COVER SHEET

0 6 9 - 0 3 9 2 7 4
S.E.C. Registration Number

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

(Company's Full Name)

LEVEL 11 PHINMA PLAZA 39 PLAZA DRIVE ROCKWELL CENTER MAKATI

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

MR. RAYMUNDO A. REYES, JR.
Contact Person

8 7 0 - 0 1 0 0
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

1 7 - A
FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

3, 3 8 4
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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Remarks = pls. Use black ink for scanning purposes

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 2009
(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, 2009
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	1,662,603,069 shares
Amount of debt outstanding	None

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 <u>X</u> 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

TABLE OF CONTENTS

PART I – BUSINESS

Item 1. Description of Business

Business Development

Trans-Asia Oil and Energy Development Corporation ("TA" or "the Company") was established by the Philippine Investment Management (PHINMA), Inc. on September 8, 1969 in line with PHINMA's vision was to create a vehicle for building the nation's economy through self-reliance in energy. TA is engaged primarily in power generation and supply, with secondary investments in petroleum and mineral exploration. The Company was originally known as Trans-Asia Oil and Mineral Development Corporation, reflecting its original purpose of engaging in petroleum and mineral exploration and production. In order to diversify its product and revenue portfolio, the Company invested in power generation and supply, which eventually became its main business and revenue source. On April 11, 1996, the Company's name was changed to its present Trans-Asia Oil and Energy Development Corporation.

Description of Principal Business

Power Generation and Supply Business

The principal product of power generation and supply is the electricity produced and delivered to the end-consumer. It involves the conversion of fuel or other forms of energy to electricity; or the purchase of electricity from the Wholesale Electricity Spot Market (WESM). In 2009, TA earned total revenues of ₱993.8 million from this business, or 91% of total revenues of ₱1.1 billion, compared to ₱1.3 billion reported in 2008, or 94% of total revenues of ₱ 1.4 billion.

The Company conducts its power generation and supply activities directly or through its Generation Companies.

TA Power

TA owns 50% of Trans-Asia Power Generation Corporation (TA Power) through a joint venture with Holcim Philippines, Inc. (HPI). TA Power supplies the electricity requirement of HPI's Norzagaray, Bulacan cement plant via the former's 52MW Bunker C-Fired power plant.

CIPP

CIP II Power Corporation (CIPP) operates in the Carmelray Industrial Park II in Calamba, Laguna. It originally was the only generator allowed to supply the electricity requirements of the park through its 21MW Bunker C-Fired power plant. In March 2009, the Company sold CIPP's ownership of the distribution network inside the park, effectively terminating the original Concession Agreement with the park operator, Carmelray – JTCI Corporation (CJC).

Guimelco

TA has an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative Inc. for the construction, operation and maintenance of a 3.4 MW bunker C-fired power plant by the Company in Guimaras. The power plant sells electricity primarily 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.

WESM

The Company's energy trading business revolves around buying electricity from, and selling electricity to the WESM.

The Company has been trading (buying) from the WESM to supply all or a portion of its customers' electricity supply requirements. When prices are lower at the WESM than its own cost of generation, the Company purchases power from the market and sells it to its customer at an agreed price as stipulated in their bilateral contracts. On the other hand, if WESM prices are higher than the Company's generating prices, and the Company has excess generating capacity, the Company may sell power to WESM.

The Company's subsidiary facility, TA Power's 52-MW diesel plant, sells its excess capacity to the WESM at a price not lower than the reference price. This reference price is usually pegged at the fuel cost of the plant. In times when prices at the WESM are higher than reference price, TA Power generates power and sells its excess capacity to the market.

Trading revenues have become a major source of revenues for the Company since 2008. For 2009 trading revenues amounted to ₱274.5 million, an increase of ₱211.6 million from ₱62.9 million in 2008, the first year that the Company ventured into electricity trading. The Company's management believes that electricity trading will continue to represent a major portion of the Company's revenues for the foreseeable future. The Company's management believes that its ownership of its own generating capability (mainly TA Power's 54MW power plant in Norzagaray), plus the attendant ESA that assures the Company of a fixed offtake volume and price (i.e., with HPI), presents the Company with the opportunity to realize gains from electricity trading, especially when WESM prices are lower or higher than its offtake prices, and when the Company can supply excess generating capacity into WESM.

Future Projects

TA is venturing into several major power generating initiatives to further diversify its revenue portfolio. The following projects are presently in the feasibility stage:

Puting Bato 135MW Generation Project (Calaca, Batangas)

Puting Bato is a 135MW 'clean coal' power generation project that has significantly lower carbon emissions than other coal-fired generating plants. Clean coal technology relies on a circulating fluidized bed technology that greatly minimizes the environmental impact of coal-fired plants through lower carbon, sulfur oxide and nitrogen oxide emissions. Emission rates from clean coal plants are estimated by the Company to be about 60% to 70% lower than existing DENR requirements. Coal for the Puting Bato project will be sourced mainly from Semirara Coal Corporation, whose coal has low sulfuric content, and imports from Indonesia.

The Company is presently finalizing its feasibility study on the Puting Bato project. Total project cost is currently estimated by the Company at ₱8.5 billion , which it hopes to finance through 65% debt and 35% equity. The final decision on whether or not to proceed with the project will be made by the Company by the first half of 2010.

Wind Energy Projects

The Company currently has a portfolio of 33 sites to explore for wind resource with a total potential capacity of 481MW. On October 23, 2009, the Company was awarded by the DOE with Service Contracts covering 10 sites with a total potential capacity of 227MW. On February 1, 2010, another 10 Service Contracts were awarded by the DOE bringing the total potential capacity under these contracts at 367MW.

Of these wind sites, the site in the Municipality of San Lorenzo in the island of Guimaras is in an advanced stage of development. The Company already has 27 months of uninterrupted wind resource data confirming the potential of the site for 54MW of turbine capacity. The Company is conducting its feasibility study which would be completed upon the release by the National Renewable Energy Board of the Feed-in-Tariff (FiT) and Renewable Portfolio Standards (RPS). The FiT determines the price which eligible projects can sell to the market while the RPS is the requirement that the distribution utilities should source a fraction of their requirements from eligible RE resources. The Company estimates the project cost for this wind site to be US$135 million which it hopes to finance through a 60% debt and 40% equity. The final decision on whether or not to proceed with the project will be made by the second quarter of 2010 when the decision on the FiT and RPS is made by the regulators.

Distribution of Product

Electricity sales have been sold at the prevailing Energy Regulatory Commission (ERC) approved rates. Increasingly, however, the WESM is becoming a bigger market where electricity purchases are settled based on market or spot rates. Delivery of the product are coursed through transmission lines currently owned by National Grid Corporation of the Philippines (NGCP) and to a certain extent, the electric cooperatives and distribution utilities like Manila Electric Company (Meralco) in exchange for wheeling charges.

Competition

TA, CIPP, and TA Power compete with Meralco and power generating companies in supplying power to the Company's customers. With the full implementation of EPIRA and its purpose of establishing a transparent and efficient electricity market via more competition, a substantial number of the Company's customers may choose to buy power from third party suppliers. In addition, the implementation of open access could have a material adverse impact to the Company's results of operations and financial condition.

The move towards a more competitive environment, as set forth by EPIRA, could result in the emergence of new and numerous competitors. There will be some competitors that may have a competitive advantage over the Company due to greater financial resources, more extensive operational experience, and thus be more successful than the Company in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities.

TA's power generation facilities and companies operate on diesel fuel. While these are more reliable than hydroelectric plants, their high cost of electricity production render these uncompetitive to baseload plants such as coal, geothermal and natural gas facilities of its competitors.

To manage this, the Company and its power generating units constantly monitor the trends in the global oil market. It increases fuel inventory when prices are forecasted to increase to mitigate and manage cost. The Company is also looking into other projects that can produce electricity in a more competitive manner. For these projects, the Company has maintained healthy liquidity and credit ratios.

The Department of Justice, in an opinion, held that PEZA had regulatory powers over electricity providers in special economic zones. The DOJ's 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 PEZA 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.[1] PEZA is also looking

[1] "Lower electricity costs in ecozones readied" The Manila Times, Euan Paulo C. Añonuevo, September 2007

at lowering power rates in privately-owned ecozones.[2] 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.[3]

Dependence on Suppliers

The Company purchases Bunker-C fuel from Petron which is the biggest oil supplier in the country, for its power generation business. Disruptions to the supply of fuel could result in substantial reduction or increased power plant operating cost, and may have an adverse effect the company's financial performance and financial position. Any delay in fuel deliveries or disruptions in fuel supply may result in unplanned plant shutdowns. To protect against such disruptions in fuel supply, long term contracts with the fuel supplier were executed. In case of temporary fuel shortage along the supply chain, the oil company will give priority deliveries to the Company's plants. In the event of *force majeure* situations, however, everyone including the Company will be adversely affected.

To mitigate this risk, the Company maintains long term fuel supply contracts and maintains safe and strategic inventory levels of fuel to ensure continuous electricity production. Furthermore, if any of the major suppliers fails to deliver, the Company may buy fuel from other vendors. With the established good relationships with the other fuel suppliers, TA could obtain competitive alternate sources and arrange the timely delivery of fuel.

Dependence on Customer

Existing off-take agreements assure a certain level of demand from the Company's customers. Under the 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. For TA Power, Holcim being 50% owner of TA Power, TA Power has some comfortable level of assurance that no other power generation company will be allowed to supply electricity to Holcim's plant in Bulacan. This ESA is valid up to 2013. For CIPP, it sold its distribution facilities to Meralco and terminated its ESA contracts with the locators in the ecozone effective April 11, 2009.

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.

TA is managed by PHINMA through a management contract. Under an existing management agreement, TA 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, 2013. As of February 28, 2009, PHINMA owns 426,839,684 shares, which represent 25.67% of total outstanding shares of stock of the Company.

The Company, through its joint venture company TA Power, entered into a management contract with PHINMA on September 1, 2006 for the provision of general management services.

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[2] "ERC loses jurisdiction over power plants in ecozones to PEZA." Inquirer, Abigail L. Ho., September 2007

[3] "PEZA Starts Power Rate Cut." Manila Standard Today, August 2007

TA also leases out to TA Power an office space for the period commencing on October 1, 2009 and expiring on September 30, 2010 for a fixed monthly rent.

See section on Material Contracts and Agreements for further discussion.

Contracts and Agreements

The Company's power business is covered by various agreements that govern generation, off-take and distribution, as follows:

ESA between TA Power and Holcim

On February 25, 1998, TA Power entered into an ESA with Holcim (then, Hi-Cement Corporation) under which TA Power agreed to supply and deliver to Holcim all of the electricity requirements of Holcim's cement plant located in Norzagaray, Bulacan. The term of the ESA is for a period of 15 years, beginning in February 1998 and ending in February 2013. Under this ESA, TA Power will provide and install the necessary metering equipment, energy meters and related equipment for the measurement of electric energy generated and delivered by TA Power and accepted by Holcim, and which would determine Holcim's payment obligations to TA Power.

Transmission Service Agreement ("TSA") with TRANSCO

On July 31, 2002, TA Power entered into a TSA and an Interim Connection Agreement with TRANSCO (which were amended on September 12, 2002) covering transmission services for the transmission of power generated at the power plant of TA Power located in Norzagaray, Bulacan to the cement plants of Holcim (formerly, Union Cement Corporation ("UCC")) located in Bacnotan, La Union and Norzagaray, Bulacan. The TSA provides that TA Power shall pay for transmission services in accordance with the Open Access Transmission Service ("OATS"), the Open Access Transmission Tariff ("OATT"), the Tariff for Ancillary Services for Private Sector Generating Facility Customer and the Terms and Conditions for OATS ("OATS Terms") implemented by the NPC and approved by the ERC. Under the TSA, TA Power shall supply (i) 8,000 KW of generated power to Holcim's cement plant in Bacnotan, La Union through an ESA and (ii) 27,000 KW of generated power to Holcim's cement plant in Norzagaray, Bulacan through also an ESA. Power delivery and ancillary service charges shall be computed based on the OATS Terms and the OATT approved by the ERC. Energy and capacity shall be transmitted by connecting radially the generation facility to the TRANSCO's grid through line 1 of the Angat-San Jose 115KV transmission line and wheeling through TRANSCO's grid from the point of receipt to a delivery point in Holcim's plant switchyard.

Memorandum of Agreement among TA, TA Power and Holcim

On December 14, 2007, TA, TA Power and Holcim entered into a Memorandum of Agreement ("MOA") where TA Power agreed to supply exclusively the electricity requirements of Holcim's cement plant in Norzagaray, Bulacan through TA Power's plant in Bulacan or through TA, acting as a RES. TA, as a RES, shall exclusively supply all of the electricity requirements of Holcim's cement plant in Bacnotan, La Union. The 52MW diesel power plant in Bulacan shall be operated as a merchant plant which can sell its generation capacity to the Grid, which refers to a high voltage backbone system of interconnected transmission lines, substations and related facilities. Holcim guarantees a minimum off-take of 220 million kWh to be computed at the end of each calendar year. This MOA commenced in January 2008 and shall remain effective until TA Power and Holcim execute a new ESA. The electricity fees under this MOA shall be the NPC "Time of Use" rates, including all other charges.

ESA with GUIMELCO (Guimaras Power Project)

The ESA with GUIMELCO was signed on November 12, 2003; valid for 10 years, term extendible by mutual agreement. Following are among the significant provisions of this ESA:

Cooperation Period:	10 years, and may be extended pursuant to this ESA
Electricity Fees:	Electricity fees is based on a formula as set forth in this 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.

This ESA provides for the construction, operation and maintenance of a 3.4MW bunker C-fired power plant by the Company in Guimaras. The power plant will sell electricity primarily to GUIMELCO at the rate approved by the ERC. Installation of the power plant and construction of related facilities were completed in February 2005. Commercial operation commenced on June 26, 2005.

On May 4, 2006, this ESA was amended to require the power station to supply power to GUIMELCO primarily during peak demand hours. Under the amended ESA, the plant will operate up to its net capacity for four (4) continuous hours daily from 6:00 p.m. to 10:00 p.m. Furthermore, GUIMELCO may require the plant to supply power during off-peak hours or if there is no electricity from the grid by written notification.

Wholesale Aggregator ("WA") Certificate of Registration /RES License

On November 22, 2006, the ERC granted TA a Certificate of Registration as a WA, making it the first such licensee in the country. The license authorizes TA to consolidate electric power demand of distribution utilities, pursuant to the EPIRA. The WA license is valid for a period of five (5) years, and requires the WA to comply with the EPIRA, the Grid Code, the Open Access Transmission Service Rules, the Distribution Service Open Access Rules and other ERC Rules. Under the license, TA is required to comply with Structural and Functional Unbundling of Electric Power Industry Participants as provided in Rule 10 of the implementing rules and regulations of EPIRA and to ensure that there is no cross-subsidy among its power supply business activities.

TA was also granted the RES License on December 6, 2006. As a RES, the Company is allowed to supply electricity to the Contestable Market, pursuant to EPIRA. The Company also obtained membership in the WESM as a supplier on September 20, 2007. The license is valid for three (3) years. As a RES, the ERC authorizes the Company to sell, broker, market or aggregate electricity to end-users.

Wind Energy Service Contracts

TAREC, a 100% subsidiary of TA, entered into 10 Wind Energy Service Contracts with the DOE to explore and develop wind energy at specific locations and, if feasible, to produce energy from these sources over a specified period of time. These contracts dated October 23, 2009 cover the following sites:

Malay, Aklan	WESC-2009-10-006
Ibajay, Aklan	WESC-2009-10-007
Barotac Nuevo, Iloilo	WESC-2009-10-008
San Lorenzo, Guimaras	WESC-2009-10-009
Sibunag, Guimaras	WESC-2009-10-010

Nueva Valencia, Guimaras	WESC-2009-10-011
Mercedes, Camarines Norte	WESC-2009-10-012
Abulug-Ballesteros-Aparri, Cagayan	WESC-2009-10-013
Aparri-Camalaniugan-Buguey, Cagayan	WESC-2009-10-014
Santa Ana, Cagayan	WESC-2009-10-015

These contracts have a pre-development stage of two (2) years, renewable for another one (1) year. Upon declaration of commerciality, these contracts shall remain in force for the balance of the period of 25 years from the date of execution of these contracts extendible for another 25 years. These contracts grant TAREC the right to explore, develop and utilize all of the wind energy resources within the contract area. TAREC is obligated to perform exploration, wind assessment, verification and other work commitments pursuant to a work program specific to each contract area. Upon commercial operations, TAREC shall be obligated to remit to the government one percent (1%) of the gross income of TAREC for each calendar quarter.

TAREC is now in the feasibility stage of its wind energy project in San Lorenzo, Guimaras Island and has wind measuring masts installed in four (4) other sites, namely: Nueva Valencia, Guimaras; Sibunag, Guimaras; Abulug-Ballesteros-Aparri, Cagayan and Santa Ana, Cagayan.

Concession Agreement

CIPP has a concession agreement with Carmelray-JTCI Corporation (CJC), the developer of CIPP 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 CIPP.

On March 26, 2009, CIPP signed a Memorandum of Agreement with CJC and Manila Electric Company (Meralco) where CIPPI will transfer to Meralco its rights and obligations under the Concession Agreement dated October 3, 2000, which gave CIPP the exclusive right to sell electricity to the locators of the Carmelray Industrial park II (the Park). CIPP also signed a Memorandum of Agreement with Meralco where CIPP shall transfer ownership of the existing electric distribution system in the Park to Meralco, upon Meralco’s payment of a purchase price still to be agreed upon by the parties. The transfer shall be effective on April 9, 2009 or upon approval of the agreements by the Philippine Economic Zone Authority (PEZA) and if necessary, by the Energy Regulatory Commission (ERC), whichever comes later.

Contract to Purchase Generated Energy

On November 5, 2009, TA and National Irrigation Administration (NIA) entered into a Contract to Purchase Generated Energy where TA agreed to purchase generated energy of NIA-Baligatan Hydro Electric Plant for a period of six (6) months or upon delivery of 16GWH, whichever comes later.

Research and Development

The Company incurs minimal amounts for research and development activities which do not represent a significant percentage of revenues.

Petroleum Exploration

TA is a minority investor in various consortia engaged in petroleum exploration, development 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.

The Company applies for or acquires interest in selected petroleum service contracts covering areas usually in the exploration phase. Due to the high risk and capital intensive nature of the business, the Company normally participates in several consortia and takes significant but minority interest. Subject to results of technical and risk-economic studies prior to exploratory drilling, the Company may farm out or dilute its interest in exchange for financial consideration and/or non-payment of its pro-rata share of exploration drilling costs. If a petroleum discovery is made, the Company will fund its share of appraisal drilling and economic studies. Upon delineation of a commercial discovery, financing for up to 70% of field development costs is available in the international market.

As projects are mostly in the exploratory stage, the Company derives insignificant or no revenues from petroleum production.

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 does not have a significant bearing in the operations of the Company, TA'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 competitive bidding basis. Thus, the Company competes with foreign firms and local exploration companies such as PNOC Exploration Corporation, The Philodrill Corporation, Oriental Petroleum and Minerals Corporation, and Petroenergy Resources Corporation for acquisition of prospective blocks. 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.

TA 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 farm-out of interest (dilution of equity in exchange for payment of certain financial obligations).

TA 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, TA remains a strong competitor in the local exploration and production industry.

Suppliers and Customers

TA's exploration business is not dependent on any single supplier or a limited number of suppliers, nor is it dependent on a single customer or a limited number of customers.

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 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. 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 31**%** of the Philippines' primary energy mix in year 2008. 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 8% of the country's primary energy mix in year 2008. 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

Under 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 three percent (3%), i.e. only one (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 US$20 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.

TA is at present a co-contractor in five (5) service contracts with the Philippine government. A service contract 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 the contractor normally share in the profit. Service contracts allow the contractor a certain exploration period of several years, with an option to extend for a limited number of years, and if the exploration area is deemed feasible, the service contract allows a production period of a certain number of years, with an option to extend.

The Company has a share of production in one (1) small oil field at this time. Its other petroleum operations are in the exploratory stage and other fields where it has participation are in suspension mode.

The following are the service contracts and agreements entered into by TA:

Service Contract No. 6: Cadlao, Block A and B (Northwest Palawan)

Service Contract No. 6 ("SC 6") 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 the contractor share in the profit on a 60:40 basis. The exploration period is seven (7) years, extendible by three (3) years. The production period is 25 years, extendible by 15 years. SC No. 6 was awarded on September 1, 1973 and is valid until February 28, 2009. At present, it covers three (3) contract blocks, namely: Cadlao production area (consisting of 3,400 hectares), Block A (consisting of 108,000 hectares) and Block B (consisting of 53,300 hectares), all in offshore Northwest Palawan. The members of the consortium are TA, Balabac Oil Exploration and Drilling Co., Inc. ("Balabac"), Alcorn (Palawan) Production, Inc., Alcorn (Palawan), Inc., Oriental and Phoenix Gas & Oil Exploration Co., Inc. TA, Philodril and Philex have royalty interests. Oriental is the operator. 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. 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.

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. 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.

On May 9, 1988, an Operating Agreement was entered into by and among Balabac, Oriental, TA and Philodrill in respect of SC 6 Block A where Philodrill was appointed operator. This agreement is in full force and effect during the term of SC 6.

On March 7, 2007, SC 6 Block A consortium entered into a Farm-In Agreement with Vitol GPC Investments S.A. of Switzerland. Under this agreement, Vitol will undertake, at its sole cost and risk, geological, geophysical and engineering studies over a one (1) - year period. At the end of the study period, Vitol will decide whether to acquire 70% participating interest in Block A. Vitol completed the first phase of its technical due diligence over Block A and concluded that development of the Octon discovery hinges on tie-back to Galoc production facilities.

The DOE granted a 15-year extension of the term of SC 6 Block A effective March 1, 2009, and a 15 - year extension of the term of SC 6 Block B effective March 1, 2009. TA estimates that its share of additional total investments in SC 6 should not exceed ₱1.9 million for 2010-2011.

Service Contract No. 14: Tara and Service Contract No. 14: North Matinloc (Northwest Palawan)

The principal terms of Service Contract No. 14 ("SC 14") are the same as those provided under SC 6. SC 14 was awarded on December 17, 1975 and is valid until December 16, 2010. SC 14 Block B-1 (consisting of 860 hectares) 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 (consisting of 950 hectares) 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.

North Matinloc field went on stream in 1989. The field was shut down in 1991 when it reached economic limit. The Tara oil 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.

Venturoil Philippines ("Venturoil") signed separate option agreements with most of the members of the Tara and North Matinloc consortia, granting the former the option to acquire 70% interest in each block until December 31, 2008. Venturoil sought an extension for the period to exercise acquisition rights under the Option Agreements until September 2009.

Oil production resumed at the North Matinloc oil field in February 2009. As of December 31, 2009, the field has produced a total of 28,315 barrels of crude oil.

Service Contract No. 51: East Visayas

Service Contract No. 51 ("SC 51") was awarded on July 8, 2005. The exploration period is valid for seven (7) years, extendible for three (3) years, and the production period for 25 years. It covers an area of 444,000 hectares of offshore and onshore blocks in the Eastern Visayas region, consisting of a 204,000-hectare block in Cebu Strait and a 240,000-hectare block mostly over the northwest peninsula of Leyte island. The block has three (3) primary prospects (with at least 150 million barrels mean resource potential) and several leads. TA initially had 33.34% participating interest. TA signed a Farm-In Agreement with two foreign companies on August 5, 2005 thereby diluting its participating interest to 6.67% in exchange for a carry in costs of certain work programs. The two (2) foreign companies subsequently merged their interests in one (1) company. The members of the consortium and the corresponding interests consist of NorAsian Energy Ltd., 80%; Alcorn Gold Resources Corporation, 9.32%; TA, 6.67% and PetroEnergy, 4.01%. NorAsian is the Operator.

The consortium committed to undertake a new 250km 2D seismic program over the Cebu Strait and an engineering study of the Villaba – 1 subcommercial gas discovery in offshore Northwest Leyte, within the first 18 months of the contract term. The 2D seismic program is designed to pick the drilling location for the Argao prospect and to upgrade a neighboring lead to drillable status. The Villaba engineering study aims to determine whether the sub-commercial Villaba gas discovery could be developed on a stand-alone basis using minimalist options or whether additional reserves from neighboring prospects would be necessary or enough to ensure commerciality. The partners have successive options to drill exploratory wells during the balance of the seven (7) year-exploration period.

The consortium recently requested the DOE to amend the schedule of work commitments in view of the difficulty of securing drilling rigs in the market. The approved amended exploration period is as follows:

1st sub-phase	8 July '05 - 8 Apr '07	-	acquire, process and interpret 261 km of 2D seismic data and conduct Villaba Engineering Study
2nd sub-phase	8 Apr '07 - 8 Feb '08	-	acquire, process and interpret 146 sq km of 3D seismic data
3rd sub-phase	8 Feb '08 - 8 Mar '09	-	drill one well (Argao)
4th sub-phase	8 Mar '09 - 8 Jan '10	-	drill one well
5th sub-phase	8 Jan '10 - 8 July '11	-	drill one well
6th sub-phase	8 July '11 - 8 July '12	-	drill one well

The DOE approved the consortium's entry into the 3rd sub-phase of the exploration period (from February 8, 2008 to March 7, 2009), which involves a commitment to drill one (1) exploratory well. The consortium completed a Geo-Microbial Survey. The governor of Cebu province issued Executive Order No. 10 on May 29, 2009 revoking Executive Order No. 9 which ordered the DOE to cease and desist from conducting oil exploration surveys in the coastal waters of the municipalities of Argao and Sibonga.

The consortium requested the DOE to extend by 18 months the 3rd sub-phase of the exploration period effective on the date the DOE lifts the moratorium it imposed on SC 51 offshore operations. The DOE approved the extension of the 3rd sub-phase until December 8, 2010.

Service Contract No. 55: West Palawan

Service Contract No. ("SC 55") was awarded by the DOE on August 5, 2005. The exploration period is valid for seven (7) years, extendible for three (3) years, and the production period for 25 years. The members of the consortium and their corresponding interests are NorAsian Energy Ltd., 85% and TA, 15%. SC 55 covers 900,000 hectares in offshore West Palawan. The block has one (1) giant prospect (with at least 500 million barrels mean resource potential) and a number of leads. The consortium committed to undertake a work program consisting of a new 400 – km 2D seismic survey, processing and interpretation of 200 km of 358 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 (4) wells during the balance of the seven (7) – year exploration period.

The DOE approved the consortium's entry into the 2nd sub-phase of the exploration period, which entails a commitment to drill one (1) ultra deepwater well. Processing and interpretation of 954 km of 2D seismic date acquired in June 2007 were already completed, but due to non-availability of a suitable rig, the DOE approved the consortium's request to swap work commitments for the 2nd and 3rd sub-phases of the exploration period to allow the drilling of the first commitment well by August 4, 2010 instead of August 4, 2009.

The DOE approved the consortium's request for substitution of a 2D - 3D seismic program for one (1) ultra deepwater well commitment under the 3rd sub-phase of the exploration period (from August 5, 2009 to August 4, 2010), and deferment of the mandatory partial relinquishment of the contract area until completion of the proposed substitute 2D - 3D seismic program. The consortium commenced a 600 sq. km 3D seismic survey in December 2009.

Service Contract No. 69: Camotes Sea

The DOE awarded Service Contract No. 69 ("SC 69") (formerly, Area 8 of the 2006 Philippine Energy Contracting Round) on May 7, 2008 to a consortium composed of TA (with 30% interest) and NorAsian Energy Philippines, Inc. (with 70% interest). SC 69 has an exploration period of seven (7) years, divided into five (5) sub-phases and extendible for three (3) years, and a production period of 25 years. While the area is under-explored, initial indications show that it has significant petroleum potential in view of gas discoveries in onshore Northern Cebu and offshore Northwest Leyte.

The consortium commenced a geological and geophysical review and reprocessing of some 3000 km of vintage 2D seismic data in fulfillment of work obligations under the 1st sub-phase of the exploration period (from May 7, 2008 to May 6, 2009).

The consortium elected to enter the 2nd sub-phase of the exploration period (from May 7, 2009 to November 6, 2010), which entails a commitment to conduct either a minimum of a 50-square kilometer 3D seismic survey or a minimum of 750-line kilometer 2D seismic survey, with expected expenditures of US$2 million for the 3D seismic survey or US$1 million for the 2D seismic survey.

Mineral Exploration

The Company has interests in several mine sites but, presently, it has no plans of making any further significant investments in mineral exploration. For the years 2007-2009, TA derived insignificant or no revenues from this line of business.

TA's interests in mineral exploration are limited to the following:

Mineral Production Sharing Agreement 252-2007-V (Camarines Norte)

The Government, through the DENR, entered into an MPSA with TA on July 28, 2007 for the exploration, development and utilization for commercial purposes of gold, silver, copper, iron and other associated mineral deposits. The contract area covers approximately 333 hectares of land situated in the municipality of Jose Panganiban, Camarines Norte. The MPSA granted to TA the right to explore, develop and operate the MPSA contract area for commercial mineral production for a period of 25 years, renewable for another 25 years, pursuant to a work program containing the required expenditures and work commitments. The exploration period is two (2) years renewable up to six (6) years for non-metallic minerals and up to eight (8) years for metallic minerals. Upon commercial operation, the Government's share in the MPSA shall be excise tax on mineral products and other duties and fees. TA is likewise obligated to pay an occupation fee over the contract area annually at the rate prescribed by existing rules and regulations.

On February 14, 2008, TA signed an Operating Agreement with its subsidiary, TA Gold, granting the latter the exclusive right to explore, develop and operate the MPSA contract area for commercial mineral production. Pursuant to this Operating Agreement, TA Gold completed the drilling of three (3) exploratory diamond drill holes to probe gold, uranium and white clay occurrences. Results of the drilling operations are under evaluation.

TA received on June 16, 2009 a notice issued by the DENR Secretary ordering TA to excise certain portions from the MPSA contract area that are covered by alleged mining patents of a third party. TA filed a timely motion for reconsideration of this order. TA is of the position that the alleged mining patents covering certain portions of the MPSA contract area can no longer be recognized as they are considered to have lapsed for failure to comply with the requirements of P.D. 463, which required all mining patents to be registered with the Director of Mines within two (2) years from the date of approval of the decree in 1974 and to comply with annual work obligations, submission of reports, fiscal provisions and other obligations. TA's motion for reconsideration was denied by the DENR Secretary on November 27, 2009. The Company filed its appeal before the Office of the President on December 21, 2009.

Rizal Mining Leases

The Company has two (2) Mining Lease Contracts with the MGB, namely: (i) Mining Lease Contract No. MRD 491 and (ii) Mining Lease Contract No. MRD 492, which were both granted on June 24, 1988 and will expire on June 23, 2013.

Mining Lease Contract No. MRD 491 covers an area of 414 hectares of land situated in the towns of Teresa, Baras and Morong, Rizal, whereas Mining Lease Contract No. MRD 492 covers an area of 248 hectares of land in Teresa and Morong, Rizal. These mining lease contracts grant the Company 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 these mining lease contracts by submission of affidavits of annual work obligation to the MGB and payment of rental to the concerned municipalities, on a yearly basis.

TA and Rock Energy International Corporation ("Rock Energy") signed an Operating Agreement on March 3, 2008 granting the latter the exclusive right to extract and market tuffaceous materials within the areas covered by TA's mining lease contracts for a period of five (5) years. Tuffaceous materials are used in the production of *pozzolan* cement.

Rock Energy applied for and was issued an ECC for planned quarrying activities at a site in Teresa, Rizal.

Related Party Transactions

TA's mineral exploration business is not dependent on related parties, nor were there any transactions involving related parties.

REGULATORY FRAMEWORK

Petroleum and Mineral Exploration

TA's petroleum and mineral exploration business is subject to the following governing rules 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 Exploration and Development 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 belongs to the State.

P.D. 87 declares that the policy of the State is 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-year exploration period and a maximum 40- year 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. 2009-04-0004, a circular that establishes the procedures for the Philippine Contracting Rounds; 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.

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. [4]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.

In the course of mining exploration, the Company explores in certain areas which are covered by ancestral domains of IPs. No mining is allowed in such areas without first negotiating an agreement with the IPs who will be affected by mining operations.

R. A. 8749 or "Clean Air Act of 1999"

Republic Act No. 8749, otherwise known as the Philippine Clean Air Act of 1999", 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 Environment and Natural 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,[5] the Government is promoting energy security thru a policy of energy independence, sustainability and efficiency. These involve:

1) increasing oil and gas exploration;
2) strengthening of the Philippine National Oil Company (PNOC) to spearhead the development of indigenous energy resources and building global partnerships and collaborative undertakings;

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

[5] **"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/>

3) 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;
4) the expansion in the use of natural gas; and
5) adoption of energy efficiency promotion strategies.

In support of the Clean Air Act, TA is participating in natural gas exploration and development of renewable energy sources.

Agreement to Supply Domestic Demand

Under The Oil Exploration and Development Act of 1972, every service contractor that produces petroleum is authorized to - dispose of same either domestically or internationally ,subject to supplying the domestic requirements of the country on a pro-rata basis. There is a ready market for oil produced locally inasmuch as imported oil which comprised about 31**%** of the Philippines' primary energy mix in year 2008. 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 8% of the country's primary energy mix in year 2008. 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.

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.

The exploration, production and sale of oil and mineral deposits and power generation 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 damages to natural resources, which may result from the impact of the Company's 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 be modified or reinterpreted 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.

Power Generation

Government Licenses, Intellectual Property

Power generation is not considered a public utility operation under the EPIRA. Thus, a franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate the generation facilities. A COC is valid for a period of five years from the date of issuance. In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the Grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. ERC has also issued the “Guidelines for the Financial Standards of Generation Companies,” which set the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties. TA, TAPGC and CIPP are required under the EPIRA to obtain a COC from the ERC for their generation facilities. They are also required to comply with technical, financial and environmental standards provided in existing laws and regulations in their operations.

Governing Laws and Regulations

R.A. 9136 or The Electric Power Industry Reform Act of 2001

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 within one year from the Act’s effectivity. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

On November 18, 2003, the DOE established the Philippine Electricity Market Corporation (PEMC) as a non-stock, non-profit corporation. PEMC’s membership is comprised of an equitable representation of electricity industry participants and chaired by the Energy Secretary. Its purpose is to act as the autonomous market group operator and the governing arm of the WESM. It also undertook the preparatory work for the establishment of the WESM.

The WESM started its operations on June 26, 2006 of which TA is a wholesale aggregator since November 2006, while TA Power is a wholesale generator since October 2006. Both are actively trading electricity in the Wholesale Electricity Spot Market (WESM). Currently, PEMC and the DOE are preparing for the commencement of the commercial operations of the Visayas WESM. The definite date of this operation has not been established.

Moreover, EPIRA provides for an open access system whereby Transco and distribution utilities may not refuse use of their transmission facilities by any qualified person or institution, subject to both distribution and wheeling charges. The following items are conditions to open access systems:

	EPIRA Requirement	Status
1	Establishment of the WESM	Done
2	Approval of unbundled transmission & distribution wheeling charges	Done
3	Initial implementation of the cross subsidy removal scheme	Done
4	Privatization of at least 70% of the total generating asset capacity of NPC in Luzon & Visayas	Done
5	Privatization of management & control of at least 70% of the total energy output of powerplant under contract with NPC to the IPPA.	In progress

R.A. 7916 or "Renewable Energy Act Of 2008" (RE Law)

Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008 (the "RE Law") was approved in 2008 and took effect on January 31, 2009. The RE Law aims to accelerate the development of renewable energy resources in the country to achieve energy self-reliance and independence. It seeks to increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives. The Implementing Rules and Regulations of the RE Law were released in May 2009 and presented the guidelines on the implementation of the various fiscal and non-fiscal incentives provided by the law, which include the following:

1. Renewable Portfolio Standards (RPS)

The RPS aims to contribute to the growth of the renewable energy industry by imposing that a fraction of the electricity generated or distributed by electric power industry participants be sourced from eligible RE resources. The National Renewable Energy Board (NREB) created under the RE Law to oversee its implementation shall set the minimum percentage of generation required. Upon the recommendation of the NREB, the DOE is tasked to determine the incremental increase in the electricity sold by RPS-mandated industry participant, which shall not be less than 1% of its annual energy demand over the next ten (10) years. The DOE shall also formulate means of compliance for the mandated RPS participants to meet the RPS requirements, including direct generation, contracting of energy or trading from eligible RE resources. The DOE shall establish the Renewable Energy Market (REM) where trading of RE certificates can be made, and the Renewable Energy Registrant which shall issue, keep and verify these RE certificates.

2. Feed-in-Tariff (FiT) System

In order to accelerate the development of emerging RE resources, the RE Law sets to a guaranteed fixed price (FiT) for electricity generated from wind, solar, ocean, run-of-river hydropower and biomass. The FiT shall be set by the ERC and shall be imposed for a period of not less than 12 years. Under the FiT system, priority connection to the grid of electricity generated from emerging RE resources is mandated. Priority purchase, transmission and payment for such electricity is also provided by the RE Law.

3. Transmission and Distribution System Development

The NGCP and all Distribution Utilities are mandated to include the required connection facilities for RE-based electricity in their Transmission and Distribution Development Plans. They are also required to effect the connection of RE-based power facilities with the grid, upon the approval of the DOE, at the start of its commercial operation. The ERC shall provide the mechanism for the recovery of the cost of these connection facilities.

4. General Incentives

The RE Law also provides for the following fiscal-incentives:

1. Income Tax Holiday for a period of seven (7) years from the start of commercial operation;
2. Exemption from duties on RE machinery, equipment and materials;
3. Special Realty Tax Rates on equipment and machinery;
4. Net Operating Loss Carry Over;
5. Corporate Tax Rate of ten percent (10%);
6. Accelerated Depreciation;
7. Zero Percent Value Added Tax on Energy Sale;
8. Tax Exemption of Carbon Credits; and
9. Tax Credit on domestic capital equipment and services related to the installation of equipment and machinery.

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 have 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):

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

The following types of enterprises are eligible to avail of such incentives:

1. Export enterprises
2. Free trade zone enterprises
3. Service enterprises
4. Domestic market enterprises
5. Pioneer enterprises
6. Utilities enterprises
7. Facilities enterprises
8. Tourism enterprises
9. Ecozone developers/operators

CIPP, a subsidiary of TA, is a PEZA-registered company. CIPP is a utility enterprise engaged in the generation and distribution of electricity within the Carmelray Industrial Park II, which is one of special economic zones in Calamba, Laguna.

Cost and Effects of Compliance with Environmental Laws

Trans-Asia's power generation operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations, such as the Clean Air Act (Republic Act No. 8749), address, among other things, air emissions, wastewater discharges, the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions and employee exposure to hazardous substances. Trans-Asia and its subsidiaries have incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, Trans-Asia and its subsidiaries have made and expects to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations.

