

COVER SHEET

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S.E.C. Registration Number

T R A N S - A S I A O I L A N D E N E R G Y
D E V E L O P M E N T C O R P O R A T I O N

(Company's Full Name)

L E V E L 1 1 P H I N M A P L A Z A 3 9 P L A Z A
D R I V E R O C K W E L L C E N T E R M A K A T I

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

MR. RAYMUNDO A. REYES, JR.
Contact Person

8 7 0 - 0 1 0 0
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

1 7 - Q
FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

STAMPS

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**Trans-Asia Oil
and Energy Development
Corporation**

January 23, 2009

THE SECURITIES & EXCHANGE COMMISSION

Corporation Finance Department
SEC Building, EDSA, Greenhills
Mandaluyong City

Attention: **MS. JUSTINA F. CALLANGAN**
Director

Dear Ms. Callangan:

This refers to your letter dated December 22, 2008 which we received on January 19, 2009 advising that the 2008 3rd Quarter Report (SEC 17-Q) for the period ended September 30, 2008 of Trans-Asia Oil and Energy Development Corporation (TAO) is not in full compliance with SRC Rules 17 and 68, as amended.

In response, we are forwarding to you the attached duly accomplished SEC 17-Q of TAO for the period ended September 30, 2008. Regarding the amendments to Philippine Accounting Standard 39 – Financial Instruments: Recognition and Measurement and Philippine Financial Reporting Standard 7 – Financial Instruments: Disclosures to permit the following actions for some financial instruments:

- Reclassification of securities out of the trading category in rare circumstances;
- Reclassification to loan category (cost basis) if there is an intention and ability to hold the financial instruments for the foreseeable future (in the case of loans) or until maturity (for debt securities).

we wish to advise you that TAO has no intention to reclassify its financial assets.

We hope you find everything in order and consider TAO's SEC 17-Q in full compliance with SRC Rules 17 and 68, as amended.

Thank you.

Very truly yours,


PONCIANO L. DIMAYUGA
Senior Vice President - Finance

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

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17 (2) (b) THEREUNDER**

1. For the quarterly period ended **September 30, 2008**
2. Commission identification number **39274**
3. BIR Tax Identification No. **000-506-020-000**
4. Exact name of issuer as specified in its charter
TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
5. Province, country or other jurisdiction of incorporation or organization **Manila**
6. Industry Classification Code (SEC Use Only)
7. Address of issuer's principal office Postal Code
Level 11, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City **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 Section 8 and 12 of the Code, or Section 4 and 8 of the RSA

Number of shares of common stock outstanding **1,662,298,650 shares**
Amount of debt outstanding as of September 30, 2008 **None**
11. Are any or all of the securities listed on a Stock Exchange?
Yes () No ()

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
Philippine Stock Exchange Common
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes () No ()
 - (b) has been subject to such filing requirements for the past ninety (90) days.
Yes () No ()

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Please refer to attached ANNEX “A.”

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

Please refer to attached ANNEX “B.”

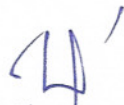
PART 11 – OTHER INFORMATION

Please refer to attached ANNEX “C”

Signatures

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on January 21, 2009.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION



PONCIANO L. DIMAYUGA
Senior Vice-President - Finance



RAYMUNDO A. REYES, JR.
Vice-President – Exploration

TRANS-ASIA OIL AND ENERGY DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
September 30, 2008 and December 31, 2007
and Nine Months Ended September 30, 2008 and 2007

