200
Adjustment for cross-assigned employees	**(1,049,100)**	–
	₱14,527,400	₱28,114,200

The assumptions used to determine PVBO and fair value of plan assets are as follows:

	2007	2006
Discount rate	**7.50%**	6.60%
Expected rate of return on plan assets	**6.00%**	5.28%
Rate of increase in compensation	**8.00%**	9.00%

The overall expected rate of return on plan assets is determined based on the prevailing return on government securities applicable to the period over which the obligation is to be settled.

The Company expects to contribute ₱2,321,600 to its defined benefit pension plan in 2008.

Annual contribution to the retirement plan consists of a payment to cover the current service cost for the year plus a payment toward funding the accrued actuarial liability.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2007	2006
Equities	**89%**	79%
Mutual Funds and UITFs	**9%**	7%
Others	**2%**	14%

Experience adjustments on plan assets and plan liabilities are ₱890,400 loss and ₱1,784,900 loss, respectively, in 2007.

Experience adjustments on plan assets and plan liabilities are ₱542,900 loss and ₱651,800 gain, respectively, in 2006.

24. Related Party Transactions

PHINMA
The Company is controlled by PHINMA through a management agreement. Under the existing management agreement, the Company pays PHINMA a fixed monthly management fee plus an annual incentive based on a certain percentage of the Company's net income. The management agreement with PHINMA was renewed for another five years starting September 1, 2003. Total management fees, including annual incentive, amounted to ₱14.3 million and ₱5.9 million for the years ended December 31, 2007 and 2006, respectively. Net payable to PHINMA (included under "Accounts payable and other current liabilities" account) amounted to ₱11.0 million and ₱2.5 million as of December 31, 2007 and 2006, respectively.

TA Power
TA Power leases and occupies part of the office space owned by the Company. Rental income earned amounted to ₱2.3 million in 2007 and ₱2.6 million in 2006. Outstanding receivable from TA Power (included under "Receivables" account) amounted to ₱1.5 million and ₱0.3 million as of December 31, 2007 and 2006, respectively.

Phinma Property Holdings Corporation (PPHC)
Net payable to PPHC amounted to ₱0.2 million as of December 31, 2007. Net receivable from PPHC amounted to ₱1.0 million as of December 31, 2006.

Directors
The Company recognized bonus to directors computed based on net income before the effect of the application of the equity method of accounting. Directors' bonus amounted to ₱13.3 million in 2007 and ₱3.0 million in 2006. The related unpaid amount included under the "Accounts payable and other current liabilities" account in the parent company balance sheets amounted to ₱13.3 million and ₱3.0 million as of December 31, 2007 and 2006, respectively.

Compensation of key management personnel of the Company are as follows:

	2007	2006
Short-term employee benefits	**₱33,026,497**	₱12,465,648
Post-employment benefits:		
Retirement benefits	**408,771**	499,881
Vacation and sick leave	**418,821**	140,298
	₱33,854,089	₱13,105,827

Stockholders

Amounts due to stockholders for unclaimed dividends totaled ₱5.3 million and ₱1.2 million as of December 31, 2007 and 2006, respectively.

25. Commitments

Electricity Supply Agreement with Guimelco

On November 12, 2003 and July 26, 2004, the Company signed an ESA and amendment to the ESA, respectively, with Guimelco, a nonstock, nonprofit cooperative (see Note 1). Under the ESA, the Company agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel generator power station and to supply Guimelco with electricity based on the terms and conditions set forth in the ESA. Following are the significant provisions of the ESA, among others:

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

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

Electricity Supply Agreements with Holcim Philippines, Inc. (Holcim)

On December 14, 2007, TA Oil, TA Power and Holcim entered into a MOA with the following provisions:

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

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

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

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

	2007	2006
Within one year	**₱240,000**	₱240,000
After one year but not more than five years	**1,200,000**	1,200,000
More than five years	**320,000**	560,000
	₱1,760,000	₱2,000,000

Exploration Right Agreement with Balatoc Kalinga Tribe, Inc.
The Company entered into a MOA with Balatoc Kalinga Tribe, Inc. and Balatoc Tribe Exploration and Mining Corporation (BTEMC) on July 27, 2007 granting TA Oil the exclusive right to conduct exploration work over the Batong Buhay property in Barangay Balatoc, Pasil, Kalinga subject to an Exploration Permit to be granted to BTEMC by the DENR and the exclusive option to develop and operate said property under a successor mineral agreement with the government.

