COVER SHEET

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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

17 - A
FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

3, 3 9 7
Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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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 2008
(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, 2008
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	1,662,298,650 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 X No

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

NA

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

NA

15. Documents incorporated by reference

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

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PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

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

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

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

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

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

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

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

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

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

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

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

The company has been in the business for more than 39 years and has earned a reputation as a prudent and serious operator with strong technical teams highly regarded in the energy industry

Product and Distribution

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

Competition

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

The Department of Energy (DOE) currently awards petroleum contracts to technically and financially capable companies via contracting or bid rounds. Thus, Trans-Asia competes with foreign firms and local exploration companies such as PNOC Exploration Corporation, The Philodrill Corporation, Oriental Petroleum and Minerals Corporation, Basic Consolidated, Inc. for acquisition of prospective blocks. While there is competition in the acquisition of exploration rights, the huge financial commitments associated therewith also provide opportunities for partnership, especially between local and foreign companies. Under a service contract, a substantial financial incentive is given to consortia with at least 15% aggregate Filipino equity. Thus, many foreign firms invite local exploration companies to join their venture to take advantage of said benefit and vice versa.

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

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

Supply Agreement with the Government

Under The Oil and Gas Act of 1972, every service contractor that produces petroleum is authorized to take and dispose 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 33**%** of the Philippines' primary energy mix in year 2007. 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 2007. The government is actively promoting the use of natural gas for power, industry, commercial and transport applications, owing to environmental considerations and the need to diversify energy supply.

Contracts and Agreements

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

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

Trans-Asia is at present a co-contractor in 5 service contracts with the Philippine government. The Company has no production of oil or gas at this time, inasmuch as its petroleum operations are in the exploratory stage and fields where it has participation are in suspension mode.

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

Service Contract No. 6

- Awarded on 1 September 1973; valid until 28 February 2009. The DOE extended the validity of SC No. 6 as it pertains to the Cadlao Production Area for 15 years effective March 1, 2009. The SC 6 Block A and Block B consortium applied for a 15-year extension of the term of SC No. 6 over the retention area (Block A and Block B).

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

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

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

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

- As a royalty interest holder, the Company does not share in joint expenditures for the field. Hence, the Company did not spend for compliance with environmental laws. In-house expenditures for the project amounted to ₱24,748 in 2006, ₱7,397 in 2007 and ₱47,784 in 2008.

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

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

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

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

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

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

- On March 7, 2007, the Block A consortium signed a farm-in agreement with a foreign company. Under the agreement, the farminee has the option to acquire 70% interest in the block by carrying the original partners in the costs of drilling one or two wells and in the first phase development in the area. The farminee requested an extension of their option to farm-in until end of 2009.

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

- Expenditures incurred by the Company in Block A in the last three (3) fiscal years are as follows: ₱178,761 (2006), ₱556,205 (2007) and ₱269,049 (2008). On the other hand, expenditures in Block B are: ₱31,435 (2006), ₱11,384 (2007) and none in 2008. No revenues were derived from the Company's activities in said blocks during the same period.

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

Service Contract No. 14

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

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

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

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

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

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

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

- Expenditures incurred by the Company under SC 14 Block B-1 in the last three (3) fiscal years are as follows: ₱31,529 (2006), ₱7,157 (2007) and ₱605 (2008).

- Expenditures incurred by the Company under SC 14 Tara Production Area in the last three (3) fiscal years are as follows: ₱66,010 (2006), ₱7,277 (2007) and ₱161 (2008). No revenues were derived from such activities. No amounts were spent in compliance with environmental laws.

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

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

Service Contract No. 51

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

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

- Trans-Asia initially had 33.34% participating interest.

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

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

- Due to non-availability of a seismic-boat the SC 51 consortium was unable to undertake the committed 2D seismic survey. The DOE granted the consortium’s request to fulfill same within the second sub-phase of the Exploration Period ending January 2008.

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

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

- The consortium completed a geo-microbial survey over Northwest Leyte in April 2008. Upon request of partners, the DOE accepted said survey as substitute for and fulfillment of the consortium’s outstanding 2D seismic survey commitment.

- The site survey for the proposed Argao 1 and Bahay 1 well locations were almost completed when the governor of Cebu issued a cease and desist order prohibiting the DOE from conducting offshore operations. The DOE declared a moratorium on operations in the area and the service contract until further notice.

- The Company's expenditures under SC 51 are ₱259,306 in 2006, ₱1,741,400 in 2007 and ₱212,491 in 2008. No revenues were derived from the project during the same period.

Service Contract No. 55

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

- Covers 900,000 ha. Offshore West Palawan

- Trans-Asia has 15% participating interest.

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

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

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

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

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

- Due to non-availability of a suitable drilling rig, the consortium requested the DOE the swapping of work commitments for the second and third sub-phases of the Exploration Period to enable the consortium to drill the first commitment well by August 4, 2010.

- The DOE agreed to credit the 954 km 2D seismic program as fulfillment of the operating work obligation for the second sub-phase of the Exploration Period.

- The Company's expenditures under SC 55 are ₱719,797 in 2006, ₱830,572 in 2007 and ₱152,088 in 2008. No revenues were derived from the project during the same period.

Service Contract No. 69

- Awarded on May 7, 2008. Exploration Period is 7 years, whereas Production Period is 25 years.

- Covers 704,000 ha. in the Camotes Sea between the islands of Cebu and Leyte.

- Trans-Asia has 30% participating interest.

- The consortium committed to undertake a work program consisting of a geological and geophysical study and reprocessing and interpretation of minimum 500 km of selected seismic data within the first contract year.

- Reprocessing of some 3000 km of vintage 2D seismic data and a geological and geophysical review is underway.

- The company's expenditures under SC 69 in 2008 amounted to ₱31,123. No revenues were derived from the project during the same period.

Camarines Norte - Mineral Production Sharing Agreement (MPSA)

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

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

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

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

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

- Trans-Asia Gold completed the drilling of three (3) exploratory drill holes to probe gold, uranium and white clay occurrences.

- The Company incurred the following expenditures in the last three (3) fiscal years: ₱1,247,692 (2006), ₱809,233 (2007) and ₱5,519,737 (2008). Revenues generated were ₱174,387 (2006) and none in 2007 and 2008.

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

Rizal Mining Leases

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

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

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

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

- No operations were conducted in the leases in the last three (3) fiscal years. Expenditures incurred during the same period were as follows: ₱46,751 (2006), ₱42,441 (2007) and ₱1,025 (2008). No revenues were generated in 2006 and 2007. Royalty revenues of ₱56,184 was received from Rock Energy in 2008.

- Trans-Asia 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 the Mining Lease Contract areas for a period of five (5) years.

- No expenditures were incurred in compliance with environmental laws.

Electricity Supply Agreement with Guimelco

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

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

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

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

- Expenditures incurred in the last three (3) fiscal years were as follows: ₱53.5 million (2006), ₱32.4 million (2007) and ₱63.1 million (2008). Revenues generated were ₱58.7 million in 2006, ₱46.7 million in 2007 and ₱71.1 million in 2008. None was spent in compliance with environmental laws in 2005 up to 2007. Compliance with environmental laws had no effect on project operations.

Electricity Supply Agreements with Holcim

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

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

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

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

- Expenditures incurred in 2008 amounted to ₱249.1 million while revenues generated were ₱457.9 million. None was spent in compliance with environmental laws in 2008. Compliance with environmental laws had no effect on project operations.

Concession Agreement

- CIP II has a concession agreement with Carmelray-JTCI Corporation (CJC), the developer of CIP II in Calamba, Laguna, where the CIP II 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 CIP II, CIP II 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, CIP II signed a Memorandum of Agreement with CJC and Manila Electric Company (Meralco) where CIP II will transfer to Meralco its rights and obligations under the Concession Agreement dated October 3, 2000, which gave CIP II the exclusive right to sell electricity to the locators of the Carmelray Industrial park II (the Park). CIP II also signed a Memorandum of Agreement with Meralco where CIP II 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.

Governing Laws and Regulations

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

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

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

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

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

In 2007, the Department of Energy is putting nine oil and gas exploration blocks up for auction in its third energy contracting round. The DOE expects 20 consortia to submit bids and is hoping that the blocks will attract around US$360 million in investment, according to DOE Undersecretary Guillermo R. Balce.

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

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

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

majeure or displacement by force, deceit, stealth, or as a consequence of government projects or any voluntary dealings entered into by the government and private persons, and which are necessary to ensure their economic, social and cultural welfare.

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

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

R.A. 1972 or Philippine Mining Act of 1995

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

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

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

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

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

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

investments in the power industry. A more competitive power industry will in turn result in lower power rates and a more efficient delivery of electricity supply to end-users.

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

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

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

- increasing oil and gas exploration;
- strengthening of the Philippine National Oil Company (PNOC) to spearhead the development of indigenous energy resources and building global partnerships and collaborative undertakings;
- pursuing the development of renewable energy such as geothermal, wind, solar, hydropower, and biomass, and the vigorous utilization of the cleaner development mechanism and the emerging carbon market;
- the expansion in the use of natural gas; and
- adoption of energy efficiency promotion strategies.

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

R. A. 7916 or "PEZA law"

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

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

- Tax-and duty-free importation of capital equipment, raw materials, spare parts, supplies, breeding stocks, and genetic materials

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

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

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

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

Cost and Effects of Compliance with Environmental Laws

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

Related Party Transactions

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

Trans-Asia is controlled by PHINMA through a management contract. Under an existing management agreement, Trans-Asia pays PHINMA a fixed monthly management fee plus an annual incentive based on a certain percentage of the net income. PHINMA has a general management authority with the corresponding responsibility over all operations and personnel of the Company, including planning, direction, supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. The management contract will expire on August 31, 2013. As of March 4, 2009, PHINMA owns 426,839,684 shares, which represent 25.68% of total outstanding shares of stock of the Company.

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

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

Manpower

As of December 31, 2008, Trans-Asia has total employees of 93, 52 employees for its Makati office, 12 employees for its power station in Guimaras island and 29 employees for its power station in

Calamba, Laguna. Of the total employees, 22 are managers and officers, 10 are supervisors, and 61 are non-supervisory employees. The Company has the intention of hiring additional employees for the ensuing months.

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

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

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

Exploration Risk

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

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

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

1. *Use of technical expertise and state-of-the-art technology.* Technical expertise refers to tapping the professional and special capabilities of experienced people or teams with proven success records in resource determination or delineation. State-of-the-art technology refers to "computer-based" analysis and interpretation of exploration data which enable one to reasonably visualize subsurface conditions that could host commercial volumes of oil or minerals.
2. *Phased exploration programs with clear exit points.* Exploration is carried out in phases or stages depending on the complexity of the problem at hand. The phases are so conceived such that one phase leads logically to the subsequent phase. But at the end of each phase, the exploration people are given a chance to assess their position and consequently decide whether to proceed or exit from the work program. It follows that encouraging results from a certain phase given incentive to proceed to the next phase, otherwise the participant should withdraw if he thinks the chances of success are slim.
3. *Determination of participation levels based on available risk capital, expenditure commitments and success chance.* To what extent the company participates in any given exploration program is a function of risk capital at its disposal, the expenses required the bankroll the exploration program and the chance of success from said exploration program. It is quite clear that given a program with high success chance but whose required expenditure commitment is stiff, participation would be somewhat constrained by disposable capital.

4. *Investment in exploration projects with varying risk profiles.* This approach simply dictates that less risky projects or where one has more than even chance of succeeding should be preferred over the rest.
5. *Participation in exploration consortia, in the event 100% equity is not warranted by risk assessment.* Where the assessment says the risk is too high for a single entity to assume, it would be prudent to spread the risk by entertaining participation by other parties.
6. *Distribution of participation in many rather than one or a few contracts or tenements. This is akin to 'not putting all eggs in one basket'.* This approach suggests participation in many projects with widely varying assessment of risk. The logic is based loosely on the dictum "win some here, lose some there." For example, given ten exploration projects to participate in, it's possible that you reap great success in five of them and fail in the other five, then hope that the success of five translates to a magnitude that would allow recovery of "failure" in the other five. This resembles what is commonly regarded as averaging effect.
7. *Use of options, whenever feasible.* Some exploration projects are designed in such manner that "options" for entry and exit are provided. This is meant to cater to a wide spectrum of risk tolerance by the incoming party. Options are usually cheap or affordable at the early stages of the project. Then it gradually increases as the exploration progresses to such level where the risk is easily discernible and the potential rewards are more or less foreseeable. Under this scenario, the investor is given some flexibility as to when he should enter the project.
8. *Dilution of interest in phases of work which entails heavy expenditures or high risk e.g. drilling.*
   As the exploration program advances towards its conclusion, the magnitude of expenditure increases tremendously to the point that those who were able to gain entry at the early stages could not on no longer afford to the current requirements financially. One way to mitigate the burden and at the same time remain in the running is to allow dilution or reduction in one's participating interest. The main objective is staying in the game until the very end when the rewards become due.
9. *Copping of annual exploration expenditures to projected company income for the year.* This approach is putting a self-imposed ceiling on how much money may be used for participation in exploration projects. It goes without saying that this expenditure level is affordable – i.e. in the vent of failure, the company is still able to survive and its financial footing still on firm ground.
10. *Investment in less risky, non-exploration ventures or projects to balance risk exposure.* This approach simply states the company must invest in low risk ventures and with guaranteed revenue stream to offset the potential ill effects of risky exploration ventures, instead of drawing from the operating capital or borrowing to fund them.

Foreign Currency Risk

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

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

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

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

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

Interest Rate Risk

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

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

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

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

Credit Risk

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

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

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

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

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

Collection Risk

The Company may not collect all of its receivables.

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

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

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

Liquidity Risk

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

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

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

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

Environmental Risk

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

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

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

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

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

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

Social Responsibility Risk

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

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

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

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

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[5] " Public Policy for Corporate Social Responsibility." World Bank Institute Series on Corporate Responsibility, Accountability, and Sustainable Competitiveness. July 2003 <http://info.worldbank.org>
[6] Leschinskaya, Ksenia and Grinberg, Tatiana. " Corporate Social Responsibility in the Energy Sector." CSR Article - Business Risk Services, Ernst & Young. April 2007 <http://www.ey.com>

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

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

Competition

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

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

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

  [9]The nine blocks for auction are located offshore in shallow and deepwater within the prospective basins of East Palawan, Mindoro-Cuyo, Cagayan, Central Luzon, Visayas and Agusan-Davao.

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

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

[9] Ibid

Companies awarded acreage will be permitted a seven-year exploration period, with the option to extend such period for a further three years. Production period will last 25 years, with a 15-year extension option. The government will receive 60% of the net income, with contractors receiving 40%. 35% corporate tax will be paid out of the government's share. There will be an incentive of 1.5%-7.5% of gross profits to any contractor that has at least 15% Filipino participation.

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

  The mining industry is on revival mode following a Supreme Court decision in 2004 which upheld the constitutionality of the 1995 Philippine Mining Act, thereby relaxing foreign ownership restrictions on large-scale exploration, development and utilization of mineral resources. [11]Since then, several foreign investors have been establishing themselves in the Philippine mining scene, taking advantage of the country's largely untapped mineral prospects, strong global demand for metals and other minerals, a favorable policy environment, and a pool of skilled and competent local mining workforce.

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

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

- *Real estate development.* Bacnotan Industrial Park Corporation (BIPC), where TA has investment, competes against a number of commercial developers, information technology or cyber parks, industrial estates and economic zones for companies seeking a cost-effective location for back-office functions. BIPC is the landowner and developer of Batangas Union Industrial Park (BUIP), an industrial park designed to host light to heavy industries and located at Calaca, Batangas. It is about 110 kilometers from Manila and is situated in a natural cove along Balayan Bay. At present, BUIP is host to the following companies: Bacnotan Steel Industries,

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

Inc., Steel Corporation of the Philippines, JY International Marketing, Inc., Jandrick Arvin Realty and Development Corporation, Taurus Arrastre and Stevedoring Services, Asian Chemical Corp., Petroterminals Phils. Corp., Century Chemicals Corporation and Rezcoat, Inc. BIPC is targeting companies especially those that are sea-transport extensive to consider using the port or better yet, consider transferring their manufacturing, warehousing or assembly facility within its industrial park.

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

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

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

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

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

Risks from a Change in Existing or Probable Government Regulations

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

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

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

Political Risks

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

There can be no assurance that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies conducive to sustained economic growth in the Philippines. Any political instability, including major public protests or the involvement of the military in politics, and terrorist activities, may have an adverse effect on the Company's results of operation and financial conditions.

Suppliers Risk

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

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

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

Agreement Risk

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

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

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

Subsidiaries and Affiliates

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

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

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

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

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

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

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

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

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

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

Item 2. Properties

Trans-Asia owns the following fixed assets:

Properties	Location	Amount
Land	Calamba City, Laguna	57,983,000
Building and improvements	Makati City, Guimaras and Calamba City, Laguna	98,111,122
Machinery and equipment	Guimaras and Calamba City, Laguna	552,398,223
Wells, platforms and other facilities	Palawan	20,346,661
Transportation equipment	Makati City, Guimaras and Calamba City, Laguna	12,663,376
Mining and other equipment	Makati City, Guimaras	17,671,228
Office furniture, equipment and others	Makati City, Guimaras and Calamba City, Laguna	28,210,025
Total		**787,383,635**
Less: Accumulated depletion, depreciation and amortization		167,242,703
Net		**620,140,932**

Source: Audited financial statements as of December 31, 2008

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

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

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

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

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

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

Item 3. <u>Legal Proceedings</u>

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. <u>Submission of Matters to a Vote of Security Holders</u>

As of March 4, 2009, there were 1,662,298,650 shares of Trans-Asia Oil & Energy Development Corporation common stock outstanding and entitled to vote at the Annual Stockholders' Meeting. Only holders of the Company's stock of record at the close of business on March 4, 2009 acting in person or by proxy on the day of the meeting are entitled to notice and to vote at the Annual Stockholders' Meeting to be held on April 3, 2009.

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.

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

PART II – SECURITIES OF THE REGISTRANT

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

Market Price

Trans-Asia's common shares are listed with the Philippine Stock Exchange. Below are the high and low sales prices for January – March 2009 and for the calendar years 2008, 2007 and 2006:

Period	High	Low
Calendar Year 2009		
January	0.75	0.60
February	0.75	0.60
March 4	0.75	0.60
March 31	0.88	0.80
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
Calendar Year 2007 (adjusted prices due to stock rights offering with ex-date of November 20, 2007)		
First Quarter	1.44	0.98
Second Quarter	1.69	1.21
Third Quarter	1.47	0.94
Fourth Quarter	2.04	1.10
Calendar Year 2006		
First Quarter	1.00	0.89
Second Quarter	1.26	0.89
Third Quarter	1.20	0.91
Fourth Quarter	1.20	0.99

Stockholders

The Company had 3397 registered shareholders as of March 4, 2009. 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 March 4, 2009.

No.	Name of Stockholders	Citizenship	No. of Shares Held	% of Ownership
1	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Filipino	Filipino	835,997,133	50.29%
2	Bacnotan Consolidated Industries, Inc.	Filipino	449,331,621	27.03%
3	Philippine Investment Management, Inc,	Filipino	201,850,615	12.14%
4	Emar Corporation	Filipino	24,855,958	1.50%
5	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Non-Filipino	Foreign	20,071,970	1.21%
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%

Dividends

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

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

On March 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, your 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.

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

As of December 31, 2008, Trans-Asia's retained earnings amounted to P 1.1 billion, of which P 276.9 million were equity in net earnings of investee companies that are not available for dividend declaration.

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

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

PART III – FINANCIAL INFORMATION

Item 6. Management's Discussion and Analysis of Operations

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

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

Calendar Year 2008

The year 2008 was a critical period when our company had to rise above multiple challenges brought about by the widespread impact of the global economic recession and extreme fluctuations in fuel prices.

Yet amid the hurdles, we are pleased to report that we managed to register encouraging financial results last year with 13% increase in our consolidated net income to P88.4 million from P78.2 million in 2007. Our company's upbeat performance in electricity trading was the main driver for this income growth.

The high prices of oil, especially in the third quarter when global prices hit the historic $147/barrel, momentarily affected the power generation segment of the company as it was unable to fully recover the cost differentials via the electricity rates. Toward the end of the year though, this cost burden eased as we saw oil prices plummeting to the $40/barrel level.

The strain in global financial markets similarly weighed down growth forecasts and bred uncertainties among businesses, prompting many to put their investments on hold and scale down on capital expenditures. As business expansion and investment flows decelerate, energy demand crunch occurred as a result.

While there are rough patches ahead, our company has to plan its future in a manner that enables it to gain leverage on its operations and in improving efficiencies. That in turn shall allow us to emerge stronger from the recession-burdened economy. Our shareholders have every right to expect improvements in our profitability, and we shall work on those expectations.

When the economy finally recovers, the forecasts are that there would be unremitting growth in energy consumption. Two important factors will then define our future investment strategies.

First, as the rallying point for the next wave of investments is a shift to cleaner energy sources or the so-called 'green technologies', our company has to make inroads in the application of renewable and alternative fuel technologies (biofuels) to help abate the risks of global warming. Second, we have to keep pace with the challenges of competitive markets as the policy intent of the deregulation of the power industry.

Building on our experience as a registered trading participant at the Wholesale Electricity Spot Market (WESM), the next step is to strategically position our company into retail market competition with the much-anticipated advent of open access in electricity supply.

Notwithstanding the extreme swings in oil prices last year, your company remains aggressive in upstream oil and gas ventures. Various phases of exploration activities as well as production are to be carried out with partners in the blocks where we currently hold interests. As a pioneer in oil exploration in the Philippines, we have certainly gained more latitude in managing our risks and strategies subsequent to changes in economic or business cycles. For the time being, the cost of oil may be cheaper, but developing our domestic supply is a crucial factor in ensuring the country's energy security and independence.

Moreover, the increasing allure of clean energy indubitably offers a promising future for renewable energy. This potential was reinforced with the passage in December 2008 of the Renewable Energy Act - a policy that extends an array of fiscal and non-fiscal incentives, including Renewable Portfolio Standards, to attract investments in renewable energy resources.

Through the company's subsidiary, Trans-Asia Renewable Energy Corporation, development prospects for wind farm projects are currently being pursued in several sites. A pre-feasibility study undertaken in Guimaras island exhibited viable wind capacity, along with the 37 other sites being surveyed.

The complementary venture cast in your company's project blueprint would be a foray into alternative fuel facilities, driven by the existence of an established market due to the mandatory blending of coco methyl ester (in diesel products) and bioethanol (in gasoline) as prescribed under the Biofuels Act of 2006.

As we celebrate our 40th year this 2009, we shall also institutionalize the vision statement that "***Life Can Be Better***" – believing that our success and existence depend largely upon our abilities to generate sustainable undertakings that shall improve the welfare of our stakeholders, including our host communities.

Our Corporate Social Responsibility (CSR) programs are focused on three core stewardships: **education, environment and livelihood projects.** The objectives of these programs are to instill values and knowledge amongst the youth on energy and earth preservation. In the long term, we envision the promotion of research and development in harnessing practical applications through the use of renewable energy sources such as wind and solar power.

What we are today and the milestones we achieved in the past four decades could not have been possible without the visionary path that our founder and patriarch, Ambassador Ramon V. del Rosario, had laid as the foundation for our company's long-term direction. He had foreseen market developments as well as the significance of energy security beyond his time. Our company's plunge into petroleum exploration and energy resource development was a testament to that vision and something that shall sustain us well into the future.

We continue to hold on to that business principle -- as we measure our company's long-term growth and profitability by enhancing value for our shareholders, promoting programs that will benefit our host communities and ensuring total satisfaction of our customers. ####

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.

Trans-Asia 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 Trans-Asia 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, Trans-Asia signed an Operating Agreement with its subsidiary, Trans-Asia Gold and Minerals Development Corporation (Trans-Asia 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, Trans-Asia 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.

Trans-Asia 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 Trans-Asia to Trans-Asia 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)

Trans-Asia 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 Trans-Asia'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 Trans-Asia Power Generation Corporation 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.

Trans-Asia 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 P71.07 million. Net income reached a modest P7.5 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 already started making dent on their operations.

The major rehabilitation works undertaken on the generation and distribution facilities in 2007 somehow 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 have been no park-wide blackouts and its rented back-up gensets were barely utilized.

Electricity Trading and Marketing

Our company 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 Trans-Asia Power Generation Corporation.

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

CORPORATE SOCIAL RESPONSIBILITY

Trans-Asia affirms the principle that businesses also rely on communities within which they operate and could not exist nor prosper in isolation. Thus, in recognizing the contribution of its host communities, programs focused on **Education**, **Environment** and **Livelihood** have been integrated into the company's core of business activities.

Projects such as ***Trans-Eskwela***, a computer literacy program which aims to bridge the gap of digital divide was launched September last year. This program has been designed for Out-of-School youths, High School students, and Elementary and Secondary School teachers.

Our company similarly upholds its commitment to building a safer and equitable environment for all through its ***Adopt-A-Tree*** and ***EnerCon*** programs. Since the launching of the Adopt-A-Tree Program in September 2008, a total of 190 fruit-bearing and forest trees have been planted in Norzagaray, Bulacan and Calamba City. The program is one of Trans-Asia's responses in ensuring environmental sustainability, believing that planting trees is a very easy and effective way in containing global warming. In the same vein, the EnerCon campaign inculcates among all companies within the PHINMA group the discipline to conserve energy. This is also in support of the government's National Efficiency and Energy Conservation Program (NEECP).