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

CONSOLIDATED BALANCE SHEETS

	September 2008	December 2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 25)	₱1,187,560,110	₱1,211,421,333
Short-term investments (Notes 25)	–	8,639,904
Investments held for trading (Notes 6 and 25)	271,879,737	134,058,401
Receivables - net (Notes 7, 15, and 25)	148,984,850	118,256,864
Fuel and spare parts - at cost	74,640,253	56,063,302
Other current assets (Notes 25)	22,035,937	44,734,135
Company's share in current assets of a joint venture (Note 12)	184,790,011	143,971,808
Total Current Assets	1,889,890,898	1,717,145,747
Noncurrent Assets		
Property, plant and equipment - net (Notes 8 and 15)	629,908,508	663,434,690
Investments in associates (Note 9)	164,339,559	160,450,341
Available-for-sale investments (Notes 10 and 25)	203,971,614	224,250,497
Intangible assets - net (Notes 13)	179,955,018	185,401,954
Investment property - net (Note 11)	3,381,948	3,577,060
Other noncurrent assets (Note 7)	332,678	332,678
Company's share in noncurrent assets of a joint venture (Note 12)	321,320,640	376,962,029
Total Noncurrent Assets	1,503,209,965	1,614,409,249
	₱3,393,100,863	₱3,331,554,996

LIABILITIES AND EQUITY

Current Liabilities		
Accounts payable and other current liabilities (Notes 14 and 25)	₱212,817,973	₱188,863,566
Interest-bearing loans and borrowings (Notes 15 and 25)	–	–
Due to stockholders (Notes 25)	5,100,713	5,340,277
Income and withholding tax payable	1,616,083	4,128,253
Company's share in current liabilities of a joint venture (Note 12)	179,744,240	140,899,105
Total Current Liabilities	399,279,009	339,231,201

(Forward)

	September 2008	December 2007
Noncurrent Liabilities		
Interest-bearing loans and borrowings - net of current portion (Notes 15 and 25)	P-	P-
Customers' deposits (Notes 25)	20,679,335	17,558,403
Pension and other post-employment benefits	8,666,600	6,415,541
Deferred tax liabilities - net (Note 22)	78,218,582	85,584,751
Other noncurrent liabilities	7,381,449	7,107,382
Company's share in noncurrent liability of a joint venture (Notes 12 and 22)	3,122,734	13,775,254
Total Noncurrent Liabilities	118,068,700	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 10)	52,221,144	77,866,896
Company's share in unrealized fair value gains on available-for-sale investments of a joint venture (Note 12)	8,728,949	16,252,343
Retained earnings (Note 16)	1,101,734,972	1,059,408,694
Parent Company shares of stock held by a joint venture (Note 12)	(3,923,869)	(3,923,869)
Total Equity	2,875,753,154	2,861,882,464
	P3,393,100,863	P3,331,554,996

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

	July – Sept. 2008	July – Sept. 2007	Nine Months Ended Sept. 30 2008	2007
REVENUES				
Trading revenue	₱41,985,888	₱–	₱202,440,298	₱–
Generation revenue (Note 1)	207,031,110	173,923,974	545,960,044	453,547,339
Company's share in revenue of a joint venture (Note 12):				
Generation	152,665,030	192,187,636	456,168,477	615,346,468
Other income (charges)	5,978,821	1,979,728	6,378,741	7,669,729
Interest and other financial income (Notes 6 and 25)	13,411,365	10,859,910	31,576,823	23,906,316
Dividend income	12,884	4,280	2,120,281	8,827,572
Other income	523,690	4,532,106	1,589,070	14,117,446
	421,608,788	383,487,634	1,246,233,734	1,123,414,870
COSTS AND EXPENSES				
Trading cost	62,521,545	–	148,506,075	–
Cost of power generation (Notes 18, 20 and 21)	240,312,272	139,737,946	565,033,652	394,535,825
General and administrative expenses (Notes 19, 20 and 21)	33,364,712	52,457,150	106,960,365	106,935,510
Company's share in costs and expenses of a joint venture (Note 12):				
Cost of power generation	176,401,860	162,989,044	367,551,884	476,865,318
General and administrative expenses	7,555,118	9,780,496	21,335,423	34,932,305
OTHER EXPENSES (INCOME)				
Net loss (gain) on derivatives (Note 25)	7,389,000	(19,560,770)	14,914,080	(40,753,900)
Foreign exchange loss (gain)	(24,890,707)	11,635,926	(64,803,873)	39,611,837
Interest and other financial charges (Note 25)	135,850	2,153,394	378,696	12,825,972
Equity in net earnings (loss) of associates (Note 9)	566,364	1,353,781	(3,889,217)	2,504,697
Reversal of allowance for impairment on investment in an associate (Note 9)	–	–	–	(3,405,227)
Loss (gain) on sale of available-for sale investments	74,491	(274,398)	31,230	(1,033,336)
Gain on sale of property and equipment	(15,207)		(15,207)	(82,167)
Impairment loss on available-for-sale investments (Note 10)	–		–	20,000
Others	(11,116,136)	(8,128,019)	(14,336,249)	(10,249,954)
	492,299,162	352,144,550	1,141,666,859	1,012,706,880
INCOME BEFORE INCOME TAX				
(Carried Forward)	(70,690,374)	31,343,084	104,566,875	110,707,990