The National Commission on Indigenous People had earlier formally recognized the Balatoc tribe's priority right to develop, extract or exploit any natural resources within their ancestral domain in Barangay Balatoc, Pasil, Kalinga, pursuant to the Indigenous Peoples Rights Act of 1997 and directed the Balatoc tribe to submit their project application to the DENR.

Electric Power Industry Reform Act
Republic Act No. 9136, the Electric Power Industry Reform Act of 2001 (EPIRA), and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;

2) Creation of a WESM; and

3) Open and non-discriminatory access to transmission and distribution systems.

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

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

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

26. **Financial Risk Management Objectives and Policies**

I. Objectives and Investment Policies

The PHINMA Group Treasury manages and invests the funds of the Company and invests in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine Peso, U.S. dollar, Euro and Japanese yen. It is responsible for the sound and prudent management of the Company's financial assets that finance the Company's operations and investments in enterprises.

PHINMA Group Treasury focuses on the following major risks that may affect its transactions. These are:

1) Foreign currency risk
2) Credit or counterparty risk
3) Liquidity risk
4) Market risk

Professional competence, prudence, clear and strong separation of office functions, due diligence and use of risk management tools are exercised at all times in the handling of the funds of the Company. An Investment Committee, comprised of some of the Company's BOD, reviews and approves policies, controls and strategies for investments and risk management.

Basic investment policies as approved by the Investment Committee are:

1) Safety of principal

2) Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee.

3) Exposure limits:

   a. For banks/fund managers: maximum 20% of total fund of each company per bank/fund

   b. For peso investments: minimal corporate exposure except for registered bonds for non-affiliates

   c. Limits on third currencies outside US dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee

   d. For total foreign currencies: maximum 50% of total portfolio

   e. For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review

II. Risk Management Process

1) Foreign Currency Risk

<u>Definition</u>
The PHINMA Group Treasury manages holdings of cash and securities not only in Philippine peso but also substantially in U.S. dollar and other third currencies. Any depreciation of the U.S. dollar and other currencies against the Philippine Peso posts material foreign exchange losses that will diminish the market values of these investments.

<u>Management of Risk</u>

   a. Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange.

   b. Regular discussions with banks are done to get multiple perspectives on currency trends/forecasts.

   c. Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.

   d. Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.

   e. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's foreign currency-denominated assets and liabilities as of December 31, 2007 and 2006 are as follows (in thousands):

	U.S. Dollar		Euro	Yen	Won
	2007	2006	2006	2006	2006
Assets:					
Cash and cash equivalents	**$8,698**	$2,091	EUR696	¥58,397	Won–
Short-term investments	**209**	–	–	–	–
Investments in bonds and FXTNs	**2,001**	5,342	225	–	–
Investments in UITFs and mutual funds	–	1,181	83	–	–
Other receivables	**90**	–	–	–	–
	10,998	8,614	1,004	58,397	–
Liabilities -					
Accounts payable and other current liabilities	**(44)**	(3)	–	–	(1,329)
Net foreign currency-denominated assets (liabilities)	**$10,954**	$8,611	EUR1,004	¥ 58,397	(Won1,329)
Peso equivalent	**₱452,181**	₱423,058	₱64,858	₱23,943	(₱69)

In translating foreign currency-denominated financial assets and liabilities into peso amounts, the exchange rates used were ₱41.28 to US$1.00 as of December 31, 2007 and ₱49.13 to US$1.00, ₱64.60 to EUR 1.00, ₱0.41 to Yen 1.00 and ₱0.052 to Won 1.00 as of December 31, 2006.

The table below demonstrates the sensitivity to a reasonable possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets and liabilities) as of December 31, 2007. There is no other impact on the Company's equity other than those already affecting the profit or loss.

Increase (decrease) in U.S. Dollar to Peso Exchange Rate	Effect on Profit Before Tax
	(In Millions)
(₱0.25)	₱0.93
(0.50)	0.34
0.25	2.1
0.50	2.7

2) Credit or Counterparty Risk

<u>Definition</u>
Credit or counterparty risk is the risk due to uncertainty in a counterparty's ability to meet its obligations. Traditionally this credit event applies to bonds, whether government bonds or corporate bonds, where the holders are concerned that the counterparty to whom they have made a "loan" might default on a payment (coupon or principal).