Manpower

As of December 31, 2009, Trans-Asia has total employees of 95, 57 employees for its Makati office, 15 employees for its power station in Guimaras Island and 23 employees for its power station in Calamba, Laguna. Of the total employees, 21 are managers and officers, 14 are supervisors, and 60 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.

RISK FACTORS

Risk Relating to the Company's Business

A major breakdown of the Company's power plant facilities may adversely affect the results of operations.

The Company's power plants operate machinery with many moving parts. Wear and tear due to operations will inevitably require replacement of parts which require regular maintenance. Even though the Company strictly follows recommended maintenance schedule for each of the machinery in its power plants, there may be times when unforeseen breakdowns may cause unplanned full or partial plant shutdown that may materially affect the Company's ability to deliver the required power to its customers.

To mitigate this, the Company follows the recommended maintenance schedule to minimize the possibility of major breakdown. Furthermore, the bunker C-fired power plants the Company operates has multiple engines, so that the breakdown of one engine may not necessarily affect the other units, thereby minimizing any effects that a particular problem may have on the operation of a plant as a whole.

The lack of available spare parts to replace worn down portions of the Company's plant facilities may adversely affect operations.

Maintenance of the Company's power plant facilities occassionally requires replacement of some of the parts of the operating machineries. Any delay in the delivery or availability of these parts may cause delays in the operations of the machinery being repaired, thereby lengthening down time and increasing opportunity losses.

The Company maintains diversified sources of spare parts from all over the world. It also continuously monitors market prices from various sources other than its own regular suppliers to identify alternate sources of spare parts and materials.

Disruptions to the supply of fuel could result in substantial reduction or increased power plant operating cost, and may have an adverse effect on the Company's financial performance and financial position.

The Company purchases bunker-C fuel from Petron Corporation, which is the biggest oil supplier 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 protect against such disruptions in fuel supply, long term contracts with the fuel supplier were executed. In case of temporary fuel shortage along the supply chain, the oil company will give priority deliveries to the Company's plants. In the event of *force majeure* situations, however, everyone including the Company will be adversely affected.

To mitigate this risk, the Company maintains long term fuel supply contracts and maintains safe and strategic inventory levels of fuel to ensure continuous electricity production. Furthermore, if any of the major suppliers fails to deliver, the Company may buy fuel from other vendors. With the established good relationships with the other fuel suppliers, TA could obtain competitive alternate sources and arrange the timely delivery of fuel.

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 from 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, increases foreign exchange holdings and renegotiates with its buyer as provided in their ESA.

Foreign currency risk is being managed by holdings of cash and securities in PhP, USD, Euro and AUD denominated currencies according to an approved currency exposure allocation scheme. The portfolio is currently biased in favor of Euro and USD since the costs of parts and engines for the power plants of the Company and its affiliate and subsidiary are denominated in Euro and USD.

Foreign exchange risks on USD, AUD, 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.

The Company may not collect all or a portion 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 operations.

For electricity trading, for example, payment by the Company's customer is typically done 30 days after the first delivery of power, hence, the Company has a potential non-collection exposure. One mitigating activity the Company implements is to require the customer to provide a security deposit equivalent to one-month of its power consumption. This may take the form of a letter of credit, bank guarantee, surety bond or even guarantee from government agencies such as the National Electrification Administration guarantee. Also, the Company takes into account the financial standing of its potential client. By reviewing its financial statements and collection efficiency, the supplier may be able to identify potential customers that may have the possibility of not paying its commitment to the supplier. In order to manage the collection risk, the Company assesses the financial health of its customers and decides whether or not to extend credit. To ensure prompt payment, the Company grants discounts if the customer pays within a specified period. Obligations not paid to the Company on due date 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 enjoyed 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.

WESM electricity prices may increase drastically due to various reasons such as lack of supply or transmission grid failure.

Electricity trading with the customer is usually defined through a bilateral contract with a pre-defined price. The volatility of the market spot price increases the risk of having a buying price that is higher than the selling price.

To mitigate this, TA has a backup power plant that can be used as bilateral supplier in the event that market prices increase beyond the price that TA can sell. This is a hedging technique wherein suppliers refrain from taking any electricity from the market whenever market price increases beyond its reference price.

The Company's oil and mineral exploration projects may not yield oil or mineral deposits in commercial quantities thus adversely affecting 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, the exact location and depth below the surface of which 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. To manage exploration risk, TA employs 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 participants are given a chance to assess the results and consequently decide whether to proceed or exit from the work program. It follows that encouraging results from a certain phase should give incentive to proceed to the next phase, otherwise the Company should withdraw if the chances of success are perceived to be 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 to 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 low-risk projects with low potential returns should be counter balanced by risky projects that may yield high rewards.

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 rather than in a single project, thereby spreading the risk in the portfolio of projects. By way of illustration, with ten exploration projects, failure in five projects will be mitigated by success in the other five, with the expectation that the income generated by the five successful projects will translate to a magnitude that would allow recovery of expenditures other five unsuccessful ones. This resembles what is commonly regarded as averaging effect. Conversely, putting all investible funds in a single project will yield disastrous results in the event such project does not succeed.

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 in value 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 commit to 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 might no longer afford the forward financial commitments. One way to mitigate the burden and at the same time retain the interest in the project is to allow dilution or reduction in one's participating interest. The main objective is to hold some interest until the commercial operations, when project finally begins to realize income.

9. *Capping of annual exploration expenditures to projected company income for the year.* This approach is putting a self-imposed ceiling on the amount of expenditures that may be used for participation in exploration projects. This expenditure level must be affordable for the company – i.e. in the event of failure, the company should 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 directs the Company to 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.

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 and US dollar. 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 Department by establishing "red lines" which are 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 serve as guides whether to buy, hold or sell bonds as approved by management. Regular comparison is also done with defined benchmarks.

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' 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 non-rated 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. Monthly reports are given to the Chief Financial Officer.

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 becomes 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 only with 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 guidelines provided by the Investment Committee.

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.[6]

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 environmental regulations 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:

1. prevention, control, abatement or elimination of releases into the air, land and water of pollutants,

2. training of personnel in the event accidents happen to mitigate potential damages,

3. proper disposal and handling of wastes at operating facilities, and

4. promote renewable energy sources.

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.

Many of the Company's operations are located in environmentally sensitive areas and near residential communities. The Company and its subsidiaries are at risk with regard to the ethical, social, and environmental challenges posed by their operations. There is growing pressure on the Company to closely examine its impacts on, and role within, society and the communities where it operates. It also faces complex issues as the people in these areas are often economically disadvantaged and characterized by the absence of the proper 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

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

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.

Competition in the businesses of the Company is intense

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 Shell Philippine Exploration, Exxon Mobil, PNOC Exploration Corporation, The Philodrill Corporation, and Petroenergy Resources Corporation for acquisition of prospective blocks.

Power Generation. TA, CIPP, and TA Power compete with Meralco and power generating companies in supplying power to the Company's customers. With the full implementation of EPIRA and its purpose of establishing a transparent and efficient electricity market via more competition, a substantial number of the Company's customers may choose to buy power from third party suppliers. In addition, the implementation of open access could have a material adverse impact to the Company's results of operations and financial condition. The execution of bilateral contracts protects the Company because the customers are bound by the bilateral contracts to purchase exclusively from the Company. However, if the cost of power offered by third parties is lower than what the Company's bilateral contracts specify, this may put pressure on the Company to lower its rates in order to be competitive.

The move towards a more competitive environment, as set forth by EPIRA, could result in the emergence of new and numerous competitors. There will be some competitors that may have a competitive advantage over the Company due to greater financial resources, more extensive operational experience, and thus be more successful than the Company in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities.

TA's power generation facilities and companies operate on diesel fuel. While these are more reliable than hydroelectric plants, their high cost of electricity production render these uncompetitive to baseload plants such as coal, geothermal and natural gas facilities of its competitors.

To manage this, the Company and its power generating units constantly monitor the trends in the global oil market. It increases fuel inventory when prices are forecasted to increase to mitigate and manage cost. The Company is also looking into other projects that can produce electricity in a more competitive manner. For these projects, the Company has maintained healthy liquidity and credit ratios.

The Department of Justice, in an opinion, held that PEZA had regulatory powers over electricity providers in special economic zones. The DOJ's 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 PEZA 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.[7] PEZA is also looking at lowering power rates in privately-owned ecozones.[8] 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.[9]

Existing off-take agreements assure a certain level of demand from the Company's customers. Under the 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. For TA Power, Holcim being 50% owner of TA Power, TA Power has some comfortable level of assurance that no other power generation company will be allowed to supply electricity to Holcim's plant in Bulacan. This ESA is valid up to 2013. For CIPP, it sold its distribution facilities to Meralco and terminated its ESA contracts with the locators in the ecozone effective April 11, 2009.

The Company is subject to complex laws and regulations that can adversely affect the cost, manner or feasibility of doing business. Any changes to existing laws may also adversely affect the Company's results of operations.

The exploration, production and sale of oil and mineral deposits and power generation 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 damages to natural resources, which may result from the impact of the Company's 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 be modified or reinterpreted 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.

Electricity trading and generation is also subject to extensive regulation. Benchmark pricing for TAPGC, for example, is the National Power Corporations (NPC) rates which are set and adjusted from time to time by the ERC, sometimes with retroactive effect. Substitute pricing mechanisms have also been employed by PSALM and ERC in the WESM when market prices fluctuated in 2008.

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 in all of its business ventures are credible, reliable, and have proven track records. TA also make certain that every agreement it enters into have remedy provisions that the defaulting or terminating party shall remain liable for its

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[7] "Lower electricity costs in ecozones readied" The Manila Times, Euan Paulo C. Añonuevo, September 2007

[8] "ERC loses jurisdiction over power plants in ecozones to PEZA." Inquirer, Abigail L. Ho., September 2007

[9] "PEZA Starts Power Rate Cut." Manila Standard Today, August 2007

proportionate share in accordance with its participating interest at the time of default of all costs, expenses and all liabilities.

The Company may not be able to obtain or maintain adequate insurance for its power generation facilities which may have a material adverse effect on the Company's business, financial condition and results of operations.

The business of power generation involves significant hazards. These hazards may result in fires, explosions, spills, discharge, leaks, and release of hazardous materials, among others. Any of these effects may cause loss of life, significant damage to the property and equipment of the Company and its neighbors, and adverse effects in the Company's surrounding environment. Such instances give rise to criminal and administrative offenses or revocation of governmental licenses. This is of major concern to the Company due its choice of operating Bunker C-fired plants which require the use of storage of flammable fuel. These events along with other *force majeure* events such as earthquakes, floods and typhoons could result to significant interruptions to the Company's operations which would adversely affect its business and financial conditions. Finally, power generation facilities, being a heavily equipment-dependent operation, are prone to mechanical and equipment breakdown. These further add to the risk of plant shutdowns which could materially and adversely affect the Company's electricity supply to its off-takers.

To protect against these occurrences, the Company maintains insurance coverage against these hazards. These insurance coverage, however, do not ensure complete coverage against all hazards. In addition, the insurance coverage for the Company's facilities is subject to periodic renewal. Other factors that remain outside the control of the Company may affect insurance coverage premiums. Any significant decrease in the insurance coverage may make the Company exposed to certain risks. A significant increase in premiums will, ultimately, cause the Company higher expenses.

Risks Relating to the Company's Growth

The Company may not successfully implement its growth strategy.

The Company's growth strategy involves (i) entering into new partnerships and alliances, and (ii) investments in new power generation projects. Success in implementing this strategy is dependent on the Company's ability to assess and convince potential partners and close financing and acquisition transactions. To make any addition to the current operations of the Company successful, economies of scale must be implemented. This would mean that the amount of work of the current management may increase as new projects do not translate to an equivalent increase in manpower. The Company's future growth may be adversely affected if it is unable to make these investments or pursue these acquisitions, or if these investments and acquisitions prove unsuccessful

The Company goes through extensive and rigorous due diligence investigation of every growth program it pursues. Programs that management deems unduly risky, regardless of its potential returns, are not pursued. The Company puts utmost importance on the risk-return assessment on any project.

Failure to obtain financing or the inability to obtain financing on reasonable terms could affect the execution of the Company's growth strategies.

Failure to obtain financing or the inability to obtain financing on reasonable terms could affect the execution of the Company's growth strategies

The Company has not engaged in any significant financing packages in the past. There is no assurance that the Company will be able to raise all the capital requirements of the growth strategy at acceptable terms. A failure to obtain these financing packages at the desired terms would adversely affect the Company's ability to execute its growth strategies.

The Company has very attractive liquidity and credit ratios which put it in a unique position to pursue its growth strategies. With a de-leveraged balance sheet, a calibrated growth strategy that would match its capacity can be pursued.

Construction of the Company's additional electricity generation facilities and equipment involve significant risks that could lead to increased expenses and lost revenues.

At present the Company is at the planning and development stage for its 135MW 'clean' coal power plant in Calaca, Batangas and is conducting feasibility studies of various wind projects in different parts of the country, notably in Guimaras province, with a potential capacity of up to 481 MW. There is a possibility that any or none of these projects may prove to be feasible and even if any of these projects are shown to be feasible, there is no assurance that actual construction and operating costs will approximate those indicated in their respective feasibility studies. Any of these events can adversely affect the Company's ability to grow its generating capacity and therefore its long term revenue growth prospects. The following are some risks involved in the construction of the Company's additional electricity generation facilities:

1. the breakdown of the equipment used;
2. the failure to obtain the necessary governmental permits and approvals;
3. the inability to purchase land for the generation facilities;
4. work stoppages and other employee-related actions;
5. opposition from host communities and special-interest groups;
6. political & social unrest including terrorism;
7. engineering and environmental problems;
8. delays in construction and operations;
9. unbudgeted cost overruns.

Should the Company experience any of these problems, it may not be able to deliver its power generated at competitive prices, thereby decreasing profitability. To manage this, the Company employs the services of contractors and suppliers through a stringent decision and awarding process. Some of the factors that influence the decisions are: reputation of the company/bidder, track record in delivering on-time and on-budget projects, and most especially, cost-quality proposal.

Dependence of the Company to its directors and senior officers.

The Company's directors and members of its senior management have been an integral part of its success. The knowledge, experience and expertise they bring have been key components of the Company's profitability and performance. These are difficult to replace. A change in key management and executive personnel may adversely affect its operations and business. Having a high turnover of employees has not been a characteristic of the Company's working environment.

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%

*****On March 10, 2009, TA sold its 30% equity interest in BIPC to Phoenix Petroleum Philippine, Inc.

Trans-Asia Renewable Energy Corporation. TAREC is a wholly-owned subsidiary of TA. TAREC was established in 2003 with the primary purpose of developing and utilizing renewable sources of energy and pursuing clean and energy efficient projects. TAREC has a portfolio of 37 prospective wind sites in Luzon and Visayas with a total estimated potential capacity of 458MW. As of the date of this Prospectus, TAREC has installed five (5) wind masts to measure wind resource and help determine the feasibility of establishing commercially viable wind energy projects in Ballesteros, Cagayan; Santa Ana, Cagayan; Nueva Valencia, Guimaras; Sibunag, Guimaras; and San Lorenzo, Guimaras. Of these, the wind energy project in San Lorenzo, Guimaras is at the most advanced stage of development with twenty-five (25) months of uninterrupted data already gathered. It typically takes two (2) years to determine wind viability of a wind farm and another two (2) years to construct.

Trans-Asia (Karang Besar) Petroleum Corporation. Karang Besar is a wholly-owned subsidiary of TA. Incorporated on September 28, 1994, Karang Besar is engaged in oil exploration and development.

CIP II Power Corporation. On December 28, 2006, the Company purchased 100% of the shares of stock of CIPP, a wholly owned subsidiary of Ascendas Utilities PTE Limited, a Singaporean corporation. CIPP operates a 21MW bunker C-fired power plant in Carmelray Industrial Park II ("CIP II") Ecozone 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 PEZA on June 23, 1998, an Ecozone utilities enterprise, particularly to develop and operate a power supply and distribution system at CIP II Ecozone in Barangays Punta and Tulo, Calamba City, Laguna. As a PEZA registered company, CIPP is entitled to certain tax incentives which include, among others, a special five percent (5%) gross income tax rate as applicable.

CIPP signed on March 26, 2009 a memorandum of agreement with CJC and MERALCO where CIPP will transfer to MERALCO its rights and obligations under the Concession Agreement dated October 3, 2000, which gave CIPP the exclusive right to sell electricity to the locators of CIP II Ecozone. CIPP also signed a memorandum of agreement with MERALCO where CIPP shall transfer ownership of the existing electric distribution system in CIP II Ecozone to MERALCO. With these agreements, CIPP has largely ceased operations as a power generator.

Trans-Asia Gold and Minerals Development Corporation. TA Gold was incorporated and registered with the 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 was envisioned to develop the mineral projects set forth by the Company. However, due to uncertainties in the world prices of metals and minerals, TA Gold operations were suspended effective March 31, 2009. On February 16, 2009, the board of directors and stockholders of TA Gold approved the decrease of its authorized capital stock from ₱400 million divided into 400 million shares with a par value of ₱1.00 each share to ₱120 million divided into 120 million shares with a par value of ₱1.00 each share, decrease of the subscribed capital from PhP100 million with 100 million shares to ₱30 million with 30 million shares, decrease of the paid-up capital from ₱50 million to ₱30 million and the return of ₱20 million to its stockholder TA.

Trans-Asia Power Generation Corporation. TA Power is a joint venture between TA and Holcim (formerly, UCC), and was incorporated on March 14, 1996. The joint venture was TA's first attempt to diversify from the risks associated with its then main line of business, oil exploration. TA Power is involved in the operation and maintenance of a power generation plant, including the related facilities, machinery and equipment, with a capacity of 52MW, in Norzagaray, Bulacan. The power plant has a plant capacity of 52MW and is the sole supplier of Holcim's electricity requirements for its cement plant in Norzagaray, Bulacan based on an ESA entered into by and between TA Power and Holcim. Aside from supplying electricity to Holcim, TA Power trades electricity in the WESM. The ERC 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 Executive Order No. 226, also known as the Omnibus Investments Code of 1987 ("OIC"), 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 non-tax 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 (6) 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).

On March 10, 2009, the Parent Company signed a Share Purchase Agreement with Phoenix Petroleum Philippines, Inc. (Phoenix) whereby the Parent Company sold to Phoenix all of the Parent Company's 30% equity interest in BIPC for a consideration payable at approximately 18% down payment and the balance in monthly installments over a period of five years.

Asia Coal Corporation ("Asia Coal"). Asia Coal was incorporated in the Philippines on August 7, 1991 to engage in the trading of coal. However, the stiffening market competition from the entry of new traders has caused the shareholders of Asia Coall to cease all its trading operations beginning November 1, 2000. Since then, Asia Coal's activity has been limited to money market placements. On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of the corporate life of the company to October 31, 2009. It is now awaiting government approvals.

Item 2. Properties

TA 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	100,114,325
Machinery and equipment	Guimaras, Cagayan Valley and Calamba City, Laguna	497,231,531
Wells, platforms and other facilities	Palawan	20,346,661
Transportation equipment	Makati City, Guimaras and Calamba City, Laguna	15,612,283
Mining and other equipment	Makati City, Guimaras	22,221,251
Office furniture, equipment and others	Makati City, Guimaras and Calamba City, Laguna	28,773,138
Total		**₱742,282,189**
Less: Accumulated depletion, depreciation and amortization		315,593,770
Net		**₱ 426,688,419**

Source: Audited consolidated financial statements as of December 31, 2009

Machinery and equipment includes 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. They include the Company's share in the construction cost of Phinma Plaza which was completed in October 2001 and 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 (Renewable), has a wind monitoring 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. Additional four (4) wind monitoring towers were constructed in Guimaras and Cagayan Valley. On the other hand, Trans-Asia (Karang Besar) Petroleum Corporation has no properties.

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

For the next 12 months, the Company might acquire machinery and equipment, furniture and 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 September 30, 2009, there were 1,662,603,069 shares of TA common stock outstanding and entitled to vote at the Special Stockholders' Meeting. Only holders of the Company's stock of record at the close of business on October 16, 2009 acting in person or by proxy on the day of the meeting were entitled to notice and to vote at the Special Stockholders' Meeting held on November 16, 2009.

As of January 29, 2010, there were 1,662,603,069 shares of TA 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 February 23, 2010 acting in person or by proxy on the day of the meeting were entitled to notice and to vote at the Annual Stockholders' Meeting held on March 24, 2010.

Cumulative voting is allowed for election of the members of the Board of Directors. Each stockholder may vote the number of shares of stock outstanding 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.

PART II – SECURITIES OF THE REGISTRANT

Item 5. Market Price of and Dividend on Registrant's Common Equity and Related Stockholder Matters

Market Price

TA's common shares are listed with the Philippine Stock Exchange. Below are the high and low sales prices for January - March 2010 and for the calendar years 2009, 2008 and 2007:

Period	High	Low
A. Calendar Year 2010		
January 29	1.34	1.20
February 26	1.48	1.40
March 31	1.32	1.28
B. Calendar Year 2009		
First Quarter	0.92	0.60
Second Quarter	1.14	0.82
Third Quarter	1.36	1.12
Fourth Quarter	1.28	1.06
C. Calendar Year 2008		
First Quarter	1.38	1.00
Second Quarter	1.24	0.98
Third Quarter	1.08	0.94
Fourth Quarter	1.02	0.68
D. 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

Stockholders

The Company had 3,384 registered shareholders as of February 28, 2010. 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 28, 2010.

No.	Name of Stockholders	Citizenship	No. of Shares Held	% of Ownership
1	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Filipino	Filipino	832,606,526	50.08%
2	Bacnotan Consolidated Industries, Inc.	Filipino	449,331,621	27.03%
3	Philippine Investment Management, Inc.	Filipino	201,850,614	12.14%
4	Emar Corporation	Filipino	37,283,937	02.24%
5	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Non-Filipino	Foreign	14,889,044	0.90%
6	Dr. Anita Ty	Filipino	4,042,593	0.24%
7	Albert Mendoza &/or Jeannie Mendoza	Filipino	2,987,967	0.18%
8	Albert Awad	American	2,912,188	0.18%
9	Phil. Remnants Co., Inc.	American	2,801,218	0.17%
10	Conrado S. Chua	Filipino	2,142,486	0.13%
11	Epifania S. Godinez	Filipino	1,817,825	0.11%
12	John Peter Yu &/or Juan Yu	Filipino	1,580,000	0.10%
13	Teresita A. Dela Cruz	Filipino	1,502,221	0.09%
14	David Go Securities Corp.	Filipino	1,501,686	0.09%
15	Belek, Inc.	Filipino	1,484,002	0.09%
16	Francisco L. Viray*	Filipino	1,441,295	0.09%
17	Joseph D. Ong	Filipino	1,397,663	0.08%
18	William How &/or Benito How	Chinese	1,333,914	0.08%
19	Active Research and Management Corp.	Filipino	1,333,914	0.08%
20	G & L Securities Co., Inc.	Filipino	1,242,514	0.07%

*The total number of shares owned by Dr. Francisco L. Viray as of February 28, 2010 is 3,966,926 shares of which 2,525,631 shares are lodged in AB Capital Securities, Inc. (a PCD participant) while 1,441,295 shares are certificated.

Dividends

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

The Company is authorized to pay cash or stock dividends or a combination thereof, subject to approval by the Company's Board of Directors and Stockholders. 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.

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.

On March 25, 2008, the Board of Directors declared a 4% cash dividend in favor of all shareholders of record as of April 11, 2008, which was paid on May 8, 2008.

On March 16, 2009, TA's Board of Directors declared a 4% cash dividend in favor of all shareholders of records as of March 30, 2009, which was paid on April 27, 2009.

No stock dividend was declared for the calendar years 2006, 2007, 2008 and 2009.

As of December 31, 2009, TA's retained earnings amounted to ₱1.3 billion, of which ₱223.7 million were equity in net earnings of investee companies that are not available for dividend declaration.

Sale of Unregistered Securities Within the Last Three (3) Years

On April 2, 2007, the Company's Board of Directors and Stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares as (a) stock grants for officers and managers of the Company; and (b) stock options for directors, officers and employees of TA and its subsidiaries and affiliates under the terms and conditions as may be determined by the Executive Committee. On May 7, 2008, the Company suspended that Stock Option Plan. The Company implemented the Company's Stock Grants Plan for its executives which resulted in the issuance of 0.3 million and 4.7 million shares in first semesters ended June 30, 2009 and June 30, 2008, respectively. 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. Issuance of these shares are exempt from registration under Section 10.2 of the Securities Regulation Code which states that the Commission may exempt certain transactions if it finds that the requirements for registration under the Code is not necessary in the public interest or for the protection of the investors such as by reason of the small amount involved or the limited character of the public offering. The Plan falls under Section 10.2 because the offer is limited only to qualified directors, officers and employees of TA and its subsidiaries and affiliates.

On December 11, 2007, TA issued 552,528,364 shares at ₱1.10 per share to its stockholders by way of a stock rights offering. The rights offering was an exempt transaction under Section 10.1 (e) of the Securities Regulation Code. TA did not engage an underwriter for the offering, but PHINMA and ABSCI committed to subscribe to any shares not taken up by the stockholders.

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, TA has invested in other industries in order to maintain its financial stability. At present, TA 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 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."

Calendar Year 2009

The world energy market in 2009 was marked by considerable volatility and uncertainty. While oil prices started at $40 per barrel in early 2009, it remained highly volatile and almost doubled to $76 per barrel during the last quarter of the year. Most investors were on a wait and see attitude and postponed their major expansion projects and capital expenditures.

Overall, in spite of increasing energy prices, the Philippine economy managed to register positive nominal growth in 2009. It was greatly supported by the sustained inward currency remittances from our overseas workers which, contrary to expectations, remained relatively robust.

Decreasing global demand and the unavailability of credit in the market resulted in significantly reduced investments in the world energy sector. Major projects were either delayed or cancelled across the global energy industry. However, in the medium to long term, the energy industry can be expected to continue to grow at a steady pace, and 2010 could mark the beginning of a new cycle in the energy industry.

Despite the challenges faced in 2009, the Company's consolidated net income increased to P282.8 million in 2009 from ₱88.4 million in 2008. The improvement in profitability, which was driven primarily by the trading of electricity, was achieved in spite of certain asset valuation adjustments that were made to comply with the rules of the Philippine Financial Reporting Standards (PFRS). Earnings per share rose to ₱0.17 from ₱0.05. Total consolidated assets grew to ₱3.38 billion, as total liabilities dropped to ₱313 million from ₱476 million while total equity improved to ₱3.07 billion from ₱2.8 billion.

In line with management's intent to endeavor to pay regular dividends, the Board of Directors declared on March 16, 2009, a 4 % dividend which was paid on April 27, 2009.

With the gradual recovery of the world's leading economies from the global slowdown that started in late 2008, the price of crude oil is expected to track the US $75 - $85 per barrel range in the immediate future. This price level and the low volatility anticipated augur well for exploration spending, especially of international companies, and would help efforts to farm out exploration projects and raise risk capital.

While the continued strain in global financial markets will continue to weigh down growth forecasts in 2010, the results of a credible May 2010 elections and the eventual smooth transition of power to the next administration, and the full implementation of the ASEAN Free Trade Agreement are the new developments which will be at the back of the minds of most investors.

Looking ahead, as one of the pioneering trading participants at the Wholesale Electricity Spot Market (WESM) and with the implementation of the Power Supply Options Program (PSOP), TA's Electricity Trading and Marketing Group will be in a position to benefit from another strategic opportunity that will pave the way for fair competition that will create better value for our customers. This will allow the group to further enhance its role in the future business growth of the company.

TA looks forward to the drilling of the first exploratory well under SC 51 in offshore Argao, Cebu in late 2010. The Company is carried - free in the drilling costs estimated at US $ 36 million. No wells have ever been drilled in the waters between Cebu and Bohol, and success could open up a new oil and gas province outside of northwest Palawan.

With a vibrant Renewable Energy Industry coming into full form, the company moved aggressively to become the pioneer and leader in Renewable Energy resources, particularly in wind resource development. The company has been awarded late last year 10 service contracts by the DOE, representing a total potential capacity of 227 MW. In addition, on 1 February this year, another 10 service contracts representing an additional 123 MW of potential wind capacity were again awarded to your company by the DOE thus bringing its total potential wind capacity to 350 MW and making it the largest wind developer in the country today.

The 54 MW San Lorenzo, Guimaras Wind Project is now in its final stage of the Feasibility Study and is on target for its projected commercial operation in 2012. Its advanced development puts your company in a good position to take advantage of the impending full implementation of the R.A.7916 or the Renewable Energy Act of 2008 (RE Law). The RE Law which took effect on January 31, 2009, seeks to accelerate the development of renewable energy sources in the country to achieve energy self reliance and independence.

Upstream Oil and Gas

SC 6 (Northwest Palawan)

Cadlao

The Department of Energy (DOE) approved a new development plan for the Cadlao oil field subject to, among other conditions, the submission of an Extended Well Test proposal.

The DOE granted earlier a 15-year extension of the term of Service Contract No. 6 covering the Cadlao Production Area effective March 1, 2009.

Block A and Block B (Retention Area)

The DOE granted a 15-year extension of the term of Service Contract No. 6 covering Block A and Block B effective March 1, 2009.

In Block A, partners agreed to extend the term of the Farm-In Agreement with Vitol GPC Investments S.A. of Switzerland, which grants the latter the option to acquire 70% interest in the block, until 14 days after DOE approval of Galoc Phase 2 development or December 31, 2010, whichever comes first.

SC 1 Block B-1 North Matinloc (Northwest Palawan)

Production operations at the North Matinloc field resumed in February 2009.

As of December 31, 2009, the field has produced a total of 28,315 barrels of oil.

SC 51 (East Visayas)

In June 2009, the DOE lifted the moratorium it imposed on exploration activities in the area following the revocation of the Cebu provincial governor's Cease and Desist Order to the DOE.

The DOE approved the extension of the current 3rd Sub-Phase of the Exploration Period until December 8, 2010.

The 3rd sub-Phase of the Exploration Period entails a commitment to drill one exploratory well.

SC 55 (Offshore West Palawan)

The DOE approved the consortium's request for substitution of a 2D/3D seismic program with minimum expenditures of US $ 3 MM, for one deepwater well with minimum expenditures of US $ 3 MM committed under the current 3rd Sub-Phase of the Exploration Period (August 5, 2009 to August 4, 2010).

The consortium completed on January 1, 2010 a 600–sq.km. 3D seismic survey designed to upgrade petroleum leads to drillable prospects, in fulfillment of its work commitment.

SC 69 (Camotes Sea)

Partners completed reprocessing of some 2,800 kilometers of vintage 2D seismic data in fulfillment of work obligations under the 1st Sub-Phase of the Exploration Period May 7, 2008 to May 6, 2009).

The consortium elected to enter the 2nd sub-Phase of the Exploration Period (May 7, 2009 to November 6, 2010) and opted to implement a minimum 750 – km 2D seismic program.

Preparations for the conduct of a 900 – km seismic survey were underway as of end 2009.

Minerals

MPSA 252-2007-V (Camarines Norte)

TA Gold, wholly-owned subsidiary of TA and Operator of the MPSA, suspended operations in April 2009.

In June 2009, TA received notice of an Order of the Secretary of Department of Environment and Natural Resources (DENR) excising portions of the MPSA area that are covered by alleged mineral patents of a third party.

TA filed a motion for Reconsideration of said Order. In December 2009, the DENR denied TA's Motion for Reconsideration. TA filed a timely Appeal of the DENR's ruling with the office of the President.

MRD - 491 and MRD - 492 (Rizal)

Rock Energy International Corporation, Operator of TA's mining lease contracts, obtained in July 2009 an environmental Compliance Certificate for operation of a quarry to extract tuffaceous materials at a site in Teresa.

Power Generation

Bulacan (Trans-Asia Power Generation Corporation)

Trans-Asia Power registered a net income of ₱69.5 million; a complete reversal of the ₱158.3 million loss incurred in 2008. Total energy sold in 2009 reached 256.6 GWh. Of the total volume, 213.8 GWh was supplied to our main customer, Holcim Philippines, while 42.7 GWh was exported to the WESM.

TA Power sustained the plant's reliability and steadily assured power supply quality for Holcim to preclude opportunity losses, while complying at the same time with environmental standards and the Grid Code.

Guimaras

The 3.4 MW power plant in Guimaras continued to provide peaking power in the island. Total energy sales for the year amounted to 3.8 GWh resulting in total revenues of ₱47.2 million and net income from operations of ₱8.66 million.

Aside from providing peaking power, the power plant also operated on island mode five (5) times during the year as power from the grid was not available due to transmission line problems and maintenance, thereby ensuring a reliable and continuous supply of power to the island.

Laguna (CIP II Power Corporation)

CIP II Power Corporation (CIPP) operates in the Carmelray Industrial Park II in Calamba, Laguna. It originally was the only generator allowed to supply the electricity requirements of the park through its 21 MW Bunker C-Fired power plant. In March 2009, the company sold to Meralco CIPP's ownership of the distribution network inside the park, effectively terminating the original Concession Agreement with the park operator Carmelray – JTCI Corporation (CJC). Prior to the turn-over of the distribution assets, CIPP sold a total of 14.9 GWh of energy resulting in Total Revenues of P108.6 million.

Electricity Trading and Marketing

The electricity supply business continues to play its vital role as an active participant in the buying and selling electricity to the Philippine Wholesale Electricity Spot Market (WESM). For 2009, the total energy bought for our customers reached 268 GWh, while excess energy sold by TA Power was at 42 GWh.

As the major contributor to the excellent performance of TA in 2009, Electricity trading accounts for ₱827 million of the ₱1.0 billion revenues for the whole calendar year.

Project Development

To augment the power generation capacity of your company, plans have been drawn to build a new 1 x 135 MW coal-fired power plant. The power plant will utilize the Atmospheric Circulating Fluidized Bed (CFB) boiler technology which will be designed to minimize emissions of oxides of sulfur and nitrogen. An Electrostatic Precipitator (ESP) will be installed to remove suspended particles from the exhaust gases prior to release to the atmosphere. Liquid effluents will also be treated in a water treatment plant prior to discharge. Together, the CFB, ESP and water treatment plant will allow the power plant to surpass the environmental emissions standards set by the government.

Three sites are being considered for the coal plant location feasibility studies. The first two, Norzagaray, Bulacan just adjacent to the existing TA Power, and Bacnotan, La Union, are being carefully studied to take advantage of its proximity to existing facilities and being located close to its intended main customers. The third site being considered is Calaca, Batangas, due to its ease of interconnection to the Luzon Grid via the National Grid Corporation of the Philippines.

Renewable Energy

Trans-Asia Renewable Energy Corporation (TAREC), your fully owned subsidiary focused on developing renewable energy (RE) projects put into motion, a “portfolio” approach in wind resource development. TAREC has identified over 30 wind sites capable of supporting over 400 MW of wind power.

While waiting for the promulgation of guidelines governing the award of RE Service Contracts, which vests exclusive rights for 25 years, extendible for another 25, to particular areas, TAREC continued measuring the wind regime in its maiden wind site in San Lorenzo, Guimaras.

TAREC also conducted a Public Scoping for this Guimaras pilot project at the site, where, together with the local government, the community expressed full support for this environmentally friendly project. Likewise, TAREC shortlisted potential turbine/generator suppliers and had extensive discussions with possible financial partners. These activities were undertaken with the objective of achieving a 2012 full commissioning of a 54 MW wind farm in San Lorenzo, Guimaras.

TAREC also commissioned four (4) additional wind measuring devices in Ballesteros and Sta. Ana, Cagayan, as well as in Nueva Valencia and Sibunag also in Guimaras. Initial readings from these sites showed very promising results.

In October 2009, TAREC bagged from the Department of Energy (DOE), 10 service contracts representing a total of 227 MW of potential wind capacity making it the country’s largest wind energy resource developer. Aside from the sites mentioned above, the 10 service contracts awarded to TAREC also cover areas in Buguey/Aparri in Cagayan, Ibajay and Malay in Aklan, Mercedes in Camarines Norte as well as Barotac Nuevo in Iloilo.

Financial Performance

Consolidated revenues for the current year 2009 decreased to ₱1.09 billion compared with ₱1.44 billion last year. Following are the material changes in revenues in the Consolidated Income Statement for the year 2009:

- The drop in generation revenues to ₱155.8 million from ₱728.3 million was driven by the low energy sales of CIPP since the takeover of the concession agreement by Meralco on April 11, 2009.
- Trading revenue rose to ₱274.5 million from ₱62.9 million on account of higher energy sales and power rate.
- Interest and other financial income increased to ₱65.6 million from ₱48.4 million due to higher fair value of investments held for trading.
- Dividend income improved to ₱27.1 million from ₱2.1 million brought about by cash dividend received from Atlas Holding Corporation (AHC), Bacnotan Consolidated Industries, Inc. (BCII) and Phinma Property Holdings Corporation (PPHC).
- Other income increased to ₱5.4 million from ₱2.1 million due to the rental income from three (3) tenants this year following the purchase of the 3rd floor of Phinma Plaza.
- Despite the increase in energy sales, Company’s share in generation revenues of a joint venture slightly decreased to ₱563.5 million from ₱566.2 million as a result of lower power rate.
- In 2008, other income of ₱38.1 million was recognized representing proceeds received from insurance claim and reversal of Transco charges.

Consolidated costs and expenses for the current year 2009 decreased to ₱793.5 million from ₱1.4 billion in previous year. Following are the material changes in costs and expenses in the Consolidated Income Statement for the year 2009:

- Cost of power generation dropped to ₱156.4 million from ₱742.6 million on account of lower energy sales of CIPP due to Meralco's takeover of its concession agreement on April 11, 2009.
- General and administrative expenses increased to ₱199.8 million from ₱181.2 million brought about by higher employees costs and professional fees.
- Company's share in cost of generation of a joint venture decreased to ₱275.9 million from ₱493.9 million as a result of lower fuel cost and lower volume of power generated.
- Company's share in general and administrative expenses of a joint venture increased to ₱27.7 million from ₱26.4 million due to higher professional fees.
- Company's share in other charges of a joint venture in 2009 amounted to ₱495.3 thousand representing interest expense on bank borrowings.
- The Company had written-off ₱78.5 million of intangible assets due to expiration of contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic.
- Regarding the forward currency contracts entered into by the company, a net gain on derivatives of ₱37.6 million was earned in 2009 due to appreciation of peso. A net loss on derivatives of ₱21.2 million was reported in the same period last year with the depreciation of peso.
- For the company's foreign currency holdings, a foreign exchange loss of ₱12.9 million was reported in 2009 following the appreciation of peso. A foreign exchange gain of ₱69.6 million was registered in the same period last year due to the depreciation of peso.
- Provisions for impairment losses on CIPP generating sets, deferred exploration cost and provision for unrecoverable input tax amounting to ₱106.9 million, ₱11.5 million and ₱0.7 million, respectively, were set-up during the year.
- Interest and other financial charges decreased to ₱701.9 thousand from ₱5.9 million on account of higher interest expense on customers' deposits in 2008.
- Gain on sale of investment in associates of ₱24.8 million was earned from the disposal of BIPC shares.
- Gain on sale of property and equipment of ₱7.3 million was earned from the disposal of the distribution asset of CIPP.
- Gain on sale of available-for-sale investments amounted to ₱20.5 thousand from ₱28.8 thousand loss in previous year as a result of the increase in market value of the said investments.
- Equity in net earnings of associates of ₱12.1 thousand was reported in 2009. Equity in net earnings of associates of ₱8.6 million was registered in the same period last year due to net income earned by Bacnotan Industrial Park Corporation (BIPC).
- Other income dropped to ₱8.4 million from ₱19.4 million due to reversal of accrued 2007 expenses in 2008.