	July – Sept. 2008	July – Sept. 2007	Nine Months Ended Sept. 30	
			2008	2007
INCOME BEFORE INCOME TAX				
(Brought Forward)	(P70,690,374)	P31,343,084	P104,566,875	P110,707,990
PROVISION FOR (BENEFIT FROM)				
INCOME TAX (Notes 15 and 22)				
Current			4,409,174	279,662
Deferred	(2,607,408)	(2,628,165)	(7,366,170)	(7,805,777)
Company's share in income tax of a joint venture		6,516,083	(1,110,568)	38,877,095
	(2,607,408)	3,887,918	(4,067,564)	31,350,980
NET INCOME	(P68,082,966)	P27,455,166	P108,634,439	P79,357,010
Basic/Diluted Earnings Per Share				
(Note 23)			P0.065	P0.072

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Retained Earnings (Note 16)	Unrealized Fair Value Gains on Available-for- Sale Investments (Note 10)	Company's Share in Unrealized Fair Value Gains on Available-for-Sale Investments of a Joint Venture (Note 12)	Parent Company Shares of Stock Held by a Joint Venture (Note 12)	Total
Balance at January 1, 2008	₱1,657,585,092	₱54,693,308	₱1,059,408,694	₱77,866,896	₱16,252,343	(₱3,923,869)	₱2,861,882,464
Cash dividends - ₱0.04 per share	-	-	(66,308,161)	-	-	-	(66,308,161)
Issuance during the year	4,713,558	-	-	-	-	-	4,713,558
	1,662,298,650	54,693,308	993,100,533	77,866,896	16,252,343	(3,923,869)	2,800,287,861
Decrease in fair value gains of available-for-sale investments	-	-	-	(25,645,752)	-	-	(25,645,752)
Decrease in fair value gains of available-for-sale investments of a joint venture	-	-	-	-	(7,523,394)	-	(7,523,394)
Net income for the year	-	-	108,634,439	-	-	-	108,634,439
Total income for the year	-	-	108,634,439	(25,645,752)	(7,523,394)	-	75,465,293
Balance at September 30, 2008	₱1,662,298,650	₱54,693,308	₱1,101,734,972	₱52,221,144	₱8,728,949	(₱3,923,869)	₱2,875,753,154
Balance at January 1, 2007	₱1,105,056,728	₱8,194,721	₱1,025,344,031	₱27,736,507	₱4,979,588	(₱3,147,272)	₱2,168,164,303
Cash dividends - ₱0.04 per share	-	-	(44,202,269)	-	-	-	(44,202,269)
	1,105,056,728	8,194,721	981,141,762	27,736,507	4,979,588	(3,147,272)	2,123,962,034
Increase in fair value gains of available-for-sale investments	-	-	-	49,656,558	-	-	49,656,558
Increase in fair value gains of available-for-sale investments of a joint venture	-	-	-	-	10,661,183	-	10,661,183
Net income for the year	-	-	79,357,010	-	-	-	79,357,010
Total income for the year	-	-	79,357,010	49,656,558	10,661,183	-	139,674,751
Balance at September 30, 2007	₱1,105,056,728	₱8,194,721	₱1,060,498,772	₱77,393,065	₱15,640,771	(₱3,147,272)	₱2,263,636,785
Balance at January 1, 2007	₱1,105,056,728	₱8,194,721	₱1,025,344,031	₱27,736,507	₱4,979,588	(₱3,147,272)	₱2,168,164,303
Cash dividends - ₱0.04 per share	-	-	(44,202,269)	-	-	-	(44,202,269)
Proceeds from stock rights offering, net of ₱8.8 million direct issuance costs	552,528,364	46,498,587	-	-	-	-	599,026,951
Increase in Parent Company's shares held by joint venture	-	-	-	-	-	(776,597)	(776,597)
	1,657,585,092	54,693,308	981,141,762	27,736,507	4,979,588	(3,923,869)	2,722,212,388
Increase in fair value gains of available-for-sale investments	-	-	-	50,130,389	-	-	50,130,389
Increase in fair value gains of available-for-sale investments of a joint venture	-	-	-	-	11,272,755	-	11,272,755
Net income for the year	-	-	78,266,932	-	-	-	78,266,932
Total income for the year	-	-	78,266,932	50,130,389	11,272,755	-	139,670,076
Balance at December 31, 2007	₱1,657,585,092	₱54,693,308	₱1,059,408,694	₱77,866,896	₱16,252,343	(₱3,923,869)	₱2,861,882,464