In line with PHINMA's thrust of making life better for the Filipino people, our company is engaged as well in providing sustainable livelihood for its stakeholders. The ***Sibunag Seaweed Farming Project*** which started in June 2007 in the five affected barangays of the oil spill in Guimaras has since then helped 145 families. Each family-beneficiary now generates additional income of ₱ 2,000-₱2,400/month from the project. This 2009, the project will be expanded to three other barangays in the island.

Financial Performance

Consolidated revenues increased to ₱1.6 billion in 2008 compared with ₱1.4 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.
- Trading revenues from the trading of electricity which started in 2008 amounted to ₱277.4 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.

Consolidated costs and expenses increased to ₱1.6 billion in 2008 against ₱1.3 billion last year. 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.
- Trading cost from trading of electricity which started in 2008 amounted to ₱222.2 million.
- General and administrative expense declined to ₱173.5 from ₱178.9 brought about by lower 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 in the same period 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 in the same period 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 about by the reversal of an expense accrued last year but 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, the former included the tax effect on 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 Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments increased to ₱17.5 million from ₱8.6 million. The Consolidated Statements of Cash Flows show the details of materials changes in short-term investments.
- Investments held for trading rose to ₱544.7 million from ₱134.1 million. The Consolidated Statements of Cash Flows show 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 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 ₱144.4 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 liability 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 Trans-Asia 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 as of December 31, 2008 from 5.06 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% as of December 31, 2008 from 51.5% 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 P 0.05 from P 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.

Dividends

On March 25, 2008, your 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.

2009 BUSINESS OUTLOOK

Shift to Renewable Energy

Our company took significant strides last year into renewable energy development, particularly for wind resource. First, through its subsidiary, Trans-Asia Renewable, it completed 16 months of wind measurement in a site in the town of San Lorenzo in Guimaras island that so far registered 'encouraging results' for moderate wind regime. Second, a reputable international technology advisor completed a Pre-Feasibility Study for the same site indicating a total wind potential of 54 MW; and a prospective 200-MW capacity for the entire island.

Within the first quarter of 2009, the company will commence the Feasibility Study on this San Lorenzo wind site.

The incentives provided under the Renewable Energy Act of 2008 will enhance prospects for the company's plunge into RE projects. The policy grants generous fiscal and non-fiscal incentives (i.e. seven-year income tax holiday, feed-in tariffs, and priority dispatch of RE capacity) which are intended to stimulate investment flows in the renewable energy sector.

Given the attractive policy underpinnings, our company is priming itself to become a pioneer renewable energy company in the country, primarily in the area of wind resource development. In 2008, our company applied for pre-commercial contracts with the DOE that allowed it to identify 37 additional sites in Luzon and Visayas that could potentially yield wind capacity of 444 MW. This year, our company will be undertaking wind measurement activities in 10 priority sites.

Corollary to the passage of the Biofuels Law in 2006, the mandatory blending of coconut methyl ester (CME) and bioethanol to diesel and gasoline products, respectively, also offer good prospects for our planned foray into biofuels production. Our company is seriously evaluating business strategies in this sphere as it explores acquisition of any existing biofuels company/facility as the vehicle to enter the industry.

Calendar Year 2007

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

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

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

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

Petroleum Exploration and Production

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

Cadlao

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

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

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

Block A

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

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

Technical evaluation of the area is in progress.

Block B

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

SC 14 (Northwest Palawan)

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

SC 51 (East Visayas)

Due to the tight rig market, the consortium proposed to the Department of Energy the consolidation of the 2^{nd} and 3^{rd} sub-phases of the Exploration Period that would enable the drilling of the well committed under the 2^{nd} sub-phase, during the 3^{rd} sub-phase, and the conduct of a 3D seismic survey during the current 2^{nd} 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 1^{st} 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 1^{st} sub-phase of the Exploration Period by one year to February 4, 2008 due to non-availability of an ultra deepwater drilling rig.

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

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

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

Area 8 PECR 2006 (Camotes Sea)

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

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

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

Preliminary contract negotiations were completed.

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

Uganda Block EA5

Trans-Asia evaluated an exploration opportunity in Uganda.

Minerals

MPSA 252 - 2007 - V (Camarines Norte)

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

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

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

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

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

Batong Buhay EPA (Kalinga)

Trans-Asia signed on July 27, 2007 a Memorandum of Agreement with Balatoc Kalinga Tribe, Inc. (BKTI) and Balatoc Tribe Exploration and Mining Corporation (BTEMC) granting Trans-Asia the exclusive right to conduct exploration work on the Batong Buhay property, subject to the award of an

Exploration Permit to BTEMC by the DENR, and the exclusive option to develop and operate said property under a successor mineral agreement with the government.

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

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

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

The EPA is pending with MGB - CAR.

EPA II – 000084 (Isabela)

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

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

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

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

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

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

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

Other Areas

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

Power Development

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

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

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

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

Electricity Trading and Marketing

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

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

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

Financial Performance

Consolidated revenues rose to ₱ 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 from ₱ 2.1 million to ₱ 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 Trans-Asia and its majority-owned subsidiaries, as consolidated, are the following:

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

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

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

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

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

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

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

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

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

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

During the Calendar Year 2007:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- The Company had two reportable segments namely: oil exploration and power generation. The fund placements are incidental to the Company's power generation activities arising from management of the Company's funds. The exploration costs are shown as "deferred exploration costs" in the consolidated balance sheets.
- There were no events that had occurred subsequent to the balance sheet date that required adjustments to or disclosure in the financial statements.
- The Company had not been involved in any business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material contingencies and any other events or transactions that occurred that were material to an understanding of the current interim period.
- There were no operations subject to seasonality and cyclicality.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affected adversely the liquidity of the Company.
- There were no trends, events or uncertainties occurred that had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There were no events that trigger direct or contingent financial obligation that was material to the Company.
- There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period.

Dividends

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

Calendar Year 2006

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

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

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

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

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

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

Petroleum Operations

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

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

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

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

Petroleum Exploration and Production

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

Cadlao

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

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

Block A

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

Partners reviewed the new farm-in proposal.

Block B

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

<u>SC 14 (Northwest Palawan)</u>

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

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

<u>SC 51 (East Visayas)</u>

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

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

<u>SC 55 (Offshore West Palawan)</u>

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

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

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

Non-Oil Business

Minerals

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

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

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

Camarines Norte

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

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

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

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

Other Areas

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

Power Generation

On-Going Operations

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

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

Portfolio Expansion

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

Electricity Trading

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

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

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

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

Renewable Energy

Geothermal Energy

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

Wind

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

Alternative Fuels

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

Financial Performance

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

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

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

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

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

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

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

- Cost of power generation from the operation of Guimaras power plant, which started commercial operations on June 26, 2005, rose to ₱ 53.5 million from ₱ 38.2 million.
- Company's share in general administrative expenses of a joint venture slightly increased to ₱ 37.6 million from ₱ 35.2 million due to additional taxes and licenses.
- A reversal of provision for probable and impairment losses of ₱ 56 million was reported in 2005.
- A gain on sale of property and equipment of ₱ 113.6 thousand was reported in 2005.
- Provision for income tax increased to ₱ 1.1 million from ₱ 0.3 million brought about by higher income subject to minimum corporate income tax in 2006.
- Provision for deferred income tax of ₱ 2.5 million was reported in 2006 on account of higher market value of financial assets. Benefit from deferred income tax of ₱ 6.2 million was reported in 2005.
- Company's share in income tax of a joint venture rose to ₱ 24.9 million from ₱ 14.5 million brought about by higher taxable income.

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

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

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

Following are the material changes in the balance sheet accounts:

- Cash and cash equivalents declined to ₱ 254.9 million from ₱ 344.7 million. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of ₱ 40.6 million in 2005 were converted to bonds, FXTN and UITF and resulted in the increase in financial assets through profit and loss to P 397 million from ₱ 302.6 million.
- Receivables, fuel and spare parts, other current assets and plant, property and equipment grew to ₱ 73.2 million, ₱ 23.4 million, ₱ 110.3 million and ₱ 645.9 million, respectively, mainly as a result of the acquisition of CIPP.
- Company's share in current assets of a joint venture increased to P 287.9 million from ₱ 224.2 million due to increase in trade receivables of the joint venture.
- Increase in investment in associates of ₱ 205.6 million from ₱ 203.8 million was brought about by the improvement in net income of AHC.
- Available-for-sale investments rose to ₱ 123.2 million from ₱ 97.2 million as a result of higher market value of said investments and additional shares purchased.
- Investment property decreased to ₱ 3.8 million from ₱ 4.1 million on account of depreciation expenses in 2006.
- Intangible assets increased to ₱ 193.3 million from ₱ 131.7 million as result of the acquisition of CIPP.
- Other noncurrent assets grew to ₱ 369.5 thousand from ₱ 242.5 thousand due to reclassification of outstanding deposits.
- Company's share in noncurrent assets of a joint venture declined to ₱ 428.2 million from ₱ 456.3 million due to depreciation expenses.
- Accounts payable and other current liabilities increased to ₱ 135 million from ₱ 31.6 million mainly as a result of the acquisition of CIPP.

- Interest-bearing loans and borrowing rose to ₱ 204.2 million from ₱ 4.7 million to finance the acquisition of CIPP.
- The increase in Company's share in current liabilities of a joint venture to ₱ 115 million from ₱ 79.3 million was brought about by the higher trade and nontrade payables.
- Noncurrent interest-bearing loans and borrowings declined to ₱ 25.9 million from ₱ 32.5 million due to payment of amortization of loan.
- Deferred tax liability of ₱ 80.7 million mainly from excess of the net fair value of an acquired company's identifiable assets and liabilities over cost as a result of the acquisition of CIPP reported in 2006.
- Company's share in noncurrent liabilities of a joint venture declined to ₱ 16.9 million from ₱ 18.4 million due to lower deferred tax liability.
- Regarding stockholders' equity section, unrealized fair value gains on available-for-sale financial assets increased to ₱ 27.7 million from ₱ 12.2 million due to higher market value of the said financial assets.
- The increase in Company's share in unrealized fair value gains on available-for-sale financial assets of a joint venture from ₱ 4.5 million to ₱ 5.5 million was brought about by higher market value of the said financial assets.
- Retained earnings rose to ₱ 1 billion from ₱ 742.3 million due to the increase in net income from the excess of the net fair value of an acquired company's identifiable assets and liabilities over cost recognized from the acquisition of CIPP.
- Parent company shares of stock held by a joint venture improved to ₱ 3.7 million from ₱ 3.1 million due to higher market value of the Company's shares of stock as of December 31, 2006.

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

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

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

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

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

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

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

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

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

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

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

Dividends

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

Item 7. Information on Independent Accountant and other Related Matters

External Audit Fees and Services

The Company's external auditors, SyCip Gorres Velayo & Co. (SGV) billed the amount of ₱1,520,000 in 2007 and ₱1,100,000 in 2006 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 2007 and 2006. The estimated audit fee for 2008 is ₱1,100,000.

Apart from the foregoing, the Company paid the amount of ₱180,000 representing 30% of the total billing 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 2007 and 2006. Trans-Asia Power Generation Corporation paid the amount of ₱105,000 in 2008 and ₱292,500 both in 2007 and 2006 for tax compliance review for the years ended December 31, 2008 and 2005.

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 and 2006.

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

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

The members of the Audit Committee are the following:

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

Item 8. Financial Statements

The consolidated financial statements of Trans-Asia and subsidiaries included in the 2008 Annual Report to Stockholders are incorporated herein for reference.

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

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

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

Audit services of SGV for the calendar year ended December 31, 2008 included the examination of the parent and consolidated financial statements of the Company, assist in the preparation of annual income tax return and other services related to filing of reports made with the Securities and Exchange Commission.

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

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

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

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

Item 10. Directors and Executive Officers of the Issuer

A. Directors and Executive Officers

Directors

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

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

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

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

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

Directors	Age	Citizenship	Position
Oscar J. Hilado	71	Filipino	Director and Chairman of the Board
Ramon R. del Rosario, Jr.	64	Filipino	Director and Vice Chairman
Francisco L. Viray	60	Filipino	Director, President and CEO
Roberto M. Laviña	58	Filipino	Director, EVP, CFO and Treasurer
Antonio V. del Rosario	76	Filipino	Director
Magdaleno B. Albarracin, Jr.	72	Filipino	Director
Reynaldo V. Paulino	72	Filipino	Director
Alfredo M. Velayo	87	Filipino	Director
Raymundo O. Feliciano	83	Filipino	Director
Ricardo V. Camua	65	Filipino	Director
Victor J. Del Rosario	60	Filipino	Director

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 14 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 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 6 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 eight 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 the Del 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

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

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

Executive Officers

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

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

Executive Officers	Age	Citizenship	Position
Francisco L. Viray	60	Filipino	President and CEO
Roberto M. Laviña	58	Filipino	EVP, CFO and Treasurer
Rosario B. Venturina	60	Filipino	Sr. Vice President – Business Development
Ponciano L. Dimayuga	53	Filipino	Sr. Vice President – Finance
Juan J. Diaz	78	Filipino	Corporate Secretary
Raymundo A. Reyes, Jr.	56	Filipino	Vice President – Exploration
Rizalino G. Santos	57	Filipino	Vie President – Electricity Trading and Marketing
Frederick C. Lopez	55	Filipino	Vice President – Materials Management
Carlos I. Arguelles	61	American	Vice President/Compliance Officer
Miguel Romualdo T. Sanidad	51	Filipino	Assistant Corporate Secretary
Danilo L. Panes	52	Filipino	Assistant Vice President
Benjamin S. Austria	63	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 13 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 9 years.

Juan J. Diaz is a member of the Philippine Bar and has a Master of Laws degree from Harvard Law School. He has been Corporate Secretary of the Company for 29 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 at University of the Philippines. His relevant course/program participation includes training in energy and electricity planning by the Energy Center of Pennsylvania, Institute of International Education (IIE), and International Atomic Energy Agency (IAEA). He also attended study tours on electric utility practices, deregulation and privatization in US, UK, Germany, Japan and New Zealand. Prior to becoming an Independent Power Systems Consultant, he was the Vice-President for Market Operations of TRANSCO from March 2003 to October 2004. He was a director and Vice President of the Philippine Electricity Market Corp. (PEMC) from December 2003 to March 2004. Before the creation of TRANSCO in 2002, he had been with the National Power Corporation (NPC) for nineteen years, working mainly at the Corporate Planning Group where he was responsible for the Power Development Program (PDP). He joined Trans-Asia Oil on August 1, 2006 as Vice President for Electricity Trading and Marketing.

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

Carlos I. Arguelles has a Bachelor of Science degree in Commerce - Accounting and a Bachelor of Arts - Economics degree from De La Salle College. He obtained his Masters degree in Business Administration from University of San Francisco. From 2003 up to the present, he is the Vice President - Compliance Officer for Corporate Governance of the Company, Bacnotan Consolidated Industries, Inc., and other Phinma managed companies. He was the Vice President - Business Risk Management and Credit Department Head of Union Cement Corporation in 2000. He was Vice President - Comptroller of Hi Cement Corporation and Rizal Cement Company, Inc. in 1998 and 1990, respectively. His length of service in the Phinma Group of companies is 18 years.

Miguel Romualdo T. Sanidad has a Bachelor of Science in Business Economics and Bachelor of Laws degrees from the University of the Philippines. From 1997 up to the present, he is the Assistant Vice President – Legal Counsel of PHINMA. He is the Corporate Secretary of AB Capital group and other PHINMA-managed companies. He was the Assistant Corporate Secretary for 13 years and is presently the Corporate Secretary of Filmag Holdings, Inc.

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 Asia 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.

Demise of Officer

Amb. Ramon V. del Rosario, Sr., Chairman Emeritus of Trans-Asia Oil and Energy Development Corporation passed away in the Grace of the Lord September 7, 2008.

Involvement in Certain Legal Proceedings

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

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

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

For the calendar years ended December 31, 2008, 2007 & 2006, 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 2009 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				
	2009	7,942,785(a)		102,000(a)
	2008	10,220,493	1,142,984(b)	106,500
	2007	6,204,610	16,261,147(c)	43,500
	2006	6,365,800	3,043,352(d)	71,250
All Other Officers and Directors as a Group (Total Compensation)				
Unnamed				
	2009	4,155,680(a)		1,026,000(a)
	2008	5,448,997	10,556,731(b)	862,500
	2007	5,493,561	13,185,931(c)	255,000
	2006	3,449,799	4,780,504(d)	157,500

(a) *Estimated compensation of directors and executive officers for the ensuing year*
(b) *Includes estimated bonus accrued in 2008 but payable in 2009.*
(c) *Includes bonus accrued in 2007 but paid in 2008.*
(d) *Includes bonus accrued in 2006 but paid in 2007.*

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, 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**	
Ramon V. del Rosario, Sr.	Chairman	3,000,000	
Oscar J. Hilado	Vice Chairman	2,000,000	
Francisco L. Viray	President & CEO	3,000,000	
Roberto M. Laviña	EVP/CFO & Treasurer	1,750,000	
Rosario B. Venturina	SVP - Business Development	1,000,000	
Ponciano L. Dimayuga	SVP – Finance	1,000,000	
Juan J. Diaz	Corporate Secretary	500,000	
Raymundo A. Reyes, Jr.	VP - Exploration	750,000	
Rizalino G. Santos	VP - Electricity Trading and Marketing	750,000	
Carlos I. Arguelles	VP - Compliance Officer	200,000	
Danilo L. Panes	Assistant Vice President	500,000	
Miguel Romualdo T. Sanidad	Asst. Corporate Secretary	75,000	
Benjamin S. Austria	Senior Consultant	200,000	
Total		14,725,000	
2. Options allocated to all other directors and officers as a group			
Unnamed		11,250,000	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 Trans-Asia Oil and Energy Development Corporation as of March 4, 2009 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 31.52% Foreign 1.21%	543,998,688	32.73%
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	AB Capital Securities, Inc.[3] 8th Floor Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City Stockholder	PHINMA for 224,989,069 shares and BCII for 10,000 shares are the beneficial owners. Mr. Oscar J. HIlado, Chairman of the Board of PHINMA and BCII, is the person appointed to exercise voting power.	Filipino	312,070,415	18.77%
Common	Philippine Investment Management (PHINMA), Inc.[4] 12th Floor Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City Stockholder	PHINMA, which is also the record owner. Mr. Oscar J. Hilado, Chairman of the Board, is the person appointed to exercise voting power.	Filipino	201,850,615	12.14%

[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. None of the participants under the PDTC account owns more than 5% of the company's voting securities.

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

[4] **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 Trans-Asia Oil and Energy Development Corporation as of March 4, 2009:

Title of Class	Name of Beneficial Owner	Citizenship	Amount	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	1,606,924	Direct	0.10%
Common	Roberto M. Laviña	Filipino	665,340	Direct	0.04%
Common	Antonio V. del Rosario	Filipino	79,005	Direct	0.00%
Common	Magdaleno B. Albarracin, Jr.	Filipino	1,003,891	Direct	0.06%
Common	Raymundo O. Feliciano	Filipino	419,220	Direct	0.03%
Common	Reynaldo V. Paulino	Filipino	129,339	Direct	0.01%
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	642,149	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	592,902	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%
	Carlos I. Arguelles	American	0		0.00%
	Miguel Romualdo T. Sanidad	Filipino	0		0.00%
	Directors & Officers as a Group		**20,998,295**		**1.28%**

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 25.68% of total outstanding shares of stock of the Company.

PART V – CORPORATE GOVERNANCE

Item 14. Compliance Program

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, 2008, the Corporation substantially complied with the principles and best practices contrained in the Manual on Good Corporate Governance and as required by the SEC, the Vice President Compliance Officer, on January 16, 2009 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 2008
Exhibit B	-	Supplementary Schedules to the Consolidated Financial Statements
Exhibit C	-	Parent Company Audited Financial Statements for the Calendar Year 2008

Reports on SEC Form 17-C

The Company filed the following reports on SEC 17-C during the fiscal year 2008 covered by this report:

Date of Filing	**Items Reported**
January 21, 2008	Trans-Asia Oil's sworn certification on the attendance of its directors in board meetings for the year 2007.
January 22, 2008	Revised Manual on good Corporate Governance Certification on compliance with Manual on good Corporate Governance for Calendar Year 2007.
February 6, 2008	Trans-Asia Oil and H. L. Nathurmal of India signed a Memorandum of Understanding regarding possible cooperation in the fields of mining and energy in the Philippines, India and ASEAN countries. Goa-based H. L. Nathurmal is engaged in iron and manganese mining, power generation, pharmaceuticals and trading.
February 27, 2008	Trans-Asia Oil reported a consolidated net income of P 78,266,932.49 for the year 2007 at the regular meeting of the Board of Directors of Trans-Asia Oil held on February 27, 2008. The Board of Directors of Trans-Asia Oil has fixed April 16, 2008 as the date of its Annual Stockholders Meeting at 2:30 p.m. at the Renaissance Hotel, Makati City.

March 3, 2008	Trans-Asia Oil and Rock Energy International Corporation signed an Operating Agreement granting the latter the exclusive right to extract and market tuffaceous materials within the areas in Teresa, Morong and Baras, Rizal, Philippines that are covered by the former's Mining Lease Contract No. MRD – 491 and Mining Lease Contract No. MRD – 492, both with the Department of Environment and Natural Resources. Rock Energy is engaged in coal exploration and mining, bulk materials trading, and coal briquette production, among others.
March 5, 2008	In compliance with Section 17.15 of the PSE Revised Disclosure Rules, Trans-Asia Oil submit a Certification of the Department of Energy dated February 8, 2008 that, as of December 31, 2007, Trans-Asia Oil's petroleum Service Contracts are valid and subsisting and that Trans-Asia has no pending violations with the DOE, in compliance with Section 17.15 of the PSE Revised Disclosure Rules.
March 13, 2008	The Department of Energy approved the entry of the NorAsian Energy – Trans-Asia consortium into the 2nd sub-Phase of the Exploration Period of Service Contract No. 55 (February 5, 2008 to August 5, 2009), which entails a commitment to drill one (1) ultra deepwater well (water depth over 5,000 feet) west of Palawan Island. Trans-Asia Oil has 15% participating interest in SC 55. The Department of Energy approved the entry of the Service Contract No. 51 consortium the 3rd sub-Phase of the Exploration Period (February 8, 2008 to March 8, 2009), which entails a commitment to drill one (1) exploratory well in the contract area in eastern Visayas. Trans-Asia Oil has 6.67% participating interest in SC 51.
March 24, 2008	Trans-Asia Gold and Minerals Development Corporation (Trans-Asia Gold), wholly-owned subsidiary of Trans-Asia Oil and Energy Development Corporation (Trans-Asia Oil), entered into an Agreement for Diamond Drilling Services with Alden Well Drilling Services in connection with Trans-Asia Gold's drilling program in Jose Panganiban, Camarines Norte. Trans-Asia Oil and Trans-Asia Gold have previously signed an Operating Agreement pertaining to the former's Mineral Production Sharing Agreement with the Department of Environment and Natural Resources covering an area in the aforementioned locality.

March 25, 2008	At the regular meeting of the Board of Directors of Trans-Asia Oil and Energy Development Corporation held on March 25, 2008, the Board declared a Four Percent (4%) Cash Dividend payable on May 8, 2008 to all shareholders of record as of April 11, 2008.
April 17, 2008	At the annual meeting of the shareholders of Trans-Asia Oil and Energy Development Corporation held on April 16, 2008, the following actions were taken:

1. The following incumbent directors of the corporation were elected:

   Ramon V. del Rosario
   Oscar J. Hilado
   Antonio V. del Rosario
   Magdaleno B. Albarracin, Jr.
   Ramon R. del Rosario, Jr.
   Francisco L. Viray
   Roberto M. Laviña
   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 2008.

3. The Management Contract of the corporation with Philippine Investment Management (PHINMA), Inc. was renewed effective September 1, 2008 for a period of five years under the same terms and conditions but with a monthly fee of P 400,000.00 subject to adjustment yearly by P 40,000.00 a month on each anniversary date for the duration of the contract.

Following the annual meeting of shareholders the following officers were reelected:

Ramon V. del Rosario	Chairman Emeritus
Oscar J. Hilado	Chairman
Ramon R. del Rosario, Jr.	Vice-Chairman
Francsico L. Viray	President & CEO
Roberto M. Laviña	EVP/CFO/Treasurer
Juan J. Diaz	Corporate Secretary
Rosario B. Venturina	SVP – Bus. Dev.
Ponciano L. Dimayuga	SVP – Finance
Raymundo A. Reyes, Jr.	VP – Exploration
Carlos I. Arguelles	VP & Compliance Officer
Rizalino G. Santos	VP – Electricity Trading and Marketing
Frederick C. Lopez	VP – Materials Mgt.
Miguel Romulado T. Sanidad	Assistance Corporate Secretary
Danilo L. Panes	Asst. VP

Benjamin Austria	Senior Consultant

Various Committees of the Board were organized as follows:

Executive Committee/Stock Option Committee:

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

Audit Committee:

Alfredo M. Velayo	Chairman
Roberto M. Laviña	Member
Reynaldo V. Paulino	Member
Ricardo V. Camua	Member

Nominations Committee:

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

Compensation Committee:

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

May 7, 2008

In the meeting of the Stock Option Committee of the Board of Directors held on May 7, 2008, the 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.