Provision for income tax of ₱60.1 million was reported for the year 2009. Benefit from deferred income tax rose to ₱41.1 million from ₱32.1 million due to the tax effect of the provision for impairment loss on CIPP's generating sets. Company's share in income tax of a joint venture declined from provision for income tax of ₱6.3 million last year to benefit from income tax of ₱3.4 million.

As a consequence of the above-cited factors, net income increased to ₱282.8 million in 2009 from ₱88.5 million last year.

Total consolidated assets slightly increased to ₱3.38 billion as of December 31, 2009 from ₱3.33 billion as of December 31, 2008. Total consolidated liabilities decreased to ₱313.2 million from ₱476.2 million. Equity increased to ₱3.07 billion from ₱2.86 billion.

Following are the material changes in the accounts in the Consolidated Balance Sheet as of December 31, 2009:

- Cash and cash equivalents increased to ₱985.3 million from ₱909.5 million. The Consolidated Statement of Cash Flows shows details of material changes in cash and cash equivalents.
- Short-term investments fell to P5 million from ₱17.5 million in 2008 following the conversion of these investments to short-term deposits.
- Investments held for trading increased to ₱810.4 million from ₱544.7 million. The Consolidated Statement of Cash Flows shows the details of material changes in investment held for trading.
- Receivables dropped to ₱157.5 million from ₱183.9 million following collection of CIPP's trade and non-trade receivables.
- Fuel and spare parts decreased to ₱44.9 million from ₱50.7 million brought about by the sale of CIPP's bunker fuel inventory.
- Other current assets increased to ₱24.3 million from ₱16.4 million due to increase in input tax from the purchase of the 3rd floor and part of mezzanine of Phinma Plaza Building.
- Company's share in current assets of a joint venture improved to ₱198.1 million from ₱162.4 million due to higher trade and other receivables from high volume of energy sold in December.
- Property, plant and equipment fell to ₱426.7 million from ₱620.1 million brought about by the provision for impairment loss on CIPP's generating sets for the year 2009.
- Investments in associates fell to ₱619.7 thousand from ₱169.1 million brought about by the sale of BIPC shares.
- Available-for-sale investments slightly declined to ₱205.1 million from ₱206.4 million from the drop in market value of said investments.
- Investment properties rose to ₱92.2 million from ₱3.3 million due to the purchase of the 3rd floor and part of mezzanine of Phinma Plaza Building.
- Intangible assets decreased to ₱71.9 million from ₱144.2 million due to the oil exploration costs written-off.
- Other noncurrent assets improved to ₱127.9 million from ₱331.7 thousand due to long term receivable from Phoenix Petroleum Philippines, Inc. in connection with the sale of BIPC shares.
- Company's share in noncurrent assets of a joint venture declined to ₱235.7 million from ₱305.4 million due to depreciation expense and lower market value of available-for-sale investments.
- Accounts payable and other current liabilities fell to ₱168.3 million from ₱214.5 million on account of settlement of trade payables.
- Customers' deposits of ₱27.4 million were returned to locators of CIPP in 2009.
- Due to stockholders increased to ₱7 million from ₱6.3 million.
- Income and withholding taxes payable rose to ₱39.4 million from ₱968.7 thousand due to higher taxable income in 2009 than last year.
- Company's share in current liabilities of a joint venture declined to ₱53.3 million from ₱141.9 million on account of settlement of trade and nontrade payables.
- Pension and other post-employment benefits decreased to ₱6 million from P ₱10.9 million brought about by lower pension contribution in 2009 than last year.
- Deferred tax liabilities decreased to ₱23.4 million from ₱53.5 million as a result of provision for impairment loss on CIPP's generating sets.
- Company's share in noncurrent liabilities of a joint venture decreased to ₱8 million from ₱13.2 million due to drop in deferred tax liability.
- Unrealized fair value gains on available-for-sale investments declined to ₱52.2 million from ₱54.5 million due to lower market value of the said investments.
- The Company's share in unrealized fair value gains on financial assets of a joint venture slightly increased to ₱8.9 million from ₱8.7 million brought about by the higher market value of the said financial assets.
- Retained earnings grew to ₱1.29 billion from ₱1.08 billion due to higher net income for the year.

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

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

   Current ratio improved to 8.31:1 as of December 31, 2009 from 4.82:1 as of December 31, 2008 due to the increase in investments held for trading, other current assets and Company's share in current assets of joint venture and drop in accounts payable and Company's share in current assets of a joint venture.

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

   The ratio of current assets to total assets increased to 66:1 as of December 31, 2009 from 56.5:1 as of December 31, 2008 due to improved investments held for trading, other current assets and company's share in current assets of a joint venture.

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

   Debt/equity ratio decreased to 0.10:1 as of December 31, 2009 from 0.17:1 as of December 31, 2008 brought about by lower accounts payable and other current liabilities, company's share in current liabilities of a joint venture and deferred tax liabilities.

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

   The rate of return on stockholders' equity improved to 9.5% for the year ended December 31, 2009 as compared to 3.1% for the same period last year due to higher net income.

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

   Earnings per share improved to ₱0.17 from ₱0.05 on account of higher net income in 2009 compared to last year.

During the Calendar Year 2009:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows except for the disposal of distribution asset of CIPP, provision for impairment loss on CIPP's generating sets and write-off of intangible assets.
- The Company had two (2) reportable segments namely: petroleum and mining exploration and power business. The fund placements arising from management of the Company's funds are incidental to the Company's oil exploration and power generation activities. The exploration costs are shown as "Intangible assets" in the consolidated balance sheets.
- Other than the approval of the Board of Directors of the merger of the Parent Company and CIPP on February 22, 2010 and the contract entered into by the Parent Company for

the sale and purchase of industrial lots with BIPC on January 15, 2010, there have been 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 of subsidiaries and long-term investments, restructuring and discontinuing operations. However, the Company sold all its shares of stocks in BIPC in March 2009.
- 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 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.

2010 BUSINESS OUTLOOK

Renewable Energy

On February 1, 2010, the Department of Energy awarded another 10 service contracts, with a potential wind capacity of 123 MW to TAREC bringing the company's wind portfolio with associated service contracts to 350 MW.

With wind technology considered as mature, governments and international financial institutions both enthusiastically supporting RE projects, the only crucial risk remaining for wind project development as well any RE for that matter, is a tariff mechanism that recognizes its comparatively higher first cost requirement.

The Energy Regulatory Commission (ERC), which together with the National Renewable Energy Board (NREB) are tasked with determining the Feed-in-Tariffs (FiTs) for RE projects, recently disseminated the initial draft FiT rules. On the other hand, NREB is likewise expected to release in the near future its recommendation on the Renewable Portfolio Standard (RPS), prescribing the portion of the supply of electricity suppliers that would have to be sourced from eligible RE resources.

Upon the final determination of the RPS and FiT mechanisms, TAREC will push with its implementation of the 54 MW San Lorenzo Wind Project. This wind farm is projected to be in full operation in 2012.

By the end of this year, the prospectivity of our Ballesteros/Aparri site in Cagayan, which is estimated to be capable of supporting 45 MW, can be confirmed. With the expected final determination of FiT and RPS in the near future and the positive feedback from prospective financial partners for San Lorenzo, TAREC could look forward to leveraging the heightened interest of international financial institutions in its other wind projects.

With this encouraging business climate for the RE sector, TAREC aims to vigorously pursue its portfolio of wind sites. The pace at which our wind projects will be implemented will be dependent on the company's ability to attract partners and raise the investment capital required to fund the projects.

Calendar Year 2008

Upstream Oil AND Gas

SC 6 (Northwest Palawan)

Cadlao

Blade Petroleum (Australia) acquired all the remaining interests held by the other equity holder in the Cadlao Production Area. It negotiated with the royalty interest holders, including Trans-Asia, for possible buyout of the latter's interests.

The Department of Energy granted a 15-year extension of the term of Service Contract No. 6 covering the Cadlao Production Area effective March 1, 2009.

Block A and Block B (Retention Area)

Partners requested the DOE a 15-year extension of Service Contract No. 6 for Block A and Block B.

Vitol GPC Investments S. A. of Switzerland completed the first phase of its technical due diligence over Block A and concluded that development of the Octon discovery hinges on tie-back to Galoc production facilities.

In Block B, partners signed an Option Agreement with Venturoil Philippines granting the latter the option to acquire 70% interest in the area until December 31, 2008. Venturoil subsequently requested the partners to extend the 'option period' until September 2009.

SC 14 Tara and SC 14 North Matinloc (Northwest Palawan)

Venturoil Philippines signed separate Option Agreements with most of the members of the Tara and North Matinloc consortia, granting the former the option to acquire 70% interest in each block until December 31, 2008. Venturoil though sought an extension for it to exercise its acquisition rights under the Option Agreements until September 2009.

SC 51 (East Visayas)

The DOE approved the consortium's entry into the 3rd Sub-Phase of its Exploration Period (February 8, 2008 to March 7, 2009) which involves a commitment to drill one exploratory well.

The consortium completed a Geo-Microbial Survey over Northwest Leyte in April 2008, which the DOE accepted as a substitute for and fulfillment of the consortium's outstanding 250-km 2D seismic program commitment under the 1st Sub-Phase of the Exploration Period.

SC 55 (Offshore West Palawan)

The DOE approved the consortium's entry into the 2nd Sub-Phase of the Exploration Period (February 5, 2008 to August 4, 2009) which entails a commitment to drill one ultra deepwater well.

Processing and interpretation of 954 km of 2D seismic data acquired in June 2007 were already completed. But due to non-availability of a suitable rig, the DOE approved the consortium's request to swap work commitments for the 2nd and 3rd Sub-Phases of the Exploration Period to allow the drilling of the first commitment well by August 4, 2010, instead of August 4, 2009.

The DOE credited the 954 km 2D seismic program as a fulfillment of the consortium's work obligation for the 2nd Sub-Phase of the Exploration Period.

TA also accepted the offer of NorAsian Energy Ltd. (Australia) to: 1) buy the former's option to acquire 5% participating interest from the latter after the first well is drilled, and; 2) acquire 7.5% participating interest from the former in exchange for a carry in the costs of the second well in the contract area.

The Participation Agreement signed by TA with NorAsian's predecessors on March 15, 2005 prescribes that the latter shall bear Trans-Asia's 15% share in the cost of the drilling of the first ultra deepwater well in the block

NorAsian Energy subsequently signed a Heads of Agreement with a major company in December 2008 for the farm-out of 60% out of its 85% participating interest in SC 55.

SC 69 (Camotes Sea)

The DOE awarded SC 69 (formerly Area 8 of the 2006 Philippine Energy Contracting Round) on May 7, 2008 to a consortium composed of Trans-Asia (30% interest) and NorAsian Energy Philippines (70% interest).

SC 69 has an Exploration Period of seven years, divided into five Sub-Phases. While the area is under-explored, initial indications show that it has significant petroleum potential in view of gas discoveries in onshore Northern Cebu and offshore Northwest Leyte.

The consortium commenced a geological and geophysical review and reprocessing of some 3000 km of vintage 2D seismic data in fulfillment of work obligations under the 1st Sub-Phase of the Exploration Period (May 7, 2008 to May 6, 2009).

Minerals

MPSA 252-2007-V (Camarines Norte)

On February 14, 2008, TA signed an Operating Agreement with its subsidiary, Trans-Asia Gold and Minerals Development Corporation (TA Gold), granting the latter the exclusive right to explore, develop and operate the MPSA contract area for commercial mineral production.

Pursuant to said Operating Agreement, TA Gold completed the drilling of three (3) exploratory diamond drill holes to probe gold, uranium and white clay occurrences. Results of the drilling operations are under evaluation.

TA also filed a request with the Mines and Geosciences Bureau (MGB) for an amendment of the prevailing MPSA, primarily on the terms setting the boundary of its exploration area. The proposed revision seeks to include prospective areas that have been removed prior to the award of the MPSA, which were then attributed to land use classification and restriction issues.

EPA II – 000084 (Isabela)

MGB Regional Office No. 2 approved the transfer of the Exploration Permit Application (EPA) of TA to TA Gold, allowing the latter to undertake the exploration activities upon award of the permit.

The EPA covers 4,172-hectare block in the municipality of Dinapigue, which a 1987 regional study by the Japan International Cooperation Agency identified as a priority area for copper, gold and manganese exploration.

Field reconnaissance also revealed large outcrops of shipping-grade manganese ore at several locations.

MRD - 491 and MRD - 492 (Rizal)

TA and Rock Energy International Corporation signed an Operating Agreement on March 3, 2008 granting the latter the exclusive right to extract and market tuffaceous materials within TA's mining lease contract areas in Teresa, Baras and Morong for a period of five (5) years. Tuffaceous materials are used in the production of *pozzolan* cement.

Rock Energy applied for an Environmental Compliance Certificate for planned quarrying activities at a site in Teresa.

Power Generation

Bulacan (Trans-Asia Power Generation Corporation)

Total energy generated and sold by TA Power in 2008 reached 116 GWh. Of the volume, more than half or 61 GWh was supplied to our main customer, cement firm Holcim Philippines, while 55 GWh was exported to WESM.

TA Power sustained the plant's reliability and steadily assured power supply quality for Holcim to preclude opportunity losses, while complying at the same time with environmental standards and the Grid Code.

Guimaras

The 3.4 MW power facility in Jordan, Guimaras continuously provided reliable power for the island, even at times when the submarine cable connecting it to the transmission grid in Panay mainland was severed three times last year during the months of June, July and August for a total of 51 days. As it is the sole power provider in the area, the plant has to be operated on an island-mode just to ensure continuous service to its customers.

Total electricity generated and sold for the year amounted to 6.4 GWh resulting in gross revenues of ₱71.07 million. Net income reached a modest ₱7.5 million.

Laguna (CIP II Power Corporation)

Electricity sales of CIPP posted a flat growth of 89.9 GWh in 2008. The expected demand growth from the entry of new customers as well as the expansion programs of existing customers failed to materialize as the global economic recession started to adversely affect locators' operations.

The major rehabilitation works undertaken on the generation and distribution facilities in 2007 paid dividends in terms of equipment reliability.

As a result, both the generation and distribution facilities of CIPP performed exceptionally well the whole year of 2008. There were no park-wide blackouts and the rented back-up generators were barely utilized.

Electricity Trading and Marketing

TA continued active participation in electricity trading at the Wholesale Electricity Spot Market (WESM) – mainly buying the electricity requirements of our customers, and selling the excess generation of affiliate TA Power.

For 2008, total energy bought for our customers reached 158 GWh, while excess energy sold by TA Power was at 55 GWh.

Financial Performance

Consolidated revenues increased to ₱1.4 billion in 2008 compared to ₱1.5 billion last year. Following are the material changes in revenues in the Consolidated Income Statement in 2008:

- Generation revenues grew to ₱728.3 million from ₱624.6 million brought about by higher energy sales and power rate.
- Revenues from trading electricity which started in 2008 amounted to ₱62.9 million.
- Interest and other financial income improved to ₱48.4 million from ₱32.8 million due to higher level of fund placements and interest rates.
- Dividend income decreased to ₱2.1 million from ₱8.8 million as Atlas Holdings Corporation declared a higher amount of cash dividend in the first semester of 2007.
- Other income dropped to ₱2.1 from ₱38.9 million, the latter however was inclusive of service income earned in 2007.
- Company's share in generation revenues of a joint venture declined to ₱566.2 million from ₱749.1 million due to lower energy sales and power rate.
- Company's share in other income of a joint venture rose to ₱38.1 from ₱5.6 million brought about by the collection of an insurance claim.

The level of consolidated costs and expenses for the year 2008 remained steady at ₱1.3 billion. Following are the material changes in costs and expenses in the Consolidated Income Statement in 2008:

- Cost of power generation rose to ₱742.6 million from ₱556.1 million as a result of higher energy sales and higher fuel cost.
- General and administrative expense increased to ₱181.2 million from ₱178.9 million brought about by higher management and professional fees.
- Company's share in cost of power generation of a joint venture declined to ₱493.9 million from ₱594.8 million on account of lower energy generated and repairs and maintenance expenses.
- Company's share in general and administrative expenses of a joint venture dropped to ₱26.4 million from ₱49.8 million brought about by lower professional fees and salaries.
- For the company's foreign currency holdings, a foreign exchange gain of ₱69.6 million was reported in 2008 following the depreciation of the peso. A foreign exchange loss of ₱75.9 million was registered last year due to the appreciation of the peso.
- Regarding the currency forward contracts entered into by the company, a net loss on derivatives of ₱21.2 million was reported in 2008 due to the depreciation of the peso. A

net gain on derivatives of ₱92.8 million was earned last year with the appreciation of peso.

- Equity in net earnings of associates increased to ₱8.6 million from ₱ 5 million brought about by higher net income of Bacnotan Industrial Park Corporation.
- Provision for unrecoverable input tax of ₱6.1 million was reported in 2008.
- A reversal of allowance for impairment on investment in an associate of ₱3.4 million was recorded in 2007.
- Provision for impairment of available-for-sale investments of ₱20 thousand was reported in 2007.
- Interest and other financial charges dropped to ₱5.9 million from ₱14.4 million on account of the settlement of all loans of the Company in 2007.
- Loss on sale of property and equipment of ₱35.9 thousand was reported in 2008 compared to gain on sale of property and equipment of ₱82.2 thousand last year.
- Loss on sale of available-for-sale investments of ₱28.8 thousand was reported in 2008 as a result of the drop in market value of the said investments. Gain on sale of available-for-sale investments of ₱1.1 million was earned last year.
- Other income increased to ₱19.3 million from ₱13 million brought about by the reversal of an expense accrued last year that was not utilized.

Provision for income tax increased to ₱5.6 million from ₱3.6 million due to higher taxable income in 2008. Benefit from deferred income tax rose to ₱32.1 million from ₱12.4 million brought about by the tax effect of the amortization of customer contracts. Company's share in income tax of a joint venture declined to ₱6.3 million from ₱35.9 million due to its lower taxable income.

As a consequence of the above-cited factors, net income increased to ₱88.5 million in 2008 compared with ₱78.2 million last year.

Total consolidated assets remained steady at ₱3.3 billion in 2008. Total consolidated liabilities increased to ₱476.2 million from ₱469.7 million. Total equity was stable at ₱2.9 billion.

Following are the material changes in the accounts in the Consolidated Balance Sheet as of December 31, 2008:

- Cash and cash equivalents decreased to ₱909.5 million from ₱1.2 billion. The Consolidated Statement of Cash Flows shows details of material changes in cash and cash equivalents.
- Short-term investments increased to ₱17.5 million from ₱8.6 million. The Consolidated Statement of Cash Flows shows the details of materials changes in short-term investments.
- Investments held for trading rose to ₱544.7 million from ₱134.1 million. The Consolidated Statement of Cash Flows shows the details of materials changes in investment held for trading.
- Receivables grew to ₱183.9 million from ₱118.2 million brought about by trading revenues which started in 2008 and higher generation revenues.
- Fuel and spare parts declined to ₱50.7 million from ₱56.1 million due to the lower volume of fuel purchased.
- Other current assets fell to ₱16.4 million from ₱44.7 million due to the collection of receivables from the currency forward contracts.
- Company's share in current assets of a joint venture increased to ₱162.3 million from ₱144 million brought about by higher trade and other receivables.
- Property, plant and equipment declined to ₱620.1 million from ₱663.4 million on account of the depreciation expenses in 2008.
- Investments in associates grew to ₱169.1 million from ₱160.4 million due to the higher net income posted by Bacnotan Industrial Park Corporation.
- Available-for-sale investments declined to ₱206.4 million from ₱224.2 million brought about by the lower market value of said investments.

- Investment property decreased to ₱3.3 million from ₱3.6 million on account of depreciation expenses in 2008.
- Intangible assets decreased to ₱144.2 million from ₱185.4 million due to the full amortization of customer contracts (part of intangible assets) in 2008.
- Company's share in noncurrent assets of a joint venture declined to ₱305.4 million from ₱376.9 million due to depreciation expenses and lower market value of available-for-sale investments.
- Accounts payable and other current liabilities increased to ₱214.5 million from ₱188.8 million on account of higher fuel cost.
- Customers' deposits increased to ₱27.4 million from ₱17.5 million on account of the amortization of discount and deposits received from new locators.
- Due to stockholders increased to ₱6.3 million from ₱5.3 million due to reversal of stale cash dividend checks.
- Income and withholding tax payable decreased to ₱968.7 thousand from ₱4.1 million brought about by payment of income tax for 2007.
- Company's share in current liabilities of a joint venture increased to ₱141.9 million from ₱140.9 million on account of bank loans in 2008.
- Pension and other post employment benefits increased to ₱10.9 million from ₱6.4 million due to the accrual of pension expense.
- Deferred tax liabilities dropped to ₱53.4 million from P ₱85.6 million as a result of the tax effect of the amortization of intangibles.
- Other noncurrent liabilities increased to ₱7.4 million from ₱7.1 million due to the accretion of interest for the asset retirement obligation.
- Company's share in noncurrent liabilities of a joint venture declined to ₱10.7 million from ₱13.8 million on account of the tax effect of the accrual of expenses.
- Unrealized fair value gains on available-for-sale investments fell to ₱54.5 million from ₱77.9 million due to lower market value of the said investments.
- The Company's share in unrealized fair value gains on financial assets of a joint venture declined to ₱8.7 million from ₱16.2 million brought about by the lower market value of the said financial assets.
- Retained earnings grew to ₱1.08 billion from ₱1.06 billion due to higher net income in 2008.

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

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

   Current ratio declined to 4.79:1 as of December 31, 2008 from 5.06:1 as of December 31, 2007 due principally to the increase in trade and nontrade liabilities and customers' deposits.

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

   The ratio of current assets to total assets increased to 56.5:1 as of December 31, 2008 from 51.5:1 as of December 31, 2007 due to rise in investments held for trading, receivables and company's share in current assets of a joint venture.

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

Debt/equity ratio increased slightly to 0.17:1 as of December 31, 2008 from 0.16:1 as of December 31, 2007 brought about principally by higher accounts payable and other current liabilities.

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

The rate of return on stockholders' equity decreased slightly to 3.1% for the year ended December 31, 2008 as compared to 3.2% last year when the average number of common outstanding shares was higher brought about by the stock rights offering 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 ₱0.05 from ₱0.07 on account of higher average number of common outstanding shares following the stock rights offering in 2007.

During the Calendar Year 2008:

- 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 oil exploration and power generation activities arising from management of the Company's funds. The exploration costs are shown as "deferred exploration costs" in the consolidated balance sheets.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- 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.

Calendar Year 2007

Petroleum Exploration and Production

SC 6 (Northwest Palawan)

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)

TA 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).

TA 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, TA will hold 30% participating interest in the service contract once it is awarded.

Uganda Block EA5

TA evaluated an exploration opportunity in Uganda.

Minerals

MPSA 252 - 2007 - V (Camarines Norte)

The Department of Environment and Natural Resources awarded TA 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)

TA signed on July 27, 2007 a Memorandum of Agreement with Balatoc Kalinga Tribe, Inc. (BKTI) and Balatoc Tribe Exploration and Mining Corporation (BTEMC) granting TA 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 TA in September 2007 that the approved Notice of Application is ready for release for publication, posting and radio announcement.

TA 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)

TA 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, TA informed the Mines and Geosciences Bureau that it no longer wishes to pursue said EPAs.

Other Areas

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

Power Development

TA Power, 50% owned by TA, 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 ₱141.7 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 ₱11 million in 2007.

In a related development of alternative energy in Guimaras island, the Company's wholly owned subsidiary, 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 ₱578-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 ₱17-M before reversal of impairment.

Electricity Trading and Marketing

On November 22, 2006, the Energy Regulatory Commission (ERC) granted TA a Certificate of Registration as a Wholesale Aggregator (WA), making it the first such licensee in the country. The license authorizes TA to consolidate electric power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). TA 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 TA Power. TA Power also obtained membership in the WESM as a trading participant. Following installation of market trading facilities in TA'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 ₱1.46 billion in 2007 compared with ₱675 million in the previous year due to the following:

- Generation revenues increased to ₱624.6 million from ₱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 ₱749 million from ₱ 530 million on account of higher energy sales and power rate.
- Dividend income of ₱8.8 million from Atlas Holdings Corporation (AHC) was reported in 2007 against ₱770 thousand in the previous year.
- Other income improved to ₱36.9 million from ₱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 ₱5.6 million from ₱15.7 million due to its lower level of placements brought about by declaration of cash dividends.
- Interest and other financial income declined to ₱32.8 million from ₱39.3 million on account of lower market value of financial assets.
- Rental income decreased to ₱2.1 million from ₱2.5 million as a result of the termination of lease contract with a tenant.

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

- Cost of power generation increased to ₱556 million from ₱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 ₱178.9 million from ₱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 ₱594.8 million from ₱423.4 million due to higher energy sales and depreciation.
- Company's share in general and administrative expenses of a joint venture increased to ₱49.8 million from ₱37.6 million on account of higher management and professional fees in 2007.

- Foreign exchange loss increased to ₱75.9 million from ₱32.8 million due to peso appreciation.
- Interest and other financial charges rose to ₱14.4 million from ₱5.5 million on account of higher interest expense in 2007 brought about by the ₱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 ₱92.8 million was reported in 2007 compared with ₱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 ₱5 million from ₱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 ₱1.1 million was reported in 2007 against ₱63 thousand in 2006 brought about by higher market value.
- Gain on sale of property and equipment of ₱82 thousand was reported in 2007.
- Provision for impairment loss on available-for-sale investments declined to ₱20 thousand from ₱255 thousand due to improvement in market value of said investments.
- A reversal of impairment loss of ₱3.4 million was reported in 2007.

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

Provision for income tax increased to ₱3.6 million in 2007 from ₱1.1 million in 2006 due to higher taxable income in 2007. Benefit from deferred income tax of ₱12.4 million was reported in 2007 against provision for deferred income tax of ₱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 ₱35.9 million from ₱24.9 million brought about by higher taxable income.

As a consequence of the foregoing factors, net income decreased to ₱78.3 million in 2007 compared with ₱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 ₱271 million recognized from the acquisition of CIPP.

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

Following are the material changes in the balance sheet accounts:

- Cash and cash equivalents grew to ₱1.2 billion from ₱254.9 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of ₱8.6 million was reported in 2007.
- Investments held for trading decreased to ₱134 million from ₱397 million. The Consolidated Statements of Cash Flows show the details of materials changes in investments held for trading.
- Receivables increased to ₱118.2 million from ₱73.2 million brought about by higher service income and higher generation revenues in 2007.
- Fuel and spare parts rose to ₱56 million from ₱23.4 million mainly as a result of the inventories from the acquisition of CIPP.
- Other current assets dropped to ₱44.8 million from ₱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 ₱144 million from ₱287.9 million on account of cash dividends the joint venture paid in July and August.
- Property, plant and equipment increased to ₱663.4 million from ₱645.9 million due to the major repairs incurred in CIPP's power plant.
- Investments in associates decreased to ₱160.4 million from ₱205.6 million as a result of the reclassification of AHC shares to available-for-sale investments.
- Available-for-sale investments grew to ₱224 million from ₱123.2 million brought about by higher market value of said investments and reclassification of AHC shares.
- Investment property decreased to ₱3.6 million from ₱3.8 million on account of depreciation expenses in 2007.
- Intangible assets declined to ₱185.4 million from ₱193.3 million brought about by amortization expense reported in 2007.
- Other noncurrent assets decreased to ₱333 thousand from ₱370 thousand as a result of reclassification of long-term receivable.
- Company's share in noncurrent assets of a joint venture declined to ₱376.9 million from ₱428.2 million due to depreciation expenses.
- Accounts payable and other current liabilities increased to ₱191 million from ₱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 ₱5.3 million from ₱1.2 million due to the checks issued for payment of cash dividend but were returned for various reasons.
- Income tax payable of ₱1.8 million was reported in 2007.
- The rise in Company's share in current liabilities of a joint venture to ₱140.9 million from ₱114.8 million was brought about by the increase in trade and nontrade payables of the joint venture.
- Locators' deposits decreased to ₱17.5 million from ₱22.9 million due to the adoption of PAS 39 "Financial Instruments: Recognition and Measurement."
- Deferred tax liabilities increased to ₱85.6 million from ₱80.7 million as a result of the rise in appraised value of property and equipment.
- Pension and other post-employment benefits increased to ₱6.4 million from ₱5.7 million due to additional accrual of post-employment benefits in 2007.
- Other current liabilities increased to ₱7.1 million from ₱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 ₱13.8 million from ₱16.9 million on account of lower deferred tax liability.
- Capital stock and additional paid-in capital increased to ₱1.6 billion and ₱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 ₱77.9 million from ₱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 ₱16.2 million from ₱5 million was brought about by higher market value of the said financial assets.
- Retained earnings increased slightly to ₱1.06 billion from ₱1.03 billion due to the net income earned in 2007.

The top five (5) key performance indicators of TA 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 = $\frac{\text{Current Assets}}{\text{Total Assets}}$

The ratio of current assets to total assets increased to 51.5:1 as of December 31, 2007 from 41.7:1 as of December 31, 2006 due to rise in cash and cash equivalents.

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

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 = $\frac{\text{Net Income}}{\text{Average Equity}}$

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

Earnings per share declined to ₱0.07 from ₱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.

Item 7. Information on Independent Accountant and Other Related Matters

As of December 31, 2009, Sycip Gorres Velayo and Company (SGV) has been the Company's Independent Public Accountant for the last five (5) years. The same auditing firm has been endorsed by the Audit Committee to the Board of Directors. The Board and the Stockholders of the Company approved the engagement of the said auditing firm.

Auditing services of SGV for the calendar year ended December 31, 2009 included the examination of the parent and consolidated financial statements of the Company, preparation of final income tax returns and other services related to filing of reports made with the Securities and Exchange Commission.

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 who conducted the audit for Calendar Year 2009 is Ms. Catherine E. Lopez, an SEC accredited auditing partner of SGV. This is the first year of Ms. Lopez as audit partner of the company.

The members of the Audit Committee are the following:

1. Mr. Alfredo M. Velayo — Chairman
2. Mr. Roberto M. Lavina — Member
3. Mr. Victor J. del Rosario — Member
4. Mr. Ricardo V. Camua — Member

External Audit Fees and Related Services

The Company's external auditors, SyCip Gorres Velayo & Co. (SGV) billed the amount of ₱900,000 in 2008 and ₱1,520,000 in 2007 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 2008 and 2007. The audit fee for 2009 is ₱900,000.

Apart from the foregoing, the Company paid the amount of ₱600,000 for the tax compliance review for the year ended December 31, 2008. No professional services for tax accounting compliance, advice, planning and any other form of tax services were rendered or fees billed by SGV for 2009 and 2007. Trans-Asia Power Generation Corporation paid the amount of ₱301,840 in 2009 ₱105,000 in 2008 and ₱292,500 in 2007 for tax compliance reviews.

In 2007, SGV billed and was paid the amount of ₱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 2007.

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.

Item 8. Financial Statements

The consolidated financial statements of TA and subsidiaries included in the 2009 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

For the last five (5) years, there have been no disagreements with the independent accountants on any matter of relating to accounting principles or practices, financial statement disclosures or auditing scope or procedures.

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 as of December 31, 2009 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
Oscar J. Hilado	72	Filipino	Director and Chairman of the Board
Ramon R. del Rosario, Jr.	65	Filipino	Director and Vice Chairman
Francisco L. Viray	61	Filipino	Director, President and CEO
Roberto M. Laviña	59	Filipino	Director, EVP, CFO and Treasurer
Antonio V. del Rosario, Sr.	77	Filipino	Director
Magdaleno B. Albarracin, Jr.	73	Filipino	Director
Reynaldo V. Paulino*	73	Filipino	Director
Alfredo M. Velayo	88	Filipino	Director
Raymundo O. Feliciano	84	Filipino	Director
Ricardo V. Camua	66	Filipino	Director
Victor J. del Rosario	61	Filipino	Director

*On TA's Annual Stockholders Meeting held on March 24, 2010, Mr. David L. Balangue was elected as Director in replacement of Mr. Reynaldo V. Paulino.

Oscar J. Hilado was elected as Chairman of the Board of the Company on April 16, 2008. 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 was the Vice-Chairman of the Board of Directors and for 15 years, he was the Chairman of the Executive Committee of the Company.

Ramon R. del Rosario, Jr. was elected as Vice Chairman of the Company on April 16, 2008. He 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 is the brother of Mr. Victor J. del Rosario. He has been a Director of the Company since 2002.

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 17 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, Sr. 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 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 and Utilization Foundation, Inc. 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, Inc. 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.

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. He was the co-founder of SyCip Gorres & Velayo (SGV), the largest accounting firm in Asia. He retired from SGV in 1970. For the past 24 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 7 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 nine 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.

Victor J. del Rosario is an Economics and Accounting graduate of De La Salle University and holds a Master of Business Administration degree from Columbia University. He was elected as Director on September 15, 2008 to serve the unexpired term of Amb. Ramon del Rosario, Sr. He is the Vice-Chairman of Union Galvasteel Corporation and is also the Executive Vice President and Chief Strategic Officer of PHINMA. He is also a member of the Board of Directors of PHINMA and various PHINMA-managed companies. Mr. Del Rosario is the brother of Mr. Ramon R. del Rosario, Jr.

Independent Directors

As of December 31, 2009, the following independent directors are not officers or substantial shareholders of TA 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 as of December 31, 2009 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	61	Filipino	President and CEO
Roberto M. Laviña	59	Filipino	EVP, CFO and Treasurer
Rosario B. Venturina	61	Filipino	Sr. Vice President – Business Development
Ponciano L. Dimayuga	54	Filipino	Sr. Vice President – Finance
Virgilio R. Francisco, Jr.	51	Filipino	Sr. Vice President
Juan J. Diaz	79	Filipino	Corporate Secretary
Raymundo A. Reyes, Jr.	57	Filipino	Vice President – Exploration
Rizalino G. Santos	58	Filipino	Vie President – Electricity Trading and Marketing
Frederick C. Lopez	56	Filipino	Vice President – Materials Management
Cecille B. Arenillo	52	Filipino	Vice President/Compliance Officer
Miguel Romualdo T. Sanidad	52	Filipino	Assistant Corporate Secretary
Danilo L. Panes	53	Filipino	Assistant Vice President
Benjamin S. Austria	64	Filipino	Senior Consultant

Francisco L. Viray was elected President and Chief Executive Officer of the Company on 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 14 years.

Ponciano L. Dimayuga is a Certified Public Accountant with a Masters degree in Business Administration from De La Salle University. He has been with the Energy Group of PHINMA since 1993. Presently, he is the Senior Vice President for Finance for the Company, CIP II Power Corporation and Trans-Asia Gold and Minerals Development Corporation; Vice President for Finance for Trans-Asia Power Generation Corporation. Trans-Asia Renewable Energy Corporation, Trans-Asia

(Karang Besar) Petroleum Corporation and Asia Coal Corporation; and Assistant Vice President for Filmag Holdings, Inc. He was the Vice President for Finance of the Company for 10 years.

Virgilio R. Francisco, Jr. is a Professional Industrial Engineer. He earned his Bachelor of Science in Management and Industrial Engineering degree from the Mapua Institute of Technology. Presently, he is Senior Vice President of the Company and Senior Vice President and General Manager of CIP II Power Corporation. He was formerly the Executive Vice President and General Manager of Asia Coal Corporation from 1991 to 2000. He first joined the PHINMA Group in 1979 and held senior positions in the cement and paper manufacturing, property development companies of PHINMA and more recently in the Strategic and Corporate Planning Department of PHINMA. He underwent training on coal technology in 1993 in Sydney under the auspices of the UNDP. He was the recipient of the Outstanding Mapuan Award for Management and Industrial Engineering in 2003 and has been a member of the Foundation of Outstanding Mapuans, Inc. He is the Senior Vice President of the Company since April 2009.

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 30 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. He is also the Vice President of Trans-Asia Gold and Minerals Development Corporation since its incorporation in July 2007.

Rizalino G. Santos finished his Bachelor and Master of Science degrees in Electrical Engineering from the 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.

Cecille B. Arenillo was elected Vice President and Compliance Officer vice Mr. Carlos I. Arguelles who retired effective August 1, 2009. She is a Certified Public Accountant with a Bachelor of

Science in Commerce degree from the University of Sto.Tomas. She is currently the Vice President for Treasury of Bacnotan Consolidated Industries, Inc.

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 14 years and is presently the Corporate Secretary of Filmag Holdings, Inc. He is the Assistant Corporate Secretary since 2000.

Danilo L. Panes is a licensed Mining Engineer. He 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 and was promoted to Assistant Vice President in May 2006. He completed his Management Development Program at the Asian Institute of Management.

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

Mr. Ramon R. del Rosario, Jr. is the brother of Mr. Victor J. del Rosario.

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. Executive Compensation

For the calendar years ended December 31, 2009, 2008 & 2007, 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 2010 are as follows:

Name/Position	Year	Salaries	Bonus	Others
CEO and Top 4 (Total Compensation)				
Francisco L. Viray, President and CEO				
Rosario B. Venturina, Senior Vice President – Business Development				
Ponciano L. Dimayuga, Senior Vice President – Finance				
Raymundo A. Reyes, Jr., Vice President – Exploration				
Rizalino G. Santos, Vice President – Electricity Trading and Marketing				
	2010	12,504,725(a)		180,000(a)
	2009	12,463,746	3,800,040(b)	390,000
	2008	10,220,493	1,142,984(c)	106,500
	2007	6,204,610	16,261,147(d)	43,500
All Other Officers and Directors as a Group (Total Compensation)				
Unnamed				
	2010	6,860,394(a)		948,000(a)
	2009	5,124,304	12,615,574(b)	2,742,750
	2008	5,448,997	10,556,731(c)	862,500
	2007	5,493,561	13,185,931(d)	255,000

(a) Estimated compensation of directors and executive officers for the ensuing year
(b) Includes estimated bonus accrued in 2009 but payable in 2010.
(c) Includes bonus accrued in 2008 but paid in 2009.
(d) Includes bonus accrued in 2007 but paid in 2008.

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.

On May 7, 2008, the Company's Stock Option Committee decided to revisit the Company's Stock Option Plan, the implementation of the same to remain suspended until a review of the Plan is completed. The Committee also decided to go ahead with the Company's Stock Grant for its executives.