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱104,566,875	₱110,707,990
Adjustments for:		
Company's share in loss (income) before income tax of a joint venture	49,465,268	(109,190,944)
Interest and other financial income (Note 25)	(31,576,823)	(23,906,316)
Depreciation and amortization (Note 21)	50,158,379	46,818,109
Unrealized foreign exchange loss (gain)	(64,803,873)	39,611,837
Net loss (gain) on derivatives	14,914,080	(40,753,900)
Interest and other financial charges (Note 25)	378,696	12,825,972
Equity in net earnings of associates (Note 9)	(3,889,217)	2,504,697
Dividend income	(2,120,281)	(8,827,572)
Provisions for (reversal of):		
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	31,230	(1,033,336)
Gain on sale of property and equipment	(15,207)	(82,167)
Operating income before working capital changes	117,109,127	25,289,143
Decrease (increase) in:		
Receivables	(46,926,223)	(3,513,210)
Fuel and spare parts	(18,576,951)	(52,623,346)
Other current assets	(9,925,703)	80,970,418
Increase (decrease) in accounts payable and other current liabilities	17,907,471	9,935,864
Net cash generated from operations	59,587,721	60,058,869
Interest received	38,847,248	22,933,908
Interest paid	(16,531)	(14,091,411)
Income tax paid	(1,846,743)	
Company's share in net cash flows provided by operating activities of a joint venture	14,243,651	172,590,807
Net cash provided by operating activities	110,815,346	241,492,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	(781,679,558)	(229,715,042)
Property and equipment	(3,821,163)	(9,603,472)
Deferred exploration costs	(3,415,464)	(3,365,640)
Available-for-sale investments	(6,610,302)	(2,008,590)

(Forward)

	Nine Months Ended September 30	
	2008	2007
Cash dividends received	₱2,120,281	₱8,827,572
Proceeds from:		
Sale/redemption of investments held for trading	666,978,076	183,971,378
Settlement of currency forward contracts	26,011,820	32,316,000
Sale of available-for-sale investments	1,212,204	2,890,972
Sale of property and equipment	424,107	213,000
Termination of short-term investments	8,639,904	
Increase (decrease) in customers' deposit	3,037,152	(6,530,336)
Cash received from the return of investments of associates	-	3,405,227
Decrease (increase) in other noncurrent assets	-	332,677
Company's share in net cash flows provided by (used in) investing activities of a joint venture	(248,596)	134,552,508
Net cash provided by (used in) investing activities	(87,351,539)	115,286,254
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Short-term loans and borrowings	-	(197,661,292)
Long-term loans and borrowings	-	(34,545,455)
Cash dividends	(66,308,161)	(44,202,269)
Decrease in due to stockholders	(239,563)	
Net cash used in financing activities	(66,547,724)	(276,409,016)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
Effect of foreign exchange rate changes on cash and cash equivalents of venturer	33,217,749	(11,287,758)
Company's share in effect of foreign exchange rate changes on cash and cash equivalents of a joint venture	-	(359,495)
Net effect of foreign exchange rate changes on cash and cash equivalents	33,217,749	(11,647,253)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS OF VENTURER AND JOINT VENTURE		
	(9,866,168)	69,722,158
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)		
	1,221,667,518	266,468,912
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)		
	₱1,211,801,350	₱335,191,070