Management of Risk

a. Investments are coursed thru or transacted with duly accredited domestic and foreign banks and mutual funds up to a maximum of 20% of the Company's investible funds. For UITF and mutual funds, fund placements cannot exceed 10% of the UITF's or mutual funds' total funds. Individual limits are further established for one bank/mutual fund on the basis of their valuation, financial soundness, business performance and reputation/expertise. Banks', UITF's and mutual funds' performance as well as their fund level, investment mix and duration are reviewed at least once a month or as often as required.

b. Investments in non-rated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies/updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.

c. For temporary investments in affiliates, transactions are done on an arms-length basis taking into account the affiliates' financial standing and ability to pay. Interest rates are based on a formula that considers the average of the borrowing and lending rates of the parties and maturity dates are strictly complied with.

d. Discussions are done on every major investment by Treasury *en banc* before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a senior Treasury Officer supervises major transaction executions.

e. Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.

f. A custodian bank for peso instruments and foreign currency instruments has been appointed based on their track record on such service and the bank's financial competence.

g. Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

With respect to credit risk arising from the receivables of the Company, the Company's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	Neither Past Due nor Impaired			Past Due not	Past Due Individually	
2007	Class A	Class B	Class C	Impaired	Impaired	Total
Receivables:						
Trade	₱5,182,610	₱–	₱–	₱922,935	₱–	₱6,105,545
Due from related companies	1,715,750	–	–	66,510,340	23,532,366	91,758,456
Others	29,478,437	–	–	32,457	3,270,366	32,781,260
	₱36,376,797	₱–	₱–	₱67,465,732	₱26,802,732	₱130,645,261

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The Company uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Collateralized accounts with excellent paying habits
Class B	Secured accounts with good paying habits
Class C	Unsecured accounts

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, short-term investments, AFS investments, investments held for trading and derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company has assessed the credit quality of the following financial assets:

a. Cash and cash equivalents, short-term investments, investments held for trading and derivative instruments were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.

b. Quoted equity instruments were assessed as high grade since the share prices were projected to move upward and it can be fully recovered.

c. Unquoted equity instruments were assessed as high grade since these are shares of stock of PHINMA-managed companies.

The Company uses the following criterias to rate the credit quality of financial assets other than receivables are as follows:

Class	Description
High Grade	Investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Investments in instruments of companies that have the apparent ability to satisfy its obligations n full.
Substandard Grade	Investments in instruments of companies that have an imminent possibility of foreclosure; those whose security have declined materially in value, or those whose audited financial statements show impaired/negative net worth.

There are no significant concentrations of credit risk within the Company.

3) Liquidity Risk

Definition

Liquidity risk is financial risk due to uncertain liquidity of a bond or asset in the portfolio. Uncertain liquidity can happen if the credit rating of a corporate bond, hence its acceptability, falls. If the issuing company encounters unexpected problems (like regulatory reversals), it experiences sudden unexpected cash outflows, or some other event seriously affecting its tradability or when counterparties avoid trading with or lending to the corporation or when the Central Bank through the banking system curtails credit.

Liquidity risk also happens under market conditions where banks cut credit supply. Liquidity risk can also be simple mismatching of investment maturities with cash flow requirements such that gains have to be sacrificed because of the mismatch.

Management of Risk

a. Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.

b. Continuous monitoring of the weekly/monthly cash flows as well as frequent updates of the annual plans of the Company.

c. Investment maturities are spread on a weekly, monthly, and annual basis as indicated in the Company's plans. Average duration of investments should adhere to the investment parameters approved by the Investment Committee.

d. When necessary, placements are pre-terminated or securities liquidated; but this is largely avoided.

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2007 based on contractual undiscounted payments.

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱9,055,407	₱3,010,320	₱–	₱–	₱–	₱12,065,727
Accrued expenses	47,852,603	–	–	–	–	47,852,603
Accrued directors' and management fees and annual incentives	24,059,742	–	–	–	–	24,059,742
Due to related parties	746,779	–	–	–	–	746,779
Others	455,083	–	–	–	–	455,083
Due to stockholders	5,340,277	–	–	–	–	5,340,277
Other noncurrent liability	–	–	–	3,223,574	–	3,223,574
	₱87,509,891	₱3,010,320	₱–	₱3,223,574	₱–	₱93,743,785

4) Market Risk

Definition

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or changes in business/economic changes. Interest rate or foreign exchange rates or risk appetite are market factors of market risk as the summation of the three defines the value of an instrument or asset.