In the same meeting, the Committee decided to go ahead with the company's Stock Grant for its executives.

May 7, 2008

The Department of Energy awarded on May 7, 2008 a Petroleum Service Contract to a consortium composed of Trans-Asia Oil and Energy Development Corporation (30% participating interest) and NorAsian Energy Philippines, Inc. (70% participating interest), covering a 704,000 hectare area in the Camotes Sea, between the islands of Cebu, Leyte and Bohol.

The consortium committed to undertake a work program consisting of a geological and geophysical study and reprocessing of 500 line-km of vintage seismic data, at a minimum cost of US $ 200,000, within the first year of the seven-year Exploration Period. The partners have successive options to conduct seismic surveys and drill up to three exploratory wells during the balance of the Exploration Period.

May 19, 2008

At the regular meeting of the Board of Directors of Trans-Asia Oil and Energy Development Corporation held on May

19, 2008, the Board authorized and directed the corporation to avail of the latest stock rights offering from Phinma Property Holdings Corporation by subscribing to 51,033,069 shares at the price of P 0.12 per share.

August 4, 2008

Trans-Asia has completed drilling of its first exploratory hole in the contract area of Jose Panganiban, Camarines, Norte per MPSA No. 252-2007-V.

The bore hole reached a final total depth of 234.66 meters below ground level. Results are under evaluation.

August 29, 2008

Trans-Asia Gold and Minerals Development Corp. (Trans-Asia Gold), wholly-owned subsidiary of Trans-Asia Oil and Energy Development Corporation (Trans-Asia Oil), entered into a Geophysical Survey Agreement with Elliot Geophysics International Pty., Ltd. for the provision of radiometric survey services over the area covered by Mineral Production Sharing Agreement No. 252-2007-V, Jose Panganiban, Camrines Norte of Trans-Asia Oil.

Trans-Asia Oil and Trans-Asia Gold have previously signed an Operating Agreement pertaining to said MPSA.

August 29, 2008

The Department of Energy confirmed in a letter which Trans-Asia Oil received on 14 August 2008 that the Service Contract 55 consortium had fulfilled the work commitment for the 2nd Sub-Phase of the Exploration Period (5 February 2008 to 5 August 2009) with its acquisition of 976 line-km of 2D seismic data in June 2007. Further, the deadline for the delivery of one (1) exploratory well for the 3rd Sub-Phase is 5 August 2010.

Trans-Asia Oil has 15% participating interest in SC 55.

September 8, 2008

Ambassador Ramon V. del Rosario, Sr., Chairman Emeritus of Trans-Asia Oil and Energy Development Corporation passed away in the Grace of the Lord on September 7, 2008.

September 15, 2008

At the regular meeting of the Board of Directors of Trans-Asia Oil and Energy Development Corporation held September 15, 2008, Mr. Victor J. del Rosario was elected director to serve the unexpired term of Amb. Ramon V. del Rosario, Sr.

September 29, 2008

The Department of Energy extended the term of Service Contract No. 6 as it pertains to the Cadlao Production Area, offshore Northwest Palawan, for fifteen (15) years effective March 1, 2009, subject to certain conditions.

	Trans-Asia has a 1.65% gross overriding royalty interest in the Cadlao Production Area.
December 24, 2008	In December 2007, and as earlier disclosed, Trans-Asia Oil & Energy Development Corporation ("Trans-Asia") completed the rights offering (the "Rights Offering") and listing of 552,528,364 new common shares. Based on the use of proceeds from the Rights Offering approved by this Exchange, the total amount of ₱378.5 million from the proceeds of the Right Offering was intended to finance the expansion of that 21 Megawatt Bunker C-fired power plant located in Carmelray Industrial park II of Trans-Asia's subsidiary, CIP II Power Corporation ("CIPP"). Under the work program also approved by this Exchange, the said amount is scheduled to used or expended by 2008. Please be informed that Trans-Asia and CIPP are constrained to suspend the said plant expansion and expenditure of the said proceeds due to the following reasons: a) the projected increase in demand for electricity based on projected growth in number and size of industrial users (locators) did not materialize; b) the significant drop in demand for electricity brought about by adverse effect of the U.S. recession on the locators whose major markets are in the U.S.; and c) the fuel price risks which most of CIPP's users are not willing to share with CIPP. Trans-Asia is scheduled to determine and decide, by the first quarter of 2009, on whether to proceed with the plant expansion. Trans-Asia will disclose any material decision or plan in connection with the said plant expansion at the soonest possible time, in compliance with the rules of this Exchange.

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 8, 2009.

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

YOLANDA D. AÑONUEVO
Accounting Manager

PONCIANO L. DIMAYUGA
SVP - Finance

JUAN J. DIAZ
Corporate Secretary

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

APR 1 3 2009

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

Name	CTC No.	Date of Issue	Place of Issue
Francisco L. Viray	19023135	January 9, 2009	Manila
Roberto M. Laviña	00516339	February 25, 2009	Makati
Ponciano L. Dimayuga	19599167	February 16, 2008	Muntinlupa
Raymundo A. Reyes, Jr.	00889638	February 27, 2009	Parañaque
Yolanda D. Añonuevo	01821974	March 2, 2009	Makati
Juan J. Diaz	00227283	May 14, 2008	Makati

NOTARY PUBLIC

MIGUEL ROMUALDO T. SANIDAD
NOTARY PUBLIC
UNTIL DECEMBER 31, 2009
APPOINTMENT NO. [illegible]-245 (2008-2009)
UNTIL DECEMBER 31, 2009
PTR No. 1599297; 1/28/09; MAKATI CITY
IBP No. 778347; 1/29/09; MAKATI CHAPTER
ROLL No. 33861

Doc. No. 414
Page No. 84
Book No. 12
Series of 2009

ANNEX A

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2008 and 2007
And Years Ended December 31, 2008, 2007 and 2006

And

Independent Auditors' Report

Trans-Asia Oil
and Energy Development
Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The management of Trans-Asia Oil and Energy Development Corporation and Subsidiaries (the "Company") is responsible for all information and representations contained in the consolidated balance sheets as of December 31, 2008 and 2007 and the related consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2008, 2007, and 2006. The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

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

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

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

OSCAR J. HILADO
Chairman of the Board

FRANCISCO L. VIRAY
President & Chief Executive Officer

ROBERTO M. LAVIÑA
EVP & Chief Financial Officer

(Page 3 of Statement of Management's
Responsibility for Financial Statements)

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

SUBSCRIBED AND SWORN to before me this FEB 27 2009 affiant(s) exhibiting to me his/her Community Tax Certificate, as follows:

Name	CTC No.	Date of Issue	Place of Issue
Oscar J. Hilado	16884955	24 February 2009	Quezon City
Francisco L. Viray	19023135	9 January 2009	Manila
Roberto M. Laviña	00516339	25 February 2009	Makati City

MIGUEL ROMUALDO T. SANIDAD
NOTARY PUBLIC
APPOINTMENT NO. M-245 (2008-2009)
UNTIL DECEMBER 31 2009
PTR NO. 1302522 1 11 08, MAKATI CITY
IBP NO. 737439; 1/11/08, MAKATI CITY
ROLL NO. 33861

Doc. No. 204
Page No. 42
Book No. 57
Series of 2009

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

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

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Trans-Asia Oil and Energy Development Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, 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, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Bennette A. Daplas-Bachoco
Partner
CPA Certificate No. 86740
SEC Accreditation No. 0112-AR-1
Tax Identification No. 129-433-970
PTR No. 1566405, January 5, 2009, Makati City

February 16, 2009

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 28 and 29)	**₱909,531,281**	₱1,211,421,333
Short-term investments (Notes 28 and 29)	**17,511,120**	8,639,904
Investments held for trading (Notes 7, 28 and 29)	**544,686,420**	134,058,401
Receivables - net (Notes 8, 25, 27, 28 and 29)	**183,915,101**	118,256,864
Fuel and spare parts - at cost	**50,723,464**	56,063,302
Other current assets (Note 29)	**16,378,189**	44,734,135
Company's share in current assets of a joint venture (Note 13)	**162,351,330**	143,971,808
Total Current Assets	**1,885,096,905**	1,717,145,747
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**620,140,932**	663,434,690
Investments in associates - net (Note 10)	**169,102,273**	160,450,341
Available-for-sale investments (Notes 11 and 29)	**206,428,819**	224,250,497
Investment property - net (Note 12)	**3,316,911**	3,577,060
Intangible assets - net (Note 14)	**144,245,029**	185,401,954
Other noncurrent assets	**331,678**	332,678
Company's share in noncurrent assets of a joint venture (Note 13)	**305,390,672**	376,962,029
Total Noncurrent Assets	**1,448,956,314**	1,614,409,249
	₱3,334,053,219	₱3,331,554,996
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 15, 25, 28 and 29)	**₱214,550,040**	₱188,863,566
Customers' deposits (Notes 28 and 29)	**27,385,096**	–
Due to stockholders (Notes 25 and 29)	**6,272,367**	5,340,277
Income and withholding taxes payable	**968,699**	4,128,253
Company's share in current liabilities of a joint venture (Note 13)	**144,387,610**	140,899,105
Total Current Liabilities	**393,563,812**	339,231,201

(Forward)

	December 31	
	2008	2007
Noncurrent Liabilities		
Customers' deposits (Notes 28 and 29)	**₱–**	₱17,558,403
Pension and other post-employment benefits (Note 24)	**10,933,554**	6,415,541
Deferred tax liabilities - net (Note 23)	**53,455,041**	85,584,751
Other noncurrent liabilities (Notes 28 and 29)	**7,474,921**	7,107,382
Company's share in noncurrent liabilities of a joint venture (Notes 13 and 23)	**10,750,516**	13,775,254
Total Noncurrent Liabilities	**82,614,032**	130,441,331
Equity		
Capital stock (Note 16)	**1,662,298,650**	1,657,585,092
Additional paid-in capital (Note 16)	**54,693,308**	54,693,308
Unrealized fair value gains on available-for-sale investments (Note 11)	**54,470,950**	77,866,896
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture (Note 13)	**8,759,105**	16,252,343
Retained earnings (Note 16)	**1,081,577,231**	1,059,408,694
Parent Company shares of stock held by a joint venture (Note 13)	**(3,923,869)**	(3,923,869)
Total Equity	**2,857,875,375**	2,861,882,464
	₱3,334,053,219	₱3,331,554,996

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007	2006
REVENUES			
Generation revenue (Note 1)	**₱728,339,370**	₱624,589,469	₱58,699,781
Trading revenue (Note 1)	**277,379,658**	–	–
Interest and other financial income (Note 29)	**48,403,004**	32,832,924	39,260,011
Dividend income	**2,120,941**	8,837,802	770,315
Other income	**2,113,080**	38,996,948	31,500,979
Company's share in revenue of a joint venture (Note 13):			
Generation	**566,205,561**	749,144,599	529,703,050
Other income	**38,094,780**	5,627,758	15,691,261
	1,662,656,394	1,460,029,500	675,625,397
COSTS AND EXPENSES			
Cost of power generation (Notes 19, 21, 22 and 27)	**742,645,356**	556,133,685	53,510,047
Trading cost (Note 18)	**222,174,755**	–	–
General and administrative expenses (Notes 20, 21, 22, 24 and 25)	**173,474,555**	178,914,549	67,381,491
Company's share in costs and expenses of a joint venture (Note 13):			
Cost of power generation	**493,916,963**	594,815,726	423,410,100
General and administrative expenses	**26,376,093**	49,858,311	37,623,597
OTHER EXPENSES (INCOME)			
Foreign exchange loss (gain)	**(69,589,120)**	75,911,720	32,857,587
Net loss (gain) on derivatives (Note 29)	**21,231,494**	(92,830,292)	(24,010,010)
Equity in net earnings of associates (Note 10)	**(8,651,932)**	(5,009,578)	(2,948,151)
Provision for (reversal of):			
Unrecoverable input tax	**6,162,861**	–	–
Allowance for impairment on investment in an associate (Note 10)	–	(3,405,227)	–
Impairment loss on available-for-sale investments (Note 11)	–	20,000	255,000
Interest and other financial charges (Note 29)	**5,935,581**	14,376,966	5,481,495
Loss (gain) on sale of:			
Property and equipment	**35,873**	(82,167)	–
Available-for-sale investments	**28,772**	(1,075,355)	(63,083)
Others	**(19,362,186)**	(13,020,541)	(2,623,598)
	1,594,379,065	1,354,607,797	590,874,475
INCOME BEFORE EXCESS OF THE NET FAIR VALUE OF AN ACQUIRED COMPANY'S IDENTIFIABLE ASSETS AND LIABILITIES OVER COST	**68,277,329**	105,421,703	84,750,922
EXCESS OF THE NET FAIR VALUE OF AN ACQUIRED COMPANY'S IDENTIFIABLE ASSETS AND LIABILITIES OVER COST	**–**	–	271,021,316
INCOME BEFORE INCOME TAX (Carried Forward)	**68,277,329**	105,421,703	355,772,238

	Years Ended December 31		
	2008	2007	2006
INCOME BEFORE INCOME TAX (Brought Forward)	**₱68,277,329**	₱105,421,703	₱355,772,238
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**5,602,477**	3,596,825	1,097,140
Deferred	**(32,129,710)**	(12,376,872)	2,543,681
Company's share in income tax of a joint venture	**6,327,864**	35,934,818	24,916,992
	(20,199,369)	27,154,771	28,557,813
NET INCOME	**₱88,476,698**	₱78,266,932	₱327,214,425
Basic/Diluted Earnings Per Share (Note 26)	**₱0.05**	₱0.07	₱0.30

See accompanying Notes to Consolidated Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 16 and 17)	Additional Paid-in Capital (Note 16)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 11)	Retained Earnings (Note 16)	Company's Share in Unrealized Fair Value Gains on Available-for-Sale Investments of a Joint Venture (Note 13)	Parent Company Shares of Stock Held by a Joint Venture (Note 13)	Total
Balance at January 1, 2008	**₱1,657,585,092**	**₱54,693,308**	**₱77,866,896**	**₱1,059,408,694**	**₱16,252,343**	**(₱3,923,869)**	**₱2,861,882,464**
Cash dividends - ₱0.04 per share	–	–	–	**(66,308,161)**	–	–	**(66,308,161)**
Issuance of stocks	**4,713,558**	–	–	–	–	–	**4,713,558**
	1,662,298,650	**54,693,308**	**77,866,896**	**993,100,533**	**16,252,343**	**(3,923,869)**	**2,800,287,861**
Decrease in fair value gains of available-for-sale investments	–	–	**(23,395,946)**	–	–	–	**(23,395,946)**
Share in decrease in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	**(7,493,238)**	–	**(7,493,238)**
Net income for the year	–	–	–	**88,476,698**	–	–	**88,476,698**
Total income (loss) for the year	–	–	**(23,395,946)**	**88,476,698**	**(7,493,238)**	–	**57,587,514**
Balance at December 31, 2008	**₱1,662,298,650**	**₱54,693,308**	**₱54,470,950**	**₱1,081,577,231**	**₱8,759,105**	**(₱3,923,869)**	**₱2,857,875,375**
Balance at January 1, 2007	₱1,105,056,728	₱8,194,721	₱27,736,507	₱1,025,344,031	₱4,979,588	(₱3,147,272)	₱2,168,164,303
Cash dividends - ₱0.04 per share	–	–	–	(44,202,269)	–	–	(44,202,269)
Proceeds from stock rights offering, net of ₱8.8 million direct issuance costs	552,528,364	46,498,587	–	–	–	–	599,026,951
Increase in Parent Company shares held by joint venture	–	–	–	–	–	(776,597)	(776,597)
	1,657,585,092	54,693,308	27,736,507	981,141,762	4,979,588	(3,923,869)	2,722,212,388
Increase in fair value gains of available-for-sale investments	–	–	50,130,389	–	–	–	50,130,389
Share in increase in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	11,272,755	–	11,272,755
Net income for the year	–	–	–	78,266,932	–		78,266,932
Total income for the year	–	–	50,130,389	78,266,932	11,272,755	–	139,670,076
Balance at December 31, 2007	₱1,657,585,092	₱54,693,308	₱77,866,896	₱1,059,408,694	₱16,252,343	(₱3,923,869)	₱2,861,882,464
Balance at January 1, 2006	₱1,105,056,728	₱8,194,721	₱12,223,435	₱742,331,875	₱1,042,940	(₱3,147,272)	₱1,865,702,427
Cash dividends - ₱0.04 per share	–	–	–	(44,202,269)	–	–	(44,202,269)
	1,105,056,728	8,194,721	12,223,435	698,129,606	1,042,940	(3,147,272)	1,821,500,158
Increase in fair value gains of available-for-sale investments	–	–	15,513,072	–	–	–	15,513,072
Share in increase in fair value gains of available-for-sale investments of a joint venture	–	–	–	–	3,936,648	–	3,936,648
Net income for the year	–	–	–	327,214,425	–	–	327,214,425
Total income for the year	–	–	15,513,072	327,214,425	3,936,648	–	346,664,145
Balance at December 31, 2006	₱1,105,056,728	₱8,194,721	₱27,736,507	₱1,025,344,031	₱4,979,588	(₱3,147,272)	₱2,168,164,303

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		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱68,277,329**	₱105,421,703	₱355,772,238
Adjustments for:			
Company's share in loss (income) before income tax of a joint venture	**84,007,285**	(110,098,320)	(81,730,092)
Depreciation and amortization (Note 22)	**102,234,092**	63,352,797	15,309,818
Foreign exchange loss (gain)	**(54,846,127)**	81,551,309	8,847,576
Interest and other financial income (Note 29)	**(48,403,004)**	(32,832,924)	(39,260,011)
Net loss (gain) on derivatives (Note 29)	**21,231,494**	(92,830,292)	–
Equity in net earnings of associates (Note 10)	**(8,651,932)**	(5,009,578)	(2,948,151)
Provisions for (reversal of):			
Unrecoverable input tax	**6,162,861**	–	–
Impairment loss on investment in an associate (Note 11)	**–**	(3,405,227)	–
Impairment loss on available-for-sale investments	**–**	20,000	255,000
Interest and other financial charges (Note 29)	**5,935,581**	14,376,966	5,481,495
Dividend income	**(2,120,941)**	(8,837,802)	(770,315)
Loss (gain) on sale of:			
Property and equipment	**35,873**	(82,167)	–
Available-for-sale investments	**28,772**	(1,075,355)	(63,083)
Excess of the net fair value of an acquired company's identifiable assets and liabilities over cost	**–**	–	(271,021,316)
Others	**–**	(1,354,197)	–
Operating income (loss) before working capital changes	**173,891,283**	9,196,913	(10,126,841)
Decrease (increase) in:			
Receivables	**(98,837,050)**	(44,802,202)	3,187,936
Fuel and spare parts	**5,339,838**	(32,669,967)	305,330
Other current assets	**(10,455,805)**	82,617,879	(16,589,271)
Increase (decrease) in accounts payable and other current liabilities	**19,847,575**	88,494,487	(4,755,433)
Net cash generated from (used in) operations	**89,785,841**	102,837,110	(27,978,279)
Interest received	**54,952,237**	32,435,871	15,894,962
Interest paid	**(486,486)**	(10,520,429)	(4,211,854)
Income taxes paid	**(7,424,230)**	(279,663)	(1,097,140)
Company's share in net cash flows provided by (used in) operating activities of a joint venture	**(52,329,766)**	167,971,271	80,778,955
Net cash provided by operating activities	**84,497,596**	292,444,160	63,386,644
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary, net of cash acquired	**–**	–	(191,133,115)
Additions to:			
Investments held for trading	**(1,143,926,855)**	(491,117,726)	(1,050,488,621)
Property and equipment (Note 9)	**(11,981,177)**	(68,979,220)	(1,438,116)
Short-term investments	**(8,871,216)**	(8,639,904)	–
Available-for-sale investments	**(6,836,230)**	(2,763,482)	(11,077,040)
Deferred exploration costs (Note 14)	**(6,109,207)**	(3,948,825)	(2,436,991)

(Forward)

	Years Ended December 31		
	2008	2007	2006
Cash dividends received	**₱2,120,941**	₱8,837,802	₱1,870,315
Proceeds from:			
Sale/redemption of investments held for trading	**736,835,458**	702,657,454	974,601,245
Settlement of currency forward contracts (Note 29)	**22,199,906**	86,488,761	–
Sale of available-for-sale investments	**1,233,190**	3,087,785	314,164
Sale of property and equipment	**531,251**	213,000	–
Termination of short-term investments	**–**	–	40,630,886
Cash received from an associate for the return of capital	**–**	3,405,227	–
Decrease in other noncurrent assets	**1,000**	36,864	205,613
Company's share in net cash flows provided by (used in) investing activities of a joint venture	**(426,492)**	133,269,167	(29,535,935)
Net cash provided by (used in) investing activities	**(415,229,431)**	362,546,903	(268,487,595)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock, net of issuance costs (Notes 16 and 17)	**–**	599,026,951	–
Short-term loans and borrowings	**–**	–	165,000,000
Payments of:			
Cash dividends	**(66,308,161)**	(44,202,269)	(44,202,269)
Short-term loans and borrowings	**–**	(204,934,019)	–
Long-term loans and borrowings	**–**	(27,272,727)	(5,454,545)
Increase in other noncurrent liabilities	**3,859,164**	3,223,574	–
Increase in due to stockholders	**932,090**	4,098,591	6,322
Increase in customers' deposits	**4,454,239**	805,143	–
Company's share in net cash flows provided by financing activities of a joint venture	**36,925,000**	–	–
Net cash provided by (used in) financing activities	**(20,137,668)**	330,745,244	115,349,508
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
Effect of foreign exchange rate changes on cash and cash equivalents of venturer	**45,662,613**	(30,387,685)	(8,847,577)
Company's share in effect of foreign exchange rate changes on cash and cash equivalents of a joint venture	**–**	(150,016)	598,690
Net effect of foreign exchange rate changes on cash and cash equivalents	**45,662,613**	(30,537,701)	(8,248,887)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURE	**(305,206,890)**	955,198,606	(98,000,330)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**1,221,667,518**	266,468,912	364,469,242
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱916,460,628**	₱1,221,667,518	₱266,468,912

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Trans-Asia Oil and Energy Development Corporation (TA Oil or "Parent Company"), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Renewable Energy Corporation (Renewable), Trans-Asia (Karang Besar) Petroleum Corporation, CIP II Power Corporation (CIPP) and Trans-Asia Gold and Minerals Development Corporation (TA Gold) (collectively referred to as "the Company") are incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The Parent Company is involved in power generation 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 other activities of the Company are investments in various operating companies and financial instruments. As of December 31, 2008, its largest investment is 50% interest in Trans-Asia Power Generation Corporation (TA Power). Its subsidiaries, TA Gold, Renewable and Karang Besar, on the other hand, have not yet started commercial operations. On December 28, 2006, the Parent Company acquired CIPP, a company registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna. On July 2, 2007, TA Gold was incorporated and registered with the SEC to primarily engage in the business of mining and mineral exploration within the Philippines and other countries.

The Energy Regulatory Commission (ERC) granted TA Oil a certificate of registration as a Wholesale Aggregator in November 2006, renewable every five (5) years, and a Retail Electricty Supplier's (RES) license in December 2006. 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).

The license authorizes TA Oil to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). As RES, TA Oil is allowed to supply electricity to the contestable market, pursuant to EPIRA.

Both TA Power and TA Oil obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC. This includes selling of excess generation to the WESM.

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

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

The consolidated financial statements of the Company were authorized for issuance by the Board of Directors (BOD) on February 16, 2009.

2. Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL), 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 and presentation currency. All values are rounded to the nearest peso, unless otherwise stated.

Statement of Compliance

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

Basis of Consolidation

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

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

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

In addition, the Company's share of each of the assets, liabilities, income and expenses of its jointly controlled venture, TA Power, is included as a separate line item in the consolidated financial statements based on the account grouping (see 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 Philippine Interpretations which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect to the Company:

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 11, "PFRS 2 - Group and Treasury Share Transactions"

- Philippine Interpretation IFRIC 12, "Service Concession Arrangements"

- Philippine Interpretation IFRIC 14, "PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction"

- Amendments to Philippine Accounting Standards (PAS) 39, "Financial Instruments: Recognition and Measurement," and PFRS 7, "Financial Instruments: Disclosures - Reclassification of Financial Assets"

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2008

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

Effective in 2009

- PFRS 1, "First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

  The amended standard allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: (a) cost determined in accordance with PAS 27; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or (c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- PFRS 2, "Share-based Payment - Vesting Condition and Cancellations"

  The revised standard clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

- PFRS 8, "Operating Segments"

  The standard will replace 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. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its consolidated financial statements with a securities commission or similar party.

- Amendments to PAS 1, "Presentation of Financial Statements"

  This Amendment introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income' (OCI). Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income.

- PAS 23, "Borrowing Costs"

  The revised standard requires capitalization of borrowing costs when such costs relate to 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 in the standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- Amendments to PAS 27, "Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

  This Amendment specifies changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendments to PAS 32, "Financial Instruments: Presentation and PAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation"

  This Amendment specifies, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) The instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) The instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) All instruments in the subordinate class have identical features; (d) The instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes"

  The interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

  The interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS. In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are the separate transitional provisions for each standard.