As of December 31, 2009 and 2008, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

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**	
Oscar J. Hilado	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	
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		11,525,000	
2. Options allocated to all other directors and officers as a group			
Unnamed		11,250,000	92

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 TA as of February 28, 2010 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	Philippine Depository and Trust Corporation[1] MSE Bldg., Ayala Avenue, Makati City Stockholder		Filipino 50.08% Foreign 0.90%	847,495,570	50.98%
Common	Bacnotan Consolidated Industries Inc. (BCII)[2] 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	449,331,621	27.03%
Common	Philippine Investment Management (PHINMA), Inc.[3] Level 12 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	201,850,614	12.14%

[1] **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.

AB Capital Securities, Inc. (ABCSI) is the only PCD Nominee who holds more than 5% of the Company's securities. The beneficial owners of these shares are Phinma for 224,989,068 shares, Dr. Francisco L. Viray for 2,525,631 shares and BCII for 60,000 shares. Mr. Oscar J. Hilado, Chairman of the Board of Phinma and BCII, is the person appointed to exercise voting power.

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.

[2] **Bacnotan Consolidated Industries, Inc. (BCII)**, was incorporated on 12 March 1957. Its principal activity is investment 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.

[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.

Security Ownership of Management

The table below shows the securities beneficially owned by all directors' nominees and executive officers of TA as of February 28, 2010:

Title of Class	Name of Beneficial Owner	Citizenship	No. of Shares Held	Nature	% of Class
Common	Oscar J. Hilado	Filipino	600,000	Direct	0.04%
Common	Ramon R. del Rosario, Jr.	Filipino	4,722,035	Direct	0.28%
			6,215,232	Indirect	0.37%
Common	Francisco L. Viray*	Filipino	3,966,926	Direct	0.24%
Common	Roberto M. Laviña	Filipino	287,493	Direct	0.02%
Common	Antonio V. del Rosario, Sr.	Filipino	79,005	Direct	0.00%
Common	Magdaleno B. Albarracin, Jr.	Filipino	1,003,891	Direct	0.06%
Common	Raymundo O. Feliciano	Filipino	419,220	Direct	0.03%
Common	Ricardo V. Camua	Filipino	470,841	Direct	0.03%
Common	Victor J. del Rosario	Filipino	662,141	Direct	0.04%
Common	Alfredo M. Velayo	Filipino	468	Direct	0.00%
Common	Rosario B. Venturina	Filipino	779,604	Direct	0.05%
Common	Ponciano L. Dimayuga	Filipino	592,149	Direct	0.04%
Common	Juan J. Diaz	Filipino	33,657	Direct	0.00%
Common	Raymundo A. Reyes, Jr.	Filipino	633,957	Direct	0.04%
Common	Rizalino G. Santos	Filipino	735,539	Direct	0.04%
Common	Frederick C. Lopez	Filipino	43,384	Direct	0.00%
Common	Danilo L. Panes	Filipino	282,264	Direct	0.02%
Common	Benjamin S. Austria	Filipino	1,415,942	Direct	0.09%
	Virgilio R. Francisco, Jr.	Filipino	0		0.00%
	Cecille B. Arenillo	Filipino	0		0.00%
	Miguel Romualdo T. Sanidad	Filipino	0		0.00%
	David L. Balangue	Filipino	1		0.00%
	Directors & Officers as a Group		**22,943,749**		**1.38%**

*Of the total 3,966,926 shares owned by Dr. Francisco L. Viray, 2,525,631 shares are lodged in AB Capital Securities, Inc. and 1,441,295 are certificated.

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, 2013 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 426,839,684 shares, which represent 25.67% of total outstanding shares of stock of the Company.

PART V – CORPORATE GOVERNANCE

Item 14. Compliance Program

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 Oil and Energy Development Corporation** (the "Corporation") commit to the principles and best practices contained in the Manual on Good Corporate Governance approved by the Board on August 19, 2002 and as amended on April 2, 2004 and January 15, 2008.

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

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 Corporation'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 violations.
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 issued 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 the Corporate Governance Evaluation Form at the end of the Corporation'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 Corporation'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.

Compliance Certification

As of December 31, 2009, the Corporation substantially complied with the principles and best practices contained in the Manual on Good Corporate Governance and as required by the SEC, the Vice President Compliance Officer, on January 26, 2010 submitted the Corporate Governance Compliance Certification (SEC Form MCG-2002) to the SEC and PSE. Since there were no major deviations from the Manual, the Corporation has not imposed any sanctions on any director, officer or employee.

Compliance Monitoring and Improving Corporate Governance

The Compliance Officer and the Internal Auditor monitor the Corporation's compliance with the Manual and the timely submission of reports and disclosures to both SEC and PSE. In addition, the SEC and PSE websites are constantly monitored or relevant circulars or memorandums affecting, improving and updating the corporate governance of the Corporation and amending the Manual, if necessary.

As a result of the Compliance Program, there is effective management of the relationships between shareholders, stakeholders, directors, creditors, government and employees. Furthermore, the internal workings of the Corporation are directed and controlled leading to a corporate integrity, transparency and enhanced corporate performance, a dominant theme of Good Corporate Governance.

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 2009
Exhibit B	-	Supplementary Schedules to the Consolidated Financial Statements
Exhibit C	-	Parent Company Audited Financial Statements for the Calendar Year 2009

Reports on SEC Form 17-C

The Company filed the following reports on SEC 17-C during the fiscal year 2009 covered by this report:

Date of Filing	Items Reported
January 16, 2009	In compliance with the SEC Memorandum Circular No. 3, Series of 2007, and Section 15, attached is SEC Form MCG 2002 (Certificate of Compliance with the Manual on Good Corporate Governance) for Trans-Asia Oil & Energy Development Corporation (Trans-Asia) for the Calendar Year 2008.
January 16, 2009	Attached is the attendance of the Board of Directors of Trans-Asia for the year 2008 as disclosed to the Securities and Exchange Commission (SEC).
January 19, 2009	At the regular meeting of the Board of Directors of Trans-Asia held January 19, 2009, the Board set the 2008 Annual Shareholders meeting of the corporation on April 3, 2009 at 2:30 p.m. at the Renaissance Makati City Hotel Mania. For the purpose of said meeting the record date for the determination of shareholders entitled to notice and to vote at said meeting is March 4, 2009. Furthermore, the Board elected Mr. Ramon R. del Rosario, Jr. as Chairman of the company's Nomination Committee vice the late Ramon V. del Rosario, Sr.
February 13, 2009	In compliance with Section 17.15 of the PSE Revised Disclosure Rules, we are submitting herewith a Certification of the Department of Energy that as of December 31, 2008,

Trans-Asia's petroleum Service contracts are valid and subsisting and that Trans-Asia has no pending violations with the DOE.

February 13, 2009

The Department of Energy approved the request of the Service contract No. 55 consortium for the substitution of deepwater wells (wells drilled in over 200 meters of water) for committed ultra deepwater wells (wells drilled in over 1500 meters of water) under the Exploration Period of said contract.

Trans-Asia has 15% participating interest in Service Contract No. 55.

February 16, 2009

At the regular meeting, Trans-Asia held on February 16, 2009, the Company reported a consolidated net income of ₱88,476,699 for the year 2008.

March 10, 2009

Trans-Asia concluded on March 10, 2009 a Share Purchase Agreement with Phoenix Petroleum Philippines,, Inc. (Phoenix) whereby Trans-Asia sold to Phoenix all of Trans-Asia's 30% equity interest consisting of 1,800,000 shares of stock in Bacnotan Industrial Park Corporation for a consideration equivalent to P 109.81 per share payable approximately 18% down, the balance in monthly installments over a period of five (5) years.

March 16, 2009

At the regular meeting of the Board of Directors of Trans-Asia held on March 16, 2009, the Board took action on various matters as follows:

(a) Approved a cash dividend of four centavos (₱0.04) per share to all shareholders of record as of March 30, 2009, payable on April 27, 2009;
(b) Did not for the time being make any reallocation of the amount of ₱378.5 million from the proceeds of the Rights Offering originally intended to finance the expansion of the power plant of its subsidiary CIP II Power Corporation, which expansion can no longer be carried out owing to the compelling reasons stated in our letter to the Exchange dated December 24, 2008;
(c) Noted with approval the decision of the Board of Directors of its subsidiary Trans-Asia Gold and Minerals Development Corporation to suspend its operations effective March 31, 2009; and
(d) Resolved to ask the shareholders at the forthcoming annual meeting on April 3, 3009 to delegate to it full authority to appoint the Company's External Auditors for the calendar year 2009 owing to the special circumstances prevailing at present.

March 26, 2009	CIP II Power corporation ("CIPP"), a wholly owned subsidiary of Trans-Asia, signed on March 26, 2009 a memorandum of Agreement with Carmelray-JTCI Corporation ("CJC") and Manila Electric Company ("Meralco") where CIPP will transfer to Meralco its rights and obligations under the Concession Agreement dated October 3, 2000, which gave CIPP the exclusive right to sell electricity to the locators of the Carmelray Industrial Park II (the "Park"). CIPP also signed a Memorandum of Agreement with Meralco where CIPP shall transfer ownership of the existing electric distribution system in the park to Meralco, upon Meralco's payment of a purchase price still to be agreed upon by the parties. The transfer shall be effective on April 9, 2009 or upon approval of the agreements by the Philippine Economic Zone Authority ("PEZA") and if necessary, by the Energy Regulatory Commission ("ERC"), whichever comes later.
April 2, 2009	Mr. Francisco L. Viray, Ph.D, President and CEO of Trans-Asia Oil and Energy Development Corporation (TA Oil), stated during the Bacnotan Consolidated Industries, Inc. press conference held on April 2, 2009 that he estimates a project development operating budget of around ₱40 to 50 million per year for Trans-Asia Renewable Energy Corporation (TA Renewable). TA Renewable is a wholly owned subsidiary of TA Oil.
April 3, 2009	At the annual meeting of the shareholders of TA Oil held on April 3, 2009, the following actions were taken: 1. The following incumbent directors of the corporation were reelected: Oscar J. Hilado Antonio V. del Rosario Magdaleno B. Albarracin, Jr. Ramon R. del Rosario, Jr. Francisco L. Viray Roberto M. Laviña Victor J. del Rosario Alfredo M. Velayo (Independent) Raymundo O. Feliciano (Independent) Ricardo V. Camua (Independent) Reynaldo V. Paulino (Independent) 2. The auditing firm of SyCip Gorres Velayo and Company was reappointed external auditors for the year 2009 Following the annual meeting of shareholders, the following officers were reelected: Oscar J. Hilado — Chairman Ramon R. del Rosario, Jr. — Vice Chairman

Francisco L. Viray	President & CEO
Roberto M. Laviña	EVP/CFO/Treasurer
Juan J. Diaz	Corporate Secretary
Rosario B. Venturina	SVP-Buss. Dev't.
Ponciano L. Dimayuga	SVP-Finance
Virgilio R. Francisco	SVP
Raymundo A. Reyes, Jr.	VP-Exploration
Carlos I. Arguelles	VP & Compliance Officer
Rizalino G. Santos	VP-Electricity Trading & Marketing
Frederick C. Lopez	VP-Materials Management
Miguel Romualdo T. Sanidad	Asst. Corporate Secretary
Danilo L. Panes	Asst. Vice President
Benjamin S. Austria	Senior Consultant

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

Executive Committee/Stock Option Committee:

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

Audit Committee:

Alfredo M. Velayo	Chairman
Roberto M. Laviña	Member
Ricardo V. Camua	Member
Victor J. del Rosario	Member

Nominations Committee:

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

Compensation Committee:

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

April 3, 2009

TA Oil together with its partner, NorAsian Energy Philippines, Inc., decided to enter the 2nd Sub-phase of the Exploration Period of Service Contract No. 69 which cover the period May 7, 2009 to November 6, 2010. The consortium will send the formal notice to this effect to the Department of Energy soonest.

The aforementioned Sub-Phase entails a commitment of either: 1) at least 50 sq km of 3D seismic survey with minimum US $2 million expenditures, or 2) at least 750 line-

	kilometers of 2D seismic survey with minimum US $1 million expenditures. TA Oil has 30% participating interest in SC 69.
April 27, 2009	Submission of certification of independent directors, namely Mr. Ricardo V. Camua, Mr. Raymundo O. Feliciano and Alfredo M. Velayo, that they possess the qualifications and none of the disqualifications as provided for in the Securities Regulation Code. Mr. Reynaldo V. Paulino, an independent director, is currently out of the country and his certification will be submitted upon his return.
May 4, 2009	Submission of amended certification of Mr. Ricardo V. Camua that independent directors possess the qualifications and none of the disqualifications as provided for in the Securities Regulation Code.
May 7, 2009	Submission of certification of Mr. Reynaldo V. Paulino that independent directors possess the qualifications and none of the disqualifications as provided for in the Securities Regulation Code.
June 22, 2009	The Mines and Geosciences Bureau notified TA Oil that the Secretary of the Department of Environment and Natural Resources issued an Order dated May 21, 2009 to excise from the area covered by the Mineral Production Sharing Agreement No. 252-2007-V granted to TA Oil on July 28, 2007, certain parcels of land covered by alleged mining patents of a third party. TA Oil is reviewing its options and will respond to the Order in due course.
June 23, 2009	The Department of Energy had approved a fifteen (15) year – extension of the term of Service Contract No. 6 over Block A and Block B effective March 1, 2009. TA Oil has 7.78% participating interest and 14.063% participating interest in Block A and Block B, respectively.
July 13, 2009	This is to certify that Stock Transfer Service, Inc., the transfer agent of Trans-Asia Oil and energy Development Corp. (TA Oil), is a duly licensed transfer agent. Attached is a copy of the list of licensed transfer agent as provided by the Securities and Exchange Commission for the period July 1, 2009 to June 30, 2010.

July 20, 2009	Please be informed that at the regular meeting of the Board of Directors of TA Oil just concluded, Ms. Cecille B. Arenillo was elected Vice President & Compliance Officer effective August 1, 2009 vice Mr. Carlos I. Arguelles.
August 10, 2009	Please be informed that the Department of Energy (DOE) approved an 18 – month extension of the current 3rd Sub-Phase of the Exploration Period of Service Contract No. 51 until December 8, 2010. TA Oil has 6.67% participating interest in Service Contract No. 51.
August 13, 2009	Please be informed that the DOE approved the Service Contract No. 55 consortium's request for substitution of a combined 2D/3D seismic program with minimum expenditures of US $ 3 M for the one (1) deepwater well with minimum expenditures of US $ 3 M committed under the 3rd Sub-Phase of the Exploration Period (August 5, 2009 to August 5, 2010) of subject contract. TA Oil has 15% participating interest in Service Contract No. 55.
August 19, 2009	Please be informed that, subject to certain conditions, the DOE approved the Plan of Development for the Cadlao oil field. Production from said field was suspended in 1991. TA Oil has 1.65% overriding royalty interest in the Cadlao Production Area.
August 27, 2009	This refers to PSE letter dated August 27, 2009 requesting Trans-Asia Oil to comment on the veracity of the contents of the news article entitled "TA Oil pursues wind farm project" that was published in today's issue of the Philippine Daily Inquirer, and which reported in part that: "TRANS_ASIA OIL AND ENERGY Development Corp. will proceed next month with feasibility study for its 54-megawatt wind farm in Guimaras, the investments for which are expected to reach as much as $135 million. According to TA Oil president and chief executive Francisco L. Viray, it may take at least three months to finish the planned feasibility studies, after which they plan to apply for a service contract for the project by end 2009. Viray said in an interview that the company planned to infuse an initial $20 million for its wind farm project to cover the development of an initial 8 megawatts in wind power capacity…"

Please be informed that the statements in said news article specifically attributed to our President and CEO, Mr. Francisco L. Viray, are accurate.

September 3, 2009

Please be advised that TA Oil will hold a press briefing on September 8, 2009 in line with the celebration of its 40th anniversary.

The briefing will be held from 12 noon to 2:00 p.m. at the 11th Floor of Phinma Plaza 39 Plaza Drive, Rockwell Center, Makati City.

September 9, 2009

This refers to PSE letter dated September 9, 2009 requesting TA Oil to confirm, deny and/or clarify the news article entitled "Trans-Asia Oil seeks partners for $ 1-B wind power projects" that was published in today's issue of The Philippine Star, and which reported in part that:

"TRANS-ASIA OIL AND ENERGY Development Corp., the energy arm of the Philippine Investment Management Inc. (Phinma) group is looking at tapping partners for its proposed $ 1-billion wind power projects. Trans-Asia president and CEO Francisco L. Viray told reporters that they are planning to put up 400 megawatts (MW) of wind power over the next few years in different locations all over the country. Viray said each megawatt of wind power will require about $ 2.5 million in investment. He said they would be needing a partner, either local or foreign, to realize this goal. For the meantime, he said they may have completed the pre-feasibility study for wind power projects in Guimaras. He said they are currently conducting two more wind power studies in Cagayan Valley. The Company, he said, is expected to finish the Guimaras wind power projects with a total capacity of about eight MW in 2012 if everything goes as planned…."

Please be informed that the statements in said news article specifically attributed to our President and CEO, Mr. Francisco L. Viray, are accurate.

September 10, 2009

This refers to PSE letter dated September 10, 2009 requesting TA Oil to confirm, deny and/or clarify the news article entitled "Energy firm eyes gov't. hydro plants" that was published in today's issue of the Philippine Daily Inquirer, and which reported in part that:

"LISTED FIRM TRANS-ASIA OIL AND ENERGY Development Corp., plans to bid for the management of National Power Corp.'s independent power producer contracts of three hydroelectric power plants. According to Trans-Asia president and chief executive Francisco L. Viray, the company is keen on bagging the IPP administrator contracts for the 30-megawatt Banguet Mini-Hydro, 345-MW San Roque Multi-Purpose Hydroelectric Power Plant in

Pangasinan and the 70-MW Bakun Hydroelectric Power Plant in Ilocos Sur…."

Please be informed that the statements in said news article specifically attributed to our President and CEO, Mr. Francisco L. Viray, are accurate.

September 14, 2009

This refers to PSE letter dated September 14, 2009 requesting TA Oil to confirm, deny and/or clarify the news article entitled "Trans-Asia junks biofuels venture" that was published in today's issue of the Philippine Daily Inquirer, and which reported in part that:

"TRANS-ASIA OIL AND ENERGY Development Corp. has dropped its alternative fuel operations, citing the problems it encountered with its pilot jatropha project. We found out early in the game that there was a problem on the agriculture part of the jatropha project," said Trans-Asia president and chief executive Francisco L. Viray…"

Please be informed that the statements in said news article specifically attributed to our President and CEO, Mr. Francisco L. Viray, are accurate.

September 16, 2009

In connection with PSE's memorandum dated August 17, 2009, may we request extension of submission of Revised Listing Agreement from September 17, 2009 to September 30, 2009.

The said agreement is still being reviewed by TA Oil's lawyers. Furthermore, TA Oil's board meeting is set on September 18, 2009 where the approval of said agreement will be taken up.

September 18, 2009

Please be informed that during its recently concluded meeting held this September 18, 2009, the Board of Directors of TA Oil (the "Corporation") approved the following:

1) Subject to the approval of the stockholders and the Securities and Exchange Commission, the increase of the Corporation's authorized capital stock from ₱2,000,000,000.00 divided into 2,000,000,000 shares of the par value of ₱1.00 each share to ₱ 4,200,000,000.00 divided into 4,200,000,000 shares of the par value of ₱1.00 each share, to be funded by a stock rights offering, the terms and conditions, including the final issue size, rights entitlement, offer price and record date of which shall be determined by the Board of Directors and the amendment of the Articles of Incorporation of the Corporation to reflect the same;

	2) Subject to the approval of the stockholders and the Securities and Exchange Commission, the amendment of the Articles of Incorporation of the Corporation to deny the pre-emptive rights of holders of shares of common shares of the Corporation to subscribe to any issue of the common shares of the Corporation, subsequent to the stock rights offering; 3) Subject to the approval of the stockholders, the reallocation of the proceeds of the 2007 stock rights offering of ₱34.6M allocated for the Corporation's mining projects and ₱378.5M allocated for the expansion of the CIP II Power Corporation's Power Plant to the Corporation's power projects; and 4) The holding of a Special Shareholders Meeting to approve the foregoing on November 16, 2009 with record date of October 16, 2009 at such time and place to be announced later.
October 1, 2009	Notice of Special Shareholders Meeting of Trans-Asia Oil and Energy Development Corporation set on November 16, 2010 at 2:30 p.m. at the Rockwell Club, Palm Grove, Lower level One, Amorsolo Drive, Rockwell Center, Makati City. The agenda of the meeting is as follows: 1. Call to order 2. Proof of notice and determination of quorum 3. Minutes of previous meeting 4. Increase in Authorized Capital Stock 5. Amendments of Articles of Incorporation a) Increase in Authorized Capital Stocjk b) Denial of pre-emptive rights 6. Reallocation of the proceeds of 2007 stock rights offering 7. Adjournment
October 7, 2009	In compliance with the Commission's requirements for independent directors to submit a certification, under oath, that they possess the qualifications and none of the disqualifications as provided by for in the Securities and Regulation Code, we submit herewith an amended certification of Mr. Ricardo V. Camua as of October 5, 2009.
October 26, 2009	Please be informed that the Department of Energy awarded Trans-Asia Renewable Energy Corporation, wholly-owned subsidiary of Trans-Asia Oil and Energy Development Corporation, ten (10) wind energy service contracts covering an aggregate area of 22,000 hectares. The prospective wind sites are located in Cagayan (3), Guimaras (3), Aklan (2), Camarines Norte 91) and Iloilo (1).

Each service contract has a term of up to 3 years for the pre-development stage, and 25 years for the development stage, which may be extended by an additional 25 years.

November 13, 2009

Please be informed that Trans-Asia, together with its co-contractors in Service Contract No. 6 Block A, and Vitol GPC Investments S.A. (Switzerland), entered into an Amending Agreement to the Farm-in Agreement extending the latter's option to acquire interest in said contract block to fourteen (14) days after government approval of the second phase of Galoc field development or December 31, 2010, whichever occurs first.

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

November 16, 2009

Please be informed that that at the special shareholders meeting of Trans-Asia Oil and Energy Development Corporation duly held today, November 16, 2009 in which a two-thirds quorum was present, the shareholders unanimously approved the following amendments to the Articles of Incorporation of said Corporation ina resolution worded as follows:

"RESOLVED, as it is hereby resolved, subject to the approval of the Securities and Exchange Commission, that the authorized capital stock of the Corporation be increased from ₱2,000,000,000.00 divided into 2,000,000,000 common shares of the par value of ₱1.00 each share to ₱4,200,000,000.00 divided into 4,200,000,000 shares of the par value of ₱1.00 each share, to be funded by a stock rights offering, the terms and conditions of which, including the final issue size, rights entitlement, offer price and record date, shall be determined by the Board of Directors; and to effect the foregoing increase of authorized capital stock, Article Seventh of the Articles of Incorporation be amended as follows:

> SEVENTH: - That the total authorized capital stock of this Corporation is FOUR BILLION TWO HUNDRED MILLION PESOS (₱4,200,000,000.00) Philippine Currency, and said capital stock shall be divided into FOUR BILLION TWO HUNDRED MILLION 4,200,000,000 common shares of the par value of ₱1.00 per share.

X X X X X X X X

At the same meeting the shareholders unanimously adopted the following resolutions:

"RESOLVED, as it is hereby resolved, that the proceeds of the 2007 stock rights offering of ₱34.6M allocated for the Corporation's mining projects and ₱378.5M allocated for the expansion of the CIP II Power Corporation ("CIPP")'s Power Plant in Calamba, Laguna be, as it is hereby reallocated to

	the Corporation's renewable energy projects, due to uncertainty in mining projects of the Corporation brought about by the decline of prices of metals and minerals in the world market and due to the sale of CIPP's distribution system rendering the expansion of the Power Plant unnecessary."
November 16, 2009	This is to inform you that at the special meeting of the Board of Directors of Trans-Asia Oil and Energy Development Corporation duly held today, November 16, 2009 at 3:30 p.m., the Board of Directors approved the appointment of ATR Kim Eng Capital Partners, Inc. as lead underwriter for the corporation's stock rights offering, the terms of which including final issue size, rights entitlement, offer price and record date, shall be disclosed upon determination thereof by the Board of Directors.
December 8, 2009	In line with the press briefing held today, December 8, 2009 at the PHINMA Plaza Board Room, Rockwell Center, Makati City where a press kit was provided that included, among others, the financial results of Trans-Asia Oil and Energy Development Corporation(TA), we wish to inform the Philippine Stock Exchange, Inc. that for the ten months ended October 31, 2009, TA posted a consolidated net income of ₱263 million from total revenue of ₱1.2 billion. As of October 31, 2009, total consolidated assets and total equity of the company amounted to ₱3.3 billion and ₱3 billion, respectively.
December 22, 2009	Please be informed that the Service Contract No. 55 consortium commenced a 590 sq. km 3D seismic survey in its contract area in offshore West Palawan. The survey is designated to elevate two petroleum leads to drillable prospect status. The seismic acquisition program is expected to be completed in the first week of January 2010. Trans-Asia has 15% participating interest in SC 55.

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 13, 2010.

Trans-Asia Oil and Energy Development Corporation

By:

FRANCISCO L. VIRAY President and CEO	**RAYMUNDO A. REYES, JR.** VP – Exploration
ROBERTO M. LAVIÑA EVP, Treasurer and CFO	**ANNA LIZA S. JUMADIAO** Assistant Comptroller
PONCIAÑO L. DIMAYUGA SVP - Finance	**JUAN J. DIAZ** Corporate Secretary

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

SUBSCRIBED AND SWORN to before me this 14 APR 2010 affiant(s) exhibiting to me his/her Community Tax Certificate, as follows:

Name	CTC No./Driver's License No.	Date of Issue	Place of Issue
Francisco L. Viray	18299649	January 7, 2010	Manila
Roberto M. Laviña	28641985	February 26, 2010	Makati
Ponciano L. Dimayuga	28642027	February 26, 2010	Muntinlupa city
Raymundo A. Reyes, Jr.	29883132	February 5, 2010	Parañaque City
Anna Liza S. Jumadiao	N02-03-504704	October 10, 2008	
Juan J. Diaz	N10-56-019000	September 27, 2006	

NOTARY PUBLIC

ROVIEL B. NEPOMUCENO
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI
APPOINTMENT NO. M-41 (2010-2011)
COMMISSION EXPIRES ON DECEMBER 31, 2011
7th Floor, The Phinma Plaza, 39 Plaza Drive
Rockwell Center, Makati City 1210
PTR No. 0033723; 1-07-10; MAKATI CITY
IBP O.R. No. 770251; 1-07-10; CAVITE
TIN 259-670-876
ROLL NO. 55600, MAY 2008

Doc. No. 428
Page No. 87
Book No. 1
Series of 2010

EXHIBIT A

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2009 and 2008
And Years Ended December 31, 2009, 2008 and 2007

Trans-Asia Oil and Energy Development Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2009 and 2008
and Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

39274

SEC Registration Number

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

(Company's Full Name)

11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City

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

Yolanda Añonuevo	**870-0100**
(Contact Person)	(Company Telephone Number)

12 31	AACFS	-- --
Month *Day* (Fiscal Year)	(Form Type)	*Month* *Day* (Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.	Amended Articles Number/Section

	Total Amount of Borrowings	
-	-	-
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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

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

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

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 consolidated financial statements of Trans-Asia Oil and Energy Development Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, the consolidated statements of income, consolidated statements of comprehensive 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, 2009, 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, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez

Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-A
Tax Identification No. 102-085-895
PTR No. 2087543, January 4, 2010, Makati City

February 22, 2010

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 28 and 29)	**₱985,315,556**	₱909,531,281
Short-term investments (Notes 28 and 29)	**5,000,000**	17,511,120
Investments held for trading (Notes 7, 28 and 29)	**810,417,029**	544,686,420
Receivables - net (Notes 8, 25, 27, 28 and 29)	**157,479,662**	183,915,101
Fuel and spare parts - at cost	**44,950,577**	50,723,464
Other current assets (Note 29)	**24,262,914**	16,378,189
Company's share in current assets of a joint venture (Note 13)	**198,092,134**	162,351,330
Total Current Assets	**2,225,517,872**	1,885,096,905
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**426,688,419**	620,140,932
Investments in associates - net (Note 10)	**619,756**	169,102,273
Available-for-sale investments (Notes 11 and 29)	**205,127,616**	206,428,819
Investment properties - net (Note 12)	**92,240,477**	3,316,911
Intangible assets - net (Note 14)	**71,862,184**	144,245,029
Other noncurrent assets (Note 10)	**127,906,678**	331,678
Company's share in noncurrent assets of a joint venture (Note 13)	**235,730,847**	305,390,672
Total Noncurrent Assets	**1,160,175,977**	1,448,956,314
TOTAL ASSETS	**₱3,385,693,849**	₱3,334,053,219
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 15, 25, 28 and 29)	**₱168,284,745**	₱214,550,040
Customers' deposits (Notes 28 and 29)	–	27,385,096
Due to stockholders (Notes 25, 28 and 29)	**7,007,740**	6,272,367
Income and withholding taxes payable	**39,366,043**	968,699
Company's share in current liabilities of a joint venture (Note 13)	**53,253,252**	141,887,610
Total Current Liabilities	**267,911,780**	391,063,812

(Forward)

	December 31	
	2009	2008
Noncurrent Liabilities		
Pension and other post-employment benefits (Note 24)	**₱6,043,998**	₱10,933,554
Deferred tax liabilities - net (Note 23)	**23,410,886**	53,455,041
Other noncurrent liabilities (Notes 28 and 29)	**7,845,761**	7,474,921
Company's share in noncurrent liabilities of a joint venture (Notes 13 and 23)	**8,023,055**	13,250,516
Total Noncurrent Liabilities	**45,323,700**	85,114,032
Total Liabilities	**313,235,480**	476,177,844
Equity		
Capital stock (Note 16)	**1,662,603,069**	1,662,298,650
Additional paid-in capital (Note 16)	**54,693,308**	54,693,308
Unrealized fair value gains on available-for-sale investments (Note 11)	**52,223,943**	54,470,950
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture	**8,966,770**	8,759,105
Retained earnings (Note 16)	**1,297,895,148**	1,081,577,231
Parent Company shares of stock held by a joint venture (Note 13)	**(3,923,869)**	(3,923,869)
Total Equity	**3,072,458,369**	2,857,875,375
TOTAL LIABILITIES AND EQUITY	**₱3,385,693,849**	₱3,334,053,219

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2009	2008	2007
REVENUES			
Generation revenue (Note 1)	**₱155,843,181**	₱728,339,370	₱624,589,469
Trading revenue - net (Notes 1 and 18)	**274,478,196**	62,902,536	–
Interest and other financial income (Notes 7 and 29)	**65,572,065**	48,403,004	32,832,924
Dividend income	**27,081,565**	2,120,941	8,837,802
Other income (Note 12)	**5,457,295**	2,113,080	38,996,948
Company's share in revenue of a joint venture (Note 13):			
Generation	**563,494,581**	566,205,561	749,144,599
Other income	–	38,094,780	5,627,758
	1,091,926,883	1,448,179,272	1,460,029,500
COSTS AND EXPENSES			
Cost of power generation (Notes 19, 21, 22 and 27)	**156,369,791**	742,645,356	556,133,685
General and administrative expenses (Notes 20, 21, 22, 24 and 25)	**199,806,618**	181,172,186	178,914,549
Company's share in costs and expenses of a joint venture (Note 13):			
Cost of power generation	**275,907,196**	493,916,963	594,815,726
General and administrative expenses	**27,735,947**	26,376,093	49,858,311
Other expense	**495,275**	–	–
OTHER EXPENSES (INCOME)			
Intangible assets written-off (Note 14)	**78,517,254**	–	–
Loss (gain) on derivatives - net (Note 29)	**(37,608,112)**	21,231,494	(92,830,292)
Foreign exchange loss (gain) - net	**12,975,159**	(69,589,120)	75,911,720
Provision for (reversal of):			
Impairment loss on property, plant and equipment (Note 9)	**106,890,399**	–	–
Impairment loss on intangible assets (Note 14)	**11,473,481**	–	–
Unrecoverable input tax	**772,415**	6,162,861	–
Allowance for impairment loss on an investment in an associate	–	–	(3,405,227)
Impairment loss on available-for-sale investments (Note 11)	–	–	20,000
Interest and other financial charges (Note 29)	**701,982**	5,935,581	14,376,966
Loss (gain) on sale of:			
Investment in an associate (Note 10)	**(24,790,492)**	–	–
Property and equipment (Note 27)	**(7,280,152)**	35,873	(82,167)
Available-for-sale investments	**(20,462)**	28,772	(1,075,355)
Equity in net earnings of associates (Note 10)	**(12,126)**	(8,651,932)	(5,009,578)
Others	**(8,442,177)**	(19,362,184)	(13,020,541)
	793,491,996	1,379,901,943	1,354,607,797
INCOME BEFORE INCOME TAX	**298,434,887**	68,277,329	105,421,703
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**60,134,103**	5,602,477	3,596,825
Deferred	**(41,115,251)**	(32,129,710)	(12,376,872)
Company's share in income tax of a joint venture (Note 13)	**(3,393,839)**	6,327,864	35,934,818
	15,625,013	(20,199,369)	27,154,771
NET INCOME	**₱282,809,874**	₱88,476,698	₱78,266,932
Basic/Diluted Earnings Per Share (Note 26)	**₱0.17**	₱0.05	₱0.07

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
NET INCOME FOR THE YEAR	**₱282,809,874**	₱88,476,698	₱78,266,932
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized fair value gains (losses) on available-for-sale investments - net of deferred income tax	**(2,247,007)**	(23,395,946)	50,130,389
Company's share in unrealized fair value gains (losses) on available-for-sale investments of a joint venture - net of deferred income tax	**207,665**	(7,493,238)	11,272,755
Other comprehensive income (loss)	**(2,039,342)**	(30,889,184)	61,403,144
TOTAL COMPREHESIVE INCOME	**₱280,770,532**	₱57,587,514	₱139,670,076

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Capital Stock (Notes 16 and 17)	Additional Paid-in Capital (Note 16)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 11)	Company's Share in Unrealized Fair Value Gains on Available-for-Sale Investments of a Joint Venture (Note 13)	Retained Earnings (Note 16)	Parent Company Shares of Stock Held by a Joint Venture (Note 13)	Total
BALANCES AT DECEMBER 31, 2006	**₱1,105,056,728**	**₱8,194,721**	**₱27,736,507**	**₱4,979,588**	**₱1,025,344,031**	**(₱3,147,272)**	**₱2,168,164,303**
Net income for the year	–	–	–	–	78,266,932	–	78,266,932
Other comprehensive income	–	–	50,130,389	11,272,755	–	–	61,403,144
Total comprehensive income for the year	–	–	50,130,389	11,272,755	78,266,932	–	139,670,076
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 shares of stock held by joint venture	–	–	–	–	–	(776,597)	(776,597)
	552,528,364	46,498,587	–	–	(44,202,269)	(776,597)	554,048,085
BALANCES AT DECEMBER 31, 2007	**1,657,585,092**	**54,693,308**	**77,866,896**	**16,252,343**	**1,059,408,694**	**(3,923,869)**	**2,861,882,464**
Net income for the year	–	–	–	–	88,476,698	–	88,476,698
Other comprehensive income (loss)	–	–	(23,395,946)	(7,493,238)	–	–	(30,889,184)
Total comprehensive income (loss) for the year	–	–	(23,395,946)	(7,493,238)	88,476,698	–	57,587,514
Cash dividends - ₱0.04 per share	–	–	–	–	(66,308,161)	–	(66,308,161)
Issuance of stocks	4,713,558	–	–	–	–	–	4,713,558
	4,713,558	–	–	–	(66,308,161)	–	(61,594,603)
BALANCES AT DECEMBER 31, 2008	**1,662,298,650**	**54,693,308**	**54,470,950**	**8,759,105**	**1,081,577,231**	**(3,923,869)**	**2,857,875,375**
Net income for the year	–	–	–	–	282,809,874	–	282,809,874
Other comprehensive income (loss)	–	–	(2,247,007)	207,665	–	–	(2,039,342)
Total comprehensive income (loss) for the year	–	–	(2,247,007)	207,665	282,809,874	–	280,770,532
Cash dividends - ₱0.04 per share	–	–	–	–	(66,491,957)	–	(66,491,957)
Issuance of stocks	304,419	–	–	–	–	–	304,419
	304,419	–	–	–	(66,491,957)	–	(66,187,538)
BALANCES AT DECEMBER 31, 2009	**₱1,662,603,069**	**₱54,693,308**	**₱52,223,943**	**₱8,966,770**	**₱1,297,895,148**	**(₱3,923,869)**	**₱3,072,458,369**

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		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱298,434,887**	₱68,277,329	₱105,421,703
Adjustments for:			
Company's share in loss (income) before income tax of a joint venture	**(31,001,611)**	84,007,285	(110,098,320)
Intangible assets written-off	**78,517,254**	–	–
Interest and other financial income (Note 29)	**(65,572,065)**	(48,403,004)	(32,832,924)
Depreciation and amortization (Note 22)	**56,709,449**	102,234,092	63,352,797
Loss (gain) on derivatives - net (Note 29)	**(37,608,112)**	21,231,494	(92,830,292)
Dividend income	**(27,081,565)**	(2,120,941)	(8,837,802)
Unrealized foreign exchange loss (gain)	**12,635,701**	(54,846,127)	81,551,309
Provisions for (reversal of):			
Impairment loss on property, plant and equipment	**106,890,399**	–	–
Impairment loss on intangible assets	**11,473,481**	–	–
Unrecoverable input tax	**772,415**	6,162,861	–
Impairment loss on investment in an associate (Note 11)	–	–	(3,405,227)
Impairment loss on available-for-sale investments	–	–	20,000
Loss (gain) on sale of:			
Investment in associates	**(24,790,492)**	–	–
Property and equipment	**(7,280,152)**	35,873	(82,167)
Available-for-sale investments	**(20,462)**	28,772	(1,075,355)
Interest and other financial charges (Note 29)	**701,982**	5,935,581	14,376,966
Equity in net earnings of associates (Note 10)	**(12,126)**	(8,651,932)	(5,009,578)
Others	–	–	(1,354,197)
Operating income before working capital changes	**372,768,983**	173,891,283	9,196,913
Decrease (increase) in:			
Receivables	**(6,735,833)**	(98,837,050)	(44,802,202)
Fuel and spare parts	**7,084,270**	5,339,838	(32,669,967)
Other current assets	**(8,372,571)**	(10,455,805)	82,617,879
Increase (decrease) in accounts payable and other current liabilities	**(16,003,626)**	19,847,575	88,494,487
Net cash generated from operations	**348,741,223**	89,785,841	102,837,110
Interest received	**63,372,758**	54,952,237	32,435,871
Interest paid	**(6,731,261)**	(486,486)	(10,520,429)
Income taxes paid	**(19,527,068)**	(7,424,230)	(279,663)
Company's share in net cash flows provided by (used in) operating activities of a joint venture	**64,733,381**	(52,329,766)	167,971,271
Net cash flows provided by operating activities	**450,589,033**	84,497,596	292,444,160
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments held for trading	**(1,245,008,119)**	(1,143,926,855)	(491,117,726)
Investment properties (Note 12)	**(94,362,125)**	–	–
Property and equipment (Note 9)	**(19,428,624)**	(11,981,177)	(68,979,220)
Deferred exploration costs (Note 14)	**(17,607,890)**	(6,109,207)	(3,948,825)
Available-for-sale investments	**(87,021)**	(6,836,230)	(2,763,482)
Short-term investments	–	(8,871,216)	(8,639,904)

(Forward)

	Years Ended December 31		
	2009	2008	2007
Cash dividends received	**₱26,571,234**	₱2,120,941	₱8,837,802
Proceeds from:			
Sale and redemption of investments held for trading	**978,559,836**	736,835,458	702,657,454
Sale of investment in associates	**193,285,135**	–	–
Settlement of currency forward contracts (Note 29)	**22,742,850**	22,199,906	86,488,761
Sale of available-for-sale investments	**240,986**	1,233,190	3,087,785
Sale of property and equipment	**62,000,000**	531,251	213,000
Termination of short-term investments	**12,511,120**	–	–
Cash received from an associate for the return of capital	–	–	3,405,227
Decrease (increase) in other noncurrent assets	**(127,575,000)**	1,000	36,864
Company's share in net cash flows provided by (used in) investing activities of a joint venture	**7,876,775**	(426,492)	133,269,167
Net cash flows provided by (used in) investing activities	**(200,280,843)**	(415,229,431)	362,546,903
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock, net of issuance costs (Notes 16 and 17)	–	–	599,026,951
Payments of:			
Cash dividends	**(65,756,573)**	(65,376,071)	(40,103,678)
Short-term loans and borrowings	–	–	(204,934,019)
Long-term loans and borrowings	–	–	(27,272,727)
Increase (decrease) in customers' deposits	**(27,385,096)**	4,454,239	805,143
Increase in other noncurrent liabilities	**(2,138,281)**	3,859,164	3,223,574
Company's share in net cash flows provided by financing activities of a joint venture	**(36,925,000)**	36,925,000	–
Net cash flows provided by (used in) financing activities	**(132,204,950)**	(20,137,668)	330,745,244
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
Effect of foreign exchange rate changes on cash and cash equivalents of venturer	**(6,633,808)**	45,662,613	(30,387,685)
Company's share in effect of foreign exchange rate changes on cash and cash equivalents of a joint venture	–	–	(150,016)
Net effect of foreign exchange rate changes on cash and cash equivalents	**(6,633,808)**	45,662,613	(30,537,701)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURE	**111,469,432**	(305,206,890)	955,198,606
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**916,460,628**	1,221,667,518	266,468,912
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,027,930,060**	₱916,460,628	₱1,221,667,518

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Trans-Asia Oil and Energy Development Corporation (TA Oil or "Parent Company"), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Renewable Energy Corporation (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 direct and ultimate parent company of TA Oil is Philippine Investment-Management (PHINMA), Inc., also incorporated in the Philippines. TA Oil is managed by PHINMA under an existing management agreement.