See accompanying Notes to Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Trans-Asia Oil and Energy Development Corporation (TA Oil or “Parent Company”), incorporated on September 8, 1969, and its wholly-owned subsidiaries, Trans-Asia Renewable Energy Corporation (Renewable), Trans-Asia (Karang Besar) Petroleum Corporation, CIP II Power Corporation (CIPP) and Trans-Asia Gold and Minerals Development Corporation (TA Gold) (collectively referred to as “the Company”) are incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The Parent Company is involved in power generation, oil and mineral exploration, exploitation and production. In 2004, the Parent Company entered into an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative, Inc. (Guimelco), the lone electricity distributor in the province of Guimaras. The Parent Company completed the construction of a 3.4 megawatt (MW) bunker C-fired diesel generator power station in the island in February 2005 and started commercial operations on June 26, 2005 (see Note 28). The other activities of the Company are investments in various operating companies and financial instruments. As of September 30, 2008, its largest investment is 50% interest in Trans-Asia Power Generation Corporation (TA Power). Its subsidiaries, Renewable and Karang Besar, on the other hand, have not yet started commercial operations. On December 28, 2006, the Parent Company acquired CIPP, a company registered with the Philippine Economic Zone Authority (PEZA) as an ecozone utilities enterprise, particularly, to develop and operate a power supply and distribution system at Carmelray Industrial Park II (CIP II) Special Economic Zone, in Barangay Punta and Tulo, Calamba, Laguna.

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 TA Power a certificate of registration as a Wholesale Generator in October 2006.

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.

2. Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its wholly owned subsidiaries as of September 30 and December 31. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

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

In addition, the Company's share of each of the assets, liabilities, income and expenses of its jointly controlled venture, TA Power, is included as a separate line item in the consolidated financial statements based on the account grouping (see Notes 3 and 12, "Interest in a Joint Venture").

3. Summary of Significant Accounting Policies

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

Cash and Cash Equivalents

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

Financial Assets and Liabilities

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

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

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

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

when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” profit amount.

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

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

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

▪ Financial Assets and Liabilities at FVPL

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

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

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

Other Financial Assets or Financial Liabilities Held for Trading

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

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

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 income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

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

- HTM Investments

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

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

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

- AFS Investments

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

cumulative gain or loss previously reported in equity is included in the consolidated statement of income.

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

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

The Company's investments in listed and unlisted equity securities and golf club shares are classified as AFS investments (see Note 10).

Other Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessment of collectibility of financial assets considering the creditors' capacity to pay,

history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

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

Embedded Derivatives

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; or,
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

Business Combinations

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

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

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

Intangible Assets

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

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

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

Provisions

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

Revenue

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

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

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

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

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

Pensions and Other Post-Employment Benefits

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

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

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

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

Stock Option

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

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

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

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

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

Operating Leases

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

Borrowing Costs

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

Impairment of Non-financial Assets

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

statement of income in those expense categories consistent with the function of the impaired asset.

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

Foreign Currency Transactions

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

Income Tax

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

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

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

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

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

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

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

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

Earnings Per Share (EPS)

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

Segment Reporting

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

Contingencies

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

Subsequent Events

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements.

Post year-end events that are not adjusting events are disclosed in the notes when material.

4. Significant Accounting Estimates and Judgments

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

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

Judgments

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

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

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

Estimates

Estimating Allowances for Doubtful Accounts. The Company maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the customer, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, past-due status and terms) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying value of receivables as of September 30, 2008 and December 31, 2007 is ₱148.3 million and ₱118.2 million, respectively (see Note 7).

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 September 30, 2008 and December 31, 2007 amounted to ₱283.5 million and ₱369.1 million, respectively.

Estimating Useful Lives of Property, Plant and Equipment. The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The carrying value of property, plant and equipment as of September 30, 2008 and December 31, 2007 is ₱629.9 million and ₱663.4 million, respectively. Details are disclosed in Note 8 to the consolidated financial statements.