- 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"

  The following are the improvements:

  – Revision of 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.

  – Revision of 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.

  – Revision of 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 20, "Accounting for Government Grants and Disclosures of Government Assistance"

  Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- 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 29, "Financial Reporting in Hyperinflationary Economies"

  The improvement pertains to revision of the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- 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"

  The following are the improvements:

  – 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.

- PAS 41, "Agriculture"

  The following are the improvements:

  – Removal of the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.

– Removal of the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

- Revised PFRS 3, "Business Combinations" and PAS 27, "Consolidated and Separate Financial Statements"

  The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that: (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'), even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

- Amendment to PAS 39, "Financial Instruments: Recognition and Measurement - Eligible Hedged Items"

  The amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment 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.

Effective in 2012

- Philippine Interpretation IFRIC 15, "Agreement for Construction of Real Estate"

  The interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, "Construction Contracts," or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

4. **Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

- Financial Assets and Liabilities at FVPL

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

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

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

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

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

  The Company has no financial asset or liability designated on initial recognition as at FVPL.

  Financial Assets or Financial Liabilities Held for Trading. Financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as gain on investment held for trading under "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.

The Company's investments in bonds and fixed treasury notes (FXTNs) and mutual 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 re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

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

- Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in 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.

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.

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

- AFS Investments

AFS investments are those non-derivative 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.

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

AFS 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.

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.

  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).

- 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. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

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 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 estimated 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. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

In 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.

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

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

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

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

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.

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

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

Investments in Associates

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

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

Interest in a Joint Venture

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

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

Investment Property

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

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

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

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

Deferred Exploration Costs

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

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

Deferred exploration costs are assessed for impairment when:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; or

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; or

- 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.

Provisions

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

Revenue

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

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.

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.

Pensions and Other Post-Employment Benefits

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

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

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

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

Stock Option

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

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

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

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

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

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

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

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

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

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

Income Tax

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

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

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

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

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

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

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

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

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

Earnings Per Share (EPS)
Basic EPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted EPS is computed as if the stock options were exercised as of the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury

stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect and the Company does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted EPS is the same as basic EPS.

Segment Reporting

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

Contingencies

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

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 Estimates and Judgments

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

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

Judgments

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

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

Fair Value of Financial Assets and Financial Liabilities. The fair value for financial instruments traded in an 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. 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 is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility.

Estimates

Estimating 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 as of December 31, 2008 and 2007 is ₱183.9 million and ₱118.3 million, respectively (see Note 8).

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

The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred tax assets were recognized in the consolidated balance sheet as of December 31, 2008 and 2007 amounted to ₱139.0 million and ₱369.1 million, respectively (see Note 23).

Estimating Useful Lives of Property, Plant and Equipment and Investment Property. The Company estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of December 31, 2008 and 2007 is ₱620.1 million and ₱663.4 million, respectively (see Note 9). The carrying value of investment property as of December 31, 2008 and 2007 is ₱3.3 million and ₱3.6 million, respectively (see Note 12).

Impairment of Deferred Exploration Costs. The carrying value of deferred exploration costs is reviewed for impairment when there are indications that the carrying amount exceeds the recoverable amount. The carrying value of deferred exploration costs is ₱144.2 million and ₱138.1 million as of December 31, 2008 and 2007, respectively (see Note 14).

Impairment of Property, Plant and Equipment, Customer Contracts and Investment Property. The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value in use of the cash-generating units. There are no additional impairment losses provided in 2008, 2007 and 2006. The carrying value of property, plant and equipment as of December 31, 2008 and 2007 is ₱620.1 million and ₱663.4 million, respectively. Details are disclosed in Note 9 to the consolidated financial statements. The carrying value of customer contracts as of December 31, 2008 and 2007 is nil and ₱47.3 million, respectively. Details are disclosed in Note 14 to the consolidated financial statements. The carrying value of investment property as of December 31, 2008 and 2007 is ₱3.3 million and ₱3.6 million, respectively. Details are disclosed in Note 12 to the consolidated financial statements.

Impairment of Investments in Associates. The carrying value of investments in associates is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount. The carrying value of investments in associates as of December 31, 2008 and 2007 is ₱169.1 million and ₱160.5 million, respectively. Details are disclosed in Note 10 to the consolidated financial statements.

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% more of the original cost of investment, and "prolonged", greater than 6 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying value of AFS investments as of December 31, 2008 and 2007 is ₱206.4 million and ₱224.3 million, respectively. Details are disclosed in Note 11 to the consolidated financial statements

Pension and Other Post-employment Benefits. The determination of the Company's obligation and cost for pension and other post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. The assumptions described in Note 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, 2008 and 2007 is ₱10.9 million and ₱6.4 million, respectively (see Note 24).

6. Cash and Cash Equivalents

	2008	2007
Cash on hand and in banks	**₱45,129,307**	₱124,981,827
Short-term deposits	**864,401,974**	1,086,439,506
	₱909,531,281	₱1,211,421,333

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

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

	2008	2007
Cash and cash equivalents of venturer	**₱909,531,281**	₱1,211,421,333
Share in cash and cash equivalents of a joint venture (see Note 13)	**6,929,347**	10,246,185
	₱916,460,628	₱1,221,667,518

7. Investments Held for Trading

	2008	2007
Investments in bonds and FXTNs	**₱274,776,637**	₱134,058,401
Investments in UITFs and mutual funds	**269,909,783**	–
	₱544,686,420	₱134,058,401

The Company's unrealized 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 statement of income) amounted to ₱0.2 million, ₱0.6 million and ₱8.4 million as of December 31, 2008, 2007 and 2006, respectively.

8. Receivables

	2008	2007
Trade (see Note 27)	**₱129,197,431**	₱87,302,887
Due from related companies (see Notes 25 and 27)	**62,616,074**	24,287,915
Others	**18,904,328**	33,468,794
	210,717,833	145,059,596
Less allowance for doubtful accounts	**26,802,732**	26,802,732
	₱183,915,101	₱118,256,864

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.

Due from related companies includes a long-outstanding receivable of ₱23.5 million from a company under common control of PHINMA, which was fully provided with allowance for doubtful accounts, as of December 31, 2008 and 2007.

Other receivables include interest receivable of ₱8.5 million and ₱6.4 million as of December 31, 2008 and 2007, respectively.

The Parent Company extended a loan to Guimelco with face value amounting to ₱532,382 with interest of 12.7% per annum and a monthly amortization of ₱18,726 beginning May 2005 up to February 2008. The monthly amortization is offset against the monthly rental of ₱20,000 under the lease contract between Guimelco and TA Oil.

The outstanding balance of the loan receivable as of December 31, 2007 is ₱36,865. The amount due within the next twelve months after year end of 2007 totaled ₱36,865 and is included as part of other receivables. The loan receivable was fully collected in February 2008.

Due from related companies amounting to ₱23.5 million and other receivables amounting to ₱3.3 million were impaired and fully provided with an allowance as of December 31, 2008 and 2007, respectively. There was no movement in the allowance for doubtful accounts in 2008 and 2007.

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

	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	**₱129,198**	**₱104,006**	**₱9,991**	**₱6,543**	**₱1,764**	**₱6,894**	**₱–**
Due from related companies	**62,616**	**39,084**	**–**	**–**	**–**	**–**	**23,532**
Others	**18,904**	**15,627**	**–**	**–**	**–**	**6**	**3,271**
Total	**₱210,718**	**₱158,717**	**₱9,991**	**₱6,543**	**₱1,764**	**₱6,900**	**₱26,803**

	2007						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	30–60 Days	61–90 Days	91–120 Days	Past Due and Impaired
				(In Thousands)			
Trade	₱87,303	₱76,466	₱4,681	₱578	₱442	₱5,136	₱–
Due from related companies	24,288	756	–	–	–	–	23,532
Others	33,469	30,159	7	32	–	–	3,271
Total	₱145,060	₱107,381	₱4,688	₱610	₱442	₱5,136	₱26,803

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, 2007	₱57,983,000	₱90,482,530	₱502,398,223	₱20,346,661	₱8,047,649	₱4,707,066	₱24,889,363	₱708,854,492
Additions	–	7,157,864	50,000,000	–	6,766,620	3,052,205	2,002,531	68,979,220
Disposals	–	–	–	–	(712,500)	–	(36,080)	(748,580)
At December 31, 2007	57,983,000	97,640,394	552,398,223	20,346,661	14,101,769	7,759,271	26,855,814	777,085,132
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**	**98,111,122**	**552,398,223**	**20,346,661**	**12,663,376**	**17,671,228**	**28,210,025**	**787,383,635**
Accumulated depreciation and impairment:								
At January 1, 2007	–	18,736,486	8,770,040	20,346,661	2,949,255	1,094,559	11,095,074	62,992,075
Depreciation (see Note 22)	–	5,626,978	39,678,031	–	1,919,800	597,094	3,454,211	51,276,114
Disposals	–	–	–	–	(581,667)	–	(36,080)	(617,747)
At December 31, 2007	–	24,363,464	48,448,071	20,346,661	4,287,388	1,691,653	14,513,205	113,650,442
Depreciation (see 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**
Net book value:								
At December 31, 2008	**₱57,983,000**	**₱66,269,530**	**₱464,272,121**	**₱–**	**₱7,026,725**	**₱14,850,094**	**₱9,739,462**	**₱620,140,932**
At December 31, 2007	57,983,000	73,276,930	503,950,152	–	9,814,381	6,067,618	12,342,609	663,434,690
At January 1, 2007	57,983,000	71,746,044	493,628,183	–	5,098,394	3,612,507	13,794,289	645,862,417

Included under "Mining and other equipment" is a wind tower constructed in Sual, Pangasinan. Construction of the wind tower was completed on December 21, 2005. The Company has not operated the wind tower as the result of wind measurement in Sual, Pangasinan has not reached the required level to operate the wind tower commercially. In August 2007, the wind tower was transferred in San Lorenzo, Guimaras. Test run is on-going as of February 16, 2009.

10. **Investments in Associates**

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

	2008	2007
Acquisition costs:		
Balance at beginning of year	**₱207,334,913**	₱231,240,140
Reclassification	**–**	(20,500,000)
Return of capital	**–**	(3,405,227)
Balance at end of year	**207,334,913**	207,334,913
Accumulated equity in net losses:		
Balance at beginning of year	**(45,325,321)**	(20,665,133)
Equity in net earnings for the year	**8,651,932**	5,009,578
Reclassification	**–**	(29,669,766)
Balance at end of year	**(36,673,389)**	(45,325,321)
	170,661,524	162,009,592
Less accumulated impairment:		
Balance at beginning of year	**1,559,251**	4,964,478
Reversal	**–**	(3,405,227)
Balance at end of year	**1,559,251**	1,559,251
	₱169,102,273	₱160,450,341

The percentage of ownership and the carrying values of investments in associates which are accounted for under the equity method are as follows:

	Percentage of Ownership	**2008**	2007
Bacnotan Industrial Park Corporation (BIPC)	30.00	**₱168,460,744**	₱159,768,775
Asia Coal Corporation (Asia Coal)*	28.18	**641,529**	681,566
Union Aggregates Corporation (UAC)*	31.25	**–**	–
		₱169,102,273	₱160,450,341

** Ceased operations*

Information with regard to the Company's significant associates is shown below:

BIPC

	2008	2007
Cash and cash equivalents	**₱15,829,571**	₱10,105,857
Investments in UITFs and mutual fund	**–**	7,955,162
Installment contract receivables	**84,473,289**	54,379,063
Input tax and other current and noncurrent assets	**1,727,487**	16,512,057
Land and development costs	**351,864,878**	395,980,999
Property and equipment - net	**134,111,614**	141,887,247
Other noncurrent assets	**14,259,075**	–
Total (Carried Forward)	**602,265,914**	626,820,385

	2008	2007
Total (Brought Forward)	**₱602,265,914**	₱626,820,385
Accounts payable and accrued expenses	**(11,703,376)**	(20,995,196)
Deferred gross profit	**(2,271,990)**	(17,289,161)
Estimated liability for land development	**(2,271,990)**	(16,259,384)
Deposits for construction costs	**(2,246,773)**	(15,194,516)
Income and other taxes payable	**(1,845,079)**	(826,084)
Long-term debt	**(20,390,893)**	(23,693,459)
	(40,730,101)	(94,257,800)
Net assets	**₱561,535,813**	₱532,562,585
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

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On January 17, 2008, the Company, together with the other shareholders of BIPC, entered into a Memorandum of Agreement (MOA) with Phoenix Petroleum Philippines, Inc. (Phoenix) for the sale of all the issued and outstanding common shares of BIPC to Phoenix. As of February 16, 2009, the parties to such MOA have not made a decision whether or not to proceed with the sale of the BIPC shares.

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

	2008	2007
Shares of stock:		
Listed	**₱80,841,834**	₱105,557,479
Unlisted	**101,586,985**	95,463,018
Golf club shares	**24,000,000**	23,230,000
	₱206,428,819	₱224,250,497

AFS investments are stated at fair value as of December 31, 2008 and 2007, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Loss from change in fair value recognized directly in equity in 2008 amounted to ₱23.4 million. Gain from change in fair value recognized directly in equity in 2007 amounted to ₱50.1 million. No impairment loss was recognized in 2008. Impairment loss in 2007 and 2006 amounting to ₱20.0 thousand and ₱255.0 thousand, respectively, has been recognized directly in the consolidated statement of income.

12. **Investment Property**

	2008	2007
Cost	**₱4,893,663**	₱4,893,663
Less accumulated depreciation:		
Balance at beginning of the year	**1,316,603**	1,056,453
Depreciation	**260,149**	260,150
Balance at end of year	**1,576,752**	1,316,603
	₱3,316,911	₱3,577,060

Investment property is stated at cost less accumulated depreciation and any impairment losses. The fair value of the investment property based on the latest valuation by an independent firm of appraisers is ₱5.8 million as of December 31, 2008 and 2007. The valuation undertaken considers the sales of similar or substitute properties and related market data and establishes value estimate by processes involving comparison.

13. **Interest in a Joint Venture**

The Company has a 50% interest in TA Power, which is engaged in power generation.

The Company's proportionate share in the assets and liabilities of TA Power as of December 31, 2008 and 2007 and income and expenses for the years ended December 31, 2008, 2007 and 2006, before elimination of intercompany transactions and balances, are as follows:

	2008	2007
Current assets	**₱163,456,890**	₱143,971,808
Noncurrent assets*	**305,390,672**	376,962,029
	468,847,562	520,933,837
Current liabilities	**(177,907,084)**	(141,654,654)
Noncurrent liabilities	**(10,750,516)**	(13,775,254)
	(188,657,600)	(155,429,908)
Net assets	**₱280,189,962**	₱365,503,929

** Net of investment in shares of stock of the Parent Company of ₱3.9 million both in 2008 and 2007.*

	2008	2007	2006
Revenue	**₱593,109,585**	₱749,144,599	₱529,703,050
Cost of power generation	**(674,465,614)**	(594,815,726)	(423,410,100)
General and administrative expenses	**(28,503,547)**	(52,893,405)	(40,295,851)
Other income - net	**38,366,711**	5,747,467	15,732,993
Income (loss) before income tax	**(71,492,865)**	107,182,935	81,730,092
Provision for income tax	**(6,327,864)**	(35,934,818)	(24,916,992)
Net income (loss)	**(₱77,820,729)**	₱71,248,117	₱56,813,100

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

	2008	2007
Current assets:		
Cash and cash equivalents	**₱6,929,347**	₱10,246,185
Trade and other receivables	**77,985,999**	65,220,613
Fuel and spares - at cost	**51,015,876**	56,977,076
Prepaid expenses and other current assets	**26,420,108**	11,527,934
	₱162,351,330	₱143,971,808
Noncurrent assets:		
Property, plant and equipment - net	**₱261,679,763**	₱325,757,883
Available-for-sale investments	**43,710,909**	51,204,146
	₱305,390,672	₱376,962,029
Current liabilities:		
Trade and other payables	**₱102,652,792**	₱137,231,493
Interest-bearing loans and borrowings	**36,925,000**	–
Due to related parties	**1,736,383**	379,140
Derivative liability	**573,435**	788,472
Provisions	**2,500,000**	2,500,000
	₱144,387,610	₱140,899,105
Noncurrent liabilities:		
Deferred tax liability - net (see Note 23)	**₱10,561,166**	₱13,775,254
Other noncurrent liabilities	**189,350**	–
	₱10,750,516	₱13,775,254

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, 2008, 2007 and 2006, after elimination of intercompany transactions, are as follows:

	2008	2007	2006
Cost of power generation:			
Fuel	**₱379,308,179**	₱468,790,194	₱347,371,015
Depreciation and amortization	**63,441,151**	62,381,205	34,479,493
Repairs and maintenance	**21,531,011**	33,236,386	10,968,426
Labor	**14,818,399**	15,212,465	15,737,022
Taxes and licenses	**9,551,387**	7,957,142	8,468,263
Insurance	**2,617,617**	3,876,081	3,997,563
Security, janitorial and professional fees	**1,168,795**	1,281,841	799,829
Others	**1,480,424**	2,080,412	1,588,489
	₱493,916,963	₱594,815,726	₱423,410,100

	2008	2007	2006
General and administrative expenses:			
Management and professional fees	**₱12,815,632**	₱26,561,227	₱17,507,821
Salaries and directors' fees	**5,505,445**	13,557,560	7,107,987
Taxes and licenses	**2,760,690**	1,230,157	1,515,333
Depreciation and amortization	**1,063,604**	1,236,810	841,126
Employee benefits	**676,976**	2,115,496	5,165,825
Transportation and travel	**509,112**	986,185	1,030,547
Entertainment, amusement and recreation	**38,785**	15,389	19,337
Others	**3,005,849**	4,155,487	4,435,621
	₱26,376,093	₱49,858,311	₱37,623,597

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

	2008	2007
Deferred exploration costs	**₱144,245,029**	₱138,135,822
Customer contracts	**–**	47,266,132
	₱144,245,029	₱185,401,954

Following are the details and movements of intangible assets:

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Cost:					
At January 1, 2007	₱287,540,357	₱8,819,647	₱296,360,004	₱59,082,665	₱355,442,669
Additions	3,139,591	809,234	3,948,825	–	3,948,825
At December 31, 2007	290,679,948	9,628,881	300,308,829	59,082,665	359,391,494
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**

(Forward)

	Oil Exploration Costs	Mineral Exploration Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Allowance for impairment loss and amortization:					
At January 1, 2007	₱162,173,007	₱–	₱162,173,007	₱–	₱162,173,007
Amortization (see Note 22)	–	–	–	11,816,533	11,816,533
At December 31, 2007	162,173,007	–	162,173,007	11,816,533	173,989,540
Amortization (see 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**
Net book value:					
At December 31, 2008	**₱129,106,599**	**₱15,138,430**	**₱144,245,029**	**₱–**	**₱144,245,029**
At December 31, 2007	128,506,941	9,628,881	138,135,822	47,266,132	185,401,954
At January 1, 2007	125,367,350	8,819,647	134,186,997	59,082,665	193,269,662

Deferred Exploration Costs

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

	2008	2007
SC No. 6 (Northwest Palawan)	**₱113,297,532**	₱113,028,483
SC No. 51/GSEC No. 93 (East Visayas)	**32,545,030**	32,363,323
GSEC No. 94 (Offshore West Palawan)	**28,228,563**	28,228,563
Offshore North Mindoro-West Batangas	**17,290,300**	17,290,300
GSEC No. 91 (Southwest Palawan)	**8,103,315**	8,103,315
SC No. 55 (Offshore West Palawan)	**5,713,209**	5,570,140
SC No. 41 (Sulu Sea)	–	51,673,917
SC No. 42 (North Palawan)	–	33,880,927
Others	**546,813**	540,980
	₱205,724,762	₱290,679,948

The foregoing deferred oil exploration costs represent the Company’s share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and are covered by operating agreements which set forth the participating interests, rights and obligations of the contractors.

The following summarizes the status of the Company’s projects:

a. SC No. 6 Block A and Block B

Partners requested the DOE a 15-year extension of SC 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 primarily 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 an extension of the option period until September 2009.

b. SC No. 51

The DOE approved the consortium's entry into the 3rd Sub-Phase of the 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.

c. SC No. 55

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. 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 2^{nd} Sub-Phase of the Exploration Period.

The Parent Company 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 Paticipation Agreement signed by Parent Company with NorAsian's predecessors on March 15, 2005 prescribes that the latter shall bear the Parent Company'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 an Agreement with a major company in December 2008 for the farm-out of 60% of its 85% participating interest in SC No. 55.

d. SC No. 69

The DOE awarded SC No. 69 (formerly Area 8 of the 2006 Philippine Energy Contracting Round) on May 7, 2008 to a consortium composed of the Parent Company (30% interest) and NorAsian Energy Philippines (70%).

SC No. 69 has an Exploration Period of seven years, divided into five Sub-Phases. While the area is under-explored, initial indications set 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 3,000 kms. of vintage 2D seismic data, in fulfilling the work obligations under the 1st Sub-Phase of the Exploration Period (May 7, 2008 to May 6, 2009).

e. Minerals - MPSA 252-2007-V

On February 14, 2008, the Parent Company 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 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.

The Parent Company 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.

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

15. Accounts Payable and Other Current Liabilities

	2008	2007
Trade and nontrade accounts payable	**₱154,414,542**	₱108,455,684
Accrued directors' and annual incentives (see Note 25)	**21,059,487**	24,714,168
Output tax	**18,136,921**	6,115,611
Derivative liability (see Note 29)	**10,807,500**	–
Due to related parties (see Note 25)	**5,792,695**	775,473
Accrued expenses	**941,860**	48,312,267
Deferred rent income	**35,278**	35,278
Others	**3,361,757**	455,085
	₱214,550,040	₱188,863,566

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		
	2008	2007	2006
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000	2,000,000,000
Issued:			
Balance at beginning of year	**1,657,585,092**	1,105,056,728	1,105,056,728
Issuance during the year (see Note 17)	**4,713,558**	552,528,364	–
Balance at end of year	**1,662,298,650**	1,657,585,092	1,105,056,728

On June 20, 2007, the SEC approved the stock rights offering of 552.5 million shares of the Company at the rate of 1 share for every 2 shares held as of record date of November 23, 2007, at a price of ₱1.10 per share. The offer period commenced on November 28, 2007 and ended on December 11, 2007. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to ₱599.0 million. The proceeds were used to fund petroleum and mineral explorations and for general corporate purposes.

As of December 31, 2008, the Company's retained earnings balance is ₱1.1 billion while paid-up capital is ₱1.7 billion. Undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounting to ₱276.9 million and ₱422.5 million as of December 31, 2008 and 2007, respectively, are not currently available for dividend distribution.

Dividends declared and paid in 2008, 2007 and 2006 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
March 27, 2006	Cash	0.04 per share	44,202,269	May 23, 2006
April 2, 2007	Cash	0.04 per share	44,202,269	April 19, 2007
March 25, 2008	Cash	0.04 per share	66,308,161	April 11, 2008

17. **Employee Stock Options and Executive Stock Grants**

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

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

Subscription Price	At par value of ₱1 per share

Period of Exercise	Up to 100% of the allocated shares within three years from June 8, 2004
Payment of Shares	Cash payment upon exercise of option
Right to Exercise Option	Continuous employment required

As allowed under PFRS 1, the Company availed of the exemption from applying PFRS 2 to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005.

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares: (a) stock grants for officers and managers of the Company; and, (b) stock options for directors, officers and employees of TA Oil and its subsidiaries and affiliates (referred to herein as the "New Plan") under the terms and conditions as determined by the Executive Committee of the BOD. As of December 31, 2008, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

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 to the issuance of 4.7 million shares in 2008.

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.