The Parent Company is involved in power generation and trading, oil and mineral exploration, exploitation and production. The Parent Company has an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the province of Guimaras using its 3.4 megawatt (MW) bunker C-fired diesel generator power station in the island. The Energy Regulatory Commission (ERC) granted the Parent Company a certificate of registration as a Wholesale Aggregator in November 2006 renewable every five (5) years, and a Retail Electricty Supplier's (RES) license in December 2006. The license authorizes the Parent Company to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). As a RES, the Parent Company is allowed to supply electricity to the contestable market, pursuant to EPIRA. The other activities of the Company are investments in various operating companies and financial instruments.

The Parent Company also has a 50% interest in Trans-Asia Power Generation Corporation (TA Power), a company engaged in power generation. In October 2006, the Philippine Electricity Market Corporation (PEMC) approved TA Power's application for registration as trading participant for both generation and customer categories in the Wholesale Electricity Spot Market (WESM). Both the Parent Company and TA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM.

CIPP was registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna. In April 2009, the terms of the sale of the distribution assets to Manila Electric Company (MERALCO) were finalized resulting in the cessation of CIPP's operations starting April 2009. Also, the separation of substantially all of its employees effective January 2010 was announced. On February 22, 2010, the Board of Directors of the Parent Company approved the proposed merger of the Parent Company and CIPP subject to the approval by the stockholders and the SEC.

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

Renewable and Karang Besar have not yet started commercial operations.

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

The consolidated financial statements of the Company were authorized for issuance by the Board of Directors (BOD) on February 22, 2010.

2. Basis of Preparation

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

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

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

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

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

In addition, the Company's share of each of the assets, liabilities, income and expenses of its jointly controlled venture, TA Power, is included as a separate line item in the consolidated financial statements based on the account grouping (see Note 13).

3. Changes in Accounting Policies and Disclosures

Current Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new, amended and improved PFRS, Philippine Accounting Standards and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective beginning January 1, 2009.

PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present two linked statements.

PAS 23, *Borrowing Costs* (Revised)
The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

In accordance with the transitional requirements of this standard, the Company will adopt this as a prospective change in accounting policy. Accordingly, borrowing costs will be capitalized on qualifying assets with commencement date after January 1, 2009. The Company has no transactions within the scope of this standard, thus, the adoption of this standard did not have an impact on the consolidated financial statements.

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Company will provide explanations and reconciliations of the differences. PFRS 8 disclosures are shown in Note 30, including the related comparative information.

PFRS 2, Amendment - *Vesting Conditions and Cancellations*
The amendment to PFRS 2, *Share-based Payments*, clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. It did not have an impact on the financial position or performance of the Company.

Amendments to PFRS 7, *Financial Instruments: Disclosures*
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 29. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 28.

Improvements of PFRS adopted by the Company starting January 1, 2009
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the consolidated financial statements of the Company.

- PAS 18, *Revenue*
  The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

  The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal and agent in certain arrangements. The revenue recognition policy has been updated accordingly.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  - When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  - Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated balance sheet.

- PAS 16, *Property, Plant and Equipment*
  - The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36.
  - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
  - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
  - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
  - Deletion of the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, "Provisions, Contingent Liabilities and Contingent Assets."

- PAS 23, *Borrowing Costs*
  - The improvement pertains to revision of the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e. components of the interest expense calculated using the effective interest method.

- PAS 28, *Investment in Associates*
  - If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
  - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 31, *Interest in Joint Ventures*
  - If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  - When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  - Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
  - References to "there is rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method" is deleted, thereby effectively allowing the use of the unit of production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
  - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, "Insurance Contracts," this is a change in circumstance, not a reclassification.
  - Removal of the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
  - Requirement to use the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
  - The improvement pertains to revision of the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

Amendments to Standards and Interpretations that have been issued but are not yet effective

The following standards, amendments to standards and interpretation have been issued but will become effective subsequent to financial year ended December 31, 2009.

PFRS 3 - *Business Combinations* (Revised) and PAS 27 - *Consolidated and Separate Financial Statements* (Amended)

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Philippine Interpretation IFRIC 17 - *Distributions of Non-Cash Assets to Owners*

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company does not expect the Interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

PAS 39 Amendment - *Eligible Hedged Items*

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement,* effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*

The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company.

Improvements to PFRS to be adopted by the Company starting January 1, 2010

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except as otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*
  - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
  - Clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segment Information*
  - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
  - Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*
  - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward

contracts, and not derivative contracts where further actions by either party are still to be taken; and, (c) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
  - Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*
  - States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Short-term Investments

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

Financial Assets and Financial Liabilities

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

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

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

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

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

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" gain or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where 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" gain or loss amount.

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

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

Financial Assets and Liabilities at FVPL

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

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

   Financial assets and financial liabilities designated at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statement of income. Interest 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 to receive the payment has been established.

   As of December 31, 2009 and 2008, the Company has no financial asset or financial liability designated on initial recognition as at FVPL.

b. Financial assets or financial liabilities held for trading
These financial instruments are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as gain on investment held for trading under the "Interest and other financial income" account. Interest 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.

As of December 31, 2009 and 2008, the Company's investments in bonds and fixed treasury notes (FXTNs) and unit investment trust funds (UITFs) are classified as financial assets held for trading (see Note 7).

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

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

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

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

As of December 31, 2009 and 2008, the Company's derivative assets and derivative liability are classified as financial assets and financial liability at FVPL (see Note 29).

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

As of December 31, 2009 and 2008, the Company's cash and cash equivalents, short-term investments and receivables are classified as loans and receivables (see Notes 6 and 8).

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

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

As of December 31, 2009 and 2008, the Company did not classify any financial asset under HTM investments.

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

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

As of December 31, 2009 and 2008, 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 the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2009 and 2008, the Company's accounts payable and other current liabilities, due to stockholders and customers' deposits are classified as other financial liabilities (see Notes 15 and 25).

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

Assets carried at amortized cost
If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

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

Financial liabilities

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

Offsetting Financial Instruments

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

Fuel and Spare Parts

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

Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties (where applicable), borrowing costs incurred during the construction period and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are charged to income in the year the costs are incurred. In situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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

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

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

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

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

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

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

Investments in Associates

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

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

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

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

The Parent Company's investment in the joint venture'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.

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

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

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

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

<u>Deferred Exploration Costs</u>
The Company follows the full cost method of accounting for exploration costs determined on the basis of each service contract (SC) or geophysical survey and exploration contract (GSEC) area. Under this method, all exploration costs relating to each SC or 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.

Business Combinations

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

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

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

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 are reviewed at least at each financial yearend. 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.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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.

Provisions

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

Capital Stock

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

Retained Earnings

Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income.

Revenue

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

Trading revenue

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

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

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

Generation Revenue

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

Costs and Expenses
Costs and expenses are recognized when incurred.

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

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

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

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

Stock Option
The Company had a stock option plan offered to qualified employees, officers and directors of the Company. As allowed under PFRS 1, "First Time Adoption of Philippine Financial Reporting Standards," the Company availed of the exemption from applying PFRS 2, "Share-based Payment," to stock options granted after November 7, 2002 but 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

Determination of functional currency

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

Determination of whether an arrangement contains a lease and proper classification of the lease

Under TA Oil's ESA with Guimelco and TA Power's ESA with Holcim Philippines, Inc. (Holcim), TA Oil sells all of its output to Guimelco and TA Power sells all or substantially all of its output to Holcim. The Company also has various lease agreements for the lease of its investment property. The Company has evaluated the arrangements and the terms of the agreements and determined that the risks and rewards of ownership of the underlying properties are retained by the Company. Accordingly, the related assets have been recognized in the books and the fees billed to Guimelco, Holcim and the other leases are recorded as operating revenues.

Classification of financial instruments

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

Estimates

Fair value of financial assets and financial liabilities

The fair value for financial instruments traded in an active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Where the fair values of financial assets and financial liabilities recorded on the consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment and estimation is required in establishing fair values. Any change in value of these financial assets and financial liabilities (including derivatives) would affect the consolidated statement of comprehensive income and consolidated statement of changes in equity. The fair values of the Company's financial assets amounted to ₱2.29 million and ₱1.86 milion as of December 31, 2009 and 2008, respectively, while fair values of Company's financial liabilities amounted to ₱146.95 million and ₱232.96 million as of December 31, 2009 and 2008, respectively (see Note 29).

Estimated allowance for doubtful accounts

The Company maintains allowance for doubtful accounts based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the customer, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, past-due status and terms) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying value of receivables (including noncurrent portion classified under noncurrent assets in the consolidated balance sheet of ₱127.57 million as of December 31, 2009) amounted to ₱285.05 million as of December 31, 2009 and ₱183.91 million as of December 31, 2008 (see Notes 8 and 10).

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

The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred tax assets were recognized in the consolidated balance sheets as of December 31, 2009 and 2008 amounted to ₱100.15 million and ₱138.99 million, respectively (see Note 23).

Estimated useful lives of property, plant and equipment and investment properties
The Company estimates the useful lives of property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment properties are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱426.69 million and ₱620.14 million, respectively (see Note 9). The carrying value of investment properties as of December 31, 2009 and 2008 amounted to ₱92.24 million and ₱3.32 million, respectively (see Note 12).

Impairment of deferred exploration costs
The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount. In 2009, the Company recorded a provision for impairment losses amounting to ₱11.47 million representing the carrying value of deferred exploration costs where a portion of the contract area was excised and an unfavorable ruling was issued by the Department of Environment and Natural Resources. Write-off of deferred exploration costs against allowance for impairment losses amounted to ₱76.62 million in 2009 and ₱85.5 million in 2008. In addition, deferred exploration costs amounting to ₱78.52 million were directly written-off and charged in the consolidated statement of income. Among the factors considered by management in the write off of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic.

As of December 31, 2009 and 2008, the carrying value of deferred exploration costs amounted to ₱71.86 million and ₱144.25 million, respectively (see Note 14).

Impairment of property, plant and equipment, customer contracts and investment properties
The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value-in-use of the cash-generating units. In 2009, total impairment loss recognized in the consolidated statement of income on the property, plant and equipment of CIPP amounted to ₱106.89 million. The carrying value of property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱426.69 million and ₱620.14 million, respectively (see Note 9), while customer contracts have been fully amortized in 2008 (see Note 14). The carrying value of investment properties amounted to ₱92.24 million as of December 31, 2009 and ₱3.32 million as of December 31, 2008 (see Note 12).

Impairment of investments in associates
The carrying value of investments in associates is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount. No additional impairment loss was deemed necessary in 2009 and 2008. Accumulated impairment loss amounted to ₱1.56 million as of December 31, 2009 and 2008. The carrying value of investments in associates as of December 31, 2009 and 2008 is ₱0.62 million and ₱169.10 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% or more of the original cost of investment, and "prolonged", greater than 6 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. No impairment loss was deemed necessary in 2009 and 2008. The carrying value of AFS investments as of December 31, 2009 and 2008 amounted to ₱205.13 million and ₱206.43 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 described in Note 24 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. The carrying value of pension and other post-employment benefits as of December 31, 2009 and 2008 is ₱6.04 million and ₱10.93 million, respectively (see Note 24).

6. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	**₱90,300,463**	₱45,129,307
Short-term deposits	**895,015,093**	864,401,974
	₱985,315,556	₱909,531,281

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

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of the following at December 31:

	2009	2008
Cash and cash equivalents of venturer	**₱985,315,556**	₱909,531,281
Share in cash and cash equivalents of a joint venture (see Note 13)	**42,614,504**	6,929,347
	₱1,027,930,060	₱916,460,628

7. Investments Held for Trading

	2009	2008
Investments in bonds and FXTNs	**₱283,894,056**	₱274,776,637
Investments in UITFs	**526,522,973**	269,909,783
	₱810,417,029	₱544,686,420

The Company's unrealized gain (loss) from changes in fair value of investments held for trading (included in net gains on investments held for trading under "Interest and other financial income" account in the consolidated statements of income) amounted to ₱10.8 million, (₱0.2 million) and (₱0.6 million) as of December 31, 2009, 2008 and 2007, respectively.

8. Receivables

	2009	2008
Trade (Note 27)	**₱62,581,603**	₱129,197,431
Due from related companies (Notes 25 and 27)	**59,143,275**	62,616,074
Others (Note 10)	**39,025,150**	18,904,328
	160,750,028	210,717,833
Less allowance for doubtful accounts	**3,270,366**	26,802,732
	₱157,479,662	₱183,915,101

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 term.

Other receivables include interest receivable of ₱6.51 million and ₱8.53 million as of December 31, 2009 and 2008, 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 ₱0.02 million beginning May 2005 up to February 2008. The monthly amortization is offset against the monthly rental of ₱20,000 under the lease contract between Guimelco and TA Oil. The loan receivable was fully collected in February 2008.

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

	2009						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	91–120 Days	Impaired
				(In Thousands)			
Trade	₱62,582	₱53,375	₱465	₱520	₱463	₱7,759	₱–
Due from related companies	59,143	59,143	–	–	–	–	–
Others	39,025	35,755	–	–	–	–	3,270
	₱160,750	₱148,273	₱465	₱520	₱463	₱7,759	₱3,270

	2008						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	91–120 Days	Impaired
				(In Thousands)			
Trade	₱129,197	₱104,006	₱9,991	₱6,543	₱1,763	₱6,894	₱–
Due from related companies	62,616	39,083	–	–	–	–	23,533
Others	18,905	15,628	–	–	–	7	3,270
	₱210,718	₱158,717	₱9,991	₱6,543	₱1,763	₱6,901	₱26,803

Movements in allowance for doubtful accounts in 2009 are as follows:

	Due from related parties	Others	Total
		(In Thousands)	
Balances at January 1, 2009	₱23,532	₱3,270	₱26,802
Write-off	(23,532)	–	(23,532)
Balances at December 31, 2009	₱–	₱3,270	₱3,270

There were no movements in allowance for doubtful accounts in 2008.

9. Property, Plant and Equipment

	Land	Buildings and Improvements	Machinery and Equipment	Wells, Platforms and Other Facilities	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Total
Cost								
At January 1, 2008	₱57,983,000	₱99,643,597	₱550,395,020	₱20,346,661	₱14,101,769	₱7,759,271	₱26,855,814	₱777,085,132
Additions	–	470,728	–	–	244,281	9,911,957	1,354,211	11,981,177
Disposals	–	–	–	–	(1,682,674)	–	–	(1,682,674)
At December 31, 2008	57,983,000	100,114,325	550,395,020	20,346,661	12,663,376	17,671,228	28,210,025	787,383,635
Additions	–	–	–	–	2,948,907	15,916,604	563,113	19,428,624
Disposals	–	–	(53,163,489)	–	–	(11,366,581)	–	(64,530,070)
At December 31, 2009	57,983,000	100,114,325	497,231,531	20,346,661	15,612,283	22,221,251	28,773,138	742,282,189
Accumulated Depreciation, Amortization, Depletion and Impairment								
At January 1, 2008	–	24,363,464	48,448,071	20,346,661	4,287,388	1,691,653	14,513,205	113,650,442
Depreciation (Note 22)	–	7,478,128	39,678,031	–	2,464,813	1,129,481	3,957,358	54,707,811
Disposals	–	–	–	–	(1,115,550)	–	–	(1,115,550)
At December 31, 2008	–	31,841,592	88,126,102	20,346,661	5,636,651	2,821,134	18,470,563	167,242,703
Depreciation (Note 22)	–	7,700,276	33,705,201	–	2,654,683	3,086,948	4,123,782	51,270,890
Impairment	–	–	106,890,399	–	–	–	–	106,890,399
Disposals	–	–	(9,224,264)	–	–	(585,958)	–	(9,810,222)
At December 31, 2009	–	39,541,868	219,497,438	20,346,661	8,291,334	5,322,124	22,594,345	315,593,770
Net Book Value								
At January 1, 2008	₱57,983,000	₱75,280,133	₱501,946,949	₱–	₱9,814,381	₱6,067,618	₱12,342,609	₱663,434,690
At December 31, 2008	57,983,000	68,272,733	462,268,918	–	7,026,725	14,850,094	9,739,462	620,140,932
At December 31, 2009	57,983,000	60,572,457	277,734,093	–	7,320,949	16,899,127	6,178,793	426,688,419

10. Investments in Associates

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

	Percentage of Ownership	2009	2008
Asia Coal Corporation (Asia Coal)*	28.18	**₱619,756**	₱641,529
Bacnotan Industrial Park Corporation (BIPC)	30.00	**–**	168,460,744
Union Aggregates Corporation (UAC)**	31.25	**–**	–
		₱619,756	₱169,102,273

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

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

	2009	2008
Acquisition costs:		
Balance at beginning of year	**₱207,334,913**	₱207,334,913
Disposal	**(180,600,000)**	–
Balance at end of year	**26,734,913**	207,334,913
Accumulated equity in net losses:		
Balance at beginning of year	**(36,673,389)**	(45,325,321)
Equity in net earnings for the year	**12,126**	8,651,932
Disposal	**12,105,357**	–
Balance at end of year	**(24,555,906)**	(36,673,389)
	2,179,007	170,661,524
Less accumulated impairment losses	**1,559,251**	1,559,251
	₱619,756	₱169,102,273

<u>Asia Coal</u>

On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of the corporate life of the Company to October 31, 2009. The Company shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. As of February 22, 2010, Asia Coal is still in the process of filing with the SEC its application for dissolution.

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

	2009	2008
Current assets	**₱2,358,801**	₱2,444,909
Noncurrent asset	**14,700**	14,700
Total Assets	**2,373,501**	2,459,609
Current liability	**133,701**	178,350
Noncurrent liability	**–**	4,197
Total Liabilities	**133,701**	182,547
Net Assets	**₱2,239,800**	₱2,277,062

The results of operations of Asia Coal as of October 31 are as follows:

	2009	2008
Interest income	**₱194,393**	₱251,348
General and administrative expenses	**(152,475)**	(264,561)
Other income (expense)	**(83,377)**	(151,170)
Benefit from income tax	**4,197**	22,317
Net loss	**(₱37,262)**	(₱142,066)

Other than the approval of the directors and stockholders of Asia Coal of the shortening of its corporate life, there were no significant transactions or events that need to be adjusted in Asia Coal's financial statements.

BIPC

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On March 10, 2009, the Parent Company signed a Share Purchase Agreement with Phoenix Petroleum Philippines, Inc. (Phoenix) whereby the Parent Company sold to Phoenix all of the Parent Company's 30% equity interest in BIPC for a consideration payable at approximately 18% down payment and the balance in monthly installments over a period of five years. Total gain on the sale of the investment in an associate recognized in the 2009 consolidated statement of income amounted to ₱24.79 million. As of December 31, 2009, the current portion of the receivable from Phoenix amounted to ₱26.32 million and is included as part of other receivables (see Note 8). The noncurrent portion of the receivable amounting to ₱127.57 million is included as part of "Other noncurrent assets" account in the 2009 consolidated balance sheet.

On January 15, 2010, TA Oil entered into a Contract for the Sale and Purchase of Industrial Lots (the Contract) with BIPC. Under the terms of the Contract, BIPC undertakes to sell the parcels of land registered under its name as well as the additional parcels of land that it will acquire from Phoenix Petroterminals and Industrial Park. Terms of payment include that upon downpayment, TA Oil shall be granted the sole and exclusive option to purchase the properties and shall exercise the option on or before April 1, 2010 (the option exercise date) by giving written notice to BIPC and paying a certain amount. In the event that TA Oil exercises the option on or before the option exercise date, the downpayment and the exercise price shall be credited to the purchase price of the properties for BIPC acquisition. In the event that TA Oil does not exercise the option, BIPC shall refund 50% of the downpayment to TA Oil without interest within 30 days from the lapse of the option exercise date. The total purchase price for the properties already owned by BIPC is ₱177.53 million while the total purchase price of the additional properties to be acquired by BIPC is ₱156.30 million.

The net assets of BIPC as of December 31, 2008 is shown below:

Current assets	₱102,030,347
Noncurrent assets	500,235,567
Total Assets	602,265,914
Current Liabilities	(20,339,208)
Noncurrent Liabilities	(20,390,893)
Total Liabilities	(40,730,101)
Net Assets	₱561,535,813

The results of operations of BIPC as of December 31, 2008 and 2007 are as follows:

	2008	2007
Revenue	**₱99,933,093**	₱81,907,824
Costs and expenses	**(79,787,916)**	(66,315,670)
Other income	**4,875,183**	1,639,347
Benefit from (provision for) income tax	**3,952,866**	(491,251)
Net income	**₱28,973,226**	₱16,740,250

11. **Available-for-Sale Investments**

	2009	2008
Shares of stock:		
Listed	**₱80,210,631**	₱80,841,834
Unlisted	**101,586,985**	101,586,985
Golf club shares	**23,330,000**	24,000,000
	₱205,127,616	₱206,428,819

AFS investments are stated at fair value as of December 31, 2009 and 2008, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Loss from change in fair value recognized as other comprehensive income amounted to ₱2.24 million in 2009 which includes deferred income tax of ₱1.08 million and ₱23.4 million in 2008. Gain from change in fair value recognized as other comprehensive income in 2007 amounted to ₱50.13 million. Impairment loss in 2007 amounting to ₱.02 million has been recognized directly in the consolidated statement of income.

12. **Investment Properties**

	2009	2008
Cost		
Balance at beginning of the year	**₱4,893,663**	₱4,893,663
Additions	**94,362,125**	–
Balance at end of year	**99,255,788**	₱4,893,663
Less accumulated depreciation		
Balance at beginning of the year	**1,576,752**	1,316,603
Depreciation	**5,438,559**	260,149
Balance at end of year	**7,015,311**	1,576,752
	₱92,240,477	₱3,316,911

Investment properties are stated at cost less accumulated depreciation and any impairment loss. The fair value of the investment properties based on the latest valuation by an independent firm of appraisers amounted to ₱98.7 million and ₱5.8 million as of December 31, 2009 and 2008, respectively. The valuation undertaken considered the sales of similar or substitute properties and related market data and established estimated value by processes involving comparison.

Rental income in 2009, 2008 and 2007 amounted to ₱5.5 million, ₱2.1 million and ₱2.1 million, respectively, which comprises "Other income" presented in the consolidated statements of income, while related direct costs and expenses incurred in 2009, 2008 and 2007 amounted to

₱10.5 million, ₱3.0 million and ₱3.4 million, respectively, included as part of "General and administrative expenses" (see Note 20).

13. Interest in a Joint Venture

The Company's proportionate share in assets and liabilities of TA Power as of December 31, 2009 and 2008 before elimination of intercompany transactions and balances are as follows:

	2009	2008
Current assets	**₱199,402,913**	₱163,456,890
Noncurrent assets*	**241,376,471**	305,390,672
	440,779,384	468,847,562
Current liabilities	**(112,317,630)**	(177,907,084)
Noncurrent liabilities	**(8,023,055)**	(10,750,516)
	(120,340,685)	(188,657,600)
Net assets	**₱320,438,699**	₱280,189,962

* *Net of investment in shares of stock of the Parent Company of ₱3.9 million both in 2009 and 2008.*

The Company's proportionate share in the revenue and expenses of TA Power for the years ended December 31, 2009 and 2008 and 2007 before elimination of intercompany transactions are as follows:

	2009	2008	2007
Revenue	**₱579,144,177**	₱593,109,585	₱749,144,599
Cost of power generation	**(530,282,115)**	(674,465,614)	(594,815,726)
General and administrative expenses	**(29,712,796)**	(28,503,547)	(52,893,405)
Other income - net	**11,852,345**	38,366,711	5,747,467
Income (loss) before income tax	**31,001,611**	(71,492,865)	107,182,935
Benefit from (provision for) income tax	**4,163,430**	(6,327,864)	(35,934,818)
Net income (loss)	**₱35,165,041**	(₱77,820,729)	₱71,248,117

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, 2009 and 2008, after elimination of intercompany balances, are as follows:

	2009	2008
Current assets:		
Cash and cash equivalents	**₱42,614,504**	₱6,929,347
Investment in trading securities	**8,440,582**	–
Trade and other receivables	**85,738,184**	77,985,999
Fuel and spares - at cost	**35,906,315**	51,015,876
Prepaid expenses and other current assets	**25,392,549**	26,420,108
	₱198,092,134	₱162,351,330

(Forward)

	2009	2008
Noncurrent assets:		
Property, plant and equipment - net	**₱196,923,857**	₱261,679,763
Available-for-sale investments	**23,697,283**	43,710,909
Other noncurrent assets	**15,109,707**	–
	₱235,730,847	₱305,390,672

	2009	2008
Current liabilities:		
Trade and other payables	**₱50,251,289**	₱102,652,792
Due to related parties	**2,929,863**	1,736,383
Derivative liability	**72,100**	573,435
Interest-bearing loans and borrowings	–	36,925,000
	₱53,253,252	₱141,887,610

	2009	2008
Noncurrent liabilities:		
Deferred tax liability - net (see Note 23)	**₱5,523,055**	₱10,561,166
Provisions	**2,500,000**	2,500,000
Other noncurrent liabilities	–	189,350
	₱8,023,055	₱13,250,516

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, 2009, 2008 and 2007, after elimination of intercompany transactions, are as follows:

	2009	2008	2007
Cost of power generation:			
Fuel	**₱177,323,269**	₱379,308,179	₱468,790,194
Depreciation and amortization	**63,832,927**	63,441,151	62,381,205
Labor	**13,998,196**	14,818,399	15,212,465
Taxes and licenses	**7,999,766**	9,551,387	7,957,142
Repairs and maintenance	**7,509,930**	21,531,011	33,236,386
Insurance	**3,051,387**	2,617,617	3,876,081
Security, janitorial and professional fees	**1,299,554**	1,168,795	1,281,841
Others	**892,167**	1,480,424	2,080,412
	₱275,907,196	₱493,916,963	₱594,815,726

	2009	2008	2007
General and administrative expenses:			
Management and professional fees	**₱15,596,077**	₱12,815,632	₱26,561,227
Salaries and directors' fees	**4,664,956**	5,505,445	13,557,560
Taxes and licenses	**1,656,024**	2,760,690	1,230,157
Employee benefits	**1,511,184**	676,976	2,115,496
Depreciation and amortization	**375,323**	1,063,604	1,236,810
Transportation and travel	**201,328**	509,112	986,185
Entertainment, amusement and recreation	**10,300**	38,785	15,389
Others	**3,720,755**	3,005,849	4,155,487
	₱27,735,947	₱26,376,093	₱49,858,311

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 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.

14. Intangible Assets

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Cost:					
At January 1, 2008	₱290,679,948	₱9,628,881	₱300,308,829	₱59,082,665	₱359,391,494
Additions	599,658	5,509,549	6,109,207	–	6,109,207
Write-off	(85,554,844)	–	(85,554,844)	–	(85,554,844)
At December 31, 2008	205,724,762	15,138,430	220,863,192	59,082,665	279,945,857
Additions	15,300,580	2,307,310	17,607,890	–	17,607,890
Write-off	(149,163,158)	(5,972,259)	(155,135,417)	–	(155,135,417)
At December 31, 2009	71,862,184	11,473,481	83,335,665	59,082,665	142,418,330
Allowance for impairment loss and amortization:					
At January 1, 2008	162,173,007	–	162,173,007	11,816,533	173,989,540
Amortization (Note 22)	–	–	–	47,266,132	47,266,132
Write-off	(85,554,844)	–	(85,554,844)	–	(85,554,844)
At December 31, 2008	76,618,163	–	76,618,163	59,082,665	135,700,828
Impairment	–	11,473,481	11,473,481	–	11,473,481
Write-off	(76,618,163)	–	(76,618,163)	–	(76,618,163)
At December 31, 2009	–	11,473,481	11,473,481	59,082,665	70,556,146
Net book value:					
At January 1, 2008	₱128,506,941	₱9,628,881	₱138,135,822	₱47,266,132	₱185,401,954
At December 31, 2008	129,106,599	15,138,430	144,245,029	–	144,245,029
At December 31, 2009	71,862,184	–	71,862,184	–	71,862,184

Deferred Oil and Mineral Exploration Costs

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

	2009	2008
SC No. 51/GSEC No. 93 (East Visayas)	**₱32,545,030**	₱32,545,030
SC No. 6 (Northwest Palawan)	**18,424,285**	113,297,532
SC No. 69 (Camotes)	**15,179,659**	5,832
SC No. 55 (Offshore West Palawan)	**5,713,210**	5,713,209
GSEC No. 94 (Offshore West Palawan)	–	28,228,563
Offshore North Mindoro-West Batangas	–	17,290,300
GSEC No. 91 (Southwest Palawan)	–	8,103,315
Others	–	540,981
	₱71,862,184	₱205,724,762

The foregoing deferred oil exploration costs represent the Company's share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine 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. 51

   In June 2009, the DOE lifted the moratorium it imposed on exploration activities in the area following the renovation of the Cebu provincial governor's Cease and Desist Order to the DOE.

   The DOE approved the extension of the current 3rd Sub-Phase of the Exploration Period until December 8, 2010.

   The 3rd Sub-Phase of the Exploration Period entails a commitment to drill one exploratory well.

b. SC No. 6 Block A and Block B

   The Department of Energy (DOE) granted a 15-year extension of the term of Service Contract No. 6 covering Block A and Block B.

   In Block A, partners agreed to extend the term of the Farm-In Agreement with Vitol GPC Investments S.A. of Switzerland, which grants the latter the option to acquire 70% interest in the block, until 14 days after DOE approval of Galoc Phase 2 development or December 31, 2010, whichever comes first. Based on the technical evaluation that the prospects in certain areas are small and are likely to be unrecoverable, deferred exploration costs amounting to ₱95 million were written off.

c. SC No. 69

   Partners completed reprocessing of some 2,800 kilometers of vintage 2D seismic data in fulfillment of work obligations under the 1st Sub-Phase of the Exploration Period (May 7, 2008 to May 6, 2009).

   The consortium elected to enter the 2nd Sub-Phase of the Exploration Period (May 7, 2009 to November 6, 2010) and opted to implement a minimum 750 – km 2D seismic program. Preparations for the conduct of a 900 - km 2D seismic survey were underway as of end 2009.

d. SC No. 55

   The DOE approved the consortium's request for substitution of a 2D/3D seismic program with minimum expenditures of US$3 million, for the one deepwater well with minimum expenditures of US$3 million committed under the current 3rd Sub-Phase of the Exploration Period (August 5, 2009 to August 4, 2010).

   On January 1, 2010, the consortium completed a 600 – sq. km. 3D seismic survey designed to upgrade petroleum leads to drillable prospects, in fulfillment of its work commitment.

e. MPSA 252-2007-V

In June 2009, the Parent Company received notice of an Order of the Secretary of the Department of Environment and Natural Resources (DENR) excising portions of the MPSA area that are covered by alleged mineral patents of a third party.

The Parent company filed a Motion for Reconsideration of said Order.

In December 2009, the DENR denied the Parent Company's Motion for Reconsideration. The Parent Company filed a timely Appeal of the DENR's ruling with the Office of the President.

The contracts of Offshore West Palawan, Offshore North Mindoro-West Batangas and Southwest Palawan have expired previously and the Company has abandoned plans to re-apply over these areas in the future.

Customer Contracts

Customer contracts were acquired through business combinations. This account was fully amortized in 2008.

15. Accounts Payable and Other Current Liabilities

	2009	2008
Trade and nontrade accounts payable	**₱92,651,444**	₱154,414,542
Output tax	**31,382,389**	18,136,921
Accrued directors' and annual incentives (Note 25)	**22,706,140**	21,059,487
Accrued expenses	**14,365,092**	941,860
Due to related parties (Note 25)	**6,998,557**	5,792,695
Deferred rent income	**181,123**	35,278
Derivative liability (Note 29)	–	10,807,500
Others	–	3,361,757
	₱168,284,745	₱214,550,040

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

16. Equity

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

	Number of Shares		
	2009	2008	2007
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000	2,000,000,000
Issued and outstanding:			
Balance at beginning of year	**1,662,298,650**	1,657,585,092	1,105,056,728
Issuance during the year (Note 17)	**304,419**	4,713,558	552,528,364
Balance at end of year	**1,662,603,069**	1,662,298,650	1,657,585,092

The issued and outstanding shares as of December 31, 2009, 2008 and 2007 are held by 3,386, 3,393, and 3,423 equity holders, respectively.

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

The Company's retained earnings balance amounted to ₱1.30 billion and ₱1.08 billion as of December 31, 2009 and 2008, respectively, while paid-up capital is ₱1.66 billion as of December 31, 2009 and 2008, respectively. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱253 million and ₱276.9 million as of December 31, 2009 and 2008, respectively, are not currently available for dividend distribution.

Dividends declared and paid in 2009, 2008 and 2007 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
April 2, 2007	Cash	0.04 per share	₱44,202,269	April 19, 2007
March 25, 2008	Cash	0.04 per share	66,308,161	April 11, 2008
March 16, 2009	Cash	0.04 per share	66,491,957	March 30, 2009

17. Employee Stock Options and Executive Stock Grants

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

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

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

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

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

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

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

Coverage	Directors, permanent officers and employees of TA Oil and its subsidiaries/affiliates
Exercise price	At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of ₱1.00 per share
Vesting period	• Up to 33% of the allocated shares on the 1st year from the date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.
Right to Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

On May 7, 2008, the Company's Stock Option Committee decided to revisit the Company's Stock Option Plan, the implementation of the same to remain suspended until a review of the Plan is completed. The Committee also decided to implement the Company's Stock Grant for its executives which resulted in the issuance of 0.3 million and 4.7 million shares in 2009 and 2008, respectively.

As of December 31, 2009, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

18. Trading Revenue - net

	2009	2008
Trading revenue	**₱572,862,995**	₱277,379,658
Cost of power purchased	**298,384,799**	214,477,122
	₱274,478,196	₱62,902,536

There were no trading revenues in 2007.