Management of Risk

a. Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers are done to get multiple perspectives on interest rate trends/forecasts.

b. Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.

c. "Red Lines" are established then reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that the Treasury Group uses as guides whether to buy, hold or sell bonds as approved by the Investment Committee or, in cases of high volatility, by the CFO.

d. In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates/prices in relation to strategies.

e. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

Interest Rate Risk

The following table sets out the carrying amount (in thousands), by maturity, of the Company's financial assets and liabilities that are exposed to interest rate risk:

	Interest Rates	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Total
2007 Fixed Rate							
Special savings account (SSA)	3-6%	₱999,177	₱–	₱–	₱–	₱–	₱999,177
Short-term investments	4.2-4.5%	8,640	–	–	–	–	8,640
Investments in bonds and FXTNs	8.125-11.875%	82,613	24,585	–	10,750	–	117,948

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above table are noninterest-bearing investments and are therefore not subject to interest rate volatility.

The table below demonstrates the sensitivity to a reasonable possible change in the interest rates, with all other variables held constant, of the Company's profit before tax. There is no other impact on the Company's equity other those already affecting the profit or loss.

2007	Increase (Decrease) in Basis Points	Effect on Profit Before Tax
FXTN	25	(₱160,941)
Special deposit account (SDA)	25	935,147
SSA	25	358,923
FXTN	(25)	160,941
SDA	(25)	(935,147)
SSA	(25)	(358,923)

Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Based on the historical movement of the stock exchange index, the Company's assessment of reasonable possible change was determined to be an increase of 21.06%, resulting to a possible effect in the equity of ₱12.6 million. The impact on the Company's equity already excludes the impact on transactions affecting the profit or loss.

III. Monitoring of Risk Management Process

Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

1) Weekly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenged based on current and forecasted developments on the financial and political events.

2) Monthly portfolio reports are submitted to the CFO that includes an updated summary of global and domestic events of the past month and the balance of the year.

3) Quarterly presentation of the investment portfolio to the Investment Committee to discuss and secure approvals on strategy changes.

4) Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.

5) One on one coaching sessions are scheduled to assist, train and advise personnel.

6) Periodic review of Treasury risk profile and control procedures.

7) Periodic specialized audit to ensure active risk oversight.

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2007 and December 31, 2006.

The Company monitors capital using the debt-to-equity ratio, which is total current and noncurrent liabilities divided by total equity. The Company monitors its debt-to-equity ratio to keep it at a level acceptable to the Company. Capital includes all the items appearing in the equity section of the parent company balance sheet. The Company's policy is to keep debt-to-equity ratio below the maximum ratio of 2:1.

	2007	2006
	(In Thousands)	
Total liabilities	**₱111,879**	₱228,330
Total equity	**2,399,587**	1,527,322
Debt-to-equity ratio	**0.05:1**	0.15:1

27. Financial Instruments

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

	Carrying Amount		Fair Value	
	2007	2006	**2007**	2006
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱1,119,428,587**	₱202,747,291	**₱1,119,428,587**	₱202,747,291
Short-term investments	**8,639,904**	–	**8,639,904**	–
Receivables:				
Trade	**6,105,545**	5,256,588	**6,105,545**	5,256,588
Due from related companies	**68,226,090**	1,476,705	**68,226,090**	1,476,705
Others	**29,510,894**	6,312,702	**29,510,894**	6,312,702
Cash in escrow fund*	**–**	80,014,123	**–**	80,014,123
Total (Carried Forward)	**1,231,911,020**	295,807,409	**1,231,911,020**	295,807,409

	Carrying Amount		Fair Value	
	2007	2006	**2007**	2006
Total (Brought Forward)	**₱1,231,911,020**	₱295,807,409	**₱1,231,911,020**	₱295,807,409
Financial assets at FVPL:				
Investments held for trading	**117,948,232**	392,281,782	**117,948,232**	392,281,782
Derivative assets*	**32,683,676**	15,508,980	**32,683,676**	15,508,980
	150,631,908	407,790,762	**150,631,908**	407,790,762
AFS investments:				
Quoted	**128,787,480**	77,906,038	**128,787,480**	77,906,038
Unquoted	**65,793,252**	45,293,252	**65,793,252**	45,293,252
	194,580,732	123,199,290	**194,580,732**	123,199,290
Total financial assets	**₱1,577,123,660**	₱826,797,461	**₱1,577,123,660**	₱826,797,461
Financial Liabilities				
Financial liability at FVPL -				
Derivative liability**	**₱–**	₱25,529	**₱–**	₱25,529
Other financial liabilities:				
Accounts payable and other current liabilities	**85,179,934**	11,552,464	**85,179,934**	11,552,464
Interest-bearing loans and borrowings:				
Notes payable	**–**	165,000,000	**–**	165,000,000
Long-term debt	**–**	32,539,741	**–**	32,539,741
Due to stockholders	**5,340,277**	1,241,686	**5,340,277**	1,241,686
Other noncurrent liability	**3,223,574**	–	**2,792,642**	–
	93,743,785	210,333,891	**93,312,853**	210,333,891
Total financial liabilities	**₱93,743,785**	₱210,359,420	**₱93,312,853**	₱210,359,420