18. **Trading Cost**

In 2008, this account consists of:

	Amount
Cost of power purchased	₱214,477,123
Salaries and directors' fees (see Note 21)	4,719,971
Management and professional fees (see Note 25)	466,000
Transportation and travel	454,643
Insurance, dues and subscriptions	426,631
Employee benefits (see Note 21)	324,424
Depreciation and amortization (see Note 22)	294,132
Office supplies	115,678
Building maintenance and repairs	24,342
Entertainment, amusement and recreation	16,848
Others	854,963
	₱222,174,755

19. **Cost of Power Generation**

	2008	2007	2006
Fuel	**₱608,492,958**	₱431,687,436	₱38,351,380
Depreciation and amortization (see Note 22)	**41,463,509**	40,493,918	6,077,911
Repairs and maintenance	**32,713,527**	12,276,662	971,628
Labor (see Note 21)	**17,960,148**	14,640,028	4,184,612
Rental	**16,331,831**	34,683,972	315,789
Concession and other fees (see Note 27)	**13,366,869**	11,869,307	–
Employee benefits (see Note 21)	**2,906,986**	2,956,775	889,523
Retirement (see Notes 21 and 24)	**2,232,819**	–	–
Insurance	**2,161,660**	2,379,831	637,365
Taxes and licenses	**1,911,799**	2,012,146	1,737,931
Others	**3,103,250**	3,133,610	343,908
	₱742,645,356	₱556,133,685	₱53,510,047

20. **General and Administrative Expenses**

	2008	2007	2006
Depreciation and amortization (see Note 22)	**₱60,476,451**	₱22,858,879	₱9,231,907
Management and professional fees (see Note 25)	**47,656,832**	51,639,133	21,575,692
Salaries and directors' fees (see Note 21)	**30,223,976**	63,250,167	12,877,985
Building maintenance and repairs	**9,221,085**	8,529,744	5,930,587
Employee benefits (see Note 21)	**4,578,918**	1,968,942	3,136,575
Insurance, dues and subscriptions	**3,021,322**	3,529,905	1,565,039
Rent	**2,890,925**	1,531,041	245,091
General exploration	**2,629,431**	10,865,130	2,615,382
Transportation and travel	**1,877,337**	4,223,163	3,202,162
Retirement (see Notes 21 and 24)	**1,952,817**	2,224,571	1,390,465
Donation and contribution	**1,928,354**	305,317	853,398
Office supplies	**1,500,770**	1,747,788	1,473,182
Taxes and licenses	**1,512,736**	2,235,847	1,183,445
Entertainment, amusement and recreation	**198,638**	75,912	31,722
Others	**3,804,963**	3,929,010	2,068,859
	₱173,474,555	₱178,914,549	₱67,381,491

21. **Personnel Expenses**

	2008	2007	2006
Salaries and directors' fees included under:			
Cost of power generation	**₱17,960,148**	₱14,640,028	₱4,184,612
Trading cost	**4,719,971**	–	–
General and administrative expenses	**30,223,976**	63,250,167	12,877,985
Deferred exploration costs	**–**	2,091,316	2,216,415
Retirement (see Note 24) included under:			
Cost of power generation	**2,232,819**	–	–
General and administrative expenses	**1,952,817**	2,224,571	1,390,465
Employee benefits included under:			
Cost of power generation	**2,906,986**	2,956,775	889,523
Trading cost	**324,424**	–	–
General and administrative expenses	**4,578,918**	1,968,942	3,136,575
	₱64,900,059	₱87,131,799	₱24,695,575

22. Depreciation and Amortization

Depreciation and amortization related to the following assets:

	2008	2007	2006
Depreciation expense of property, plant and equipment and investment property included under (see Notes 9 and 12):			
Cost of power generation	**₱41,463,509**	₱40,493,918	₱6,077,911
Trading cost	**294,132**	–	–
General and administrative expenses	**13,210,319**	11,042,346	9,231,907
	54,967,960	51,536,264	15,309,818
Amortization of intangibles included under - General and administrative expenses (see Note 14)	**47,266,132**	11,816,533	–
	₱102,234,092	₱63,352,797	₱15,309,818

23. Income Tax

The Company's deferred tax liabilities amounting to ₱53.5 million (net of ₱12.1 million recognized deferred tax assets) and ₱85.6 million as of December 31, 2008 and 2007, respectively, pertain to the tax effects of the difference between fair values and carrying amounts of net assets arising from the acquisition of CIPP and unrealized fair value gains on financial instruments at FVPL.

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

	2008	2007
Allowance for probable losses on mineral exploration	**₱47,848,620**	₱162,173,007
Unrealized foreign exchange losses	**28,731,468**	107,191,734
NOLCO	**22,487,550**	71,986,618
MCIT	**9,336,054**	4,691,155
Accrued expenses	**6,810,877**	5,088,322
Allowance for impairment losses	**6,712,782**	6,712,782
Allowance for unrecoverable input tax	**6,162,861**	–
Asset retirement obligation	**4,255,664**	3,883,808
Unamortized past service cost	**3,271,604**	4,024,685
Allowance for doubtful accounts	**3,270,365**	3,270,365
Unrealized marked to market loss	**65,258**	65,644
Deferred rent income	**35,278**	35,278
	₱138,988,381	₱369,123,398

Deferred 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 tax assets can be used.

The Company's share in deferred tax assets (liabilities) of a joint venture is as follows:

	2008	2007
Capitalized unrealized foreign exchange gains	**(₱10,881,429)**	(₱14,055,179)
Unrealized foreign exchange gains	**–**	(52,505)
Past service costs and accrued retirement	**320,263**	332,430
	(₱10,561,166)	(₱13,775,254)

MCIT amounting to ₱9.9 million and NOLCO totaling to ₱22.5 million can be claimed as deduction from income tax due and regular taxable income, respectively, as follows:

	Amount	
Expiry Date	MCIT	NOLCO
December 31, 2009	₱1,097,140	₱981,504
December 31, 2010	3,317,163	8,454,119
December 31, 2011	4,921,751	13,051,927
	₱9,336,054	₱22,487,550

MCIT amounting to ₱0.3 million and ₱0.6 million expired in 2008 and 2007, respectively. NOLCO amounting to ₱0.8 million and ₱42.6 million expired in 2008 and 2007, respectively.

NOLCO amounting to ₱67.7 million was applied to taxable income in 2008.

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

	2008	2007	2006
Applicable statutory income tax rates	**35.00%**	35.00%	35.00%
Decrease in tax rate resulting from:			
Dividend income exempt from tax	**(1.09)**	(2.93)	–
Equity in net earnings of associates	**(4.44)**	(1.66)	(0.29)
Excess of the net fair value of an acquired Company's identifiable assets and liabilities over cost	**–**	–	(26.66)
Change in unrecognized deferred tax asset on allowance for probable losses on mineral exploration	**(58.60)**	–	–
Others	**(0.45)**	(4.65)	(0.02)
Effective income tax rates	**(29.58%)**	25.76%	8.03%

24. **Pension and Other Post-employment Benefits**

The Parent Company and CIPP has a funded, noncontributory defined benefit retirement plans covering all of its regular and full time employees.

Pension and other post-employment benefits consist of accruals for:

	2008	2007
Net pension liability	**₱4,469,000**	₱2,921,800
Vacation and sick leave	**6,464,554**	3,493,741
	₱10,933,554	₱6,415,541

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

	2008	2007	2006
Retirement benefits expense	**₱4,185,636**	₱2,224,571	₱1,390,465
Vacation and sick leave	**3,235,683**	1,992,404	572,139
	₱7,421,319	₱4,216,975	₱1,962,604

The following tables summarize the components of retirement benefits expense included in the consolidated statement of income and net 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:

	2008	2007	2006
Components of retirement benefits expense:			
Current service cost	**₱2,775,400**	₱2,769,900	₱1,609,600
Interest cost	**1,083,700**	1,748,900	1,721,600
Expected return on plan assets	**(985,300)**	(1,540,800)	(1,927,300)
Recognized actuarial gain	**(152,400)**	(113,100)	(509,900)
	2,721,400	2,864,900	894,000
Adjustment for cross-assigned employees	**1,464,236**	(640,329)	496,465
Retirement benefits expense	**₱4,185,636**	₱2,224,571	₱1,390,465

The net benefit liability that was recognized in the consolidated balance sheets as of December 31, 2008 and 2007 are as follows:

	2008	2007
Present value of benefit obligation (PVBO)	**₱11,169,200**	₱14,719,700
Fair value of plan assets	**20,658,800**	15,576,500
Funded status	**9,489,600**	856,800
Unrecognized net actuarial gains	**(13,958,600)**	(3,778,600)
Net pension liability	**(₱4,469,000)**	(₱2,921,800)

The movements in the PVBO are as follows:

	2008	2007
Balance at beginning of year	**₱14,719,700**	₱26,964,400
Current service cost	**2,775,400**	2,769,900
Interest cost	**1,083,700**	1,748,900
Actual benefits paid	**–**	(12,746,500)
Transfer in (out)	**4,043,000**	(3,526,400)
Actuarial gains	**(11,452,600)**	(490,600)
Balance at end of year	**₱11,169,200**	₱14,719,700

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

	2008	2007
Balance at beginning of year	**₱15,576,500**	₱28,114,200
Expected return on plan assets	**985,300**	1,540,800
Actual contribution	**2,321,600**	3,084,800
Actual benefits paid	**–**	(12,746,500)
Transfer in (out)	**2,895,600**	(3,526,400)
Actuarial losses	**(1,120,200)**	(890,400)
Balance at end of year	**₱20,658,800**	₱15,576,500
Actual return on plan assets	**(₱134,900)**	₱650,400

The assumptions used to determine PVBO and fair value of plan assets are as follows:

	2008	2007
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%

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 ₱1,348,500 to its defined benefit pension plan in 2009.

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

	2008	2007
Equities	**80.6%**	89.0%
Mutual Funds and UITFs	**14.6%**	9.0%
Others	**4.9%**	2.0%

Experience adjustments on plan assets and plan liabilities are ₱1.1 million and ₱0.5 million loss, respectively, in 2008.

Experience adjustments on plan assets and plan liabilities are ₱0.9 million and ₱1.8 million loss, respectively, in 2007.

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 ₱15.2 million, ₱14.3 million and ₱5.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. Net payable to PHINMA (included under "Accounts payable and other current liabilities" account) amounted to ₱0.3 million and ₱11.0 million as of December 31, 2008 and 2007, respectively.

TA Power
TA Power leases and occupies part of the office space owned by the Parent Company. Rental income earned amounted to ₱1.2 million in 2008, 2007 and 2006, net of the Company's interest. Also, the Parent Company sells electricity to TA Power in 2008. Net receivable from TA Power amounted to ₱37.7 million and ₱0.7 million as of December 31, 2008 and 2007, 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 ₱39.0 million and ₱0.7 million as of December 31, 2008 and 2007, respectively.

PHINMA Property Holdings Corporation (PPHC)
PPHC is likewise controlled by PHINMA through a management agreement. PPHC bills the Company for the management of the building where the Company's office is located. There was no management fee incurred in 2008 and 2007. Net payable to PPHC amounted to nil and ₱0.1 million as of December 31, 2008 and 2007, respectively.

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 ₱11.7 million in 2008 and ₱13.3 million in 2007. The related unpaid amount included under the "Accounts payable and other current liabilities" account in the consolidated balance sheet amounted to ₱11.7 million and ₱13.3 million as of December 31, 2008 and 2007, respectively.

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

	2008	2007
Short-term employee benefits	**₱24,893,755**	₱33,026,497
Post-employment benefits:		
Retirement benefits	**4,083,949**	408,771
Vacation and sick leave	**2,619,681**	1,144,317
	₱31,597,385	₱34,579,585

Stockholders
Amounts due to stockholders for unclaimed dividends totaled ₱6.3 million and ₱5.3 million as of December 31, 2008 and 2007, respectively.

26. EPS Computation

	2008	2007	2006
(a) Net income	**₱88,476,698**	₱78,266,932	₱327,214,425
Common shares outstanding at beginning of year (see Note 16)	**1,657,585,092**	1,105,056,728	1,105,056,728
Weighted average number of shares issued during the year	**2,961,304**	21,192,869	–
(b) Weighted average common shares outstanding	**1,660,546,396**	1,126,249,597	1,105,056,728
Basic/Diluted EPS (a/b)	**₱0.05**	₱0.07	₱0.30

The Company's outstanding stock option has no dilutive effect in 2008, 2007 and 2006. 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. Future minimum operating lease payables under this lease agreement as of December 31 are as follows:

	2008	2007
Within one year	**₱240,000**	₱240,000
After one year but not more than five years	**1,200,000**	1,200,000
More than five years	**80,000**	320,000
	₱1,520,000	₱1,760,000

Concession Agreement

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

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

Currently, CIPP is negotiating with a third party for a possible strategic partnership agreement.

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.

28. Financial Risk Management Objectives and Policies

I. Objectives and Investment Policies

The PHINMA Group Treasury manages and invests the funds of the Company and invests in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine peso, U.S. dollar 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. These are:

1) Foreign currency risk
2) Credit or counterparty risk
3) Liquidity risk
4) Market risk

Professional competence, prudence, clear and strong separation of office functions, due diligence and use of risk management tools are exercised at all times in the handling of the funds of the Company. An Investment Committee, comprised of some of the Company's BOD, reviews and approves policies, controls and strategies for investments and risk management.

Basic investment policies as approved by the Investment Committee are:

1) Safety of principal

2) Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee

3) Exposure limits:

   a. For banks/fund managers: maximum 20% of total fund of each company per bank/fund

   b. For peso investments: minimal corporate exposure except for registered bonds for non-affiliates

   c. Limits on third currencies outside U.S. dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee

   d. For total foreign currencies: maximum 50% of total portfolio

   e. For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review

II. Risk Management Process

1) Foreign Currency Risk

   Definition
   The PHINMA Group Treasury manages holdings of cash and securities not only in Philippine peso but also substantially in U.S. dollar and other third currencies. Any depreciation of the U.S. dollar and other currencies against the Philippine peso posts material foreign exchange losses that will diminish the market values of these investments.

   Management of Risk

   a. Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange.

   b. Regular discussions with banks are done to get multiple perspectives on currency trends/forecasts.

   c. Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.

   d. Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.

   e. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's foreign currency-denominated assets and liabilities as of December 31, 2008 and 2007 are as follows (in thousands):

	U.S. Dollar		Euro	
	2008	2007	**2008**	2007
Assets:				
Cash and cash equivalents	**$7,165**	$8,768	**EUR–**	EUR–
Short-term investments	**369**	209	**–**	–
Investments in bonds and FXTNs	**2,763**	2,001	**–**	–
Other receivables	**121**	90	**–**	–
	10,418	11,068	**–**	–
Liabilities -				
Accounts payable and other current liabilities	**(19)**	(44)	**(9)**	(80)
Net foreign currency-denominated assets (liabilities)	**$10,399**	$11,024	**(EUR9)**	(EUR80)
Peso equivalent	**₱494,160**	₱455,071	**(₱596)**	(₱4,844)

In translating foreign currency-denominated financial assets and liabilities into peso amounts, the exchange rates used were ₱47.52 to US$1.00 and ₱66.25 to EUR 1.00 as of December 31, 2008 and ₱41.28 to US$1.00 and ₱60.55 to EUR1.00 as of December 31, 2007.

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, 2008 and 2007. 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).

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**

2007

Increase (Decrease) in U.S. Dollar Exchange Rate	Effect on Profit Before Tax
	(In Millions)
(₱0.25)	₱0.92
(0.50)	0.31
0.25	2.10
0.50	2.70

2) Credit or Counterparty Risk

Definition

Credit or counterparty risk is the risk due to uncertainty in a counterparty's ability to meet its obligations. Traditionally this credit event applies to bonds, whether government bonds or corporate bonds, where the holders are concerned that the counterparty to whom they have made a "loan" might default on a payment (coupon or principal).

Management of Risk

a. Investments are coursed thru or transacted with duly accredited domestic and foreign banks and mutual funds up to a maximum of 20% of the Company's investible funds. For UITF and mutual funds, fund placements cannot exceed 10% of the UITF's or mutual funds' total funds. Individual limits are further established for one bank/mutual fund on the basis of their valuation, financial soundness, business performance and reputation/expertise. Banks', UITF's and mutual funds' performance as well as their fund level, investment mix and duration are reviewed at least once a month or as often as required.

b. Investments in non-rated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies/updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.

c. For temporary investments in 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.

d. Discussions are done on every major investment by Treasury *en banc* before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a senior Treasury Officer supervises major transaction executions.

e. Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.

f. A custodian bank for peso instruments and foreign currency instruments has been appointed based on their track record on such service and the bank's financial competence.

g. Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

With respect to credit risk arising from the receivables of the Company, the Company's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2008					
	Neither Past Due nor Impaired			Past Due but not	Past Due Individually	
	Class A	**Class B**	**Class C**	**Impaired**	**Impaired**	**Total**
Trade and other receivables:						
Trade receivables from customers:						
Holcim	**₱20,985,799**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,985,799**
PEMC	**12,773,740**	**–**	**–**	**–**	**–**	**12,773,740**
Locators	**11,514,992**	**41,174,212**	**9,181,948**	**20,810,916**	**–**	**82,682,068**
Guimelco	**8,375,666**	**–**	**–**	**4,380,158**	**–**	**12,755,824**
Due from related companies	**39,083,709**	**–**	**–**	**–**	**23,532,365**	**62,616,074**
Others	**15,626,699**	**–**	**–**	**7,262**	**3,270,367**	**18,904,328**
	₱108,360,605	**₱41,174,212**	**₱9,181,948**	**₱25,198,336**	**₱26,802,732**	**₱210,717,833**

	2007					
	Neither Past Due nor Impaired			Past Due but not	Past Due Individually	
	Class A	Class B	Class C	Impaired	Impaired	Total
Trade and other receivables:						
Trade receivables from customers:						
Guimelco	₱5,182,610	₱–	₱–	₱922,935	₱–	₱6,105,545
Locators	2,900,881	42,269,167	26,113,134	9,914,160	–	81,197,342
Due from related companies	755,549	–	–	–	23,532,366	24,287,915
Others	30,159,463	–	–	38,965	3,270,366	33,468,794
	₱38,998,503	₱42,269,167	₱26,113,134	₱10,876,060	₱26,802,732	₱145,059,596

The Company uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Collateralized accounts with excellent paying habits
Class B	Secured accounts with good paying habits
Class C	Unsecured accounts

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, AFS investments, investments held for trading and derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company has assessed the credit quality of the following financial assets:

a. Cash and cash equivalents, short-term investments, investments held for trading and derivative instruments as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.

b. Quoted and unquoted equity instruments 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/collateral.

There are no significant concentrations of credit risk within the Company.

3) Liquidity Risk

Definition
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. The Company manages liquidity risks by restricting investments principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

The maturities of the financial liabilities are determined based on the Company's projected payments and contractual maturities. The average duration adheres to guidelines provided by the Investment Committee.

Management of Risk

a. Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.

b. Continuous monitoring of the weekly/monthly cash flows as well as frequent updates of the annual plans of the Company.

c. Investment maturities are spread on a weekly, monthly, and annual basis as indicated in the Company's plans. Average duration of investments should adhere to the investment parameters approved by the Investment Committee.

d. When necessary, placements are pre-terminated or securities liquidated; but this is largely avoided.

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2008 and 2007 based on contractual undiscounted payments:

	2008					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱108,547,404	₱45,867,138	₱–	₱–	₱–	₱154,414,542
Accrued expenses	575,755	366,105	–	–	–	941,860
Accrued directors' and annual incentives	21,059,487	–	–	–	–	21,059,487
Due to related parties	5,792,695	–	–	–	–	5,792,695
Others	14,169,257	–	–	–	–	14,169,257
Due to stockholders	6,272,367	–	–	–	–	6,272,367
Customers' deposits	–	–	27,385,096	–	–	27,385,096
Other noncurrent liability	–	–	–	3,219,257	–	3,219,257
	₱156,416,965	₱46,233,243	₱27,385,096	₱3,219,257	₱–	₱233,254,561

	2007					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱69,326,579	₱39,129,105	₱–	₱–	₱–	₱108,455,684
Accrued expenses	48,312,267	–	–	–	–	48,312,267
Accrued directors' and annual incentives	24,714,168	–	–	–	–	24,714,168
Due to related parties	775,473	–	–	–	–	775,473
Others	455,085	–	–	–	–	455,085
Due to stockholders	5,340,277	–	–	–	–	5,340,277
Customers' deposits	–	–	8,175,005	14,815,404	–	22,990,409
Other noncurrent liability	–	–	–	3,223,574	–	3,223,574
	₱148,923,849	₱39,129,105	₱8,175,005	₱18,038,978	₱–	₱214,266,937

Security deposits from customers of CIPP amounted to ₱27.4 million and ₱23.0 million (gross of unamortized discount of ₱5.4 million) as of December 31, 2008 and 2007, respectively.

4) Market Risk

Definition
Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or changes in business/economic changes. Interest rate or foreign exchange rates or risk appetite are market factors of market risk as the summation of the three defines the value of an instrument or asset.

Management of Risk

a. Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers are done to get multiple perspectives on interest rate trends/forecasts.

b. Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.

c. "Red Lines" are established then reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that the Treasury Group uses as guides whether to buy, hold or sell bonds as approved by the Investment Committee or, in cases of high volatility, by the CFO.

d. In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates/prices in relation to strategies.

e. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

Interest Rate Risk
The following table sets out the carrying amount (in thousands), by maturity, of the Company's financial assets and liabilities that are exposed to interest rate risk:

	Interest Rates	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	Total
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**
2007 Fixed Rate						
SSA	3–6%	1,086,439	–	–	–	1,086,439
Short-term investments	4.2–4.5%	8,640	–	–	–	8,640
Investments in bonds and FXTNs	8.125–17.5%	84,923	27,019	6,766	15,350	134,058

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above table are noninterest-bearing investments and are therefore not subject to interest rate volatility.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Company's profit before tax as of December 31, 2008 and 2007. There is no impact on the Company's equity other than those already affecting the profit or loss.

	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)**

	2007	
	Increase (Decrease) in Basis Points	Effect on Profit Before Tax
FXTN	25	(₱248,439)
SDA	25	1,062,629
SSA	25	400,343
FXTN	(25)	248,439
SDA	(25)	(1,062,629)
SSA	(25)	(400,343)

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%, resulting to a possible effect in the equity of ₱3.9 million and ₱8.3 million as of December 31, 2008 and 2007, respectively.

III. Monitoring of Risk Management Process

Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

1) Weekly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenged based on current and forecasted developments on the financial and political events.

2) Monthly portfolio reports are submitted to the CFO that includes an updated summary of global and domestic events of the past month and the balance of the year.

3) Quarterly presentation of the investment portfolio to the Investment Committee to discuss and secure approvals on strategy changes.

4) Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.

5) One on one coaching sessions are scheduled to assist, train and advise personnel.

6) Periodic review of Treasury risk profile and control procedures.

7) Periodic specialized audit to ensure active risk oversight.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2008 and 2007.

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.

	2008	2007
	(In Thousands)	
Total liabilities	**₱476,178**	₱469,673
Total equity	**2,857,875**	2,861,882
Debt-to-equity ratio	**0.17:1**	0.16:1

29. Financial Instruments

Fair Value

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

	Carrying Amount		Fair Value	
	2008	2007	**2008**	2007
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱909,531,281**	₱1,211,421,333	**₱909,531,281**	₱1,211,421,333
Short-term investments	**17,511,120**	8,639,904	**17,511,120**	8,639,904
Receivables:				
Trade	**129,197,431**	87,302,887	**129,197,431**	87,302,887
Due from related companies	**39,083,708**	755,549	**39,083,708**	755,549
Others	**15,633,962**	30,198,428	**15,633,962**	30,198,428
	1,110,957,502	1,338,318,101	**1,110,957,502**	1,338,318,101
Financial assets at FVPL:				
Investments held for trading	**544,686,420**	134,058,401	**544,686,420**	134,058,401
Derivative asset*	**1,377,451**	34,001,351	**1,377,451**	34,001,351
	546,063,871	168,059,752	**546,063,871**	168,059,752
AFS investments:				
Quoted	**104,841,834**	129,787,480	**104,841,834**	129,787,480
Unquoted	**101,586,985**	94,463,017	**101,586,985**	94,463,017
	206,428,819	224,250,497	**206,428,819**	224,250,497
Total financial assets	**₱1,863,450,192**	₱1,730,628,350	**₱1,863,450,192**	₱1,730,628,350
Financial Liabilities				
Financial liability at FVPL -				
Derivative liability**	**₱10,807,500**	₱–	**₱10,807,500**	₱–
Other financial liabilities:				
Accounts payable and other current liabilities	**185,570,341**	182,712,677	**185,570,341**	182,712,677
Customers' deposits	**27,385,096**	17,558,403	**27,385,096**	20,081,531
Due to stockholders	**6,272,367**	5,340,277	**6,272,367**	5,340,277
Other noncurrent liability	**3,219,257**	3,223,574	**2,928,335**	2,792,642
	222,447,061	208,834,931	**222,156,139**	210,927,127
Total financial liabilities	**₱233,254,561**	₱208,834,931	**₱232,963,639**	₱210,927,127

** Presented as part of other current assets.*
*** Presented as part of accounts payable and other current liabilities.*

The following methods and assumptions are used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables, Accounts Payable and Other Current Liabilities, Due to Stockholders. Carrying amount approximates fair value due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair values of investments held for trading and listed AFS investments. The fair values of unlisted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

Derivative Asset and Derivative Liability. The fair value of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Company has outstanding currency forward contracts with an aggregate notional amount of US$12.4 million and weighted average contracted forward rate of ₱46.793 to US$1.00 as of December 31, 2008, and an aggregate notional amount of US$11.5 million and weighted average contracted forward rate of ₱44.208 to US$1.00 as of December 31, 2007. The Company is in a Selling USD position. The net fair value loss on these currency forward contracts as of December 31, 2008 amounted to ₱10.8 million and was included in "Accounts payable and other current liabilities" account in the 2008 consolidated balance sheet. The net fair value gain on these currency forward contracts as of December 31, 2007 amounted to ₱32.6 million and was included in "Other current assets" account in the 2007 consolidated balance sheet.

The net movements in fair value changes of freestanding forward currency transactions are as follows:

	2008	2007
Balance at beginning of year	**₱32,623,900**	₱15,508,980
Net changes in fair value during the year	**(21,231,494)**	103,603,681
Fair value of settled contracts	**(22,199,906)**	(86,488,761)
Balance at end of year	**(₱10,807,500)**	₱32,623,900

The net changes in fair value during the year are included in the "Net loss (gain) on derivatives" account in the consolidated statements of income.