19. Cost of Power Generation

	2009	2008	2007
Fuel	**₱76,268,024**	₱608,492,958	₱431,687,436
Depreciation and amortization (Note 22)	**35,792,222**	41,463,509	40,493,918
Labor (Note 21)	**20,421,881**	17,960,148	14,640,028
Repairs and maintenance	**13,079,212**	32,713,527	12,276,662
Insurance	**2,643,217**	2,161,660	2,379,831
Concession and other fees (Note 27)	**2,484,463**	13,366,869	11,869,307
Taxes and licenses	**1,891,405**	1,911,799	2,012,146
Employee benefits (Note 21)	**1,767,889**	2,906,986	2,956,775
Rental	**435,790**	16,331,831	34,683,972
Pension (Notes 21 and 24)	**–**	2,232,819	–
Others	**1,585,688**	3,103,250	3,133,610
	₱156,369,791	₱742,645,356	₱556,133,685

20. General and Administrative Expenses

	2009	2008	2007
Management and professional fees (Note 25)	**₱66,336,320**	₱48,056,832	₱51,639,133
Salaries and directors' fees (Notes 21 and 25)	**65,957,496**	35,009,471	63,250,167
Depreciation and amortization (Note 22)	**20,917,227**	60,770,583	22,858,879
Building maintenance and repairs	**11,922,288**	9,245,427	8,529,744
Insurance, dues and subscriptions	**6,728,643**	3,447,953	3,529,905
Taxes and licenses	**5,025,317**	1,512,736	2,235,847
Transportation and travel	**3,543,452**	2,331,980	4,223,163
Employee benefits (Note 21)	**3,742,979**	4,903,817	1,968,942
Rent	**3,419,299**	2,890,925	1,531,041
Office supplies	**1,961,711**	1,616,448	1,747,788
Donation and contribution	**1,843,483**	1,928,354	305,317
General exploration	**1,465,482**	2,629,431	10,865,130
Pension (Notes 21 and 24)	**848,972**	1,952,817	2,224,571
Entertainment, amusement and recreation	**308,677**	215,486	75,912
Others	**5,785,272**	4,659,926	3,929,010
	₱199,806,618	₱181,172,186	₱178,914,549

21. Personnel Expenses

	2009	2008	2007
Salaries and directors' fees included under:			
Cost of power generation	**₱20,421,881**	₱17,960,148	₱14,640,028
General and administrative expenses	**65,957,496**	35,009,471	63,250,167
Deferred exploration costs	**–**	–	2,091,316
Pension (Note 24) included under:			
Cost of power generation	**–**	2,232,819	–
General and administrative expenses	**848,972**	1,952,817	2,224,571
Employee benefits included under:			
Cost of power generation	**1,767,889**	2,906,986	2,956,775
General and administrative expenses	**3,742,979**	4,903,817	1,968,942
	₱92,739,217	₱64,966,058	₱87,131,799

22. Depreciation and Amortization

	2009	2008	2007
Depreciation expense of property, plant and equipment and investment properties included under (Notes 9 and 12):			
Cost of power generation	**₱35,792,222**	₱41,463,509	₱40,493,918
General and administrative expenses	**20,917,227**	13,504,451	11,042,346
	56,709,449	54,967,960	51,536,264
Amortization of intangibles included under - General and administrative expenses (Note 14)	**–**	47,266,132	11,816,533
	₱56,709,449	₱102,234,092	₱63,352,797

23. Income Tax

a. Current income tax pertains to regular corporate income tax.

b. The components of the Company's net deferred income tax liabilities as of December 31 are as follows:

	2009	2008
Deferred income tax assets:		
Unrealized foreign exchange losses	**₱1,785,578**	₱4,778
Allowance for doubtful accounts	**981,110**	–

(Forward)

	2009	2008
Unamortized past service cost	**₱755,557**	₱–
Accrued expenses	**85,939**	179,549
Deferred rent income	**54,337**	–
Unrealized mark to market loss on derivatives	**19,577**	–
Allowance for probable losses on oil and mineral exploration	–	8,630,863
Derivative liability	–	3,242,250
	3,682,098	12,057,440
Deferred income tax liabilities:		
Fair value of power plant	**(20,997,069)**	(63,923,803)
Unrealized fair value gains on investment held for trading and derivatives	**(4,336,277)**	(867,464)
Unrealized fair value gains on available-for-sale investments	**(1,079,305)**	–
Asset retirement obligation	**(662,400)**	(705,600)
Derivative asset	**(17,933)**	(15,614)
	(27,092,984)	(65,512,481)
Deferred income tax liabilities - net	**(₱23,410,886)**	(₱53,455,041)

The Company's share in net deferred income tax liabilities of a joint venture is as follows:

	2009	2008
Deferred income tax assets on:		
NOLCO	**₱2,603,126**	₱–
Past service costs and accrued retirement	**127,175**	320,263
Unrealized foreign exchange losses	**58,116**	–
	2,788,417	320,263
Deferred income tax liabilities on:		
Capitalized unrealized foreign exchange gains	**(8,161,072)**	(10,881,429)
Unrealized MTM gains on derivatives	**(150,400)**	–
	(8,311,472)	(10,881,429)
Deferred income tax liabilities - net	**(₱5,523,055)**	(₱10,561,166)

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

	2009	2008
NOLCO	**₱36,969,513**	₱22,487,550
Unrealized foreign exchange losses	**28,760,074**	28,731,468
Allowance for probable losses on mineral exploration	**11,473,481**	47,848,620
Allowance for unrecoverable input tax	**6,935,276**	6,162,861
Allowance for impairment losses	**6,712,782**	6,712,782
Accrued expenses	**4,672,598**	6,810,877
Asset retirement obligation	**4,626,504**	4,255,664
MCIT	–	9,336,054
Unamortized past service cost	–	3,271,604
Allowance for doubtful accounts	–	3,270,366
Unrealized marked to market loss	–	65,258
Deferred rent income	–	35,278

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

NOLCO totaling ₱36.97 million can be claimed as deduction from regular taxable income as follows:

Expiry Date	NOLCO
December 31, 2010	₱7,220,813
December 31, 2011	12,222,794
December 31, 2012	17,525,906
	₱36,969,513

MCIT amounting to ₱0.3 million expired in 2008. NOLCO amounting to ₱0.9 million and ₱0.8 million expired in 2009 and 2008, respectively.

NOLCO amounting to ₱37.8 million, ₱67.7 million and ₱12.6 million were applied to taxable income in 2009, 2008 and 2007, respectively. MCIT amounting to ₱10.0 million was applied against RCIT in 2009.

The reconciliation between the effective income tax rates and the statutory income tax rates follows:

	2009	2008	2007
Applicable statutory income tax rates	30.00%	35.00%	35.00%
Decrease in tax rate resulting from:			
Change in unrecognized deferred income tax asset on allowance for probable losses on mineral exploration	(3.66)	(58.60)	–
Dividend income exempt from tax	(2.72)	(1.09)	(2.93)
Gain on sale of an investment in an associate	(2.49)	–	–
Equity in net earnings of associates	–	(4.44)	(1.66)
Application of NOLCO, MCIT and others	(15.90)	(0.45)	(4.65)
Effective income tax rates	5.23%	(29.58%)	25.76%

24. Pension and Other Post-employment Benefits

The Parent Company and CIPP 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:

	2009	2008
Pension liability	**₱576,200**	₱4,469,000
Vacation and sick leave accrual	**5,467,798**	6,464,554
	₱6,043,998	₱10,933,554

Employee benefits included under costs of power generation and general and administrative expenses consist of:

	2009	2008	2007
Pension expense	**₱848,972**	₱4,185,636	₱2,224,571
Vacation and sick leave accrual	**(1,024,380)**	3,235,683	1,992,404
	(₱175,408)	₱7,421,319	₱4,216,975

The following tables summarize the components of pension expense included in the consolidated statement of income and pension liability included under "Pension and other post-employment benefits" account in the consolidated balance sheet, which are based on the latest actuarial valuation reports:

	2009	2008	2007
Components of pension expense:			
Current service cost	**₱871,200**	₱2,775,400	₱2,769,900
Interest cost	**2,538,000**	1,083,700	1,748,900
Expected return on plan assets	**(2,269,900)**	(985,300)	(1,540,800)
Recognized actuarial gain	**(652,900)**	(152,400)	(113,100)
	486,400	2,721,400	2,864,900
Adjustment for cross-assigned employees	**362,572**	1,464,236	(640,329)
Pension expense	**₱848,972**	₱4,185,636	₱2,224,571

The pension liability that was recognized in the consolidated balance sheets as of December 31, 2009 and 2008 are as follows:

	2009	2008
Fair value of plan assets	**₱24,963,300**	₱20,658,800
Present value of benefit obligation (PVBO)	**23,702,100**	11,169,200
Funded status	**1,261,200**	9,489,600
Unrecognized net actuarial gains	**(1,837,400)**	(13,958,600)
Pension liability	**₱576,200**	₱4,469,000

The movements in the PVBO are as follows:

	2009	2008
Balance at beginning of year	**₱11,169,200**	₱14,719,700
Current service cost	**871,200**	2,775,400
Interest cost	**2,538,000**	1,083,700
Transfer in	**1,808,900**	4,043,000
Actuarial gains (losses)	**7,314,800**	(11,452,600)
Balance at end of year	**₱23,702,100**	₱11,169,200

The changes in the fair value of plan assets are as follows:

	2009	2008
Balance at beginning of year	**₱20,658,800**	₱15,576,500
Expected return on plan assets	**2,269,900**	985,300
Actual contribution	**1,600,300**	2,321,600
Transfer in	**1,808,900**	2,895,600
Actuarial losses	**(1,374,600)**	(1,120,200)
Balance at end of year	**₱24,963,300**	₱20,658,800
Actual return on plan assets	**₱895,300**	(₱134,900)

As of January 1, the assumptions used to determine PVBO and fair value of plan assets are as follows:

	2009	2008
Discount rate	**30.01%**	7.50% - 8.00%
Expected rate of return on plan assets	**10.85%**	6.00%
Rate of increase in compensation	**10.00%**	8.00%

As of December 31, 2009, the following are the information with respect to the above assumptions: discount rate of 10.70%, expected rate of return on plan assets of 8.60% and rate of increase in compensation of 8.00%.

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 is expected to contribute ₱2,413,500 to its defined benefit pension plan in 2010.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008
Equities	**85.7%**	80.6%
Mutual Funds and UITFs	**2.8%**	14.6%
Others	**11.5%**	4.8%

The amounts for the current and previous four annual periods of the PVO, fair value of plan assets, deficit and any experience adjustments are as follows:

	Retirement Benefits				
	2009	2008	2007	2006	2005
Present value of benefit obligation	**₱23,702,100**	₱11,169,200	₱14,719,700	₱26,964,400	₱16,053,900
Fair value of plan assets	**24,963,300**	20,658,800	15,576,500	28,114,200	21,973,100
Surplus	**1,261,200**	9,489,600	856,800	1,149,800	5,919,200
Experience adjustments - gain (loss)					
Plan liabilities	**1,707,600**	(519,600)	(1,784,900)	651,800	–
Plan assets	**(1,374,600)**	(1,120,200)	(890,400)	(542,900)	–

25. 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, 2008. Total management fees, including annual incentive, amounted to ₱19 million, ₱15.2 million and ₱14.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. Net payable to PHINMA (included under "Accounts payable and other current liabilities" account) amounted to ₱10.9 million and ₱9.7 million as of December 31, 2009 and 2008, respectively.

TA Power

TA Power leases and occupies part of the office space owned by the Parent Company. Rental income earned classified under "Other income" in the consolidated statements of income amounted to ₱1.2 million in 2009, 2008 and 2007, net of the Parent Company's interest. Also, the Parent Company sold electricity to TA Power in 2009 and 2008. Net receivable from TA Power amounted to ₱56.4 million and ₱37.7 million as of December 31, 2009 and 2008, respectively, net of the Parent Company's interest. Outstanding receivable from TA Power (included under "Receivables" account), net of the Parent Company's interest, amounted to ₱59.14 million and ₱39.0 million as of December 31, 2009 and 2008, respectively.

PHINMA Property Holdings Corporation (PPHC)

PPHC is likewise controlled by PHINMA through a management agreement. PPHC bills the Parent Company for the management of the building and other charges where the Parent Company's office is located. Net payable to PPHC amounted to ₱0.17 million as of December 31, 2009 and 2008, respectively, included in "Account payable and other current liabilities".

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 ₱15.3 million in 2009 and ₱11.7 million in 2008. The related unpaid amount included under the "Accounts payable and other current liabilities" account in the consolidated balance sheets amounted to ₱12.3 million and ₱11.7 million as of December 31, 2009 and 2008, respectively.

Compensation of key management personnel of the Company are as follows:

	2009	2008
Short-term employee benefits	**₱36,459,235**	₱24,893,755
Post-employment benefits	**643,555**	6,703,630
	₱37,102,790	₱31,597,385

Stockholders

Amounts due to stockholders for unclaimed dividends totaled ₱7.01 million and ₱6.27 million as of December 31, 2009 and 2008, respectively.

26. EPS Computation

	2009	2008	2007
(a) Net income	**₱282,809,874**	₱88,476,698	₱78,266,932
Common shares outstanding at beginning of year (Note 16)	**1,662,298,650**	1,657,585,092	1,105,056,728
Weighted average number of shares issued during the year	**198,498**	2,961,304	21,192,869
(b) Weighted average common shares outstanding	**1,662,497,148**	1,660,546,396	1,126,249,597
Basic/Diluted EPS (a/b)	**₱0.17**	₱0.05	₱0.07

The Company's stock option has no dilutive effect in 2009, 2008 and 2007. 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.

27. 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 charged by the National Power Corporation (NPC) plus all other charges and applying such adjustments approved and in the manner prescribed by the ERC.

- TA Oil, acting as a retail electricity supplier, shall exclusively supply all the electricity requirements of Holcim's cement plant in La Union until 2013. TA Oil shall charge Holcim at rates equal to "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. Starting July 2009, the fixed monthly rate was increased to ₱40,000. Future minimum operating lease payables under this lease agreement as of December 31 are as follows:

	2009	2008
Within one year	**₱480,000**	₱240,000
After one year but not more than five years	**2,080,000**	1,200,000
More than five years	–	80,000
	₱2,560,000	₱1,520,000

Concession Agreement
CIPP has a concession agreement with Carmelray-JTCI Corporation (CJC), the developer of CIP II in Calamba, Laguna, where CIPP's 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.

On March 26, 2009, CIPP, CJC and MERALCO executed the Tripartite Agreement where CIPP's rights and obligations under the concession agreement will be transferred to MERALCO.

On the same date, MERALCO and CIPP entered into a Memorandum of Agreement which states that subject to the payment of a mutually agreed purchase price, CIPP shall transfer to MERALCO the ownership of its existing electric distribution system and MERALCO shall assume all the rights and obligations of CIPP under the concession agreement.

In the Asset Purchase Agreement entered into by CIPP and MERALCO on April 11, 2009, MERALCO acquired CIPP's rights and interests in the existing electric distribution system on an "as is, where is" basis for a total consideration of ₱62.00 million. Gain on sale recognized in the consolidated statement of income related to the said transaction amounted to ₱7.28 million.

Electric Power Industry Reform Act
Republic Act No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;
(2) Creation of a WESM; and
(3) Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within five years from the effectivity of the EPIRA. It provides cross-ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

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

In February 2010, another 10 service contracts representing an additional 123MW of potential wind capacity were again awarded to Renewable by the DOE thus bringing its total potential wind capacity to 350MW as of February 22, 2010.

28. Financial Risk Management Objectives and Policies

Objectives and Investment Policies
The PHINMA Group Treasury manages 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 and Euro. 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:
- Foreign currency risk
- Credit or counterparty risk
- Liquidity risk
- 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:
- Safety of principal
- Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee
- Exposure limits

For banks or fund managers: maximum 20% of total fund of each company per bank or fund
- For peso investments: minimal corporate exposure except for registered bonds for non-affiliates
- Limits on third currencies outside U.S. dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee
- For total foreign currencies: maximum 50% of total portfolio
- 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

Risk Management Process

Foreign currency risk

The PHINMA Group Treasury manages holdings of cash and securities not only in Philippine peso but also in U.S. dollar and other foreign 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.

Foreign currency risk is managed through:
- Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange.
- Regular discussions with banks are done to get multiple perspectives on currency trends/forecasts.
- Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.
- Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.
- 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 significant foreign currency-denominated financial assets and financial liabilities as of December 31, 2009 and 2008 are as follows (in thousands):

	U.S. Dollar	
	2009	2008
Financial assets		
Cash and cash equivalents	**$8,227**	$7,165
Short-term investments	**–**	369
Investments in bonds and FXTNs	**3,969**	2,763

(Forward)

	U.S. Dollar	
	2009	2008
Other receivables	**$49**	$121
Derivative assets	**88**	–
	12,333	10,418
Financial liabilities		
Accounts payable and other current liabilities	**(11)**	(19)
Derivative liability	**–**	(227)
	(11)	(246)
Net foreign currency-denominated assets	**$12,322**	$10,172
Peso equivalent	**₱569,276**	₱483,373

In translating foreign currency-denominated financial assets and financial liabilities into peso amounts, the exchange rates used were ₱46.20 to US$1.00 as of December 31, 2009 and ₱47.52 to US$1.00 as of December 31, 2008.

The following table demonstrates the sensitivity to a reasonably 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, 2009 and 2008. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives (see Note 29).

2009	
Increase (Decrease) in U.S. Dollar Exchange Rate	**Effect on Profit Before Tax**
	(In Millions)
(₱0.25)	**(₱3.63)**
(0.50)	**(6.70)**
0.25	**2.52**
0.50	**5.59**

2008	
Increase (Decrease) in U.S. Dollar Exchange Rate	Effect on Profit Before Tax
	(In Millions)
(₱0.25)	(₱2.30)
(0.50)	(2.82)
0.25	1.25
0.50	0.72

Credit or Counterparty Risk
Credit or counterparty risk is the risk due to uncertainty in counterparty's ability to meet its obligations.

Credit or counterparty risk is managed through:

- 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 or mutual fund on the basis of their valuation, financial soundness, business performance and reputation or 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.

- Investments in nonrated 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 and updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.
- For temporary investments in related parties, transactions are done on an arms-length basis taking into account the related parties' 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.
- 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.
- 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.
- A custodian bank for peso instruments and foreign currency instruments has been appointed based on its track record on such service and the bank's financial competence.
- 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.

2009

	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	**Class B**	**Class C**			
			(In Thousands)			
Trade and other receivables						
Trade receivables from customers:						
Holcim	**₱36,758**	**₱–**	**₱–**	**₱–**	**₱–**	**₱36,758**
Guimelco	**11,288**	**–**	**–**	**2,488**	**–**	**13,776**
Locators	**–**	**–**	**–**	**6,719**	**–**	**6,719**
PEMC	**5,329**	**–**	**–**	**–**	**–**	**5,329**
Due from related companies	**59,143**	**–**	**–**	**–**	**–**	**59,143**
Others	**35,755**	**–**	**–**	**–**	**3,270**	**39,025**
	₱148,273	**₱–**	**₱–**	**₱9,207**	**₱3,270**	**₱160,750**

2008

	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
			(In Thousands)			
Trade and other receivables						
Trade receivables from customers:						
Holcim	₱20,986	₱–	₱–	₱–	₱–	₱20,986
PEMC	12,774	–	–	–	–	12,774
Locators	11,515	41,174	9,182	20,811	–	82,682
Guimelco	8,375	–	–	4,380	–	12,755
Due from related companies	39,083	–	–	–	23,533	62,616
Others	15,628	–	–	7	3,270	18,905
	₱108,361	₱41,174	₱9,182	₱25,198	₱26,803	₱210,718

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's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, short-term investments, derivative assets and investments held for trading were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.
- Listed and unlisted AFS investments were assessed as high grade since these are investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty or collateral.

There are no significant concentrations of credit risk within the Company.

Liquidity risk
Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:
- Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.
- Continuous monitoring of the weekly and monthly cash flows as well as frequent updates of the annual plans of the Company.
- 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.
- When necessary, placements are pre-terminated or securities are liquidated; but this is largely avoided.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2009 and 2008 based on contractual undiscounted payments:

	2009					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)			
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	**₱18,630**	**₱74,021**	**₱–**	**₱–**	**₱–**	**₱92,651**
Accrued expenses	**14,365**	–	–	–	–	**14,365**
Accrued directors' and annual incentives	**22,706**	–	–	–	–	**22,706**

(Forward)

	2009					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**More than 5 Years**	**Total**
Due to related parties	**₱6,999**	**₱–**	**₱–**	**₱–**	**₱–**	**₱6,999**
Due to stockholders	**7,007**	**–**	**–**	**–**	**–**	**7,007**
Other noncurrent liability	**–**	**–**	**–**	**3,219**	**–**	**3,219**
	₱69,707	**₱74,021**	**₱–**	**₱3,219**	**₱–**	**₱146,947**

	2008					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
			(In Thousands)			
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱108,548	₱45,867	₱–	₱–	₱–	₱154,415
Accrued expenses	576	366	–	–	–	942
Accrued directors' and annual incentives	21,059	–	–	–	–	21,059
Due to related parties	5,793	–	–	–	–	5,793
Others	14,169	–	–	–	–	14,169
Due to stockholders	6,272	–	–	–	–	6,272
Customers' deposits	–	–	27,385	–	–	27,385
Other noncurrent liability	–	–	–	3,219	–	3,219
	₱156,417	₱46,233	₱27,385	₱3,219	₱–	₱233,254

Security deposits from customers of CIPP amounting to ₱27.38 million (gross of unamortized discount of ₱5.4 million) as of December 31, 2008, have been returned to the respective customers as of December 31, 2009.

As of December 31, 2009 and 2008, the profile of financial assets used to manage the Company's liquidity risk is as follows:

	2009				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
			(In Thousands)		
Cash and cash equivalents	**₱985,316**	**₱–**	**₱–**	**₱–**	**₱985,316**
Short-term investments	**–**	**–**	**5,000**	**–**	**5,000**
Receivables:					
Trade	**9,207**	**53,375**	**–**	**–**	**62,582**
Due from related companies	**59,143**	**–**	**–**	**–**	**59,143**
Others	**3,270**	**9,430**	**26,325**	**127,575**	**166,600**
Financial assets at FVPL					
Investments held for trading	**810,417**	**–**	**–**	**–**	**810,417**
Derivative assets	**–**	**4,148**	**–**	**–**	**4,148**
	₱1,867,353	**₱66,953**	**₱31,325**	**₱127,575**	**₱2,093,206**

	2008				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
			(In Thousands)		
Cash and cash equivalents	₱909,531	₱–	₱–	₱–	₱909,531
Short-term investments	–	–	17,511	–	17,511
Receivables:					
Trade	25,191	104,006	–	–	129,197
Due from related companies	39,083	–	–	–	39,083
Others	3,277	15,628	–	–	18,905

(Forward)

	2008				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
			(In Thousands)		
Financial assets at FVPL:					
Investments held for trading	₱544,686	₱–	₱–	₱–	₱544,686
Derivative asset	–	1,377	–	–	1,377
	₱1,521,768	₱121,011	₱17,511	₱–	₱1,660,290

Market risk

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 business and economic changes. Interest rate, foreign exchange rates and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

Market risk is managed through:

- Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists or strategy officers are done to get multiple perspectives on interest rate trends or forecasts.
- Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.
- "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.
- In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates or prices in relation to strategies.
- 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, by maturity of the Company's financial assets that are exposed to interest rate risk:

	Interest Rates	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3-4 Years**	**Total**
				(In Thousands)		
2009 Fixed Rate						
Special savings account (SSA)	**1-4.25%**	**₱895,015**	**₱–**	**₱–**	**₱–**	**₱895,015**
Short-term investments	**4.5%**	**5,000**	**–**	**–**	**–**	**5,000**
Investments in bonds and FXTNs	**6.25-17.5%**	**100,689**	**138,703**	**–**	**30,064**	**269,456**
2008 Fixed Rate						
Special savings account (SSA)	0.05-7.1%	864,402	–	–	–	864,402
Short-term investments	2-2.10%	17,511	–	–	–	17,511
Investments in bonds and FXTNs	8.38-17.5%	80,356	56,656	137,765	–	274,777

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 reasonably possible change in the interest rates, with all other variables held constant, of the Company's profit before tax as of December 31, 2009 and 2008. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2009	
	Increase (Decrease) in Basis Points	**Effect on Profit Before Tax**
FXTN	**25**	**(₱636,238)**
Special deposit account (SDA)	**25**	**243,713**
SSA	**25**	**1,058,288**
FXTN	**(25)**	**636,238**
SDA	**(25)**	**(243,713)**
SSA	**(25)**	**(1,058,288)**

	2008	
	Increase (Decrease) in Basis Points	Effect on Profit Before Tax
FXTN	25	(₱495,856)
Special deposit account (SDA)	25	1,247,048
SSA	25	749,433
FXTN	(25)	495,856
SDA	(25)	(1,247,048)
SSA	(25)	(749,433)

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 Company's expectation, the Company's assessment of reasonably possible change was determined to be an increase of 10% and 14% in 2009 and 2008, respectively, resulting to a possible effect in the equity of ₱4.2 million and ₱3.9 million as of December 31, 2009 and 2008, respectively.

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:

- 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.
- 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.
- Quarterly presentation of the investment portfolio to the Investment Committee to discuss and secure approvals on strategy changes.

- Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.
- One on one coaching sessions are scheduled to assist, train and advise personnel.
- Periodic review of Treasury risk profile and control procedures.
- 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, 2009 and 2008.

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.

	2009	2008
	(In Thousands)	
Total liabilities	**₱313,235**	₱476,178
Total equity	**3,072,458**	2,857,875
Debt-to-equity ratio	**0.10:1**	0.17:1

29. Financial Assets and Financial Liabilities

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

	Carrying Amount		Fair Value	
	2009	2008	**2009**	2008
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱985,315,556**	₱909,531,281	**₱985,315,556**	₱909,531,281
Short-term investments	**5,000,000**	17,511,120	**5,000,000**	17,511,120
Receivables:				
Trade	**62,581,603**	129,197,431	**62,581,603**	129,197,431
Due from related companies	**59,143,275**	39,083,708	**59,143,275**	39,083,708
Others	**163,329,784**	15,633,962	**163,329,784**	15,633,962
	1,275,370,218	1,110,957,502	**1,275,370,218**	1,110,957,502

(Forward)

	Carrying Amount		Fair Value	
	2009	2008	**2009**	2008
Financial assets at FVPL:				
Investments held for trading	**₱810,417,029**	₱544,686,420	**₱810,417,029**	₱544,686,420
Derivative asset*	**4,147,776**	1,377,451	**4,147,776**	1,377,451
	814,564,805	546,063,871	**814,564,805**	546,063,871
AFS investments:				
Quoted	**103,540,631**	104,841,834	**103,540,631**	104,841,834
Unquoted	**101,586,985**	101,586,985	**101,586,985**	101,586,985
	205,127,616	206,428,819	**205,127,616**	206,428,819
	₱2,295,062,639	₱1,863,450,192	**₱2,295,062,639**	₱1,863,450,192
Financial Liabilities				
Financial liability at FVPL -				
Derivative liability**	**₱–**	₱10,807,500	**₱–**	₱10,807,500
Other financial liabilities:				
Accounts payable and other				
current liabilities***	**136,721,233**	185,570,341	**136,721,233**	185,570,341
Customers' deposits	**–**	27,385,096	**–**	27,385,096
Due to stockholders	**7,007,740**	6,272,367	**7,007,740**	6,272,367
Other noncurrent liability	**3,219,257**	3,219,257	**3,219,257**	2,928,335
	146,948,230	222,447,061	**146,948,230**	222,156,139
	₱146,948,230	₱233,254,561	**₱146,948,230**	₱232,963,639

* *Presented as part of other current assets.*
** *Presented as part of accounts payable and other current liabilities.*
*** *Excludes nonfinancial items amounting to ₱31.56 million and ₱18.17 million in 2009 and 2008, respectively.*

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, accounts payable and other current liabilities, due to stockholders
The carrying amounts of cash and cash equivalents, short-term investments, receivables, accounts payable and other current liabilities and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments. The carrying amount of the noncurrent receivable from Phoenix approximates its fair value since its interest rate is based on prevailing market rates.

Investments held for trading and AFS investments
Quoted market prices have been used to determine the fair values of investments held for trading and quoted AFS investments. The fair values of unquoted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

The fair value of derivative assets and derivative liability of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Customers' deposits
In 2008, management expects that these customer deposits will be returned to locators in 2009 hence, the carrying amount of these deposits approximates their fair value. The customer's deposits have been returned to the respective customers as of December 31, 2009.

Other noncurrent liability
The fair value of the Company's long-term payable to a third party is based on the discounted value of the expected future cash flow using applicable interest rate for similar type of instrument. Discount rate used was 6.36% in 2008.

Fair Value Hierarchy
As of December 31, 2009 the fair value measurement of the Company's financial assets carried at fair value are categorized as follows:

	Level 1	Level 2	Total
		(In Thousands)	
Investments held for trading	**₱810,417**	**₱–**	**₱810,417**
AFS investments	**103,541**	–	**103,541**
Derivative asset	–	**4,148**	**4,148**
Total financial assets	**₱913,958**	**₱4,148**	**₱918,106**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company has no financial instruments measured at fair value using the level 3 hierarchy in 2009. Also, there were no transfers between level 1 and level 2 fair value measurements during 2009.

Derivative Assets and Derivative Liability
Currency forwards
The Company enters into sell US$, buy peso foreign currency forward contracts to manage the foreign currency risk arising from its US$ denominated assets. These derivatives, which include currency forwards are transactions not accounted for as accounting hedges.

The Company has outstanding currency forward contracts with an aggregate notional amount of US$3 million and weighted average contracted forward rate of ₱47.573 to US$1.00 as of December 31, 2009, and an aggregate notional amount of US$12.4 million and weighted average contracted forward rate of ₱46.793 to US$1.00 as of December 31, 2008. The net fair value of these currency forward contracts amounted to ₱4.09 million gain and ₱10.81 million loss as of December 31, 2009 and 2008, respectively.

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

As of December 31, 2009 and 2008, TA Oil's outstanding embedded forwards have an aggregate notional amount of US$0.06 million and US$0.03 million, respectively. The weighted average fixing rate amounted to ₱47.01 to US$1.00 and ₱49.18 to US$1.00 as of December 31, 2009 and 2008, respectively. The net fair value of these embedded derivatives amounted to ₱0.06 million gain and ₱0.6 million gain as of December 31, 2009 and 2008, respectively.

CIPP's has outstanding embedded forward from bunker fuel purchases with an aggregate notional amount of US$0.75 million and a weighted average fixing rate of ₱49.18 to US$1.00 as of December 31, 2008. The net fair value gain of these embedded derivatives amounted to ₱0.8 million gain as of December 31, 2008. There are no outstanding embedded derivatives as of December 31, 2009.

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

	2009	2008
Balance at beginning of year	**(₱9,430,049)**	₱34,001,351
Net changes in fair value during the year	**37,608,112**	(21,231,494)
Fair value of settled contracts	**(24,030,287)**	(22,199,906)
Balance at end of year	**₱4,147,776**	(₱9,430,049)

The net changes in fair value during the year are included in the "Loss (gain) on derivatives-net" account in the consolidated statements of income.

The fair values of the outstanding derivatives of the Company as of December 31 are presented as follows:

	2009	2008
Derivative Assets:		
Freestanding	**₱4,088,000**	₱–
Embedded	**59,776**	1,377,451
	4,147,776	1,377,451
Derivative Liability - Freestanding	–	(10,807,500)
	₱4,147,776	(₱9,430,049)

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

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

Interest and Other Financial Income

	2009	2008	2007
Interest income on:			
Cash in bank	**₱779,731**	₱741,253	₱950,585
Short-term deposits and investments	**25,014,912**	40,357,504	12,726,565
Bond	**7,889,945**	5,396,759	17,031,811
FXTN	**17,489,174**	7,369,636	2,020,901
Others	**9,048,004**	231,732	19,317
	60,221,766	54,096,884	32,749,179

(Forward)

	2009	2008	2007
Net gains on investments held for trading:			
Amortization of bond premium/discount - net	**(10,611,302)**	(4,983,876)	(1,568,524)
Gain (loss) on redemption/sale of investments held for trading	**5,184,041**	(526,326)	2,281,987
Unrealized gain (loss) from changes in fair value of investments held for trading	**10,777,560**	(183,678)	(629,718)
	₱65,572,065	₱48,403,004	₱32,832,924

Interest and Other Financial Charges

	2009	2008	2007
Loss on customers' deposit	**₱94,307**	₱3,460,425	₱–
Amortization of discount on customers' deposits	–	1,912,029	1,274,365
Accretion of asset retirement obligation	**370,840**	371,856	369,824
Interest expense on loans and borrowings	–	–	9,403,484
Amortization of debt issuance cost	–	–	2,005,713
Other financial charges	**236,835**	191,271	1,323,580
	₱701,982	₱5,935,581	₱14,376,966

30. **Operating Segments**

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

	2009			
	Power	**Petroleum and Mining**	**Adjustments and Eliminations**	**Total**
Revenue	**₱995,392,444**	**₱656,534**	**₱95,877,905**	**₱1,091,926,883**
Results				
Depreciation & amortization	**6,479,987**	**232,141**	**17,560,080**	**24,272,208**
Interest and other financial charges	**701,984**	**656,534**	**63,339,045**	**64,697,563**
Oil and mining cost written-off	–	**78,517,254**	–	**78,517,254**

(Forward)

	2009			
	Power	**Petroleum and Mining**	**Adjustments and Eliminations**	**Total**
Impairment losses on deferred exploration costs	**₱–**	**₱11,473,481**	**₱–**	**₱11,473,481**
Provision for unrecoverable input tax	**772,415**	**–**	**–**	**772,415**
Impairment loss on property and equipment	**106,890,399**	**–**	**–**	**106,890,399**
Gain on sale of property and equipment	**(7,280,152)**	**–**	**–**	**(7,280,152)**
Segment profit	**₱374,467,911**	**(₱100,932,353)**	**₱24,899,329**	**₱298,434,887**
Operating assets	**₱1,013,484,662**	**₱93,398,715**	**₱2,278,810,472**	**₱3,385,693,849**
Operating liabilities	**₱181,754,042**	**₱212,203**	**₱131,269,235**	**₱313,235,480**
Other disclosure				
Capital expenditure	**₱17,900,372**	**₱38,846**	**₱1,489,406**	**₱19,428,624**

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱90.42 million and ₱5.46 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss and mark to market gain on derivatives amounting to ₱98.65 million. Other income not included in the profit for operating segment amounted to ₱27.67 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱1.74 billion, receivables and other current assets totaling ₱50.28 million and other noncurrent assets amounting to ₱491.10 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱124.34 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱6.91 million.

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

	2008			
	Power	**Petroleum and Mining**	**Adjustments and Eliminations**	**Total**
Revenue	₱1,393,996,317	₱457,157	₱53,725,798	₱1,448,179,272
Results				
Depreciation & amortization	89,415,808	555,350	12,262,935	102,234,093
Interest & other financial charges	5,743,294	–	192,287	5,935,581

(Forward)

	2008			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Provision for unrecoverable input tax	₱6,162,861	₱–	₱–	₱6,162,861
Gain on sale of property and equipment	(57,143)	–	–	(57,143)
Segment profit	₱51,335,107	(₱13,032,332)	₱29,974,554	₱68,277,329
Operating assets	₱1,315,845,597	₱172,555,132	₱1,845,652,490	₱3,334,053,219
Operating liabilities	₱409,677,046	₱656,163	₱65,844,635	₱476,177,844
Other disclosure				
Capital expenditure	₱10,577,617	₱142,807	₱1,260,753	₱11,981,177

1. Revenue for each operating segment does not include interest and other financial and rental income amounting to ₱51.61 million and ₱2.11 million, respectively.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss and mark to market gain on derivatives amounting to ₱48.77 million. Other income not included in the profit for operating segment amounted to ₱25.02 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱1.37 billion, receivables and other current assets totaling ₱16.77 million and other noncurrent assets amounting to ₱453.59 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱69.55 million and other current liabilities of ₱46.07 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱3.70 million.

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

	2007			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Revenue	₱1,418,164,223	₱354,881	₱41,510,396	₱1,460,029,500
Results				
Depreciation & amortization	41,347,454	385,015	9,803,795	51,536,264
Interest & other financial charges	14,376,966	–	–	14,376,966
Segment profit	₱175,603,653	(₱17,999,335)	(₱52,182,615)	₱105,421,703
Operating assets	₱1,405,764,024	₱148,726,710	₱1,777,064,262	₱3,331,554,996
Operating liabilities	₱368,280,615	₱70,248	₱101,321,684	₱469,672,547
Other disclosure				
Capital expenditure	₱56,447,097	₱2,356,176	₱10,175,947	₱68,979,220

1. Revenue for each operating segment does not include interest and other financial income amounting to ₱39.41 million and rental income amounting to ₱2.10 million.

2. Profit for operating segment does not include general and administrative expenses, foreign exchange loss and mark to market gain on derivatives amounting to ₱107.12 million. Other income not included in the profit for operating segment amounted to ₱13.43 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱1.25 billion, receivables and other current assets totaling ₱46.27 million and other noncurrent assets amounting to ₱484.78 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱96.47 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱4.85 million.