Impairment of Deferred Exploration Costs. The carrying value of deferred exploration costs is reviewed for impairment when there are indications that the carrying amount exceeds the recoverable amount. The carrying value of deferred exploration costs is ₱141.5 million and ₱138.1 million as of September 30, 2008 and December 31, 2007, respectively. Details are disclosed in Note 13 to the consolidated financial statements.

Impairment of Property, Plant and Equipment, Intangible Assets and Investment Property.

The Company performs annual impairment testing of assets which are not used in operations and those with indications of impairment. The impairment testing of assets not used in operations requires an estimation of its fair value less cost to sell. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The impairment testing of property, plant and equipment with indications of impairment requires an estimation of the value in use of the cash-generating units. There are no additional impairment losses provided in 2008 and 2007. The carrying value of property, plant and equipment as of September 30, 2008 and December 31, 2007 is ₱629.9 million and ₱663.4 million, respectively. Details are disclosed in Note 8 to the consolidated financial statements. The carrying value of intangible assets as of September 30, 2008 and December 31, 2007 is ₱179.9 million and ₱185.4 million, respectively. Details are disclosed in Note 13 to the consolidated financial statements. The carrying value of investment property as of September 30, 2008 and December 31, 2007 is ₱3.4 million and ₱3.6 million, respectively. Details are disclosed in Note 11 to the consolidated financial statements.

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

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 September 30, 2008 and December 31, 2007 is ₱164.3 million and ₱160.4 million, respectively. Details are disclosed in Note 9 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 September 30, 2008 and December 31, 2007 is ₱204 million and ₱224.3 million, respectively. Details are disclosed in Note 10 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 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.

5. Cash and Cash Equivalents

	September 2008	December 2007
Cash on hand and in banks	₱39,420,281	₱124,981,827
Short-term deposits	1,148,139,829	1,086,439,506
	₱1,187,560,110	₱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 September 30, 2008 and December 31:

	September 2008	December 2007
Cash and cash equivalents of venture	₱1,187,560,110	₱1,211,421,333
Share in cash and cash equivalents of a joint venture (see Note 12)	24,241,240	10,246,185
	₱1,211,801,350	₱1,221,667,518

6. Investments Held for Trading

	September 2008	December 2007
Investments in bonds and Fixed Treasury Notes (FXTNs)	₱223,536,536	₱134,058,401
Investments in Unit Investment Trust Funds (UITFs) and mutual funds	48,343,201	-
	₱271,879,737	₱134,058,401

7. Receivables

	September 2008	December 2007
Trade	₱126,676,957	₱87,302,887
Due from related companies	39,952,730	24,287,915
Others	9,157,895	33,468,794
	175,787,582	145,059,596
Less allowance for doubtful accounts	26,802,732	26,802,732
	₱148,984,850	₱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 terms.

Due from related companies includes a long-outstanding receivable of ₱23.5 million from a company under common control of PHINMA, fully provided with allowance for doubtful accounts, as of September 30, 2008 and December 31, 2007.

Other receivables include interest receivable of ₱5.2 million and ₱6.4 million as of September 30, 2008 and December 31, 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 will be offset against the monthly rental of ₱20,000 under the lease contract between Guimelco and TA Oil. In case the lease contract is terminated prior to the full settlement of the loan, the remaining outstanding balance becomes due and demandable.

Loan receivable was fully collected in February 2008. The outstanding balance of the loan receivable as of December 31, 2007 is ₱36,865.

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 September 30, 2008 and December 31, 2007. There was no movement in the allowance for doubtful accounts in 2008 and 2007.