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

TA Oil's outstanding embedded forward has an aggregate notional amount of US$0.03 million and US$0.02 million, and weighted average fixing rate of ₱43.1665 and ₱49.8351 to US$1.00 as of December 31, 2008 and 2007, respectively. Whereas CIPP's outstanding embedded forward has an aggregate notional amount of US$0.75 million for bunker fuel purchases and US$0.04 million for diesel purchases, and weighted average fixing rate of ₱43.1665 to US$1.00 as of December 31, 2008.

The net movements in fair value changes of these embedded derivatives are as follows:

	2008	2007
Balance at beginning of year	**₱1,377,451**	(₱25,529)
Net changes in fair value during the year	–	(10,773,389)
Fair value of settled contracts	–	12,176,369
Balance at end of year	**₱1,377,451**	₱1,377,451

The net changes in fair value are included in the "Net loss (gain) on derivatives" account in the consolidated statements of income.

Customers' Deposits. The fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rates used range from 4.04% to 5.68% in 2007. In 2008, management expects that these customer deposits will be returned to locators in 2009, hence, carrying amount approximates fair value.

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 rates used were 6.36% and 5.81% in 2008 and 2007, respectively.

Details of interest and other financial income and interest and other financial charges are as follows:

Interest and Other Financial Income

	2008	2007	2006
Interest income on:			
Cash in bank	**₱741,253**	₱950,585	₱130,666
Short-term deposits and investments	**40,357,504**	12,726,565	10,414,757
Bond	**5,396,759**	17,031,811	7,840,473
FXTN	**7,369,636**	2,020,901	1,603,529
Others	**231,732**	19,317	43,501
	54,096,884	32,749,179	20,032,926
Net gains on investments held for trading:			
Amortization of bond premium/discount - net	**(4,983,876)**	(1,568,524)	(2,679,149)
Gain (loss) on redemption/sale of investments held for trading	**(526,326)**	2,281,987	13,472,572
Unrealized gain (loss) from changes in fair value of investments held for trading	**(183,678)**	(629,718)	8,433,662
	₱48,403,004	₱32,832,924	₱39,260,011

Interest and Other Financial Charges

	2008	2007	2006
Loss on customers' deposit	**₱3,460,425**	₱–	₱–
Amortization of discount on customers' deposits	**1,912,029**	1,274,365	–
Accretion of asset retirement obligation	**371,856**	369,824	370,840
Interest expense on loans and borrowings	–	9,403,484	4,298,624
Amortization of debt issuance cost	–	2,005,713	791,551
Other financial charges	**191,271**	1,323,580	20,480
	₱5,935,581	₱14,376,966	₱5,481,495

ANNEX B

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

Supplementary Schedules to the Consolidated Financial Statements

And

Independent Auditors' Report

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph
BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

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, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 included in this Form 17-A and have issued a report thereon dated February 16, 2009. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code 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.

Bennette A. Daplas-Bachoco

Bennette A. Daplas-Bachoco
Partner
CPA Certificate No. 86740
SEC Accreditation No. 0112-AR-1
Tax Identification No. 129-433-970
PTR No. 1566405, January 5, 2009, Makati City

February 16, 2009

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

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

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES

Schedule A. Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments)
For the Year Ended December 31, 2008

Name of Issuing Entity and Association of Each Issue		Number of Shares or Principal Amount of Bonds and Notes		Amount Shown in the Balance Sheet *		Income Received and Accrued
Investment in Fixed Treasury Notes (FXTNs)						
Multinational Investment Bancorporation		12,000,000	₱	12,328,668	₱	1,444,792
First Metro Investment Corporation		109,949,323		114,899,758		6,599,700
International Exchange Bank		10,000,000		10,569,970		861,806
Banco De Oro		4,000,000		3,449,200		203,055
Metropolitan Bank and Trust Company		2,100,000		2,210,492		330,021
Investment in Bonds in US $						
ING Bank	$	2,650,000		131,318,550		2,905,658
Investment in Unit Investment Trust Fund and Money Market Fund (UITF & MMF)						
Banco De Oro		152,525,242		152,818,477		-
ING Bank		116,900,000		117,091,306		-
			₱	544,686,421	₱	12,345,032

** Value based on market quotations at balance sheet date.*

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, 2008

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	₱ 159,768,775	₱ 8,691,969	₱ -	₱ -	₱ -	1,800,000	₱ 168,460,744	₱ -
Asia Coal Corporation	14,091	681,566	(40,037)	-	-	-	14,091	641,529	-
Union Aggregates Corporation	156,250	1,559,251	-	-	-	-	156,250	1,559,251	-
		162,009,592	8,651,932	-	-	-	-	170,661,524	-
Accumulated impairment		(1,559,251)	-	-	-	-	-	(1,559,251)	-
		₱ 160,450,341	₱ 8,651,932	₱ -	₱ -	₱ -		₱ 169,102,273	₱ -

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, 2008

	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE		
Name of Issuing Entity and Description of Investment	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	Dividends Received/ Accrued from Investments Not Accounted for by the Equity Method
Available-for-sale financial assets									
Bacnotan Consolidated Industries, Inc.	7,305,284	₱ 104,100,299	₱ -	₱ -	₱ -	₱ 23,742,178	8,035,812	₱ 80,358,121	₱ -
Phinma Property Holdings Corporation	153,099,208	26,860,093	6,123,968	-	-	-	204,132,277	32,984,061	765,496
Atlas Holdings Corporation	220,000	50,169,765	-	-	-	-	220,000	50,169,765	1,320,000
Asian Plaza, Inc.	37,684	18,433,158	-	-	-	-	37,684	18,433,158	-
Manila Southwoods Golf & Country Club	1	630,000	-	20,000	-	-	1	650,000	-
Tagaytay Midlands Golf Club, Inc.	2	1,240,000	-	-	-	40,000	2	1,200,000	-
Subic Bay Golf & Country Clubs	1	-	-	-	-	-	1	-	-
Capitol Hills Golf & Country Club, Inc.	1	40,000	-	-	-	10,000	1	30,000	-
Manila Golf & Country Club	1 share (100 units)	20,000,000	-	1,000,000	-	-	1 share (100 units)	21,000,000	-
Evercrest Golf Club Resorts, Inc.	1	60,000	-	-	-	-	1	60,000	-
Puerto Azul Golf & Country Club, Inc.	1	60,000	-	-	-	-	1	60,000	-
Alabang Country Club, Inc.	1	1,200,000	-	-	-	200,000	1	1,000,000	-
Dharmala	367,200	1,033,142	-	-	-	-	367,200	1,033,142	-
Vulcan	73,487	117,014	-	-	-	-	73,487	117,014	-
Aboitiz Equity Ventures, Inc.	2,000	13,800	-	801	14,601	-	-	-	-
Ayala Land	97	1,382	-	-	-	761	97	621	-
Banco de Oro	1,500	90,750	12,809	-	49,844	29,715	1,000	24,000	-
First Philippine Holdings Corporation	500	36,250	64,799	-	25,732	53,967	1,400	21,350	-
Globe Telecom, Inc.	140	219,800	132,107	-	107,601	92,306	200	152,000	-
Manila Electric Company	500	41,250	-	-	40,687	563	-	-	-
Philex Mining Corp.	15,000	142,500	17,983	-	101,970	48,713	2,000	9,800	-
Piltel	8,000	60,000	-	-	52,155	7,845	-	-	-
SM Prime Holdings	7,513	77,008	18,284	-	66,884	28,408	-	-	-
BPI	3,000	184,500	29,737	-	101,547	31,840	2,100	80,850	-
RCBC	4,500	108,000	21,398	-	41,063	49,135	4,000	39,200	-
Universal Robina Corporation	500	7,000	14,466	1,883	23,349	-	-	-	-
Aboitiz Power Corporation	27,000	143,100	64,346	1,462	151,908	-	15,000	57,000	-
Vista Land and Lifescape	10,000	60,000	-	-	34,267	20,633	5,000	5,100	-
Metropolitan Bank and Trust Company	2,500	136,250	118,193	-	184,370	19,473	2,200	50,600	-
Atlas Consolidated Mining	9,000	126,000	-	-	75,207	39,793	4,000	11,000	-
Energy Development Corp.	-	-	27,366	-	-	4,566	12,000	22,800	-

A. Soriano	179	592	-	-	-	199	179	393	108
Philippine Long Distance Telephone Company	700	9,000	-	-	-	-	700	9,000	350
							-	-	-
Total		225,400,653	6,645,456	1,024,146	1,071,185	24,420,095		207,578,975	2,085,954
Allowance for decline in value		(1,150,156)	-	-	-	-		(1,150,156)	-
		224,250,497	6,645,456	1,024,146	1,071,185	24,420,095		206,428,819	2,085,954
		₱ 384,700,838	₱ 15,297,388	₱ 1,024,146	₱ 1,071,185	₱ 24,420,095		₱ 375,531,092	₱ 2,085,954

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule E. Intangible Assets
For the Year Ended December 31, 2008

Description	Beginning Balance	Additions At Cost	Deductions: Charged to Costs and Expenses	Deductions: Charged to Other Accounts	Other Changes- Additions (Deductions)	Ending Balance
Oil exploration and development costs:						
Service Contract (SC) No. 6	₱ 113,028,483	₱ 269,049	₱ -	₱ -	₱ -	₱ 113,297,532
SC 41	51,673,917	-	-	-	(51,673,917)	-
SC 42	33,880,927	-	-	-	(33,880,927)	-
Geophysical Survey and Exploration Contract (GSEC) No. 93	32,363,323	181,707	-	-	-	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	5,570,140	143,070	-	-	-	5,713,210
SC 69	-	5,832	-	-	-	5,832
Others	540,981	-	-	-	-	540,981
Mineral exploration costs	9,628,880	5,509,549	-	-	-	15,138,429
	300,308,829	6,109,207	-	-	(85,554,844)	220,863,192
Allowance for probable losses	(162,173,007)	-	-	-	85,554,844	(76,618,163)
	138,135,822	6,109,207	-	-	-	144,245,029
Customer contracts and relationships	59,082,665	-	-	-	-	59,082,665
Amortization of intangible assets	(11,816,533)	-	(47,266,132)	-	-	(59,082,665)
	₱ 185,401,954	₱ 6,109,207	₱ (47,266,132)	₱ -	₱ -	₱ 144,245,029

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule I. Capital Stock
For the Year Ended December 31, 2008

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	1,662,298,650	100,000,000	885,905,137	20,998,295	755,395,218

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Schedule J. Retained Earnings
For the Year Ended December 31, 2008

Unappropriated Retained Earnings, *as adjusted to available for dividend distribution,* beginning		609,441,742
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Eatrnings	233,994,301	
Less: Non-actual/unrealized income net of tax		
Unrealized foreign exchange gain - net (except those attributable to cash & cash equivalents):		
Investment held for trading	9,230,502	
Receivable	45,488	
Fair value adjustment (MTM gains)	585,919	
Recognized deferred tax asset (benefit from deferred income tax)	10,400,613	
Sub-total	20,262,522	
Add: Non-actual losses		
Fair value adjustment (MTM gains)	10,807,500	
Other unrealized gains or adjustments to the R/E as a result of certain transactions accounted for under the PFRS	6,209,092	
	17,016,592	
Total adjustments		230,748,371
Net Income Actually Earned during the period		840,190,113
Add (Less):		
Dividend declarations during the period	(66,308,161)	
Treasury notes	-	(66,308,161)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		773,881,952

ANNEX C

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

Parent Company Financial Statements
December 31, 2008 and 2007
And Years Ended December 31, 2008 and 2007

And

Independent Auditors' Report

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

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

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying parent company financial statements of Trans-Asia Oil and Energy Development Corporation, which comprise the parent company balance sheets as at December 31, 2008 and 2007, and the parent company statements of income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Trans-Asia Oil and Energy Development Corporation as of December 31, 2008 and 2007, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Bennette A. Daplas-Bachoco

Bennette A. Daplas-Bachoco
Partner
CPA Certificate No. 86740
SEC Accreditation No. 0112-AR-1
Tax Identification No. 129-433-970
PTR No. 1566405, January 5, 2009, Makati City

February 16, 2009

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 26 and 27)	**₱826,918,568**	₱1,119,428,587
Short-term investments (Notes 26 and 27)	**17,511,120**	8,639,904
Investments held for trading (Notes 7, 26 and 27)	**530,860,471**	117,948,232
Receivables - net (Notes 8, 10, 24, 25, 26 and 27)	**197,763,933**	103,842,529
Fuel and spare parts - at cost	**8,426,502**	6,806,978
Other current assets - net (Notes 26 and 27)	**8,294,839**	40,354,452
Total Current Assets	**1,589,775,433**	1,397,020,682
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**163,859,787**	181,154,829
Investments in subsidiaries, associates and interest in a joint venture - net (Note 10)	**621,663,917**	596,663,917
Available-for-sale investments (Notes 11, 26 and 27)	**176,759,054**	194,580,732
Investment property - net (Note 12)	**3,316,910**	3,577,060
Deferred exploration costs - net (Note 13)	**134,767,493**	138,135,822
Deferred tax assets - net (Note 22)	**10,400,613**	–
Other noncurrent assets	**331,680**	332,679
Total Noncurrent Assets	**1,111,099,454**	1,114,445,039
	₱2,700,874,887	₱2,511,465,721
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14, 24, 26 and 27)	**₱131,144,139**	₱90,941,830
Due to stockholders (Notes 24, 26 and 27)	**6,272,367**	5,340,277
Income and withholding taxes payable	**581,793**	3,522,800
Total Current Liabilities	**137,998,299**	99,804,907
Noncurrent Liabilities		
Pension and other post-employment benefits (Note 23)	**6,810,877**	4,966,394
Other noncurrent liabilities (Notes 26 and 27)	**7,474,921**	7,107,382
Total Noncurrent Liabilities	**14,285,798**	12,073,776
Equity		
Capital stock (Notes 15 and 16)	**1,662,298,650**	1,657,585,092
Additional paid-in capital (Note 15)	**54,693,308**	54,693,308
Unrealized fair value gains on available-for-sale investments (Note 11)	**54,470,950**	77,866,896
Retained earnings (Note 15)	**777,127,882**	609,441,742
Total Equity	**2,548,590,790**	2,399,587,038
	₱2,700,874,887	₱2,511,465,721

See accompanying Notes to Parent Company Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31	
	2008	2007
REVENUE		
Trading revenue (Note 1)	**₱457,928,308**	₱–
Generation revenue (Note 1)	**71,133,127**	46,734,117
Interest and other financial income (Note 27)	**49,491,803**	33,125,115
Dividend income	**2,120,941**	308,837,802
Other income (Note 24)	**3,268,316**	40,152,184
	583,942,495	428,849,218
COSTS AND EXPENSES		
Trading cost (Notes 17, 20 and 21)	**249,078,778**	–
Cost of power generation (Notes 18, 20 and 21)	**63,062,826**	32,449,946
General and administrative expenses (Notes 19, 20, 21, 23 and 24)	**106,200,194**	150,188,212
OTHER EXPENSES (INCOME)		
Foreign exchange loss (gain) - net (Note 26)	**(69,761,588)**	80,721,881
Loss (gain) on derivatives - net (Note 27)	**21,231,494**	(103,603,681)
Provisions (reversal of allowance) for:		
Unrecoverable input tax	**6,162,861**	–
Impairment loss on investment in a subsidiary (Note 10)	**46,231**	20,135
Impairment loss on investment in an associate (Note 10)	**–**	(3,405,227)
Impairment loss on available-for-sale investments (Note 11)	**–**	20,000
Interest and other financial charges (Note 27)	**563,127**	12,707,355
Loss (gain) on sale of property and equipment	**93,016**	(82,167)
Loss (gain) on sale of available-for-sale investments	**28,772**	(1,075,355)
Others	**(21,934,392)**	(7,262,629)
	354,771,319	160,678,470
INCOME BEFORE INCOME TAX	**229,171,176**	268,170,748
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)		
Current	**5,577,488**	3,317,163
Deferred	**(10,400,613)**	(2,456,751)
	(4,823,125)	860,412
NET INCOME	**₱233,994,301**	₱267,310,336

See accompanying Notes to Parent Company Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	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 January 1, 2008	**₱1,657,585,092**	**₱54,693,308**	**₱77,866,896**	**₱609,441,742**	**₱2,399,587,038**
Cash dividends - ₱0.04 per share	**–**	**–**	**–**	**(66,308,161)**	**(66,308,161)**
Issuance of capital stock	**4,713,558**	**–**	**–**	**–**	**4,713,558**
	1,662,298,650	**54,693,308**	**77,866,896**	**543,133,581**	**2,337,992,435**
Fair value losses on available-for-sale investments	**–**	**–**	**(23,395,946)**	**–**	**(23,395,946)**
Net income	**–**	**–**	**–**	**233,994,301**	**233,994,301**
Total income (loss) for the year	**–**	**–**	**(23,395,946)**	**233,994,301**	**210,598,355**
Balance as at December 31, 2008	**₱1,662,298,650**	**₱54,693,308**	**₱54,470,950**	**₱777,127,882**	**₱2,548,590,790**
Balance as at January 1, 2007	₱1,105,056,728	₱8,194,721	₱27,736,507	₱386,333,675	₱1,527,321,631
Cash dividends - ₱0.04 per share	–	–	–	(44,202,269)	(44,202,269)
Proceeds from stock rights offering, net of ₱8.8 million direct issuance costs	552,528,364	46,498,587	–	–	599,026,951
	1,657,585,092	54,693,308	27,736,507	342,131,406	2,082,146,313
Fair value gains on available-for-sale investments	–	–	50,130,389	–	50,130,389
Net income	–	–	–	267,310,336	267,310,336
Total income for the year	–	–	50,130,389	267,310,336	317,440,725
Balance as at December 31, 2007	₱1,657,585,092	₱54,693,308	₱77,866,896	₱609,441,742	₱2,399,587,038

See accompanying Notes to Parent Company Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱229,171,176**	₱268,170,748
Adjustments for:		
Interest and other financial income (Note 27)	**(49,491,803)**	(33,125,115)
Depreciation and amortization (Note 21)	**18,740,261**	16,353,854
Unrealized foreign exchange loss (gain) - net	**(55,047,857)**	81,647,500
Loss (gain) on derivatives - net	**21,231,494**	(103,603,681)
Interest and other financial charges (Note 27)	**563,127**	12,707,355
Dividend income	**(2,120,941)**	(308,837,802)
Provisions (reversal of allowance) for:		
Unrecoverable input tax	**6,162,861**	–
Impairment loss on investment in a subsidiary (Note 10)	**46,231**	20,135
Impairment loss on investment in an associate	**–**	(3,405,227)
Impairment loss on available-for-sale investments	**–**	20,000
Loss (gain) on sale of available-for-sale investments	**28,772**	(1,075,355)
Loss (gain) on sale of property and equipment	**93,016**	(82,167)
Others	**–**	(759,014)
Operating income (loss) before working capital changes	**169,376,337**	(71,968,769)
Decrease (increase) in:		
Receivables	**(17,280,753)**	(28,122,615)
Fuel and spare parts	**(1,619,524)**	(3,745,245)
Other current assets	**(12,396,066)**	87,235,247
Increase in accounts payable and other current liabilities	**34,616,153**	71,328,340
Net cash generated from operations	**172,696,147**	54,726,958
Interest received	**51,276,865**	33,457,072
Income taxes paid	**(1,755,313)**	–
Interest paid	**(191,271)**	(10,439,067)
Net cash provided by operating activities	**222,026,428**	77,744,963
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	**(1,123,289,913)**	(235,266,960)
Investment in subsidiaries	**(25,000,000)**	(25,020,135)
Short-term investments	**(8,871,216)**	(8,639,904)
Available-for-sale investments	**(6,836,230)**	(2,783,482)
Property and equipment	**(1,702,193)**	(11,767,386)
Deferred exploration costs	**(731,671)**	(3,948,825)
Cash dividends received	**2,120,941**	308,837,802

(Forward)

	Years Ended December 31	
	2008	2007
Proceeds from:		
Sale/redemption of investments held for trading	**₱715,466,459**	₱462,101,297
Settlement of currency forward contracts	**22,199,906**	87,333,080
Deferred exploration costs	**4,100,000**	–
Sale of available-for-sale investments	**1,233,190**	3,087,784
Sale of property and equipment	**424,108**	213,000
Return of capital from an associate	**–**	3,405,227
Decrease (increase) in:		
Due from related parties	**(74,284,739)**	(66,749,385)
Other noncurrent assets	**999**	36,865
Net cash provided by (used in) investing activities	**(495,170,359)**	510,838,978
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Cash dividends	**(66,308,161)**	(40,103,678)
Short-term loans and borrowings	**–**	(172,272,727)
Long-term loans and borrowings	**–**	(27,272,727)
Increase (decrease) in:		
Due to stockholders	**932,090**	–
Other noncurrent liabilities	**(4,317)**	3,223,574
Proceeds from issuance of capital stock, net of issuance costs	**–**	599,026,951
Net cash provided by (used in) financing activities	**(65,380,388)**	362,601,393
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**46,014,300**	(34,504,038)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(292,510,019)**	916,681,296
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,119,428,587**	202,747,291
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱826,918,568**	₱1,119,428,587

See accompanying Notes to Parent Company Financial Statements.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

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

   Trans-Asia Oil and Energy Development Corporation (TA Oil or "the Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1969. The Company is involved in power generation, oil and mineral exploration, exploitation and production. The Company has an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the island province of Guimaras using its 3.4 megawatt (MW) bunker C-fired diesel generator power station (see Note 25). The other activities of the Company are investments in various operating companies and financial instruments. As of December 31, 2008, its largest investment is 50% interest in Trans-Asia Power Generation Corporation (TA Power). Its subsidiaries, Trans-Asia Gold and Minerals Development Corporation (TA Gold), Trans-Asia Renewable Energy Corporation (TA Renewable) and Trans-Asia (Karang Besar) Petroleum Corporation (TA Karang Besar), on the other hand, have not yet started commercial operations. On December 28, 2006, the Company acquired CIP II Power Corporation (CIPP), a company registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna. On July 2, 2007, TA Gold, a wholly owned subsidiary, was incorporated and registered with the SEC to primarily engage in the business of mining and mineral exploration within the Philippines and other countries.

   The Energy Regulatory Commission (ERC) granted TA Oil a certificate of registration as a Wholesale Aggregator in November 2006, renewable every five years, and a Retail Electricty Supplier's (RES) license in December 2006. 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).

   The license authorizes TA Oil to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). As a RES, TA Oil is allowed to supply electricity to the contestable market, pursuant to EPIRA.

   Both TA Power and TA Oil obtained membership from the WESM, which allows them to participate in electricity trading managed by PEMC. This includes selling of excess generation to the WESM.

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

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

   The parent company financial statements were authorized for issuance by the Board of Directors (BOD) on February 16, 2009.

2. Basis of Preparation

The accompanying parent company financial statements 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 parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, unless otherwise stated.

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

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements presented in accordance with PFRS. These may be obtained at the Company's registered address.

3. Changes in Accounting Policies

Current Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption, as applicable, of the following Philippine Interpretations which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect on the parent company financial statements:

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 11, "PFRS 2 - Group and Treasury Share Transactions"
- Philippine Interpretation IFRIC 12, "Service Concession Arrangements"
- Philippine Interpretation IFRIC 14, "Philippine Accounting Standards (PAS) 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- Amendments to PAS 39, "Financial Instruments: Recognition and Measurement," and PFRS 7, "Financial Instruments: Disclosures - Reclassification of Financial Assets"

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2008
The Company will adopt the following standards, amendments and interpretations, as applicable, enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the parent company financial statements.

Effective in 2009

- Amendments to PFRS 1, "First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

  The amended standard allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening

PFRS financial statements) as one of the following amounts: (a) cost determined in accordance with PAS 27, "Consolidated and Separate Financial Statements"; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or, (c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Revised PFRS 2, "Share-based Payment - Vesting Condition and Cancellations"

  The revised standard clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

- PFRS 8, "Operating Segments"

  The standard will replace 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 parent company balance sheet and parent company statement of income and the Company will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its parent company financial statements with a securities commission or similar party.

- Amendments to PAS 1, "Presentation of Financial Statements"

  The amended standard introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with "other comprehensive income." Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income.

- PAS 23, "Borrowing Costs"

  The revised standard requires capitalization of borrowing costs when such costs relate to 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 in the standard, the Company will adopt this as a prospective change.

- Amendments to PAS 27, "Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

  The amended standard specifies changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and, (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendments to PAS 32, "Financial Instruments: Presentation" and PAS 1, "Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation"

  The amended standards specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) The instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) The instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) All instruments in the subordinate class have identical features; (d) The instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and, (e) The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes"

  The interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

  The interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS. In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are the separate transitional provisions for each standard.

- 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 parent company 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, “Impairment of Assets.”

  – 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”

  The following are the improvements:

  – Revision of 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.

  – Revision of 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.

  – Revision of 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 20, “Accounting for Government Grants and Disclosures of Government Assistance”

  Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- 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 29, "Financial Reporting in Hyperinflationary Economies"

  The improvement pertains to revision of the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- 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"

  The following are the improvements:

  – 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.

▪ PAS 41, “Agriculture”

The following are the improvements:

- Removal of the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.

- Removal of the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the “most relevant market” are taken into account.

Effective in 2010

▪ Revised PFRS 3, “Business Combinations” and PAS 27, “Consolidated and Separate Financial Statements”

The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that: (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as “minority interests”), even if the losses exceed the non-controlling equity investment in the subsidiary; and, (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

- Amendment to PAS 39, "Financial Instruments: Recognition and Measurement - Eligible Hedged Items"

  The amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment 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.