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

EXHIBIT B

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Supplementary Schedules to the Consolidated Financial Statements

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Ernst & Young

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

**INDEPENDENT AUDITORS' REPORT
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 as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 included in this Form 17-A and have issued our report thereon dated February 22, 2010. 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 the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008 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 respect, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez
Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-A
Tax Identification No. 102-085-895
PTR No. 2087543, January 4, 2010, Makati City

February 22, 2010

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Schedule A. Marketable Securities - (Current Marketable Equity Securities and Short-term Cash Investments)
For the Year Ended December 31, 2009

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 Date	Income Received and Accrued
Investment in Fixed Treasury Notes (FXTNs)				
First Metro Investment Corporation	144,030,386	P155,649,902	P155,649,902	P18,138,587
International Exchange Bank	30,000,000	30,615,994	30,615,994	3,097,917
Banco De Oro	4,000,000	3,943,800	3,943,800	344,722
Investment in Bonds in US $				
ING Bank	1,850,000	93,684,360	93,684,360	6,539,618
Investment in Unit Investment Trust Fund and Money Market Fund (UITF & MMF)				
Banco De Oro	224,785,788	227,640,135	227,640,135	-
ING Bank	92,408,329	94,494,078	94,494,078	-
Metrobank	79,452,375	80,584,808	80,584,808	-
RCBC	33,875,000	34,107,458	34,107,458	-
(MMF, Bond Fund & Phil. Liq. Fund in US$)				
Banco De Oro	1,415,190	66,358,473	66,358,473	-
Metrobank	300,000	14,019,760	14,019,760	-
RCBC	200,000	9,318,261	9,318,261	-
		P810,417,029	P810,417,029	P28,120,844

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Schedule C. Non-current Marketable Equity Securities, Other Long-term Investments in stocks, and Other Investments
For the Year Ended December 31, 2009

Name of Issuing Entity and Description of Investment	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE		Dividends Received/ Accrued from Investments Not Accounted for by the Equity Method
	Number of Shares or Principal Amount of Investments	Amount in Pesos	Equity in Earnings (Losses) of Investees for the Period	Others	Distribution of Earnings by Investees	Others	Number of Shares or Principal Amount of Bonds and Notes	Amount in Pesos	
At Equity:									
Bacnotan Industrial Park Corporation	1,800,000	P168,460,744	P33,899	P-	P-	P168,494,643	-	P-	P-
Asia Coal Corporation	14,091	641,529	(21,773)	-	-	-	14,091	619,756	-
Union Aggregates Corporation	156,250	1,559,251	-	-	-	-	156,250	1,559,251	-
		170,661,524	12,126	-	-	168,494,643		2,179,007	-
Accumulated impairment		(1,559,251)	-	-	-	-		(1,559,251)	-
		P169,102,273	P12,126	P-	P-	P168,494,643		P619,756	P-

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule C. Non-current Marketable Equity Securities, Other Long-term Investments in stocks, and Other Investments
For the Year Ended December 31, 2009

Name of Issuing Entity and Description of Investment	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE		Dividends Received/ Accrued from Investments Not Accounted for by the Equity Method
	Number of Shares or Principal Amount of Bonds and Notes	Amount in Pesos	Acquisitions	Others	Disposals	Others	Number of Shares or Principal Amount of Bonds and Notes	Amount in Pesos	
Available-for-sale financial assets									
Bacnotan Consolidated Industries, Inc.	8,035,812	P80,358,122	P70,721	P-	P-	P795,103	8,043,812	P79,633,740	P3,188,822
Atlas Holdings Corporation	220,000	50,169,765	-	-	-	-	220,000	50,169,765	21,219,000
Phinma Property Holdings Corporation	204,132,277	32,984,061	-	-	-	-	204,132,277	32,984,061	2,041,323
Asian Plaza, Inc.	37,684	18,433,158	-	-	-	-	37,684	18,433,158	602,944
Manila Golf & Country Club	1 share (100 units)	21,000,000	-	-	-	490,000	1 share (100 units)	20,510,000	-
Tagaytay Midlands Golf Club, Inc.	2	1,200,000	-	-	-	100,000	2	1,100,000	-
Alabang Country Club, Inc.	1	1,000,000	-	100,000	-	-	1	1,100,000	-
Manila Southwoods Golf & Country Club	1	650,000	-	-	-	160,000	1	490,000	-
Evercrest Golf Club Resorts, Inc.	1	60,000	-	-	-	10,000	1	50,000	-
Puerto Azul Golf & Country Club, Inc.	1	60,000	-	-	-	20,000	1	40,000	-
Capitol Hills Golf & Country Club, Inc.	1	30,000	-	10,000	-	-	1	40,000	-
Subic Bay Golf & Country Clubs	1	-	-	-	-	-	1	-	-
Dharmala	367,200	1,033,142	-	-	-	-	367,200	1,033,142	-
Vulcan	73,487	117,014	-	-	-	-	73,487	117,014	-
Aboitiz Equity Ventures, Inc.	-	-	-	-	-	-	-	-	-
Ayala Land	97	621	-	470	-	-	97	1,091	-
Banco de Oro	1,000	24,000	-	14,365	18,865	-	500	19,500	140
First Philippine Holdings Corporation	1,400	21,348	-	48,276	36,025	-	700	33,599	-
Globe Telecom, Inc.	200	152,000	-	37,073	42,673	-	160	146,400	19,576
Manila Electric Company	-	-	-	-	-	-	-	-	-
Philex Mining Corp.	2,000	9,800	-	-	8,991	809	-	-	-
Piltel	-	-	-	-	-	-	-	-	-
SM Prime Holdings	-	-	-	-	-	-	-	-	-
BPI	2,100	80,850	-	28,304	37,154	-	1,500	72,000	2,088
RCBC	4,000	39,200	-	29,800	-	-	4,000	69,000	1,224
Universal Robina Corporation	-	-	-	-	-	-	-	-	-
Aboitiz Power Corporation	15,000	57,000	-	58,666	12,466	-	12,000	103,200	2,400
Vista Land and Lifescape	5,000	5,100	-	4,300	-	-	5,000	9,400	-
Metropolitan Bank and Trust Company	2,200	50,600	-	35,884	36,983	-	1,100	49,501	2,200
Atlas Consolidated Mining	4,000	11,000	-	25,400	-	-	4,000	36,400	-
Energy Development Corp.	12,000	22,800	-	4,566	27,366	-	-	-	750
A. Soriano	179	394	-	-	-	25	179	369	90
Security Bank		-	16,300	11,132	-	-	508	27,432	808
Philippine Long Distance Telephone Company	700	9,000	-	-	-	-	700	9,000	200
Total		207,578,975	87,021	408,236	220,523	1,575,937		206,277,772	27,081,565
Allowance for decline in value		(1,150,156)	-	-	-	-		(1,150,156)	-
		206,428,819	87,021	408,236	220,523	1,575,937		205,127,616	27,081,565
Total marketable equity securities, other long-term investments and other investments		P375,531,092	P99,148	P408,236	P220,523	P170,070,581		P205,747,372	P27,081,565

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule E. Intangible Assets
For the Year Ended December 31, 2009

Description	Beginning Balance	Additions At Cost	Deductions		Other Changes- Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
Oil exploration and development costs:						
Service Contract (SC) No. 6	P113,297,532	P126,753	(P72,544,996)	-	(P22,455,004)	P18,424,285
SC 41	-	-	-	-	-	-
SC 42	-	-	-	-	-	-
Geophysical Survey and Exploration Contract (GSEC) No. 93	32,545,030	-	-	-	-	32,545,030
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	5,713,210	-	-	-	-	5,713,210
SC 69	5,832	-	-	-	15,173,827	15,179,659
Others	540,981	-	-	-	(540,981)	-
Mineral exploration costs	15,138,429	2,307,310	(5,972,258)	-	-	11,473,481
	220,863,192	2,434,063	(78,517,254)	-	(61,444,336)	83,335,665
Allowance for probable losses	(76,618,163)	(11,473,481)	-	-	76,618,163	(11,473,481)
	144,245,029	(9,039,418)	(78,517,254)	-	15,173,827	71,862,184
Customer contracts and relationships	59,082,665	-	-	-	-	59,082,665
Amortization of intangible assets	(59,082,665)	-	-	-	-	(59,082,665)
	P144,245,029	(P9,039,418)	(P78,517,254)	-	P15,173,827	P71,862,184

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Schedule I. Capital Stock

For the Year Ended December 31, 2009

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	1,662,603,069	94,982,023	886,275,137	15,538,153	760,789,779

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule J. Retained Earnings
For the Year Ended December 31, 2009

Unappropriated Retained Earnings, *as adjusted to available for dividend distribution,* beginning		755,292,296
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Eatrnings	306,026,549	
Add (deduct):		
Unrealized fair value gains on investments held for trading and derivative assets	(14,073,485)	
Realized foreign exchange gain deducted from amount available for dividend declaration	9,275,990	
Movement of recognized deferred income tax assets	8,291,579	
Net income actually earned/realized during the period		309,520,633
Less: Dividend declared during the year		(66,491,946)
Retained Earnings available for dividend declaration, end		998,320,983

EXHIBIT C

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

Parent Company Financial Statements
December 31, 2009 and 2008
And Years Ended December 31, 2009 and 2008

Trans-Asia Oil and Energy Development Corporation

Financial Statements
December 31, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

3	9	2	7	4

SEC Registration Number

TRANS-ASIA OIL AND ENERGY
DEVELOPMENT CORPORATION

(Company's Full Name)

11th Floor, PHINMA Plaza
39 Plaza Drive, Rockwell Center
Makati City

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

Yolanda Añonuevo
(Contact Person)

870-0100
(Company Telephone Number)

12 31
Month *Day*
(Fiscal Year)

AAPFS
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Domestic	Foreign
–	–

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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SGV & Co
Ernst & Young

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

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 financial statements of Trans-Asia Oil and Energy Development Corporation which comprise the balance sheets as at December 31, 2009 and 2008, the statements of income, statements of comprehensive income, statements of changes in equity and 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Trans-Asia Oil and Energy Development Corporation as of December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez

Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-A
Tax Identification No. 102-085-895
PTR No. 2087543, January 4, 2010, Makati City

February 22, 2010

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 26 and 27)	**₱940,376,956**	₱826,918,568
Short-term investments (Notes 26 and 27)	**5,000,000**	17,511,120
Investments held for trading (Notes 7, 26 and 27)	**792,052,837**	530,860,471
Receivables - net (Notes 8, 10, 24, 25, 26 and 27)	**215,057,138**	197,763,933
Fuel and spare parts - at cost	**10,411,714**	8,426,502
Other current assets - net (Notes 26 and 27)	**15,751,269**	8,294,839
Total Current Assets	**1,978,649,914**	1,589,775,433
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**148,637,682**	163,859,787
Investments in subsidiaries, associates and interest in a joint venture - net (Note 10)	**411,793,354**	621,663,917
Available-for-sale investments (Notes 11, 26 and 27)	**175,457,850**	176,759,054
Investment properties - net (Note 12)	**92,240,477**	3,316,910
Deferred exploration costs - net (Note 13)	**71,862,184**	134,767,493
Deferred income tax assets - net (Note 22)	**–**	10,400,613
Other noncurrent assets (Note 10)	**127,906,677**	331,680
Total Noncurrent Assets	**1,027,898,224**	1,111,099,454
TOTAL ASSETS	**₱3,006,548,138**	₱2,700,874,887
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14, 24, 26 and 27)	**₱158,705,572**	₱131,144,139
Due to stockholders (Notes 24, 26 and 27)	**7,007,740**	6,272,367
Income and withholding taxes payable	**39,719,846**	581,793
Total Current Liabilities	**205,433,158**	137,998,299
Noncurrent Liabilities		
Pension and other post-employment benefits (Note 23)	**4,672,598**	6,810,877
Deferred income tax liabilities - net (Note 22)	**2,413,816**	–
Deposits payable	**3,219,257**	3,219,257
Other noncurrent liabilities	**4,626,504**	4,255,664
Total Noncurrent Liabilities	**14,932,175**	14,285,798
Total Liabilities	**220,365,333**	152,284,097
Equity		
Capital stock (Notes 15 and 16)	**1,662,603,069**	1,662,298,650
Additional paid-in capital (Note 15)	**54,693,308**	54,693,308
Unrealized fair value gains on available-for-sale investments (Note 11)	**52,223,943**	54,470,950
Retained earnings (Note 15)	**1,016,662,485**	777,127,882
Total Equity	**2,786,182,805**	2,548,590,790
TOTAL LIABILITIES AND EQUITY	**₱3,006,548,138**	₱2,700,874,887

See accompanying Notes to Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31	
	2009	2008
REVENUE		
Trading revenue - net (Notes 1, 17 and 24)	**₱513,203,519**	₱216,547,162
Generation revenue (Note 1)	**47,219,548**	71,133,127
Interest and other financial income (Notes 7 and 27)	**64,476,066**	49,491,803
Dividend income	**27,081,565**	2,120,941
Other income (Notes 12 and 24)	**6,553,034**	3,268,316
	658,533,732	342,561,349
COSTS AND EXPENSES		
Cost of power generation (Notes 18, 20 and 21)	**37,286,910**	63,062,826
General and administrative expenses (Notes 19, 20, 21, 23 and 24)	**189,537,353**	113,897,826
OTHER EXPENSES (INCOME)		
Deferred exploration costs written-off (Note 13)	**78,517,253**	–
Loss (gain) on derivatives - net (Note 27)	**(37,638,350)**	21,231,494
Foreign exchange loss (gain) - net (Note 26)	**12,763,220**	(69,761,588)
Provisions for:		
Impairment loss on investments in a subsidiary and associate (Note 10)	**29,292,855**	46,231
Unrecoverable input tax	**772,415**	6,162,861
Interest and other financial charges (Note 27)	**607,675**	563,127
Loss (gain) on sale of:		
Investment in associates	**(12,685,135)**	–
Available-for-sale investments	**(20,462)**	28,772
Property and equipment	–	93,016
Others	**(7,434,473)**	(21,934,392)
	290,999,261	113,390,173
INCOME BEFORE INCOME TAX	**367,534,471**	229,171,176
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)		
Current	**59,108,850**	5,577,488
Deferred	**2,399,072**	(10,400,613)
	61,507,922	(4,823,125)
NET INCOME	**₱306,026,549**	₱233,994,301
Weighted Average Number of Shares Outstanding	**1,662,497,148**	1,660,546,396
Basic/Diluted Earnings Per Share	**₱0.18**	₱0.14

See accompanying Notes to Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2009	2008
NET INCOME FOR THE YEAR	**₱306,026,549**	₱233,994,301
OTHER COMPREHENSIVE LOSS		
Unrealized fair value losses on available-for-sale investments - net of deferred income tax	**(2,247,007)**	(23,395,946)
TOTAL COMPREHENSIVE INCOME	**₱303,779,542**	₱210,598,355

See accompanying Notes to Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Capital Stock (Notes 15 and 16)	Additional Paid-in Capital (Note 15)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 11)	Retained Earnings (Note 15)	Total
BALANCE AS AT DECEMBER 31, 2007	**₱1,657,585,092**	**₱54,693,308**	**₱77,866,896**	**₱609,441,742**	**₱2,399,587,038**
Net income	–	–	–	233,994,301	233,994,301
Other comprehensive loss	–	–	(23,395,946)	–	(23,395,946)
Total comprehensive income for the year	–	–	(23,395,946)	233,994,301	210,598,355
Cash dividends - ₱0.04 per share	–	–	–	(66,308,161)	(66,308,161)
Issuance of capital stock	4,713,558	–	–	–	4,713,558
	4,713,558	–	–	(66,308,161)	(61,594,603)
BALANCE AS AT DECEMBER 31, 2008	**1,662,298,650**	**54,693,308**	**54,470,950**	**777,127,882**	**2,548,590,790**
Net income	–	–	–	306,026,549	306,026,549
Other comprehensive loss	–	–	(2,247,007)	–	(2,247,007)
Total comprehensive income for the year	–	–	**(2,247,007)**	**306,026,549**	**303,779,542**
Cash dividends - ₱0.04 per share	–	–	–	(66,491,946)	(66,491,946)
Issuance of capital stock	304,419	–	–	–	304,419
	304,419	–	–	(66,491,946)	(66,187,527)
BALANCE AS AT DECEMBER 31, 2009	**₱1,662,603,069**	**₱54,693,308**	**₱52,223,943**	**₱1,016,662,485**	**₱2,786,182,805**

See accompanying Notes to Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱367,534,471**	₱229,171,176
Adjustments for:		
Deferred exploration costs written-off	**78,517,253**	–
Interest and other financial income (Note 27)	**(64,476,066)**	(49,491,803)
Loss (gain) on derivatives - net	**(37,638,350)**	21,231,494
Dividend income	**(27,081,565)**	(2,120,941)
Depreciation and amortization (Note 21)	**24,283,479**	18,740,261
Unrealized foreign exchange loss (gain) - net	**12,743,089**	(55,047,857)
Interest and other financial charges (Note 27)	**607,675**	563,127
Provisions for:		
Impairment loss on investment in a subsidiary and associate (Note 10)	**29,292,855**	46,231
Unrecoverable input tax	**772,415**	6,162,861
Loss (gain) on sale of:		
Investment in associates	**(12,685,135)**	–
Available-for-sale investments	**(20,462)**	28,772
Property and equipment	–	93,016
Operating income before working capital changes	**371,849,659**	169,376,337
Increase in:		
Receivables	**(19,077,017)**	(17,280,753)
Fuel and spare parts	**(1,985,212)**	(1,619,524)
Other current assets	**(3,630,515)**	(12,396,066)
Increase in accounts payable and other current liabilities	**49,086,246**	34,616,153
Net cash generated from operations	**396,243,161**	172,696,147
Interest received	**61,149,550**	51,276,865
Interest paid	**(236,835)**	(1,755,313)
Income taxes paid, including creditable withholding taxes	**(20,987,571)**	(191,271)
Net cash flows provided by operating activities	**436,168,305**	222,026,428
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	**(1,194,659,125)**	(1,123,289,913)
Investment properties (Note 12)	**(94,362,125)**	–
Deferred exploration costs (Note 13)	**(15,611,944)**	(731,671)
Property and equipment (Note 9)	**(3,622,815)**	(1,702,193)
Available-for-sale investments	**(87,021)**	(6,836,230)
Investment in subsidiaries	–	(25,000,000)
Short-term investments	–	(8,871,216)
Cash dividends received	**26,571,234**	2,120,941

(Forward)

	Years Ended December 31	
	2009	2008
Proceeds from:		
Sale/redemption of investments held for trading	**₱932,486,822**	₱715,466,459
Sale of investment in associates	**193,285,135**	–
Settlement of currency forward contracts	**22,742,850**	22,199,906
Termination of short-term investments	**12,511,120**	–
Sale of available-for-sale investments	**240,986**	1,233,190
Deferred exploration costs	–	4,100,000
Sale of property and equipment	–	424,108
Decrease (increase) in:		
Due from related parties	–	(74,284,739)
Other noncurrent assets	**(127,575,000)**	999
Cash flows used in investing activities	**(248,079,883)**	(495,170,359)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of cash dividends	**(65,756,573)**	(65,376,071)
Decrease in other noncurrent liabilities	**(2,138,279)**	(4,317)
Cash flows used in financing activities	**(67,894,852)**	(65,380,388)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(6,735,182)**	46,014,300
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**113,458,388**	(292,510,019)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**826,918,568**	1,119,428,587
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱940,376,956**	₱826,918,568

See accompanying Notes to Financial Statements.

1. Corporate Information and Status of Operations

Trans-Asia Oil and Energy Development Corporation (TA Oil or "the 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) were incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The direct and ultimate parent company of TA Oil is Philippine Investment-Management Inc., (PHINMA), also incorporated in the Philippines. TA Oil is managed by PHINMA under an existing management agreement.

The Company is involved in power generation and trading, oil and mineral exploration, exploitation and production. The Company has an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the province of Guimaras using its 3.4 megawatt (MW) bunker C-fired diesel generator power station in the island. The Energy Regulatory Commission (ERC) granted the Company a certificate of registration as a Wholesale Aggregator in November 2006 renewable every five (5) years, and a Retail Electricity Supplier's (RES) license in December 2006. The license authorizes the Company to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). As a RES, the Company is allowed to supply electricity to the contestable market, pursuant to EPIRA. The other activities of the Company are investments in various operating companies and financial instruments.

The Company also has a 50% interest in Trans-Asia Power Generation Corporation (TA Power), a company engaged in power generation. In October 2006, the Philippine Electricity Market Corporation (PEMC) approved TA Power's application for registration as trading participant for both generation and customer categories in the Wholesale Electricity Spot Market (WESM). Both the Company and TA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM.

CIPP was registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna. In April 2009, the terms of the sale of the distribution assets to Manila Electric Company (MERALCO) were finalized resulting in the cessation of CIPP's operations starting April 2009. Also, the separation of substantially all of its employees effective January 2010 was announced. On February 22, 2010, the Board of Directors of the Company approved the proposed merger of the Company and CIPP subject to the approval by the stockholders and the SEC.

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

Renewable and Karang Besar have not yet started commercial operations.

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

The financial statements of the Company were authorized for issuance by the Board of Directors (BOD) on February 22, 2010.

2. Basis of Preparation and Statement of Compliance

The accompanying separate financial statements of the Company, which are presented for submission to the SEC and Bureau of Internal Revenue, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) using the historical cost convention, except for financial assets at fair value through profit or loss (FVPL), derivative assets and liabilities, and available-for-sale (AFS) financial assets which have been measured at fair value.

The accompanying financial statements are the Company's separate financial statements prepared in compliance with Philippine Accounting Standard (PAS) 27, *Consolidated and Separate Financial Statements.*

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in compliance with PFRS. The consolidated financial statements are filed with and may be obtained at the SEC.

3. Changes in Accounting Policies and Disclosures

Current Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new, amended and improved PFRS, PAS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective beginning January 1, 2009.

PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present two linked statements.

PAS 23, *Borrowing Costs* (Revised)
The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

In accordance with the transitional requirements of this standard, the Company will adopt this as a prospective change in accounting policy. Accordingly, borrowing costs will be capitalized on qualifying assets with commencement date after January 1, 2009. The Company has no transactions within the scope of this standard, thus, the adoption of this standard did not have an impact on the financial statements.

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and the Company will provide explanations and reconciliations of the differences. PFRS 8 disclosures are shown in Note 28 including the related comparative information.

PFRS 2, Amendment - *Vesting Conditions and Cancellations*
The amendment to PFRS 2, *Share-based Payments*, clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. It did not have an impact on the financial position or performance of the Company.

Amendments to PFRS 7, *Financial Instruments: Disclosures*
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 27. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 26.

Improvements of PFRS adopted by the Company starting January 1, 2009
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the financial statements of the Company.

- PAS 18, *Revenue*
  The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

  The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as agent in certain arrangements. The revenue recognition policy has been updated accordingly.

- PAS 1, *Presentation of Financial Statements*
  - Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- PAS 16, *Property, Plant and Equipment*
  - The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36.
  - Items of property, plant and equipment held for rental, that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

- Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
- Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
- Deletion of the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

- PAS 23, *Borrowing Costs*
  - The improvement pertains to revision of the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e. components of the interest expense calculated using the effective interest method.

- PAS 28, *Investment in Associates*
  - If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
  - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 31, *Interest in Joint Ventures*
  - If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  - When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  - Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
  - References to "there is rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method" is deleted, thereby effectively allowing the use of the unit of production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
  - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.
  - Removal of the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

- Requirement to use the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
  - The improvement pertains to revision of the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

Amendments to Standards and Interpretations that have been issued but are not yet effective
The following standards, amendments to standards and interpretation have been issued but will become effective subsequent to financial year ended December 31, 2009.

PFRS 3 - *Business Combinations* (Revised) and PAS 27 - *Consolidated and Separate Financial Statements* (Amended)
The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Philippine Interpretation IFRIC 17 - *Distributions of Noncash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for noncash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company does not expect the Interpretation to have an impact on the financial statements as the Company has not made non-cash distributions to shareholders in the past.

PAS 39 Amendment - *Eligible Hedged Items*
The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into share-based payment transactions.

Improvements to PFRS to be adopted by the Company starting January 1, 2010
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wordings. The amendments are effective for annual periods beginning on or after January 1, 2010 except as otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*
  - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
  - Clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segment Information*
  - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
  - Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*
  - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and, (c) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
  - Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC-16, *Hedge of a Net Investment in a Foreign Operation*
  - States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Short-term Investments

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

Financial Assets and Financial Liabilities

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

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

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

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

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

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" gain or loss) in the 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 statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" gain or loss amount.

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

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

Financial Assets and Financial Liabilities at FVPL

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

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

   Financial assets and financial liabilities designated at FVPL are recorded in the balance sheet at fair value. Changes in fair value on financial assets and financial liabilities designated at FVPL are recorded in the 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 to receive the payment has been established.

   As of December 31, 2009 and 2008, the Company has no financial asset or financial liability designated on initial recognition as at FVPL.

b. Financial assets or financial liabilities held for trading
These financial instruments are recorded in the balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the statement of income as gain on investment held for trading under the "Interest and other financial income" account. 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.

As of December 31, 2009 and 2008, the Company's investments in bonds and fixed treasury notes (FXTNs) and unit investment trust funds (UITFs) are classified as financial assets held for trading (see Note 7).

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

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

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

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

As of December 31, 2009 and 2008, the Company's derivative assets and derivative liability are classified as financial assets and financial liability at FVPL (see Note 26).

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

As of December 31, 2009 and 2008, the Company's cash and cash equivalents, short-term investments and receivables are classified as loans and receivables (see Notes 6, 8 and 27).

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

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

As of December 31, 2009 and 2008, the Company did not classify any financial asset under HTM investments.

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

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

As of December 31, 2009 and 2008, the Company's investments in listed and unlisted equity securities and golf club shares are classified as AFS investments (see Notes 11 and 27).

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

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

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

As of December 31, 2009 and 2008, the Company's accounts payable and other current liabilities, and due to stockholders are classified as other financial liabilities (see Notes 14 and 27).

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

Assets carried at amortized cost
If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

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

Financial liabilities

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

Offsetting Financial Instruments

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

Fuel and Spare Parts

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

Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties (where applicable), borrowing costs incurred during the construction period and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are charged to income in the year the costs are incurred. In situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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

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

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

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

The useful lives and depletion, depreciation and amortization methods are reviewed periodically to ensure that the periods and methods of depletion, depreciation and amortization are consistent with the expected pattern of economic benefits from the 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 statement of income in the year the asset is derecognized.

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

Investments in 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	
	2009	2008
Subsidiaries:		
Renewable	**100.00**	100.00
Karang Besar	**100.00**	100.00
TA Gold	**100.00**	100.00
CIPP	**100.00**	100.00
Joint Venture - TA Power		
Associates:		
Union Aggregates Corporation (UAC) [(a)]	**31.25**	31.25
Asia Coal Corporation (Asia Coal) [(b)]	**28.18**	28.18
Bacnotan Industrial Park Corporation (BIPC) [(c)]	–	30.00

(a) Ceased commercial operations
(b) Shortened corporate life to October 31, 2009
(c) Sold on March 10, 2009

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.

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

Depreciation is calculated on a straight-line basis over the estimated useful life of 20 years.
Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the 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) or geophysical survey and exploration contract (GSEC) area. Under this method, all exploration costs relating to each SC or 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.

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 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.

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

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

Capital Stock
Capital stock is the portion of the paid in capital representing the total par value of the shares issued.

Retained Earnings
Retained earnings include all current and prior period results of operations as reported in the statement of income, dividend distribution and other capital adjustments.

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

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

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

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

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

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

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

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

Costs and Expenses
Costs and expenses are recognized when incurred.

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

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

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

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

Stock Option

The Company had a stock option plan offered to qualified employees, officers and directors of the Company. As allowed under PFRS 1, "First Time Adoption of Philippine Financial Reporting Standards," the Company availed of the exemption from applying PFRS 2, "Share-based Payment," to stock options granted after November 7, 2002 but 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.

Leases

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

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

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

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

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

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

Borrowing Costs

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

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

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

Deferred income tax
Deferred income 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 income tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

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

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

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

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

Contingencies
Contingent liabilities are not recognized in the 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 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 financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Determination of whether an arrangement contains a lease and proper classification of the lease
Under TA Oil's ESA with Guimelco and TA Power's ESA with Holcim Philippines, Inc. (Holcim), TA Oil sells all of its output to Guimelco and TA Power sells all or substantially all of its output to Holcim. The Company also has various lease agreements for the lease of its investment properties. The Company has evaluated the arrangements and the terms of the agreements and determined that the risks and rewards of ownership of the underlying properties are retained by the Company. Accordingly, the related assets have been recognized in the books and the fees billed to Guimelco, Holcim and the other leases are recorded as operating revenues.

Classification of financial instruments
The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the balance sheet. The classification of the Company's financial assets and financial liabilities are presented in Note 27.

Estimates
Fair value of financial assets and financial liabilities
The fair value for financial instruments traded in an active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment and estimation is required in establishing fair values. Any change in value of these financial assets and financial liabilities (including derivatives) would affect the statement of comprehensive income and statement of changes in equity. The fair values of the Company's financial assets amounted to ₱2.26 billion and ₱1.78 billion as of December 31, 2009 and 2008, respectively, while fair values of Company's financial liabilities amounted to ₱140.63 billion and ₱123.04 billion as of December 31, 2009 and 2008, respectively (see Note 27).

Estimated allowance for doubtful accounts
The Company maintains allowance for doubtful accounts based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the customer, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, past-due status and terms) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying value of receivables (including noncurrent portion classified under noncurrent assets in the balance sheet of ₱127.57 million as of December 31, 2009) amounted to ₱342.63 million as of December 31, 2009 and ₱197.76 million as of December 31, 2008 (see Notes 8 and 10).

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

As of December 31, 2009 and 2008, the Company recognized deferred income tax assets amounting to ₱3.68 million and ₱11.97 million, respectively. The Company's deductible temporary differences and unused MCIT for which no deferred income tax assets were recognized in the balance sheets as of December 31, 2009 and 2008 amounted to ₱50.96 million and ₱140.03 million, respectively (see Note 22).

Estimated useful lives of property, plant and equipment and investment properties
The Company estimates the useful lives of property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment properties are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱148.64 million and ₱163.86 million, respectively (see Note 9). The carrying value of investment properties as of December 31, 2009 and 2008 amounted to ₱92.24 million and ₱3.32 million, respectively (see Note 12).

Impairment of deferred exploration costs
The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount. Write-off of deferred exploration costs against allowance for impairment losses amounted to ₱76.62 million in 2009 and ₱85.5 million in 2008. In addition, deferred exploration costs amounting to ₱78.52 million were directly written-off and charged in the statement of income in 2009. Among the factors considered by management in the write off of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic.

As of December 31, 2009 and 2008, the carrying value of deferred exploration costs amounted to ₱71.86 million and ₱134.77 million, respectively (see Note 13).

Impairment of property, plant and equipment and investment properties
The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value-in-use of the cash-generating units. The carrying value of property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱148.64 million and ₱163.86 million, respectively (see Note 9). The carrying value of investment properties amounted to ₱92.24 million as of December 31, 2009 and ₱3.32 million as of December 31, 2008 (see Note 12).

Impairment of investments in subsidiaries, associates and interest in a joint venture
The carrying value of these investments is reviewed for impairment whenever events or changes in circumstances indicate that 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.

Impairment loss on investments in a subsidiary and an associate recognized in 2009 and 2008 amounted to ₱29.29 million and ₱0.05 million, respectively. The carrying value of investments in subsidiaries, associates, and interest in a joint venture as of December 31, 2009 and 2008 amounted to ₱411.79 million and ₱621.66 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% or more of the original cost of investment, and "prolonged", greater than 6 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. No impairment loss was deemed necessary in 2009 and 2008. The carrying value of AFS investments as of December 31, 2009 and 2008 amounted to ₱175.46 million and ₱176.76 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 described in Note 23 to the 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. The carrying value of pension and other post-employment benefits as of December 31, 2009 and 2008 is ₱4.67 million and ₱6.81 million, respectively (see Note 23).

6. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	**₱88,638,814**	₱42,641,314
Short-term deposits	**851,738,142**	784,277,254
	₱940,376,956	₱826,918,568

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

7. Investments Held for Trading

	2009	2008
Investments in:		
Bonds and FXTNs	**₱282,396,862**	₱260,950,688
UITFs and mutual funds	**509,655,975**	269,909,783
	₱792,052,837	₱530,860,471

The Company's unrealized gain (loss) from changes in fair value of investments held for trading (included in net gains on investments held for trading under "Interest and other financial income" account in the statements of income) amounted to ₱10.57 million and ₱0.59 million as of December 31, 2009 and 2008, respectively (see Note 27).

8. Receivables

	2009	2008
Trade (Note 25)	**₱55,863,120**	₱46,515,363
Due from related companies (Notes 24 and 25)	**123,891,193**	165,996,964
Others (Note 10)	**38,573,191**	12,054,338
	218,327,504	224,566,665
Less allowance for doubtful accounts	**3,270,366**	26,802,732
	₱215,057,138	₱197,763,933

Trade receivables include receivables from Guimelco, in accordance with the terms of the ESA between the Company and Guimelco (see Note 25). Trade receivables are noninterest-bearing and are generally on a 30-day credit term.

Other receivables include interest receivable of ₱6.43 million and ₱8.19 million as of December 31, 2009 and 2008, respectively.

The Company extended a loan to Guimelco with face value amounting to ₱0.53 million with interest of 12.7% per annum and a monthly amortization of ₱0.02 million beginning May 2005 up to February 2008. The monthly amortization will be offset against the monthly rental of ₱0.02 million under the lease contract between Guimelco and TA Oil. The loan receivable was fully collected in February 2008.

As of December 31, the aging analysis of receivables is as follows:

	2009						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	91–120 Days	Impaired
				(In Thousands)			
Trade	₱55,863	₱53,375	₱465	₱520	₱463	₱1,040	₱–
Due from related companies	123,891	123,891	–	–	–	–	–
Others	38,573	35,303	–	–	–	–	3,270
	₱218,327	₱212,569	₱465	₱520	₱463	₱1,040	₱3,270

	2008						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	91–120 Days	Impaired
				(In Thousands)			
Trade	₱46,515	₱42,135	₱4,380	₱–	₱–	₱–	₱–
Due from related companies	165,997	142,465	–	–	–	–	23,532
Others	12,055	8,784	–	–	–	–	3,270
	₱224,567	₱193,384	₱4,380	₱–	₱–	₱–	₱26,802

Movements in allowance for doubtful accounts in 2009 are as follows:

	Due from related parties	Others	Total
		(In Thousands)	
Balances at January 1, 2009	₱23,532	₱3,270	₱26,802
Write-off	(23,532)	–	(23,532)
Balances at December 31, 2009	₱–	₱3,270	₱3,270

There were no movements in allowance for doubtful accounts in 2008.

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, 2008	₱95,747,290	₱102,596,427	₱20,346,661	₱10,300,039	₱4,100,223	₱26,425,302	₱259,515,942
Additions	247,514	–	–	244,281	744,885	465,513	1,702,193
Disposals	–	–	–	(982,674)	–	–	(982,674)
At December 31, 2008	95,994,804	102,596,427	20,346,661	9,561,646	4,845,108	26,890,815	260,235,461
Additions	–	–	–	2,948,906	421,962	251,947	3,622,815
At December 31, 2009	95,994,804	102,596,427	20,346,661	12,510,552	5,267,070	27,142,762	263,858,276
Accumulated Depreciation, amortization, depletion and impairment							
At January 1, 2008	24,218,769	14,032,064	20,346,661	3,920,686	1,436,674	14,406,259	78,361,113
Depreciation (Note 21)	7,326,915	5,262,025	–	1,774,860	481,364	3,634,947	18,480,111
Disposals	–	–	–	(465,550)	–	–	(465,550)
At December 31, 2008	31,545,684	19,294,089	20,346,661	5,229,996	1,918,038	18,041,206	96,375,674
Depreciation (Note 21)	7,381,918	5,262,024	–	1,964,728	614,138	3,622,112	18,844,920
At December 31, 2009	38,927,602	24,556,113	20,346,661	7,194,724	2,532,176	21,663,318	115,220,594
Net Book Value							
At January 1, 2008	₱71,528,521	₱88,564,363	₱–	₱6,379,353	₱2,663,549	₱12,019,043	₱181,154,829
At December 31, 2008	64,449,120	83,302,338	–	4,331,650	2,927,070	8,849,609	163,859,787
At December 31, 2009	57,067,202	78,040,314	–	5,315,828	2,734,894	5,479,444	148,637,682

10. Investments in Subsidiaries, Associates and Interest in a Joint Venture

	2009	2008
Joint venture - TA Power	**₱225,000,000**	₱225,000,000
Subsidiaries:		
CIPP	**151,234,202**	151,234,202
TA Gold	**50,000,000**	50,000,000
Renewable (Note 1)	**14,000,000**	14,000,000
Karang Besar (Note 1)	**3,225,605**	3,203,313
	218,459,807	218,437,515
Associates:		
BIPC	–	180,600,000
Asia Coal	**14,515,140**	14,515,140
UAC	**12,219,773**	12,219,773
	26,734,913	207,334,913
	470,194,720	650,772,428
Less accumulated impairment losses	**58,401,366**	29,108,511
	₱411,793,354	₱621,663,917

TA Power

The Company's proportionate share in the assets and liabilities of TA Power as of December 31, 2009 and 2008 and income and expenses for the years then ended are as follows:

	2009	2008
Current assets	**₱199,402,913**	₱163,456,890
Noncurrent assets	**241,376,471**	305,390,672
Total Assets	**440,779,384**	468,847,562
Current liabilities	**(112,317,630)**	(177,907,084)
Noncurrent liabilities	**(8,023,055)**	(10,750,516)
Total Liabilities	**(120,340,685)**	(188,657,600)
Net assets	**₱320,438,699**	₱280,189,962

	2009	2008
Revenue	**₱579,144,177**	₱593,109,585
Cost of power generation and power purchased	**(530,282,115)**	(674,465,614)
General and administrative expenses	**(29,712,796)**	(28,503,547)
Other income - net	**11,852,345**	38,366,711
Income (loss) before income tax	**31,001,611**	(71,492,865)
Benefit from (provision for) income tax	**4,163,430**	(6,327,864)
Net income (loss)	**₱35,165,041**	(₱77,820,729)

CIPP
In April 2009, the terms of the sale of the distribution assets to Manila Electric Company (MERALCO) were finalized resulting in the cessation of CIPP's operations starting April 2009. Also, the separation of substantially all of its employees effective January 2010 was announced. On February 22, 2010, the BOD of the Company approved the proposed merger of the Company and CIPP subject to the approval by the stockholders and the SEC.

TA Gold
On October 13, 2008, TA Gold's BOD approved the call in of ₱25.00 million from TA Gold's outstanding subscription receivable amounting to ₱75.00 million. TA Oil paid ₱25.00 million for such subscription in November 2008.

On February 16, 2009, the BOD approved the suspension of exploration activities of TA Gold effective March 31, 2009. With the recent developments, impairment loss was recognized on the Company's investments amounting to ₱29.01 million since management believes that the Company's investment in TA Gold may no longer be recoverable.

Asia Coal
On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of the corporate life of Asia Coal to October 31, 2009. Asia Coal shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. As of February 22, 2010, Asia Coal is still in the process of filing with the SEC its application for dissolution.

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

	2009	2008
Current assets	**₱2,358,801**	₱2,444,909
Noncurrent asset	**14,700**	14,700
Total Assets	**2,373,501**	2,459,609
Current liability	**133,701**	178,350
Noncurrent liability	**–**	4,197
Total Liabilities	**133,701**	182,547
Net assets	**₱2,239,800**	₱2,277,062

The results of operations of Asia Coal for the period ended October 31 are as follows:

	2009	2008
Interest income	**₱194,393**	₱251,348
General and administrative expenses	**(152,475)**	(264,561)
Other income (expense)	**(83,377)**	(151,170)
Benefit from income tax	**4,197**	22,317
Net loss	**(₱37,262)**	(₱142,066)

Other than the approval of the directors and stockholders of Asia Coal of the shortening of its corporate life, there were no significant transactions or events that need to be adjusted in Asia Coal's financial statements.

BIPC

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On March 10, 2009, the Company signed a Share Purchase Agreement with Phoenix Petroleum Philippines, Inc. (Phoenix) whereby the Company sold to Phoenix all of the Company's 30% equity interest in BIPC for a consideration payable at approximately 18% down payment and the balance in monthly installments over a period of five years. Total gain on the sale of the investment in an associate recognized in the 2009 statement of income amounted to ₱12.69 million. As of December 31, 2009, the current portion of the receivable from Phoenix amounted to ₱26.32 million and is included as part of other receivables (see Note 8). The noncurrent portion of the receivable amounting to ₱127.57 million is included as part of "Other noncurrent assets" account in the 2009 balance sheet.

On January 15, 2010, TA Oil entered into a Contract for the Sale and Purchase of Industrial Lots (the Contract) with BIPC. Under the terms of the Contract, BIPC undertakes to sell the parcels of land registered under its name as well as the additional parcels of land that it will acquire from Phoenix Petroterminals and Industrial Park. Terms of payment include that upon downpayment, TA Oil shall be granted the sole and exclusive option to purchase the properties and shall exercise the option on or before April 1, 2010 (the option exercise date) by giving written notice to BIPC and paying a certain amount. In the event that TA Oil exercises the option on or before the option exercise date, the downpayment and the exercise price shall be credited to the purchase price of the properties for BIPC acquisition. In the event that TA Oil does not exercise the option, BIPC shall refund 50% of the downpayment to TA Oil without interest within 30 days from the lapse of the option exercise date. The total purchase price for the properties already owned by BIPC is ₱177.53 million while the total purchase price of the additional properties to be acquired by BIPC is ₱156.30 million.

The net assets of BIPC as of December 31, 2008 are shown below:

Current assets	₱102,030,347
Noncurrent assets	500,235,567
Total Assets	602,265,914
Current Liabilities	(20,339,208)
Noncurrent Liabilities	(20,390,893)
Total Liabilities	(40,730,101)
Net assets	₱561,535,813

The results of operations of BIPC for the year ended December 31, 2008 are shown below:

	2008
Revenue	₱99,933,093
Costs and expenses	(79,787,916)
Other income	4,875,183
Benefit from income tax	3,952,866
Net income	₱28,973,226

11. Available-for-Sale Investments

	2009	2008
Shares of stock:		
Listed	**₱80,210,631**	₱80,841,834
Unlisted	**71,917,219**	71,917,220
Quoted golf club shares	**23,330,000**	24,000,000
	₱175,457,850	₱176,759,054

AFS investments are stated at fair value as of December 31, 2009 and 2008, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Loss from changes in fair value recognized directly in statement of comprehensive income amounted to ₱2.24 million in 2009, net of deferred income tax of ₱1.08 million, and ₱23.40 million in 2008. No impairment loss was recognized in 2009 and 2008.