** Presented as part of other current assets.*

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

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

Cash and Cash Equivalents, Short-term Investments, Receivables, Cash in Escrow Fund, Notes Payable, Accounts Payable and Other Current Liabilities, Due to Stockholders. Carrying amount approximates fair value due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair values of investments held for trading and listed AFS investments. The fair values of unlisted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

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

The Company has outstanding currency forward contracts with an aggregate notional amount of US$11.5 million and weighted average contracted forward rate of ₱44.208 to US$1.00 as of December 31, 2007, and an aggregate notional amount of US$3.7 million and weighted average contracted forward rate of ₱53.313 to US$1.00 as of December 31, 2006. The Company is in a Selling U.S. dollar position. The net fair value gains on these currency forward contracts as of December 31, 2007 and 2006 amounted to ₱32.7 million and ₱15.5 million, respectively, and were included in "Other current assets" account in the parent company balance sheets.

The net movements in fair value changes of freestanding forward currency transactions are as follows:

	2007	2006
Balance at beginning of year	**₱15,508,980**	₱–
Net changes in fair value during the year	**104,448,000**	24,010,010
Fair value of settled contracts	**(87,333,080)**	(8,501,030)
Balance at end of year	**₱32,623,900**	₱15,508,980

The net changes in fair value during the year are included in the "Net gain on derivatives" account in the parent company statement of income.

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

The net movements in fair value changes of these embedded derivatives are as follows:

	2007	2006
Balance at beginning of year	**(₱25,529)**	(₱25,529)
Net changes in fair value during the year	**(844,319)**	–
Fair value of settled contracts	**929,624**	–
Balance at end of year	**₱59,776**	(₱25,529)

The net changes in fair value during the year are included in the "Net gain on derivatives" account in the parent company statement of income.

Other Noncurrent Liability. The fair value of the Company's long-term payable to Ascendas is based on the discounted value of the expected future cash flow using applicable interest rate for similar type of instrument. Discount rate used was 5.81%.

Long-term Debt. The carrying value of floating rate loan that reprice on a quarterly basis, at the least, approximates fair value as of balance sheet date. The carrying value approximates fair value because of recent and regular repricing based on market conditions.

Details of interest and other financial income and interest and other financial charges are as follows:

Interest and Other Financial Income

	2007	2006
Interest income	**₱33,371,717**	₱18,936,577
Net gains on investments held for trading:		
Gain on redemption/sale of investments held for trading	**2,281,987**	13,756,305
Unrealized gains (loss) from changes in fair value of investments held for trading	**(1,160,156)**	8,185,288
Amortization of bond premium/discount	**(1,368,433)**	(2,636,868)
	₱33,125,115	₱38,241,302

Interest and Other Financial Charges

	2007	2006
Interest expense on loans and borrowings	**₱9,081,961**	₱4,406,320
Amortization of debt issuance cost	**2,005,713**	780,750
Accretion of asset retirement obligation	**369,824**	263,144
Other financial charges	**1,249,857**	31,281
	₱12,707,355	₱5,481,495

28. Events After the Balance Sheet Date

a. TA Oil signed a MOA on January 17, 2008 whereby it agreed to sell all of its 1,800,000 shares in BIPC to Phoenix for the total price of ₱197.6 million.

   Another party to the said MOA is TA Power, which likewise agreed to sell all of its 300,000 shares in BIPC to the same buyer for ₱32.9 million.

b. TA Oil and H. L. Nathurmal of India signed a Memorandum of Understanding on February 5, 2008 regarding possible cooperation in the fields of mining and energy in the Philippines, India and ASEAN countries. Goa-based H. L. Nathurmal is engaged in iron and manganese mining, power generation, pharmaceutical and trading.

c. TA Oil and its wholly-owned subsidiary, TA Gold, entered into an Operating Agreement on February 14, 2008 regarding the former's MPSA with the Philippine government covering a 333 hectare area in Jose Panganiban, Camarines Norte.

   Under said Operating Agreement, TA Oil grants TA Gold the exclusive right to explore, develop and operate the contract area for commercial mineral production.

   The MPSA was awarded on July 28, 2007. The contract area includes the former mine site of Philippine Iron Mines, Inc., which produced iron and copper until the mid-1970's. It is also a prospective mine site for gold, molybdenum and uranium.