Effective in 2012

- Philippine Interpretation IFRIC 15, "Agreement for Construction of Real Estate"

  The interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, "Construction Contracts," or involves rendering of services, in which case, revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

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 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.

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 or sell 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 any 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" profit) in the parent company 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 parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" profit amount.

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

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

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

- Financial Assets and Liabilities at FVPL

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

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

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

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

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

The Company has no financial asset or liability designated on initial recognition as at FVPL.

Financial Assets or Financial Liabilities Held for Trading. Financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the parent company balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the parent company statement of income as "Gain on investments held for trading" under "Interest and other financial income" account in the parent company statement of income. Interest earned or incurred is recorded in "Interest and other financial income" or "Interest and other financial charges" accounts, respectively, while dividend income is recorded when the right to receive payment has been established.

The Company's investments in bonds and fixed treasury notes (FXTNs) and unit investment trust funds (UITFs) and mutual funds 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 re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the parent company statement of income under "Gain (loss) on derivatives" account.

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

- Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the parent company 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 one year from the balance sheet date. Otherwise, these are classified as noncurrent assets.

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 parent company 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 one year from the balance sheet date. Otherwise, these are classified as noncurrent assets.

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

- AFS Investments

  AFS investments are those non-derivative financial assets that are designated as such 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 the parent company statement of equity is included in the parent company statement of income.

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

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

  The Company's investments in listed and unlisted equity securities and quoted 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 parent company statement of income when the liabilities are derecognized as well as through the amortization process.

  The Company's accounts payable and other current liabilities, due to stockholders and other noncurrent liabilities are classified as other financial liabilities (see Notes 14 and 24).

- 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. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the parent company statement of income. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

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 loss is recognized in the parent company 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 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 estimated 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. If a future write-off is later recovered, the recovery is recognized in the parent company statement of income. Any subsequent reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

In 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 parent company statement of income) is removed from equity and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in equity.

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 parent company 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 parent company statement of income, the impairment loss is reversed through the parent company statement of income.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired or have been transferred; or
- 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.

When 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.

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

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

Offsetting Financial Instruments

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

Fuel and Spare Parts

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

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depletion, depreciation and amortization and any impairment in value. Land is stated at cost (initial purchase price and other related costs), less any impairment in value.

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

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

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

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

Buildings and improvements	20–25 years
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 at each balance sheet date to ensure that the periods and methods of depletion, depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

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

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	
	2008	2007
Subsidiaries:		
TA Renewable [a]	**100.00**	100.00
TA Karang Besar [a]	**100.00**	100.00
CIPP [c]	**100.00**	100.00
TA Gold [a] [d]	**100.00**	100.00
Joint Venture -		
TA Power	**50.00**	50.00
Associates:		
Union Aggregates Corporation (UAC) [b]	**31.25**	31.25
Bacnotan Industrial Park Corporation (BIPC)	**30.00**	30.00
Asia Coal Corporation (Asia Coal) [b]	**28.18**	28.18

(a) Not yet started commercial operations
(b) Ceased commercial operations
(c) Acquired on December 28, 2006
(d) Incorporated on July 2, 2007

A subsidiary is an entity in which the Company has control. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

Under the cost method, the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits of the subsidiaries and associates arising after the dates of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Investment Property

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

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

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

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

Deferred Exploration Costs

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

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; or

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; or

- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

Provisions

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

Revenue

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

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.

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.

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 or the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

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

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

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

When 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.

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

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

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

Borrowing Costs

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

Impairment of Non-financial Assets

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

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

Foreign Currency Transactions

Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of initial transactions. Exchange gains or losses arising from the settlement or restatement of monetary items at rates different from those at which they were initially recorded during the year are credited or charged directly to current operations.

Income Tax

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

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

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

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

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

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

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

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

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

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

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

5. Significant Accounting Estimates and Judgments

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

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

Judgments

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

Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease. TA Oil's ESA with Guimelco qualifies as lease on the basis that TA Oil sells all of its output to Guimelco. This arrangement call for a take-or-pay arrangement where payment is made on the basis of the availability of the power plant and not on actual deliveries. This lease arrangement is determined to be an operating lease as a significant portion of the risks and rewards of ownership is retained by TA Oil. Accordingly, the power plant asset is recorded as part of the cost of property, plant and equipment and the fees billed to Guimelco are recorded as generation revenue.

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

Estimates

Estimating 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 as of December 31, 2008 and 2007 is ₱197.8 million and ₱103.8 million, respectively (see Note 8).

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

The carrying value of deferred tax assets as of December 31, 2008 is ₱10.4 million.

The Company's deductible temporary differences, unused NOLCO and excess MCIT for which no deferred tax assets were recognized in the parent company balance sheet as of December 31, 2008 and 2007 amounted to ₱117.2 million and ₱327.4 million, respectively (see Note 22).

Estimating Useful Lives of Property, Plant and Equipment and Investment Property. The Company estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of December 31, 2008 and 2007 is ₱163.9 million and ₱181.2 million, respectively (see Note 9). The carrying value of investment property as of December 31, 2008 and 2007 is ₱3.3 million and ₱3.6 million, respectively (see Note 12).

Impairment of Deferred Exploration Costs. The carrying value of deferred exploration costs is reviewed for impairment when there are indications that the carrying amount exceeds the recoverable amount. The carrying value of deferred exploration costs is ₱134.8 million and ₱138.1 million as of December 31, 2008 and 2007, respectively (see Note 13).

Impairment of Property, Plant and Equipment and Investment Property. The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value in use of the cash-generating units. There are no impairment losses provided in 2008 and 2007. The carrying value of property, plant and equipment as of December 31, 2008 and 2007 is ₱163.9 million and ₱181.2 million, respectively (see Note 9). The carrying value of investment property as of December 31, 2008 and 2007 is ₱3.3 million and ₱3.6 million, respectively (see Note 12).

Impairment of Investments in Subsidiaries, Associates and a Joint Venture. The carrying value of these investments is reviewed for impairment whenever events or changes in circumstances indicate 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. The carrying value of investments in subsidiaries, associates, and a joint venture as of December 31, 2008 and 2007 amounted to ₱621.7 million and ₱596.7 million, respectively (see Note 10).

Impairment of investment in a subsidiary recognized in 2008 and 2007 amounted to ₱46.2 thousand and ₱20.1 thousand, respectively. While reversal of allowance for impairment on investment in an associate amounted to nil and ₱3.4 million for years ended December 31, 2008 and 2007, respectively.

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats “significant” generally as 20% more of the original cost of investment, and “prolonged” if the period of decline in the fair value below its cost is greater than 6 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying value of AFS investments as of December 31, 2008 and 2007 is ₱176.8 million and ₱194.6 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 parent company financial statements include among others, discount rates, expected returns on plan assets and rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. The carrying value of pension and other post-employment benefits as of December 31, 2008 and 2007 is ₱6.8 million and ₱5.0 million, respectively (see Note 23).

6. Cash and Cash Equivalents

This account consists of:

	2008	2007
Cash on hand and in banks	**₱42,641,314**	₱120,251,870
Short-term deposits	**784,277,254**	999,176,717
	₱826,918,568	₱1,119,428,587

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

This account consists of:

	2008	2007
Investments in:		
Bonds and FXTNs	**₱260,950,688**	₱117,948,232
UITFs and mutual funds	**269,909,783**	–
	₱530,860,471	₱117,948,232

8. Receivables

This account consists of:

	2008	2007
Trade (see Note 25)	**₱46,515,363**	₱6,105,545
Due from related companies (see Note 24)	**165,996,964**	91,758,456
Others	**12,054,338**	32,781,260
	224,566,665	130,645,261
Less allowance for doubtful accounts	**26,802,732**	26,802,732
	₱197,763,933	₱103,842,529

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.

Due from related companies includes a long-outstanding receivable of ₱23.5 million from a company under common control of PHINMA. Such receivable has been fully provided with allowance for doubtful accounts as of December 31, 2008 and 2007.

Other receivables include interest receivable of ₱8.2 million and ₱5.8 million as of December 31, 2008 and 2007, respectively.

In 2005, the Company extended a loan to Guimelco with face value amounting to ₱0.5 million with interest of 12.7% per annum and a monthly amortization of ₱18.7 thousand beginning May 2005 up to February 2008. The monthly amortization will be offset against the monthly rental of ₱20.0 thousand under the lease contract between Guimelco and TA Oil. The loan receivable was fully collected in February 2008.

Due from related companies amounting to ₱23.5 million and other receivables amounting to ₱3.3 million were impaired and fully provided for as of December 31, 2008 and 2007. There was no movement in the allowance for doubtful accounts in 2008 and 2007.

As of December 31, the aging analysis of receivables is as follows (in thousands):

	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**
Trade	**₱46,515**	**₱42,135**	**₱4,380**	**₱–**	**₱–**	**₱–**	**₱–**
Due from related companies	**165,997**	**142,465**	**–**	**–**	**–**	**–**	**23,532**
Others	**12,055**	**8,784**	**–**	**–**	**–**	**–**	**3,271**
Total	**₱224,567**	**₱193,384**	**₱4,380**	**₱–**	**₱–**	**₱–**	**₱26,803**

	2007						
		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
Trade	₱6,106	₱5,183	₱411	₱512	₱–	₱–	₱–
Due from related companies	91,758	1,716	61	–	–	66,449	23,532
Others	32,781	29,478	–	–	32	–	3,271
Total	₱130,645	₱36,377	₱472	₱512	₱32	₱66,449	₱26,803

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, 2007	₱88,589,426	₱102,596,427	₱20,346,661	₱7,997,650	₱4,100,223	₱24,866,749	₱248,497,136
Additions	7,157,864	–	–	3,014,889	–	1,594,633	11,767,386
Disposals	–	–	–	(712,500)	–	(36,080)	(748,580)
At December 31, 2007	95,747,290	102,596,427	20,346,661	10,300,039	4,100,223	26,425,302	259,515,942
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**
Accumulated depreciation and impairment:							
At January 1, 2007	18,736,486	8,770,040	20,346,661	2,949,255	987,640	11,095,074	62,885,156
Depreciation	5,482,283	5,262,024	–	1,553,098	449,034	3,347,265	16,093,704
Disposals	–	–	–	(581,667)	–	(36,080)	(617,747)
At December 31, 2007	24,218,769	14,032,064	20,346,661	3,920,686	1,436,674	14,406,259	78,361,113
Depreciation	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**
Net book value:							
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, 2007	71,528,521	88,564,363	–	6,379,353	2,663,549	12,019,043	181,154,829
At January 1, 2007	69,852,940	93,826,387	–	5,048,395	3,112,583	13,771,675	185,611,980

10. **Investments in Subsidiaries, Associates and Interest in a Joint Venture**

The carrying values of investments are as follows:

	2008	2007
Joint venture -		
TA Power	**₱225,000,000**	₱225,000,000
Subsidiaries:		
CIPP	**151,234,202**	151,234,202
TA Gold	**50,000,000**	25,000,000
TA Renewable	**14,000,000**	14,000,000
TA Karang Besar	**3,203,313**	3,157,082
	218,437,515	193,391,284
Associates:		
BIPC	**180,600,000**	180,600,000
Asia Coal	**14,515,140**	14,515,140
UAC	**12,219,773**	12,219,773
	207,334,913	207,334,913
	650,772,428	625,726,197
Less accumulated impairment losses	**29,108,511**	29,062,280
	₱621,663,917	₱596,663,917

TA Power

The Company's proportionate share in the assets and liabilities of TA Power as of December 31, 2008 and 2007 and income and expenses for the years then ended are as follows:

	2008	2007
Current assets	**₱162,351,330**	₱143,971,808
Noncurrent assets*	**305,390,672**	376,962,029
	467,742,002	520,933,837
Current liabilities	**(144,387,610)**	(141,654,654)
Noncurrent liabilities	**(10,750,516)**	(13,775,254)
	(155,138,126)	(155,429,908)
Net assets	**₱312,603,876**	₱365,503,929

**Net of investment in shares of stock of the Company of ₱3.9 million both in 2008 and 2007.*

	2008	2007
Revenue	**₱593,109,585**	₱749,144,599
Cost of power generation	**(674,465,614)**	(594,815,726)
General and administrative expenses	**(28,503,547)**	(52,893,405)
Other income - net	**38,366,711**	5,747,467
Income (loss) before income tax	**(71,492,865)**	107,182,935
Provision for income tax	**(6,327,864)**	(35,934,818)
Net income (loss)	**(₱77,820,729)**	₱71,248,117

CIPP
In 2007, the Company subscribed to additional 137,300 shares of CIPP at ₱100 per share amounting to ₱13.7 million, which was applied against the Company's receivable from CIPP. Receivable from CIPP amounted to ₱69.5 million and ₱64.1 million as of December 31, 2008 and 2007, respectively. Such receivables are recorded as "Due from related parties" under "Receivables" account in the parent company balance sheets.

TA Gold
On October 13, 2008, TA Gold's BOD approved the call in ₱25.0 million from TA Gold's outstanding subscription receivable amounting to ₱75.0 million. TA Oil paid ₱25.0 million for such subscription in November 2008.

Information with regard to the Company's significant associates is shown below:

BIPC

	2008	2007
Cash and cash equivalents	**₱15,829,571**	₱10,105,857
Investments in UITFs and mutual fund	–	7,955,162
Installment contract receivables	**84,473,289**	54,379,063
Input tax and other current assets	**1,727,487**	16,512,057
Land and development costs	**351,864,878**	395,980,999
Property and equipment - net	**134,111,614**	141,887,247
Other noncurrent assets	**14,259,075**	–
	602,265,914	626,820,385
Accounts payable and accrued expenses	**(11,703,376)**	(20,995,196)
Deferred gross profit	**(2,271,990)**	(17,289,161)
Estimated liability for land development	**(2,271,990)**	(16,259,384)
Deposits for construction costs	**(2,246,773)**	(15,194,516)
Income and other taxes payable	**(1,845,079)**	(826,084)
Long-term debt	**(20,390,893)**	(23,693,459)
	(40,730,101)	(94,257,800)
Net assets	**₱561,535,813**	₱532,562,585
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

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On January 17, 2008, the Company, together with the other shareholders of BIPC, entered into a Memorandum of Agreement (MOA) with Phoenix Petroleum Philippines, Inc. (Phoenix) for the sale of all the issued and outstanding common shares of BIPC to Phoenix. As of February 16, 2009, the parties to such MOA have not made a decision whether or not to proceed with the sale of the BIPC shares.

11. Available-for-Sale Investments

This account consists of:

	2008	2007
Shares of stock:		
Listed	**₱80,841,834**	₱105,557,480
Unlisted	**71,917,220**	65,793,252
Quoted golf club shares	**24,000,000**	23,230,000
	₱176,759,054	₱194,580,732

AFS investments are stated at fair value as of December 31, 2008 and 2007, except for investments in unlisted shares of stock which are stated at cost, net of any impairment. Loss from change in fair value recognized directly in equity in 2008 amounted to ₱23.4 million. Gain from change in fair value recognized directly in equity in 2007 amounted to ₱50.1 million. No impairment loss was recognized in 2008. Impairment loss in 2007 amounting to ₱20.0 thousand has been recognized directly in the 2007 parent company statement of income.

12. Investment Property

This account consists of:

	2008	2007
Cost	**₱4,893,663**	₱4,893,663
Accumulated depreciation:		
Balance at beginning of the year	**1,316,603**	1,056,453
Depreciation	**260,150**	260,150
Balance at end of year	**1,576,753**	1,316,603
	₱3,316,910	₱3,577,060

Investment property is stated at cost less accumulated depreciation and any impairment losses. The fair value of the investment property based on the latest valuation by an independent firm of appraisers is ₱5.8 million as of December 31, 2008 and 2007. The valuation undertaken considers the sales of similar or substitute properties and related market data and establishes value estimate by processes involving comparison.

13. **Deferred Exploration Costs**

Following are the details and movements of deferred exploration costs:

	Oil Exploration Costs	Mineral Explorations Costs	Total Deferred Exploration Costs
Cost:			
At January 1, 2007	₱287,540,357	₱8,819,647	₱296,360,004
Additions	3,139,591	809,234	3,948,825
At December 31, 2007	290,679,948	9,628,881	300,308,829
Additions	599,658	132,013	731,671
Recovery	–	(4,100,000)	(4,100,000)
Write-off	(85,554,844)	–	(85,554,844)
At December 31, 2008	**205,724,762**	**5,660,894**	**211,385,656**
Allowance for impairment loss:			
At January 1, 2007	162,173,007	–	162,173,007
Additions	–	–	–
At December 31, 2007	162,173,007	–	162,173,007
Write-off	(85,554,844)	–	(85,554,844)
At December 31, 2008	**76,618,163**	**–**	**76,618,163**
Net book value:			
At December 31, 2008	**₱129,106,599**	**₱5,660,894**	**₱134,767,493**
At December 31, 2007	128,506,941	9,628,881	138,135,822
At January 1, 2007	125,367,350	8,819,647	134,186,997

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

	2008	2007
SC No. 6 (Northwest Palawan)	**₱113,297,532**	₱113,028,483
SC No. 51/GSEC No. 93 (East Visayas)	**32,545,030**	32,363,323
GSEC No. 94 (Offshore West Palawan)	**28,228,563**	28,228,563
Offshore North Mindoro-West Batangas	**17,290,300**	17,290,300
GSEC No. 91 (Southwest Palawan)	**8,103,315**	8,103,315
SC No. 55 (Offshore West Palawan)	**5,713,209**	5,570,140
SC No. 41 (Sulu Sea)	**–**	51,673,917
SC No. 42 (North Palawan)	**–**	33,880,927
Others	**546,813**	540,980
	₱205,724,762	₱290,679,948

The foregoing deferred oil exploration costs represent the Company’s share in the expenditures incurred under Petroleum SCs or GSECs with the Philippine Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and are covered by operating agreements, which set forth the participating interests, rights and obligations of the contractors.

The following summarizes the status of the Company's projects:

a. SC No. 6 Block A 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 primarily 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 an extension of the option period until September 2009.

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

b. SC No. 51/GSEC No. 93

The DOE approved the consortium's entry into the 3rd Sub-Phase of the 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.

c. SC No. 55

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. 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.

The Company also accepted the offer of NorAsian Energy Ltd. of Australia (NorAsian) 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 Paticipation Agreement signed by the Company with NorAsian's predecessors on March 15, 2005 prescribes that the latter shall bear the Company's 15% share in the cost of the drilling of the first ultra deepwater well in the block.

NorAsian subsequently signed a Heads of an Agreement with a major company in December 2008 for the farm-out of 60% of its 85% participating interest in SC No. 55.

d. SC No. 69

The DOE awarded SC No. 69 (formerly Area 8 of the 2006 Philippine Energy Contracting Round) on May 7, 2008 to a consortium composed of the Parent Company (30% interest) and NorAsian Energy Ltd. Philippines (70%).

SC No. 69 has an Exploration Period of seven years, divided into five Sub-Phases. While the area is under-explored, initial indications set 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 3,000 kms. of vintage 2D seismic data, in fulfilling the work obligations under the 1st Sub-Phase of the Exploration Period (May 7, 2008 to May 6, 2009).

e. Minerals - Mineral Production Sharing Agreements (MPSA) 252-2007-V

On February 14, 2008, the Parent Company 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 said Operating Agreement, TA Gold completed the drilling of three exploratory diamond drill holes to probe gold, uranium and white clay occurrences. Results of the drilling operations are under evaluation.

The Parent Company 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.

14. Accounts Payable and Other Current Liabilities

This account consists of:

	2008	2007
Trade and nontrade accounts payable	**₱71,150,802**	₱12,065,727
Accrued directors' and management fees, and annual incentives (see Note 24)	**21,059,487**	24,059,742
Output tax	**17,272,170**	5,726,618
Derivative liability (see Note 27)	**10,807,500**	–
Due to related parties (see Note 24)	**6,881,392**	746,779
Accrued expenses	**575,754**	47,852,603
Deferred rent income	**35,278**	35,278
Others	**3,361,756**	455,083
	₱131,144,139	₱90,941,830

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

15. **Equity**

a. Capital Stock

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

	Number of Shares	
	2008	2007
Authorized capital stock - ₱1 par value	**2,000,000,000**	2,000,000,000
Issued:		
Balance at beginning of year	**1,657,585,092**	1,105,056,728
Issuance during the year (see Note 16)	**4,713,558**	552,528,364
Balance at end of year	**1,662,298,650**	1,657,585,092

On June 20, 2007, the SEC approved the stock rights offering of 552.5 million shares of the Company at the rate of 1 share for every 2 shares held as of record date of November 23, 2007, at a price of ₱1.10 per share. The offer period commenced on November 28, 2007 and ended on December 11, 2007. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to ₱599.0 million. The proceeds were used to fund petroleum and mineral explorations and for general corporate purposes.

b. Retained Earnings

Retained earnings available for dividend declaration as of December 31, 2008 amounted to ₱773.9 million.

Dividends declared and paid in 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

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 per share.

On June 7, 2004, the Company's BOD approved the reallocation of stock options for a total of 12.5 million shares out of the original 25 million shares, which expired in April 2003 and May 2004. Such stock options were allocated among directors and employees of the Company and the exercise of such options was subject to the following terms and conditions:

Subscription Price	At par value of ₱1 per share

Period of Exercise	Up to 100% of the allocated shares within three years from June 8, 2004
Payment of Shares	Cash payment upon exercise of option
Right to Exercise Option	Continuous employment required

As allowed under PFRS 1, the Company availed of the exemption from applying PFRS 2 to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005.

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's two billion authorized shares: (a) stock grants for officers and managers of the Company; and, (b) stock options for directors, officers and employees of TA Oil and its subsidiaries and affiliates (referred to herein as the "New Plan") under the terms and conditions as determined by the Executive Committee of the BOD. As of December 31, 2008, such stock options have not been granted and awarded to any of the directors, officers and employees of the Company.

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 to the issuance of 4.7 million shares in 2008.

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.

17. **Trading Cost**

In 2008, this account consists of:

	Amount
Cost of power purchased	₱241,381,146
Salaries and directors' fees (see Note 20)	4,719,971
Management and professional fees (see Note 24)	466,000
Transportation and travel	454,643
Insurance, dues and subscriptions	426,631
Employee benefits (see Note 20)	324,424
Depreciation and amortization (see Note 21)	294,132
Office supplies	115,678
Building maintenance and repairs	24,342
Entertainment, amusement and recreation	16,848
Others	854,963
	₱249,078,778

18. **Cost of Power Generation**

This account consists of:

	2008	2007
Fuel	**₱46,672,532**	₱17,003,547
Depreciation and amortization (see Note 21)	**5,935,421**	6,077,911
Labor (see Note 20)	**3,619,565**	3,529,123
Repairs and maintenance	**3,073,429**	2,035,222
Taxes and licenses	**1,621,227**	1,731,770
Employee benefits (see Note 20)	**956,257**	890,875
Insurance	**375,445**	555,559
Rental	**309,474**	315,789
Others	**499,476**	310,150
	₱63,062,826	₱32,449,946

19. General and Administrative Expenses

This account consists of:

	2008	2007
Management and professional fees (see Note 24)	**₱38,817,588**	₱44,904,310
Salaries and directors' fees (see Note 20)	**23,557,134**	59,361,185
Depreciation and amortization (see Note 21)	**12,510,708**	10,275,943
Building maintenance and repairs	**8,975,671**	8,298,873
Employee benefits (see Note 20)	**4,169,708**	1,798,932
Rent	**2,861,398**	1,515,726
Insurance, dues and subscriptions	**2,817,429**	2,592,627
Donation and contribution	**1,918,354**	305,317
Retirement benefits (see Notes 20 and 23)	**1,849,800**	1,464,671
Transportation and travel	**1,665,458**	2,453,821
Taxes and licenses	**1,457,919**	1,675,422
Office supplies	**1,324,356**	1,552,507
General exploration	**411,354**	10,162,943
Entertainment, amusement and recreation	**189,011**	75,912
Others	**3,674,306**	3,750,023
	₱106,200,194	₱150,188,212

20. Personnel Expenses

This account consists of the following:

	2008	2007
Salaries and directors' fees included under:		
Trading cost	**₱4,719,971**	₱–
Cost of power generation	**3,619,565**	3,529,123
General and administrative expenses	**23,557,134**	59,361,185
Deferred exploration costs	**–**	2,091,316
Retirement benefit (see Note 23)	**1,849,800**	1,464,671
Employee benefits included under:		
Trading cost	**324,424**	–
Cost of power generation	**956,257**	890,875
General and administrative expenses	**4,169,708**	1,798,932
	₱39,196,859	₱69,136,102

21. Depreciation and Amortization

This account consists of the following:

	2008	2007
Property, plant and equipment and investment property included under:		
Trading cost	**₱294,132**	₱–
Cost of power generation	**5,935,421**	6,077,911
General and administrative expenses	**12,250,558**	10,015,793
Investment property included under -		
General and administrative expenses	**260,150**	260,150
	₱18,740,261	₱16,353,854

22. Income Tax

The components of the Company's deferred tax assets and liabilities are as follows:

	2008	2007
Deferred tax assets:		
Allowance for impairment loss on deferred exploration costs	**₱8,630,863**	₱–
Unrealized loss on free-standing derivatives	**3,242,250**	–
Accrued expenses	**100,564**	–
NOLCO	**–**	12,197,651
	11,973,677	12,197,651
Less deferred tax liabilities:		
Unrealized gain on change in fair value of investments held for trading	**849,531**	761,353
Asset retirement obligation	**705,600**	–
Unrealized gain on embedded derivatives	**17,933**	17,933
Unrealized gain on free-standing derivatives	**–**	11,418,365
	1,573,064	12,197,651
Derivative tax assets - net	**₱10,400,613**	₱–

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

	2008	2007
Allowance for impairment loss on deferred exploration costs	**₱47,848,620**	₱162,173,007
Unrealized foreign exchange losses	**28,731,468**	107,191,734
MCIT	**9,991,791**	4,691,155
Accrued expenses	**6,810,877**	5,042,725
Allowance for impairment losses	**6,712,782**	6,712,782
Allowance for unrecoverable input tax	**6,162,861**	–

(Forward)

	2008	2007
Asset retirement obligation	**₱4,255,664**	₱1,387,808
Unamortized past service cost	**3,271,604**	4,024,685
Allowance for doubtful accounts	**3,270,365**	3,270,365
Unrealized marked to market loss	**65,258**	–
Deferred rent income	**35,278**	35,278
NOLCO	**–**	32,826,168
	₱117,156,568	₱327,355,707

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

MCIT amounting to ₱10.0 million can be claimed as deduction from income tax due as follows:

Year Incurred	Expiry Date	Amount
2006	December 31, 2009	₱1,097,140
2007	December 31, 2010	3,317,163
2008	December 31, 2011	5,577,488
		₱9,991,791

MCIT amounting to ₱0.3 million and ₱0.6 million expired in 2008 and 2007, respectively. NOLCO amounting to ₱67.7 million and ₱12.6 million was applied to taxable income in 2008 and 2007, respectively.