12. Investment Properties

	2009	2008
Cost		
Balance at beginning of the year	**₱4,893,663**	₱4,893,663
Additions	**94,362,125**	–
Balance at end of year	**99,255,788**	4,893,663
Less accumulated depreciation		
Balance at beginning of the year	**1,576,752**	1,316,603
Depreciation (Note 21)	**5,438,559**	260,150
Balance at end of year	**7,015,311**	1,576,753
	₱92,240,477	₱3,316,910

Investment properties are stated at cost less accumulated depreciation and any impairment loss. The fair value of the investment properties based on the latest valuation by an independent firm of appraisers amounted to ₱98.67 million and ₱5.8 million as of December 31, 2009 and 2008, respectively. The valuation undertaken considered the sales of similar or substitute properties and related market data and established estimated value by processes involving comparison.

Rental income in 2009 and 2008 amounted to ₱6.55 million and ₱3.27 million, respectively, classified as "Other income" in the statements of income, while related direct costs and expenses incurred in 2009 and 2008, which mainly consist of depreciation and taxes and licenses, amounted to ₱10.51 million and ₱3.00 million, respectively, included as part of "General and administrative expenses" (see Note 19).

13. Deferred Exploration Costs

	Oil Exploration Costs	Mineral Explorations Costs	Total Deferred Exploration Costs
Cost:			
At January 1, 2008	₱290,679,948	₱9,628,881	₱300,308,829
Additions	599,658	132,013	731,671
Recovery	–	(4,100,000)	(4,100,000)
Write-off	(85,554,844)	–	(85,554,844)

(Forward)

	Oil Exploration Costs	Mineral Explorations Costs	Total Deferred Exploration Costs
At December 31, 2008	205,724,762	5,660,894	211,385,656
Additions	15,300,580	311,364	15,611,944
Write-off	(149,163,158)	(5,972,258)	(155,135,416)
At December 31, 2009	71,862,184	–	71,862,184
Allowance for impairment loss:			
At January 1, 2008	162,173,007	–	162,173,007
Write-off	(85,554,844)	–	(85,554,844)
At December 31, 2008	76,618,163	–	76,618,163
Write-off	(76,618,163)	–	(76,618,163)
At December 31, 2009	–	–	–
Net book value:			
At January 1, 2008	₱128,506,941	₱9,628,881	₱138,135,822
At December 31, 2008	129,106,599	5,660,894	134,767,493
At December 31, 2009	71,862,184	–	71,862,184

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

	2009	2008
SC No. 51/GSEC No. 93 (East Visayas)	**₱32,545,030**	₱32,545,030
SC No. 6 (Northwest Palawan)	**18,424,285**	113,297,532
SC No. 69 (Camotes)	**15,179,659**	5,832
SC No. 55 (Offshore West Palawan)	**5,713,210**	5,713,209
GSEC No. 94 (Offshore West Palawan)	–	28,228,563
Offshore North Mindoro-West Batangas	–	17,290,300
GSEC No. 91 (Southwest Palawan)	–	8,103,315
Others	–	540,981
	₱71,862,184	₱205,724,762

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. 51

In June 2009, the DOE lifted the moratorium it imposed on exploration activities in the area following the renovation of the Cebu provincial governor's Cease and Desist Order to the DOE.

The DOE approved the extension of the current 3rd Sub-Phase of the Exploration Period until December 8, 2010.

The 3rd Sub-Phase of the Exploration Period entails a commitment to drill one exploratory well.

b. SC No. 6 Block A and Block B

The DOE granted a 15-year extension of the term of Service Contract No. 6 covering Block A and Block B.

In Block A, partners agreed to extend the term of the Farm-In Agreement with Vitol GPC Investments S.A. of Switzerland, which grants the latter the option to acquire 70% interest in the block, until 14 days after DOE approval of Galoc Phase 2 development or December 31, 2010, whichever comes first. Based on the technical evaluation that the prospects in certain areas are small and are likely to be unrecoverable, deferred exploration costs amounting to ₱95.00 million were written off.

c. SC No. 69

Partners completed reprocessing of some 2,800 kilometers of vintage 2D seismic data in fulfillment of work obligations under the 1st Sub-Phase of the Exploration Period (May 7, 2008 to May 6, 2009).

The consortium elected to enter the 2nd Sub-Phase of the Exploration Period (May 7, 2009 to November 6, 2010) and opted to implement a minimum 750 - km 2D seismic program. Preparations for the conduct of a 900 - km 2D seismic survey were underway as of end 2009.

d. SC No. 55

The DOE approved the consortium's request for substitution of a 2D/3D seismic program with minimum expenditures of US$3.00 million, for the one deepwater well with minimum expenditures of US$3.00 million committed under the current 3rd Sub-Phase of the Exploration Period (August 5, 2009 to August 4, 2010).

On January 1, 2010, the consortium completed a 600 sq. km. 3D seismic survey designed to upgrade petroleum leads to drillable prospects, in fulfillment of its work commitment.

e. MPSA 252-2007-V

In June 2009, the Company received notice of an Order of the Secretary of the Department of Environment and Natural Resources (DENR) excising portions of the MPSA area that are covered by alleged mineral patents of a third party.

The Company filed a Motion for Reconsideration of said Order.

In December 2009, the DENR denied the Company's Motion for Reconsideration. The Company filed a timely Appeal of the DENR's ruling with the Office of the President.

The contracts of Offshore West Palawan, Offshore North Mindoro-West Batangas and Southwest Palawan have expired previously and the Company has abandoned plans to re-apply over these areas in the future.

14. Accounts Payable and Other Current Liabilities

	2009	2008
Trade and nontrade accounts payable	**₱88,555,699**	₱71,150,802
Output tax	**28,122,698**	17,272,170
Accrued directors' and management fees, and annual incentives (Note 24)	**22,706,140**	21,059,487
Accrued expenses	**10,672,243**	575,754
Due to related parties (Note 24)	**8,467,669**	6,881,392
Deferred rent income	**181,123**	35,278
Derivative liability (Note 27)	**–**	10,807,500
Others	**–**	3,361,756
	₱158,705,572	₱131,144,139

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

15. Equity

	Number of Shares	
	2009	2008
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000
Issued:		
Balance at beginning of year	**1,662,298,650**	1,657,585,092
Issuance during the year (Note 16)	**304,419**	4,713,558
Balance at end of year	**1,662,603,069**	1,662,298,650

The issued and outstanding shares as of December 31, 2009 and 2008 are held by 3,386 and 3,393 equity holders, respectively.

On June 20, 2007, the SEC approved the stock rights offering of 552.53 million shares of the Company at the rate of one share for every two shares held as of record date of November 23, 2007, at a price of ₱1.10 per share. The offer period commenced on November 28, 2007 and ended on December 11, 2007. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to ₱599.03 million. The proceeds were used to fund petroleum and mineral explorations and for general corporate purposes. On November 16, 2009, the shareholders approved the reallocation of the proceeds from the stock rights offering to renewable energy projects due to uncertainty in mining projects brought about by the decline in prices of metals and minerals in the world market and due to the sale of CIPP's distribution system rendering the expansion of the power plant unnecessary.

The Company's retained earnings balance amounted to ₱1.02 billion and ₱0.78 billion as of December 31, 2009 and 2008, respectively, while paid-up capital is ₱1.72 billion as of December 31, 2009 and 2008.

Dividends declared and paid in 2009 and 2008 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 25, 2008	Cash	0.04 per share	66,308,161	April 11, 2008
March 16, 2009	Cash	0.04 per share	66,491,946	March 30, 2009

16. 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 12.52 million shares out of the original 25.00 million shares, which expired in April 2003 and May 2004. Such stock options were allocated among directors and employees of the Company and the exercise of such options was subject to the following terms and conditions:

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

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

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

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

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

Coverage	Directors, permanent officers and employees of TA Oil and its subsidiaries/affiliates
Exercise price	At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of ₱1.00 per share

Vesting period	• Up to 33% of the allocated shares on the 1st year from the date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.
Right to Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

On May 7, 2008, the Company's Stock Option Committee decided to revisit the Company's Stock Option Plan, the implementation of the same to remain suspended until a review of the Plan is completed. The Committee also decided to implement the Company's Stock Grant for its executives which resulted in the issuance of 0.30 million and 4.71 million shares in 2009 and 2008, respectively.

As of December 31, 2009, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

17. Trading Revenues - net

	2009	2008
Trading revenue	**₱827,237,914**	₱457,928,308
Cost of power purchased	**(314,034,395)**	(241,381,146)
	₱513,203,519	₱216,547,162

18. Cost of Power Generation

	2009	2008
Fuel	**₱19,214,988**	₱46,672,532
Depreciation and amortization (Note 21)	**5,866,141**	5,935,421
Repairs and maintenance	**4,210,627**	3,073,429
Salaries and directors' fees (Note 20)	**3,924,586**	3,619,565
Taxes and licenses	**1,630,185**	1,621,227
Employee benefits (Note 20)	**1,048,202**	956,257
Insurance	**575,878**	375,445
Rental	**435,790**	309,474
Others	**380,513**	499,476
	₱37,286,910	₱63,062,826

19. General and Administrative Expenses

	2009	2008
Management and professional fees (Note 24)	**₱72,879,268**	₱38,817,588
Salaries and directors' fees (Note 20)	**58,958,792**	31,254,766
Depreciation and amortization (Note 21)	**18,417,338**	12,804,840
Building maintenance and repairs	**11,266,988**	8,975,671
Taxes and licenses	**4,958,926**	1,457,919
Insurance, dues and subscriptions	**3,935,766**	2,817,429
Rent	**3,084,977**	2,861,398
Employee benefits (Note 20)	**3,079,408**	4,169,708
Transportation and travel	**2,929,825**	1,665,458
Donation and contribution	**1,843,483**	1,918,354
Office supplies	**1,695,697**	1,324,356
Retirement benefits (Notes 20 and 23)	**848,972**	1,849,800
Entertainment, amusement and recreation	**296,312**	189,011
General exploration	**235,127**	411,354
Others	**5,106,474**	3,380,174
	₱189,537,353	₱113,897,826

20. Personnel Expenses

	2009	2008
Salaries and directors' fees included under:		
Cost of power generation	**₱3,924,586**	₱3,619,565
General and administrative expenses	**58,958,792**	31,254,766
Pension expense (Note 23)	**848,972**	1,336,592
Employee benefits included under:		
Cost of power generation	**1,048,202**	956,257
General and administrative expenses	**3,079,408**	4,169,708
	₱67,859,960	₱41,336,888

21. Depreciation and Amortization

	2009	2008
Property, plant and equipment included under:		
Cost of power generation	**₱5,866,141**	₱5,935,421
General and administrative expenses	**12,978,779**	12,544,690
Investment properties included under -		
General and administrative expenses (Note 12)	**5,438,559**	260,150
	₱24,283,479	₱18,740,261

22. Income Tax

a. Current income tax in 2009 pertains to regular corporate income tax. The provision for current income tax in 2008 represents MCIT.

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

	2009	2008
Deferred income tax assets on:		
Unrealized foreign exchange losses	**₱1,785,578**	₱–
Allowance for doubtful accounts	**981,110**	–
Unamortized past service cost	**755,557**	–
Donation	**85,939**	100,564
Deferred rent income	**54,337**	–
Unrealized mark to market loss on derivatives	**19,577**	–
Allowance for impairment loss on deferred exploration costs	**–**	8,630,863
Unrealized loss on free-standing derivatives	**–**	3,242,250
	3,682,098	11,973,677
Deferred income tax liabilities on:		
Unrealized gain on change in fair value of investments held for trading	**(3,109,876)**	(849,531)
Unrealized gain on freestanding derivatives	**(1,226,400)**	–
Unrealized fair value gains on available-for-sale investments	**(1,079,305)**	–
Other noncurrent liabilities	**(662,400)**	(705,600)
Unrealized gain on embedded derivatives	**(17,933)**	(17,933)
	(6,095,914)	(1,573,064)
Deferred income tax assets (liabilities) - net	**(₱2,413,816)**	₱10,400,613

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

	2009	2008
Unrealized foreign exchange losses	**₱28,008,854**	₱28,731,468
Allowance for unrecoverable input tax	**6,935,276**	6,162,861
Allowance for impairment losses	**6,712,782**	6,712,782
Accrued expenses	**4,672,598**	6,810,877
Other noncurrent liabilities	**4,626,504**	4,255,664
Allowance for impairment loss on deferred exploration costs	**–**	47,848,620
MCIT	**–**	9,336,054
Unamortized past service cost	**–**	3,271,604
Allowance for doubtful accounts	**–**	26,802,732
Unrealized marked to market loss	**–**	65,258
Deferred rent income	**–**	35,278

Deferred income 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.

MCIT amounting to ₱0.28 million expired in 2008.

NOLCO amounting to ₱67.68 million were applied to taxable income in 2008. MCIT amounting to ₱9.34 million was applied against RCIT in 2009.

The reconciliation between the effective income tax rates and the statutory income tax rate follows:

	2009	2008
Applicable statutory income tax rate	**30.00%**	35.00%
Increase (decrease) in tax rate resulting from:		
Changes in unrecognized deferred income tax assets	**8.80**	(30.60)
Interest income subjected to final tax	**(11.24)**	(6.91)
Dividend income exempt from tax	**(7.37)**	(0.32)
Gains subjected to final tax	**(3.45)**	–
Applied NOLCO	–	(10.34)
Others	–	9.67
Change in tax rate	–	0.76
Effective income tax rates	**16.74%**	(2.10%)

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:

	2009	2008
Pension liability	**₱576,200**	₱1,690,100
Vacation and sick leave accrual	**4,096,398**	5,120,777
	₱4,672,598	₱6,810,877

Employee benefits included under cost of power generation and general and administrative expenses consist of:

	2009	2008
Net pension benefit expense	**₱486,400**	₱1,849,800
Contributions to PHINMA and TA Power retirement funds for common employees	**362,572**	(513,208)
Vacation and sick leave accrual	**(1,024,380)**	2,581,154
	(₱175,408)	₱3,917,746

The following tables summarize the components of pension expense included in the statements of income and pension liability included under "Pension and other post-employment benefits" account in the balance sheets, which are based on the latest actuarial valuation reports:

	2009	2008
Components of provision for retirement benefits:		
Current service cost	**₱871,200**	₱1,960,000
Interest cost	**2,538,000**	1,027,500
Expected return on plan assets	**(2,269,900)**	(985,300)
Recognized actuarial gain	**(652,900)**	(152,400)
	486,400	1,849,800
Adjustment for cross-assigned employees	**362,572**	(513,208)
Pension expense	**₱848,972**	₱1,336,592

The pension liability that was recognized in the balance sheets as of December 31 are as follows:

	2009	2008
Fair value of plan assets	**₱24,963,300**	₱20,658,800
Present value of benefit obligation (PVBO)	**23,702,100**	10,790,500
Funded status	**1,261,200**	9,868,300
Unrecognized net actuarial gains	**(1,837,400)**	(11,558,400)
Pension liability	**₱576,200**	₱1,690,100

The movements in the PVBO are as follows:

	2009	2008
Balance at beginning of year	**₱10,790,500**	₱14,016,000
Current service cost	**871,200**	1,960,000
Interest cost	**2,538,000**	1,027,500
Transfer in	**1,808,900**	2,895,600
Actuarial gains (losses)	**7,693,500**	(9,108,600)
Balance at end of year	**23,702,100**	10,790,500
Adjustment for cross-assigned employees	**–**	(513,208)
	₱23,702,100	₱10,277,292

The changes in the fair value of plan assets are as follows:

	2009	2008
Balance at beginning of year	**₱20,658,800**	₱15,576,500
Expected return on plan assets	**2,269,900**	985,300
Actual contribution	**1,600,300**	2,321,600
Transfer in	**1,808,900**	2,895,600
Actuarial loss	**(1,374,600)**	(1,120,200)
Balance at end of year	**₱24,963,300**	₱20,658,800
Actual return on plan assets	**₱895,300**	(₱134,900)

As of January 1, the assumptions used to determine PVBO and fair value of plan assets are as follows:

	2009	2008
Discount rate	**30.01%**	7.50%
Expected rate of return on plan assets	**10.85%**	6.00%
Rate of increase in compensation	**10.00%**	8.00%

As of December 31, 2009, the following are the information with respect to the above assumptions: discount rate of 10.70%, expected rate of return on plan assets of 8.60% and rate of increase in compensation of 8.00%.

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 ₱2.41 million to its defined benefit pension plan in 2010.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008
Equities	**85.7%**	80.6%
Mutual Funds and UITFs	**2.8%**	14.6%
Others	**11.5%**	4.8%

The amounts for the current and previous four annual periods of the PVBO, fair value of plan assets, deficit and any experience adjustments are as follows:

	Retirement Benefits				
	2009	2008	2007	2006	2005
Present value of benefit obligation	**₱23,702,100**	₱10,790,500	₱14,016,000	₱26,964,400	₱16,053,900
Fair value of plan assets	**24,963,300**	20,658,800	15,576,500	28,114,200	21,973,100
Surplus	**1,261,200**	9,868,300	1,560,500	1,149,800	5,919,200
Experience adjustments - gain (loss)					
Plan liabilities	**1,707,600**	(519,600)	(1,784,900)	651,800	–
Plan assets	**(1,374,600)**	(1,120,200)	(890,400)	(542,900)	–

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, 2008. Total management fees, including annual incentive, amounted to ₱17.23 million and ₱13.36 million for the years ended December 31, 2009 and 2008, respectively. Net payable to PHINMA, recorded as "Due to related parties" under "Accounts payable and other current liabilities" account in the balance sheets, amounted to ₱0.53 million and ₱0.30 million as of December 31, 2009 and 2008, respectively.

TA Power

TA Power leases and occupies part of the office space owned by the Company. Rental income earned classified under "Other income" in the statements of income amounted to ₱2.2 million in 2009 and 2008. Also, the Company sold electricity to TA Power in 2009 and 2008. Net receivable from TA Power amounted to ₱115.51 million and ₱37.70 million as of December 31, 2009 and 2008, respectively. Outstanding receivable from TA Power (included under "Receivables" account in the balance sheets) amounted to ₱118.13 million and ₱72.51 million as of December 31, 2009 and 2008, 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 and other charges where the Company's office is located. Net payable to PPHC amounted to ₱0.17 million as of December 31, 2009 and 2008, respectively, included in "Account payable and other current liabilities".

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 ₱15.33 million in 2009 and ₱11.7 million in 2008. The related unpaid amount included under the "Accounts payable and other current liabilities" account in the balance sheets amounted to ₱12.28 million and ₱11.7 million as of December 31, 2009 and 2008, respectively.

Compensation of key management personnel of the Company are as follows:

	2009	2008
Short-term employee benefits	**₱25,659,655**	₱22,334,383
Post-employment benefits	**(518,701)**	2,941,236
	₱25,140,954	₱25,275,619

Stockholders

Amounts due to stockholders for unclaimed dividends totaled ₱7.01 million and ₱6.27 million as of December 31, 2009 and 2008, respectively.

25. Commitments

Electric Supply Agreement with Guimelco

On November 12, 2003 and July 26, 2004, the Company signed an ESA and an 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.

Electric Supply Agreement 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 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. Starting July 2009, the fixed monthly rate was increased to ₱40,000. Future minimum operating lease payables under this lease agreement as of December 31 are as follows:

	2009	2008
Within one year	**₱480,000**	₱240,000
After one year but not more than five years	**2,080,000**	1,200,000
More than five years	**–**	80,000
	₱2,560,000	₱1,520,000

Electricity Power Industry Reform Act
Republic Act No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include among others:

1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;
2) Creation of a WESM; and
3) Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within five years from the effectivity of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

26. Financial Risk Management Objectives and Policies

Objectives and Investment Policies
The PHINMA Group Treasury manages 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 and Euro. 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:
- Foreign currency risk
- Credit or counterparty risk
- Liquidity risk
- 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:
- Safety of principal
- Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee
- Exposure limits:
  - For banks or fund managers: maximum 20% of total fund of each company per bank or fund
  - For peso investments: minimal corporate exposure except for registered bonds for non-affiliates
  - Limits on third currencies outside U.S. dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee
  - For total foreign currencies: maximum 50% of total portfolio
  - 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

<u>Risk Management Process</u>

Foreign currency risk

The PHINMA Group Treasury manages holdings of cash and securities not only in Philippine peso but also in U.S. dollar and other foreign 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.

Foreign currency risk is managed through:
- Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange.
- Regular discussions with banks are done to get multiple perspectives on currency trends/forecasts.
- Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.
- Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.
- 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 significant foreign currency-denominated financial assets and financial liabilities as of December 31, 2009 and 2008 are as follows:

	U.S. Dollar	
	2009	2008
	(In thousands)	
Financial assets		
Cash and cash equivalents	**$8,221**	$7,144
Short-term investments	**–**	369
Investments in bonds and FXTNs	**3,969**	2,763
Other receivables	**49**	91
Derivative assets	**88**	–
	12,327	10,367
Financial liabilities		
Accounts payable and other current liabilities	**(11)**	(16)
Derivative liability	**–**	(227)
	(11)	(243)
Net foreign currency-denominated assets	**$12,316**	$10,124
Peso equivalent	**₱568,999**	₱481,092

In translating foreign currency-denominated financial assets and financial liabilities into peso amounts, the exchange rates used were ₱46.20 to US$1.00 as of December 31, 2009 and ₱47.52 to US$1.00 as of December 31, 2008.

The following table demonstrates the sensitivity to a reasonably 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, 2009 and 2008. There is no impact on the Company's equity other than those already affecting profit or loss. The effect on profit before tax already includes the impact of derivatives.

2009	
Increase (Decrease) in U.S. Dollar Exchange Rate	**Effect on Profit Before Tax**
	(In Millions)
(₱0.25)	**(₱3.61)**
(0.50)	**(6.67)**
0.25	**2.51**
0.50	**5.56**

2008	
Increase (Decrease) in U.S. Dollar Exchange Rate	Effect on Profit Before Tax
	(In Millions)
(₱0.25)	(₱2.31)
(0.50)	(2.82)
0.25	1.28
0.50	0.77

Credit or Counterparty Risk

Credit or counterparty risk is the risk due to uncertainty in counterparty's ability to meet its obligations.

Credit or counterparty risk is managed through:

- 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 or mutual fund on the basis of their valuation, financial soundness, business performance and reputation or 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.
- Investments in nonrated 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 and updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.
- For temporary investments in related parties, transactions are done on an arms-length basis taking into account the related parties' 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.
- 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.
- 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.
- A custodian bank for peso instruments and foreign currency instruments has been appointed based on its track record on such service and the bank's financial competence.
- 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.

	2009					
	Neither Past Due nor Impaired			**Past Due but not Impaired**	**Past Due Individually Impaired**	
	Class A	**Class B**	**Class C**			**Total**
			(In Thousands)			
Trade and other receivables						
Trade receivables from customers:						
Holcim	**₱36,758**	**₱–**	**₱–**	**₱–**	**₱–**	**₱36,758**
Guimelco	**11,288**	**–**	**–**	**2,488**	**–**	**13,776**
PEMC	**5,329**	**–**	**–**	**–**	**–**	**5,329**
Due from related companies	**123,891**	**–**	**–**	**–**	**–**	**123,891**
Others	**35,303**	**–**	**–**	**–**	**3,270**	**38,573**
	₱212,569	**₱–**	**₱–**	**₱2,488**	**₱3,270**	**₱218,327**

	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	
	Class A	Class B	Class C			Total
			(In Thousands)			
Trade and other receivables						
Trade receivables from customers:						
Holcim	₱20,986	₱–	₱–	₱–	₱–	₱20,986
PEMC	12,774	–	–	–	–	12,774
Guimelco	8,375	–	–	4,380	–	12,755
Due from related companies	142,464	–	–	–	23,533	165,997
Others	8,784	–	–	–	3,270	12,054
	₱193,383	₱–	₱–	₱4,380	₱26,803	₱224,566

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's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, short-term investments, derivative assets and investments held for trading were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.
- Listed and unlisted AFS investments were assessed as high grade since these are investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty or collateral.

There are no significant concentrations of credit risk within the Company.

Liquidity risk
Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:
- Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.
- Continuous monitoring of the weekly and monthly cash flows as well as frequent updates of the annual plans of the Company.
- 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.
- When necessary, placements are pre-terminated or securities are liquidated; but this is largely avoided.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2009 and 2008 based on contractual undiscounted payments:

	2009					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)			
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	**₱15,623**	**₱72,933**	**₱–**	**₱–**	**₱–**	**₱88,556**
Accrued expenses	**10,672**	–	–	–	–	**10,672**
Accrued directors' and annual incentives	**22,706**	–	–	–	–	**22,706**
Due to related parties	**8,468**	–	–	–	–	**8,468**
Due to stockholders	**7,008**	–	–	–	–	**7,008**
Deposits payable	–	–	–	**3,219**	–	**3,219**
	₱64,477	**₱72,933**	**₱–**	**₱3,219**	**₱–**	**₱140,629**

	2008					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
	(In Thousands)					
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱71,151	₱–	₱–	₱–	₱–	₱71,151
Accrued expenses	576	–	–	–	–	576
Accrued directors' and annual incentives	21,059	–	–	–	–	21,059
Due to related parties	6,881	–	–	–	–	6,881
Others	14,169	–	–	–	–	14,169
Due to stockholders	6,272	–	–	–	–	6,272
Deposits payable	–	–	–	3,219	–	3,219
	₱120,108	₱–	₱–	₱3,219	₱–	₱123,327

As of December 31, 2009 and 2008, the profile of financial assets used to manage the Company's liquidity risk is as follows:

	2009				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
	(In Thousands)				
Cash and cash equivalents	**₱940,377**	**₱–**	**₱–**	**₱–**	**₱940,377**
Short-term investments	–	–	**5,000**	–	**5,000**
Receivables:					
Trade	**2,488**	**53,375**	–	–	**55,863**
Due from related companies	**123,891**	–	–	–	**123,891**
Others	**3,270**	**14,378**	**20,925**	**127,575**	**166,148**
Financial assets at FVPL					
Investments held for trading	**792,053**	–	–	–	**792,053**
Derivative assets	–	**4,148**	–	–	**4,148**
	₱1,862,079	**₱71,901**	**₱25,925**	**₱127,575**	**₱2,087,480**

	2008				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
	(In Thousands)				
Cash and cash equivalents	₱826,919	₱–	₱–	₱–	₱826,919
Short-term investments	–	–	17,511	–	17,511
Receivables:					
Trade	4,380	42,135	–	–	46,515
Due from related companies	165,997	–	–	–	165,997
Others	3,270	8,784	–	–	12,054
Financial assets at FVPL:					
Investments held for trading	530,860	–	–	–	530,860
Derivative asset	–	60	–	–	60
	₱1,531,426	₱50,979	₱17,511	₱–	₱1,599,916

Market risk

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 business and economic changes. Interest rate, foreign exchange rates and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

Market risk is managed through:

- Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists or strategy officers are done to get multiple perspectives on interest rate trends or forecasts.
- Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.
- "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.
- In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates or prices in relation to strategies.
- 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, by maturity of the Company's financial assets that are exposed to interest rate risk:

	Interest Rates	Within 1 Year	1–2 Years	2–3 Years	3-4 Years	Total
				(In Thousands)		
2009 Fixed Rate						
Special savings account (SSA)	**1-4.25%**	**₱851,738**	**₱–**	**₱–**	**₱–**	**₱851,738**
Short-term investments	**4.5%**	**5,000**	**–**	**–**	**–**	**5,000**
Investments in bonds and FXTNs	**6.25-17.5%**	**102,817**	**141,181**	**38,399**	**–**	**282,397**
2008 Fixed Rate						
Special savings account (SSA)	0.1-7.1%	784,277	–	–	–	784,277
Short-term investments	2-2.10%	17,511	–	–	–	17,511
Investments in bonds and FXTNs	8.38-15%	78,828	50,371	131,752	–	260,951

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 reasonably possible change in the interest rates, with all other variables held constant, of the Company's profit before tax as of December 31, 2009 and 2008. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2009	
	Increase (Decrease) in Basis Points	**Effect on Profit Before Tax**
FXTN	**25**	**(₱633,801)**
Special deposit account (SDA)	**25**	**243,713**
SSA	**25**	**950,096**
FXTN	**(25)**	**633,801**
SDA	**(25)**	**(243,713)**
SSA	**(25)**	**(950,096)**

	2008	
	Increase (Decrease) in Basis Points	Effect on Profit Before Tax
FXTN	25	(₱433,217)
Special deposit account (SDA)	25	1,210,257
SSA	25	581,395
FXTN	(25)	433,217
SDA	(25)	(1,210,257)
SSA	(25)	(581,395)

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 the impact on its financial position.

Based on the Company's expectation, the Company's assessment of reasonably possible change was determined to be an increase of 10% and 14% in 2009 and 2008, respectively, resulting to a possible effect in the equity of ₱4.15 million and ₱3.9 million as of December 31, 2009 and 2008, respectively.

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:
- 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.
- Monthly portfolio reports are submitted to the CFO that include an updated summary of global and domestic events of the past month and the balance of the year.
- Quarterly presentation of the investment portfolio to the Investment Committee to discuss and secure approvals on strategy changes.
- Annual team-building sessions are organized as a venue for the review of personal goals, corporate goals and professional development.
- One on one coaching sessions are scheduled to assist, train and advise personnel.
- Periodic review of Treasury risk profile and control procedures.
- 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, 2009 and 2008.

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 balance sheet. The Company's policy is to keep debt-to-equity ratio below the maximum ratio of 2:1.

	2009	2008
	(In Thousands)	
Total liabilities	**₱219,710**	₱152,284
Total equity	**2,786,839**	2,548,591
Debt-to-equity ratio	**0.08:1**	0.06:1

27. Financial Assets and Financial Liabilities

Fair Value

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

	Carrying Amount		Fair Value	
	2009	2008	**2009**	2008
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱940,376,956**	₱826,918,568	**₱940,376,956**	₱826,918,568
Short-term investments	**5,000,000**	17,511,120	**5,000,000**	17,511,120
Receivables:				
Trade	**55,863,120**	46,515,363	**55,863,120**	46,515,363
Due from related companies	**123,891,193**	165,996,964	**123,891,193**	165,996,964
Others	**166,148,191**	12,054,338	**166,148,191**	12,054,338
	1,291,279,460	1,068,996,353	**1,291,279,460**	1,068,996,353
Financial assets at FVPL:				
Investments held for trading	**792,052,837**	530,860,471	**792,052,837**	530,860,471
Derivative assets*	**4,147,776**	59,776	**4,147,776**	59,776
	796,200,613	530,920,247	**796,200,613**	530,920,247
AFS investments:				
Quoted	**103,540,631**	104,841,834	**103,540,631**	104,841,834
Unquoted	**71,917,219**	71,917,220	**71,917,219**	71,917,220
	175,457,850	176,759,054	**175,457,850**	176,759,054
Total financial assets	**₱2,262,937,923**	₱1,776,675,654	**₱2,262,937,923**	₱1,776,675,654
Financial Liabilities				
Financial liability at FVPL - Derivative liability**	**₱–**	₱10,807,500	**₱–**	₱10,807,500
Other financial liabilities:				
Accounts payable and other current liabilities***	**130,401,751**	103,029,191	**130,401,751**	103,029,191
Due to stockholders	**7,007,740**	6,272,367	**7,007,740**	6,272,367
Deposits payable	**3,219,257**	3,219,257	**3,219,257**	2,928,335
	140,628,748	112,520,815	**140,628,748**	112,229,893
Total financial liabilities	**₱140,628,748**	₱123,328,315	**₱140,628,748**	₱123,037,393

* *Presented as part of other current assets/*

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

*** *Excludes nonfinancial items amounting to ₱28.3 million and ₱28.1 million in 2009 and 2008, respectively.*

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, accounts payable and other current liabilities, due to stockholders
The carrying amounts of cash and cash equivalents, short-term investments, receivables, accounts payable and other current liabilities and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments. The carrying amount of the noncurrent receivable from Phoenix approximates its fair value since its interest rate is based on prevailing market rates.

Investments held for trading and AFS investments
Quoted market prices have been used to determine the fair values of investments held for trading and quoted AFS investments. The fair values of unquoted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

The fair value of derivative assets and derivative liability of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Deposits payable
The fair value of the Company's long-term payable to a third party is based on the discounted value of the expected future cash flow using applicable interest rate for similar type of instrument. Discount rate used was 6.36% in 2008.

Fair Value Hierarchy
As of December 31, 2009 the fair value measurement of the Company's financial assets carried at fair value are categorized as follows:

	Level 1	Level 2	Total
		(In Thousands)	
Investments held for trading	**₱792,053**	**₱–**	**₱792,053**
AFS investments	**103,541**	**–**	**103,541**
Derivative asset	**–**	**4,148**	**4,148**
Total financial assets	**₱895,594**	**₱4,148**	**₱899,742**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted prices in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company has no financial instruments measured at fair value using the level 3 hierarchy in 2009. Also, there were no transfers between level 1 and level 2 fair value measurements during 2009.

Derivative Assets and Derivative Liability
Currency forwards
The Company enters into sell US$, buy peso foreign currency forward contracts to manage the foreign currency risk arising from its US$ denominated assets. These derivatives, which include currency forwards are transactions not accounted for as accounting hedges.

The Company has outstanding currency forward contracts with an aggregate notional amount of US$3 million and weighted average contracted forward rate of ₱47.573 to US$1.00 as of December 31, 2009, and an aggregate notional amount of US$12.4 million and weighted average contracted forward rate of ₱46.793 to US$1.00 as of December 31, 2008. The net fair value of these currency forward contracts amounted to ₱4.09 million gain and ₱10.81 million loss as of December 31, 2009 and 2008, respectively.

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

As of December 31, 2009 and 2008, the Company's outstanding embedded forwards have an aggregate notional amount of US$0.06 million and US$0.03 million, respectively. The weighted average fixing rate amounted to ₱47.01 to US$1.00 and ₱49.18 to US$1.00 as of December 31, 2009 and 2008, respectively. The net fair value of these embedded derivatives amounted to ₱0.06 million gain and ₱0.69 million gain as of December 31, 2009 and 2008, respectively.

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

	2009	2008
Balance at beginning of year	**(₱10,747,724)**	₱32,683,676
Net changes in fair value during the year	**37,638,350**	(21,231,494)
Fair value of settled contracts	**(22,742,850)**	(22,199,906)
Balance at end of year	**₱4,147,776**	(₱10,747,724)

The net changes in fair value during the year are included in the "Loss (gain) on derivatives-net" account in the statements of income.

The fair values of the outstanding derivatives of the Company as of December 31 are presented as follows:

	2009	2008
Derivative Assets:		
Freestanding	**₱4,088,000**	₱–
Embedded	**59,776**	59,776
	4,147,776	59,776
Derivative Liability - Freestanding	–	(10,807,500)
	₱4,147,776	(₱10,747,724)

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

Details of interest and other financial income and interest and other financial charges are as follows:

Interest and Other Financial Income

	2009	2008
Interest income on:		
Cash in bank	**₱779,516**	₱734,350
Short-term deposits and investments	**23,044,370**	38,558,272
Bonds	**7,889,945**	5,396,759
FXTN	**17,489,174**	5,935,575
Others	**10,185,025**	3,008,564
Net gains on investments held for trading:		
Amortization of bond premium/discount - net	**(10,257,933)**	(4,159,830)
Gain (loss) on redemption/sale of investments held for trading	**4,774,565**	(567,806)
Unrealized gain from changes in fair value of investments held for trading (Note 7) /	**10,571,404**	585,919
	₱64,476,066	₱49,491,803

Interest and Other Financial Charges

	2009	2008
Accretion of asset retirement obligation	**₱370,840**	₱371,856
Interest expense on loans and borrowings	**–**	126,161
Other financial charges	**236,835**	65,110
	₱607,675	₱563,127

28. **Operating Segments**

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

	2009			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Revenue	**₱560,423,067**	**₱–**	**₱98,110,665**	**₱658,533,732**
Results				
Depreciation & amortization	**6,479,987**	**232,141**	**17,560,080**	**24,272,208**
Interest and other financial charges	**607,675**	–	–	**607,675**
Oil and mining cost written-off	–	**78,517,254**	–	**78,517,254**
Impairment loss on investment in a subsidiary and associate	–	**29,083,084**	–	**29,083,084**
Provision for unrecoverable input tax	**772,415**	–	–	**772,415**
Segment profit (loss)	**₱462,590,268**	**(₱114,356,351)**	**₱19,300,554**	**₱367,534,471**
Operating assets	**₱664,010,747**	**₱93,374,728**	**₱2,249,162,663**	**₱3,006,548,138**
Operating liabilities	**₱88,230,375**	**₱188,216**	**₱131,946,742**	**₱220,365,333**
Other disclosure				
Capital expenditure	**₱2,133,409**	**₱–**	**₱1,489,406**	**₱3,622,815**

1. Revenue for each operating segment does not include interest and other financial, dividend and rental income amounting to ₱64.48 million, ₱27.08 million and ₱6.55 million, respectively.

2. Profit (loss) for operating segment does not include general and administrative expenses, foreign exchange loss, mark to market gain on derivatives and provision for impairment loss on investment in subsidiary and associates amounting to ₱98.65 million. Gain on sale of investment in associates and other income not included in the profit for operating segment amounted to ₱19.84 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱1.74 billion, receivables and other current assets totaling ₱50.30 million and other noncurrent assets amounting to ₱461.43 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱125.03 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱6.91 million.

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

	2008			
	Power	Petroleum and Mining	Adjustments and Eliminations	Total
Provision for impairment loss on a subsidiary	₱–	₱46,231	₱–	₱46,231
Segment profit (loss)	209,840,432	(8,237,003)	27,567,747	229,171,176
Operating assets	₱676,320,115	₱185,843,993	₱1,838,710,780	₱2,700,874,888
Operating liabilities	₱75,517,810	₱521,039	₱76,245,248	₱152,284,097
Other disclosure				
Capital expenditure	₱441,438	₱–	₱1,260,755	₱1,702,193

1. Revenue for each operating segment does not include interest and other financial, dividend and rental income amounting to ₱49.49 million, ₱2.12 million and ₱3.27 million, respectively.

2. Profit (loss) for operating segment does not include general and administrative expenses, foreign exchange loss and mark to market gain on derivatives amounting to ₱48.77 million. Other income not included in the profit for operating segment amounted to ₱21.46 million.

3. Segment assets do not include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱1.37 billion, receivables and other current assets totaling ₱16.77 million and other noncurrent assets amounting to ₱446.65 million as these are managed on a group basis.

4. Segment liabilities do not include accounts payable and other current liabilities of ₱69.55 million and net deferred income tax liabilities and pension and other post-employment benefits totaling ₱6.69 million.

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