The aging analysis of receivables is as follows:

	September 2008						Past Due and Impaired
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				
			<30 days	30-60 days	60-90 days	90-120 days	
			<i>(In Thousands)</i>				
Trade Due from related companies	₱126,677	₱110,348	₱1,346	₱10,740	₱1,749	₱2,494	₱-
Others	39,953	16,421	-	-	-	-	23,532
Total	₱175,788	₱132,633	₱1,369	₱10,740	₱1,749	₱2,494	₱26,803

	December 2007						Past Due and Impaired
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				
			<30 days	30-60 days	60-90 days	90-120 days	
			<i>(In Thousands)</i>				
Trade Due from related companies	₱87,303	₱76,466	₱4,681	₱578	₱442	₱5,136	₱-
Others	24,288	756	-	-	-	-	23,532
Total	₱145,060	₱107,381	₱4,688	₱610	₱442	₱5,136	₱26,803

8. 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	P57,983,000	P90,482,530	P502,398,223	P20,346,661	P8,047,649	P4,707,066	P24,889,363	P708,854,492
Additions	-	7,157,864	50,000,000	-	6,766,620	3,052,205	2,002,531	68,979,220
Disposal	-	-	-	-	(712,500)	-	(36,080)	(748,580)
At December 31, 2007	57,983,000	97,640,394	552,398,223	20,346,661	14,101,769	7,759,271	26,855,814	777,085,132
Additions	-	470,728	-	-	-	6,135,300	1,377,557	7,983,585
Disposal	-	-	-	-	(481,059)	-	-	(481,059)
At September 30, 2008	57,983,000	98,111,122	552,398,223	20,346,661	13,620,710	13,894,571	28,233,371	784,587,658
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	-	6,206,846	39,098,163	-	1,919,800	597,094	3,454,211	51,276,114
Disposal	-	-	-	-	(581,667)	-	(36,080)	(617,747)
At December 31, 2007	-	24,943,332	47,868,203	20,346,661	4,287,388	1,691,653	14,513,203	113,650,442
Depreciation	-	5,010,089	30,338,391	-	1,862,641	876,640	3,013,106	41,100,867
Disposal	-	-	-	-	(72,159)	-	-	(72,159)
At September 30, 2008	-	29,953,421	78,206,594	20,346,661	6,077,870	2,568,293	17,526,309	154,679,150
Net book value:								
At September 30, 2008	P57,983,000	P68,157,701	P474,191,629	P-	P7,542,840	P11,326,278	P10,707,062	P629,908,508
At December 31, 2007	57,983,000	72,697,062	504,530,020	-	9,814,381	6,067,618	12,342,609	663,434,690
At 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.

9. Investments in Associates

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

	September 2008	December 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	3,889,218	5,009,578
Reclassification	-	(29,669,766)
Dividends received	-	-
Balance at end of year	(41,436,103)	(45,325,321)
	165,898,810	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
	₱164,339,559	₱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	September 2008	December 2007
Bacnotan Industrial Park Corporation (BIPC)	30.00	₱163,722,176	₱159,768,775
Union Aggregates Corporation (UAC)*	31.25	-	-
Asia Coal Corporation (Asia Coal)*	28.18	617,383	681,566
		₱164,339,559	₱160,450,341

* Ceased operations

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

BIPC

	September 2008	December 2007
Cash and cash equivalents	₱19,166,524	₱10,105,857
Investments in UITFs and mutual fund	1,693,014	7,955,162
Installment contract receivables	94,259,525	54,379,063
Input tax and other current and noncurrent assets	22,481,229	16,512,057
Land and development costs	352,151,717	395,980,999
Property and equipment - net	136,654,902	141,887,247
Total (Carried Forward)	626,406,911	626,820,385

	September 2008	December 2007
Total (Brought Forward)	₱626,406,911	₱626,820,385
Accounts payable and accrued expenses	(24,131,202)	(20,995,196)
Deferred gross profit	(1,557,801)	(17,289,161)
Estimated liability for land development	(2,277,671)	(16,259,384)
Deposits for construction costs	(2,257,514)	(15,194,516)
Other taxes payable	(13,233,628)	(826,084)
Long-term debt	(24,400,354)	(23,693,459)
	(67,858,170)	(94,257,800)
Net assets	₱558,548,741	₱532,562,585

	September 2008	September 2007
Revenue	₱53,093,000	₱15,616,000
Costs and expenses	(42,290,000)	(23,318,000)
Other income (expenses)	4,110,000	(596,000)
Benefit from (provision for) income tax	(1,735,000)	(39,000)
Net income (loss)	₱13,178,000	(₱8,337,000)

BIPC is engaged in the development of a 110-hectare industrial estate in Calaca, Batangas. On January 17, 2008, the Company, together with the other shareholders of BIPC, entered into a Memorandum of Agreement with Phoenix Petroleum Philippines, Inc. (Phoenix) for the sale of all the issued and outstanding common shares of BIPC to Phoenix. Total consideration to be paid to TA Oil is ₱197.6 million. Phoenix requested for an extension up to December 31, 2008 within which to make a decision whether to proceed with the contract.