The provision for current income tax in 2008 and 2007 represents MCIT.

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

	2008	2007
Applicable statutory income tax rate	**35.00%**	35.00%
Increase (decrease) in tax rate resulting from:		
Changes in unrecognized deferred tax assets	**(30.60)**	3.92
Applied NOLCO	**(10.34)**	(1.65)
Interest income subjected to final tax rate	**(6.91)**	(1.80)
Change in tax rate	**0.76**	–
Dividend income exempt from tax	**(0.32)**	(40.31)
Others	**9.67**	5.16
Effective income tax rates	**(2.10%)**	0.32%

Due to enactment of Republic Act (RA) No. 9337 in 2005, the regular corporate income tax rate will be reduced from 35% to 30% effective January 1, 2009.

23. Pension and Other Post-employment Benefits

The Company has a funded, noncontributory defined benefit retirement plan covering all of its regular and full time employees.

Pension and other post-employment benefits consist of accruals for:

	2008	2007
Net pension liability	**₱1,690,100**	₱2,161,900
Vacation and sick leaves	**5,120,777**	2,804,494
	₱6,810,877	₱4,966,394

Employee benefits included under cost of power generation and general and administrative expenses in the parent company statement of income consist of:

	2008	2007
Net pension benefit expense	**₱1,336,592**	₱1,055,900
Contributions to PHINMA and TA Power retirement funds for common employees	**513,208**	408,771
Vacation and sick leaves	**2,581,154**	1,303,156
	₱4,430,954	₱2,767,827

Total retirement costs for the years ended December 31, 2008 and 2007 amounted to ₱1.8 million and ₱1.5 million, respectively. Retirement costs include the Company's contribution to PHINMA and TA Power's retirement funds pertaining to the Company's share in the retirement benefits of common employees amounting to ₱0.5 million in 2008 and ₱0.4 million in 2007.

The following tables summarize the components of provision for retirement benefits included in the parent company statements of income and accrued retirement costs included under "Pension and other post-employment benefits" account in the parent company balance sheets, which are based on the latest actuarial valuation:

	2008	2007
Components of provision for retirement benefits:		
Current service cost	**₱1,960,000**	₱2,010,600
Interest cost	**1,027,500**	1,748,300
Expected return on plan assets	**(985,300)**	(1,540,800)
Recognized actuarial gain	**(152,400)**	(113,100)
	1,849,800	2,105,000
Adjustment for cross-assigned employees	**(513,208)**	(1,049,100)
Provision for retirement benefits for the year	**₱1,336,592**	₱1,055,900
Actual return on plan assets	**(₱134,900)**	₱650,400

The net benefit liability that was recognized in the parent company balance sheets as of December 31, 2008 and 2007 are as follows:

	2008	2007
Present value of benefit obligation (PVBO)	**₱10,790,500**	₱14,016,000
Fair value of plan assets	**20,658,800**	15,576,500
Funded status	**(9,868,300)**	(1,560,500)
Unrecognized net actuarial gains	**11,558,400**	3,722,400
Net pension liability	**₱1,690,100**	₱2,161,900

The movements in the PVBO are as follows:

	2008	2007
Balance at beginning of year	**₱14,016,000**	₱26,964,400
Current service cost	**1,960,000**	2,010,600
Interest cost	**1,027,500**	1,748,300
Actual benefits paid	**–**	(12,746,500)
Transfer in (out)	**2,895,600**	(3,526,400)
Actuarial gain	**(9,108,600)**	(434,400)
Balance at end of year	**10,790,500**	14,016,000
Adjustment for cross-assigned employees	**(513,208)**	(1,049,100)
	₱10,277,292	₱12,966,900

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

	2008	2007
Balance at beginning of year	**₱15,576,500**	₱28,114,200
Expected return on plan assets	**985,300**	1,540,800
Actual contribution	**2,321,600**	3,084,800
Actual benefits paid	**–**	(12,746,500)
Transfer in (out)	**2,895,600**	(3,526,400)
Actuarial loss	**(1,120,200)**	(890,400)
Balance at end of year	**20,658,800**	15,576,500
Adjustment for cross-assigned employees	**(513,208)**	(1,049,100)
	₱20,145,592	₱14,527,400

The assumptions used to determine PVBO and fair value of plan assets are as follows:

	2008	2007
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%

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 ₱1,348,500 to its defined benefit pension plan in 2009.

Annual contribution to the retirement plan consists of a payment to cover the current service cost for the year plus a payment toward funding the accrued actuarial liability.

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

	2008	2007
Equities	**81%**	89%
Mutual Funds and UITFs	**15%**	9%
Others	**4%**	2%

In 2008, experience adjustments on plan assets and plan liabilities are ₱1.1 million and ₱0.5 million loss, respectively.

In 2007, experience adjustments on plan assets and plan liabilities are ₱0.9 million and ₱1.8 million loss, respectively.

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 ₱13.4 million and ₱14.3 million for the years ended December 31, 2008 and 2007, respectively. Net payable to PHINMA, recorded as "Due to related parties" under "Accounts payable and other current liabilities" account in the parent company balance sheets, amounted to ₱0.3 million and ₱11.0 million as of December 31, 2008 and 2007, respectively.

TA Power

TA Power leases and occupies part of the office space owned by the Company. Rental income earned amounted to ₱2.3 million in 2008 and 2007. As of December 31, 2008, receivable from TA Power, recorded as "Due from related parties" under "Receivables" account include receivable from electricity trading of ₱72.1 million, rent receivable of ₱0.2 million and receivable from shared expenses of ₱0.1 million. As of December 31, 2007, receivables represents share in expenses of ₱1.3 million and rent receivable of ₱0.2 million.

In 2008, outstanding payable to TA Power comprise of payable for electricity trading of ₱2.3 million and payable for shared expenses of ₱0.1 million. The parent company does not have any outstanding payable to TA Power in 2007.

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 ₱11.7 million in 2008 and ₱13.3 million in 2007. The related unpaid amount, recorded as "Accrued directors and management fees and annual incentives" under "Accounts payable and other current liabilities" account in the parent company balance sheets, amounted to ₱11.7 million and ₱13.3 million as of December 31, 2008 and 2007, respectively.

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

	2008	2007
Short-term employee benefits	**₱22,334,383**	₱33,026,497
Post-employment benefits:		
Retirement benefits	**513,208**	408,771
Vacation and sick leave	**2,428,028**	418,821
	₱25,275,619	₱33,854,089

Stockholders
Amounts due to stockholders for unclaimed dividends totaled ₱6.3 million and ₱5.3 million as of December 31, 2008 and 2007, respectively.

25. **Commitments**

ESA 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.

ESA with Holcim Philippines, Inc. (Holcim)
On December 14, 2007, TA Oil, TA Power and Holcim entered into a MOA with the following provisions:

- TA Power shall supply exclusively the electricity requirements of the Bulacan plant of Holcim at rates equal to "Time of Use" rates charges by the National Power Corporation (NPC) plus all other charges and applying such adjustments approved and in the manner prescribed by the 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 ₱20.0 thousand for the duration of the lease term. Future minimum operating lease payables under this lease agreement as of December 31, 2008 and 2007 are as follows:

	2008	2007
Within one year	**₱240,000**	₱240,000
After one year but not more than five years	**1,200,000**	1,200,000
More than five years	**80,000**	320,000
	₱1,520,000	₱1,760,000

EPIRA

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.

As of December 31, 2008, the Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

26. Financial Risk Management Objectives and Policies

I. Objectives and Investment Policies

The PHINMA Group Treasury manages and invests the funds of the Company and invests in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine peso, U.S. dollar 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. These are:

1) Foreign currency risk
2) Credit or counterparty risk
3) Liquidity risk
4) Market risk

Professional competence, prudence, clear and strong separation of office functions, due diligence and use of risk management tools are exercised at all times in the handling of the funds of the Company. An Investment Committee, comprised of some of the Company's BOD, reviews and approves policies, controls and strategies for investments and risk management.

Basic investment policies as approved by the Investment Committee are:

1) Safety of principal

2) Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee.

3) Exposure limits:

   a. For banks/fund managers: maximum 20% of total fund of each company per bank/fund

   b. For Philippine peso investments: minimal corporate exposure except for registered bonds for non-affiliates

c. 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

d. For total foreign currencies: maximum 50% of total portfolio

e. For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review

II. Risk Management Process

1) Foreign Currency Risk

Definition
The PHINMA Group Treasury manages holdings of cash and securities not only in Philippine peso but also substantially in U.S. dollar and other third currencies. Any depreciation of the U.S. dollar and other currencies against the Philippine peso posts material foreign exchange losses that will diminish the market values of these investments.

Management of Risk

a. Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange.

b. Regular discussions with banks are done to get multiple perspectives on currency trends/forecasts.

c. Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.

d. Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.

e. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's foreign currency-denominated assets and liabilities as of December 31, 2008 and 2007 are as follows (in thousands):

	U.S. dollar	
	2008	2007
Assets:		
Cash and cash equivalents	**$7,144**	$8,698
Short-term investments	**369**	209

(Forward)

	U.S. dollar	
	2008	2007
Investments in bonds and FXTNs	**$2,763**	$2,001
Other receivables	**91**	90
	10,367	10,998
Liabilities -		
Accounts payable and other current liabilities	**(16)**	(44)
Net foreign currency-denominated assets (liabilities)	**$10,351**	$10,954
Philippine peso equivalent	**₱491,880**	₱452,181

In translating foreign currency-denominated financial assets and liabilities into peso amounts, the exchange rates used were ₱47.52 and ₱41.28 to US$1.00 as of December 31, 2008 and 2007, respectively.

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, 2008 and 2007. 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 27).

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**

2007

Increase (Decrease) in U.S. Dollar Exchange Rate	Effect on Profit Before Tax
	(In Millions)
(₱0.25)	₱0.93
(0.50)	0.34
0.25	2.10
0.50	2.70

2) Credit or Counterparty Risk

Definition

Credit or counterparty risk is the risk due to uncertainty in a counterparty's ability to meet its obligations. Traditionally this credit event applies to bonds, whether government bonds or corporate bonds, where the holders are concerned that the counterparty to whom they have made a "loan" might default on a payment (coupon or principal).

Management of Risk

a. Investments are coursed thru or transacted with duly accredited domestic and foreign banks and mutual funds up to a maximum of 20% of the Company's investible funds. For UITF and mutual funds, fund placements cannot exceed 10% of the UITF's or mutual funds' total funds. Individual limits are further established for one bank/mutual fund on the basis of their valuation, financial soundness, business performance and reputation/expertise. Banks', UITF's and mutual funds' performance as well as their fund level, investment mix and duration are reviewed at least once a month or as often as required.

b. Investments in non-rated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies/updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.

c. For temporary investments in affiliates, transactions are done on an arms-length basis taking into account the affiliates' financial standing and ability to pay. Interest rates are based on a formula that considers the average of the borrowing and lending rates of the parties and maturity dates are strictly complied with.

d. Discussions are done on every major investment by Treasury *en banc* before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a senior Treasury Officer supervises major transaction executions.

e. Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.

f. A custodian bank for peso instruments and foreign currency instruments has been appointed based on their track record on such service and the bank's financial competence.

g. Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

With respect to credit risk arising from the receivables of the Company, the Company's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2008					
	Neither Past Due nor Impaired			**Past Due but not**	**Past Due and Individually**	
	Class A	**Class B**	**Class C**	**Impaired**	**Impaired**	**Total**
Trade and other receivables:						
Trade receivables from customers:						
Holcim	**₱20,985,799**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,985,799**
PEMC	**12,773,740**	**–**	**–**	**–**	**–**	**12,773,740**
Guimelco	**8,375,666**	**–**	**–**	**4,380,158**	**–**	**12,755,824**
Due from related companies	**142,464,598**	**–**	**–**	**–**	**23,532,366**	**165,996,964**
Others	**8,783,972**	**–**	**–**	**–**	**3,270,366**	**12,054,338**
	₱193,383,775	**₱–**	**₱–**	**₱4,380,158**	**₱26,802,732**	**₱224,566,665**

	2007					
	Neither Past Due nor Impaired			Past Due but not	Past Due and Individually	
	Class A	Class B	Class C	Impaired	Impaired	Total
Trade and other receivables:						
Trade receivable from Guimelco	₱5,182,610	₱–	₱–	₱922,935	₱–	₱6,105,545
Due from related companies	1,715,750	–	–	66,510,340	23,532,366	91,758,456
Others	29,478,437	–	–	32,457	3,270,366	32,781,260
	₱36,376,797	₱–	₱–	₱67,465,732	₱26,802,732	₱130,645,261

The Company uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Collateralized accounts with excellent paying habits
Class B	Secured accounts with good paying habits
Class C	Unsecured accounts

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, short-term investments, AFS investments, investments held for trading and derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company has assessed the credit quality of the following financial assets:

a. Cash and cash equivalents, short-term investments, investments held for trading and derivative instruments were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.

b. Quoted and unquoted equity instruments 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/collateral.

There are no significant concentrations of credit risk within the Company.

3) Liquidity Risk

Definition
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. The Company manages liquidity risks by restricting investments principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

The maturities of the financial liabilities are determined based on the Company's projected payments and contractual maturities. The average duration adheres to guidelines provided by the Investment Committee.

Management of Risk

a. Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.

b. Continuous monitoring of the weekly/monthly cash flows as well as frequent updates of the annual plans of the Company.

c. Investment maturities are spread on a weekly, monthly, and annual basis as indicated in the Company's plans. Average duration of investments should adhere to the investment parameters approved by the Investment Committee.

d. When necessary, placements are pre-terminated or securities liquidated; but this is largely avoided.

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2008 and 2007 based on contractual undiscounted payments:

	2008					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**More than 5 Years**	**Total**
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	**₱71,150,802**	**₱–**	**₱–**	**₱–**	**₱–**	**₱71,150,802**
Accrued directors' and management fees, and annual incentives	**21,059,487**	–	–	–	–	**21,059,487**
Due to related parties	**6,881,392**	–	–	–	–	**6,881,392**
Accrued expenses	**575,754**	–	–	–	–	**575,754**
Others	**14,169,256**	–	–	–	–	**14,169,256**
Due to stockholders	**6,272,367**	–	–	–	–	**6,272,367**
Other noncurrent liabilities	–	–	–	**3,219,257**	–	**3,219,257**
	₱120,109,058	**₱–**	**₱–**	**₱3,219,257**	**₱–**	**₱123,328,315**

	2007					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱9,055,407	₱3,010,320	₱–	₱–	₱–	₱12,065,727
Accrued expenses	47,852,603	–	–	–	–	47,852,603
Accrued directors' and management fees and annual incentives	24,059,742	–	–	–	–	24,059,742
Due to related parties	746,779	–	–	–	–	746,779
Others	455,083	–	–	–	–	455,083
Due to stockholders	5,340,277	–	–	–	–	5,340,277
Other noncurrent liability	–	–	–	3,223,574	–	3,223,574
	₱87,509,891	₱3,010,320	₱–	₱3,223,574	₱–	₱93,743,785

4) Market Risk

Definition

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or changes in business/economic changes. Interest rate or foreign exchange rates or risk appetite are market factors of market risk as the summation of the three defines the value of an instrument or asset.

Management of Risk

a. Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers are done to get multiple perspectives on interest rate trends/forecasts.

b. Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.

c. "Red Lines" are established then reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that the Treasury Group uses as guides whether to buy, hold or sell bonds as approved by the Investment Committee or, in cases of high volatility, by the CFO.

d. In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates/prices in relation to strategies.

e. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

Interest Rate Risk

The following table sets out the carrying amount (in thousands), by maturity, of the Company's financial assets and liabilities that are exposed to interest rate risk:

	Interest Rates	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	Total
				(In Thousands)		
2008 Fixed Rate						
Special savings account (SSA)	**0.1–7%**	**₱784,277**	**₱–**	**₱–**	**₱–**	**₱784,277**
Short-term investments	**2–2.1%**	**17,511**	**–**	**–**	**–**	**17,511**
Investments in bonds and FXTNs	**8.38–15%**	**78,828**	**50,371**	**131,752**	**–**	**260,951**
2007 Fixed Rate						
SSA	3-6%	999,177	–	–	–	999,177
Short-term investments	4.2-4.5%	8,640	–	–	–	8,640
Investments in bonds and FXTNs	8.125-11.875%	82,613	24,585	–	10,750	117,948

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above table are noninterest-bearing investments and are therefore not subject to interest rate volatility.

The table below demonstrates the sensitivity to a reasonable possible change in the interest rates, with all other variables held constant, of the Company's profit before tax. There is no other impact on the Company's equity other those already affecting profit or loss.

	2008		2007	
	Increase (Decrease) in Basis Points	**Effect on Profit Before Tax**	Increase (Decrease) in Basis Points	Effect on Profit Before Tax
FXTNs	**25**	**(₱433,217)**	25	(₱160,941)
Special deposit account (SDA)	**25**	**1,210,257**	25	935,147
SSA	**25**	**581,395**	25	358,923
FXTNs	**(25)**	**433,217**	(25)	160,941
SDA	**(25)**	**(1,210,257)**	(25)	(935,147)
SSA	**(25)**	**(581,395)**	(25)	(358,923)

Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Based on the Company's expectation, the Company's assessment of reasonably possible change was determined to be an increase of 10% and 14%, resulting to a possible effect in the equity of ₱3.9 million and ₱8.3 million as of December 31, 2008 and 2007, respectively.

III. Monitoring of Risk Management Process

Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

1) Weekly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenged based on current and forecasted developments on the financial and political events.

2) Monthly portfolio reports are submitted to the CFO that includes an updated summary of global and domestic events of the past month and the balance of the year.

3) Quarterly presentation of the investment portfolio to the Investment Committee to discuss and secure approvals on strategy changes.

4) Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.

5) One on one coaching sessions are scheduled to assist, train and advise personnel.

6) Periodic review of Treasury risk profile and control procedures.

7) Periodic specialized audit to ensure active risk oversight.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2008 and December 31, 2007.

The Company monitors capital using the debt-to-equity ratio, which is total current and noncurrent liabilities divided by total equity. The Company monitors its debt-to-equity ratio to keep it at a level acceptable to the Company. Capital includes all the items appearing in the equity section of the parent company balance sheet. The Company's policy is to keep debt-to-equity ratio below the maximum ratio of 2:1.

	2008	2007
	(In Thousands)	
Total liabilities	**₱152,284**	₱111,879
Total equity	**2,548,591**	2,399,587
Debt-to-equity ratio	**0.06:1**	0.05:1

27. Financial Instruments

Fair Value

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the parent company financial statements.

	Carrying Amount		Fair Value	
	2008	2007	**2008**	2007
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱826,918,568**	₱1,119,428,587	**₱826,918,568**	₱1,119,428,587
Short-term investments	**17,511,120**	8,639,904	**17,511,120**	8,639,904
Receivables:				
Trade	**46,515,363**	6,105,545	**46,515,363**	6,105,545
Due from related companies	**142,464,598**	68,226,090	**142,464,598**	68,226,090
Others	**8,783,972**	29,510,894	**8,783,972**	29,510,894
	1,042,193,621	1,231,911,020	**1,042,193,621**	1,231,911,020
Financial assets at FVPL:				
Investments held for trading	**530,860,471**	117,948,232	**530,860,471**	117,948,232
Derivative assets*	**59,776**	32,683,676	**59,776**	32,683,676
	530,920,247	150,631,908	**530,920,247**	150,631,908
AFS investments:				
Quoted	**104,841,834**	128,787,480	**104,841,834**	128,787,480
Unquoted	**71,917,220**	65,793,252	**71,917,220**	65,793,252
	176,759,054	194,580,732	**176,759,054**	194,580,732
Total financial assets	**₱1,749,872,922**	₱1,577,123,660	**₱1,749,872,922**	₱1,577,123,660
Financial Liabilities				
Financial liability at FVPL - Derivative liability**	**₱10,807,500**	₱–	**₱10,807,500**	₱–
Other financial liabilities:				
Accounts payable and other current liabilities***	**103,029,191**	85,179,934	**103,029,191**	85,179,934
Due to stockholders	**6,272,367**	5,340,277	**6,272,367**	5,340,277
Other noncurrent liabilities	**3,219,257**	3,223,574	**2,928,335**	2,792,642
	112,520,815	93,743,785	**112,229,893**	93,312,853
Total financial liabilities	**₱123,328,315**	₱93,743,785	**₱123,037,393**	₱93,312,853

* *Presented as part of other current assets in the parent company balance sheet.*
** *Presented as part of accounts payable and other current liabilities in the parent company balance sheet.*
*** *Excludes taxes payable and deferred rent income.*

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, and Due to Stockholders. Carrying amount approximates fair value due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair values of investments held for trading and listed AFS investments. The fair values of unlisted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

Derivative Assets and Derivative Liability. The fair value of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Company has outstanding currency forward contracts with an aggregate notional amount of US$12.4 million and weighted average contracted forward rate of ₱46.793 to US$1.00 as of December 31, 2008, and an aggregate notional amount of US$11.5 million and weighted average contracted forward rate of ₱44.208 to US$1.00 as of December 31, 2007. The Company is in a Selling U.S. Dollar position. The net fair value loss on these currency forward contracts as of December 31, 2008 amounted to ₱10.8 million and was included under "Accounts payable and other current liabilities" account in the 2008 parent company balance sheet. The net fair value gain on these currency forward contracts as of December 31, 2007 amounted to ₱32.6 million and was included under "Other current assets" account in the 2007 parent company balance sheet.

The net movements in fair value changes of freestanding forward currency transactions are as follows:

	2008	2007
Balance at beginning of year	**₱32,623,900**	₱15,508,980
Net changes in fair value during the year	**(21,231,494)**	104,448,000
Fair value of settled contracts	**(22,199,906)**	(87,333,080)
Balance at end of year	**(₱10,807,500)**	₱32,623,900

The net changes in fair value during the year are included in the "Loss or gain on derivatives" account in the parent company statements of income.

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

The Company's outstanding embedded forward has an aggregate notional amount of US$0.03 million and US$0.02 million, and weighted average fixing rate of ₱43.1665 and ₱49.8351 to US$1.00 as of December 31, 2008 and 2007, respectively.

The net movements in fair value changes of these embedded derivatives are as follows:

	2008	2007
Balance at beginning of year	**₱59,776**	(₱25,529)
Net changes in fair value during the year	–	(844,319)
Fair value of settled contracts	–	929,624
Balance at end of year	**₱59,776**	₱59,776

In 2007, the net changes in fair value during the year are included in the "Gain on derivatives" account in the 2007 parent company statement of income.

Other Noncurrent Liabilities. The fair value of the Company's long-term payable to Ascendas is based on the discounted value of the expected future cash flows using applicable interest rate for a similar type of instrument. Discount rates used were 6.36% and 5.81% in 2008 and 2007, respectively.

Details of interest and other financial income and interest and other financial charges are as follows:

Interest and Other Financial Income

	2008	2007
Interest income	**₱53,633,520**	₱33,371,717
Net gains on investments held for trading:		
Gain (loss) on redemption/sale of investments held for trading	**(567,806)**	2,281,987
Unrealized gains (losses) from changes in fair value of investments held for trading	**585,919**	(1,160,156)
Amortization of bond premium/discount	**(4,159,830)**	(1,368,433)
	₱49,491,803	₱33,125,115

Interest and Other Financial Charges

	2008	2007
Accretion of asset retirement obligation	**₱371,856**	₱369,824
Interest expense on loans and borrowings	**126,161**	9,081,961
Amortization of debt issuance cost	**–**	2,005,713
Other financial charges	**65,110**	1,249,857
	₱563,127	₱12,707,355