10. Available-for-Sale Investments

	September 2008	December 2007
Shares of stock:		
Listed	₱78,354,628	₱105,557,479
Unlisted	101,586,986	95,463,018
Golf club shares	24,030,000	23,230,000
	₱203,971,614	₱224,250,497

AFS investments are stated at fair value as of September 30, 2008 and December 31, 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 September 2008 amounted to ₱25.6 million. Gains from change in fair value recognized directly in equity in December 2007 amounted to ₱50.1 million. Impairment loss in September 2007 amounting to ₱20.0 thousand has been recognized directly in profit or loss and none in September 2008.

11. Investment Property

	September 2008	December 2007
Cost	₱4,893,663	₱4,893,663
Accumulated depreciation:		
Balance at beginning of the year	1,316,603	1,056,453
Depreciation	195,112	260,150
Balance at end of year	1,511,715	1,316,603
	₱3,381,948	₱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 September 30, 2008 and December 31, 2007. The valuation undertaken considers the sales of similar or substitute properties and related market data and establishes value estimate by processes involving comparison.

12. 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 September 30, 2008 and December 31, 2007 and income and expenses for the nine months ended September 30, 2008 and 2007, before elimination of intercompany transactions and balances, are as follows:

	September 2008	December 2007
Current assets	₱186,935,026	₱143,971,808
Noncurrent assets*	321,320,640	376,962,029
	508,255,666	520,933,837
Current liabilities	(195,507,100)	(141,654,654)
Noncurrent liabilities (see Note 24)	(3,122,734)	(13,775,254)
	(198,629,834)	(155,429,908)
Net assets	₱309,625,832	₱365,503,929

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

	September 2008	September 2007
Revenue	₱477,874,438	₱615,346,468
Cost of power generation	(511,020,545)	(476,865,317)
General and administrative expenses	(22,953,890)	(37,064,584)
Other income - net	6,634,728	7,774,376
Income (loss) before income tax	(49,465,269)	109,190,943
Provision for income tax	1,110,568	(38,877,094)
Net income (loss)	(₱48,354,701)	₱70,313,849

Details of the Company's share in the current and noncurrent assets and current and noncurrent liabilities of the joint venture as of September 30, 2008 and December 31, 2007, after elimination of intercompany balances, are as follows:

	September 2008	December 2007
Current assets:		
Cash and cash equivalents	₱24,241,240	₱10,246,185
Investments held for trading	-	-
Trade and other receivables	58,831,201	65,220,613
Fuel and spares - at cost	69,767,592	56,977,076
Prepaid expenses and other current assets	31,949,978	11,527,934
	₱184,790,011	₱143,971,808
Noncurrent assets:		
Property, plant and equipment – net	₱277,639,891	₱325,757,883
Available-for-sale investments	43,680,749	51,204,146
	₱321,320,640	₱376,962,029
	September 2008	December 2007
Current liabilities:		
Trade and other payables	₱175,587,665	₱137,231,493
Due to related parties	1,656,575	379,140
Derivative liability	-	788,472
Provisions	2,500,000	2,500,000
	₱179,744,240	₱140,899,105
Noncurrent liability -		
Deferred tax liability - net (see Note 22)	₱3,122,734	₱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 nine months ended September 30, 2008 and 2007, after elimination of intercompany transactions, are as follows:

	September 2008	September 2007
Cost of power generation:		
Fuel	₱283,708,732	₱385,038,245
Depreciation and amortization	47,567,835	46,990,706
Repairs and maintenance	15,874,107	21,702,767
Labor	9,288,112	11,939,130
Taxes and licenses	7,192,536	5,996,439
Insurance	2,105,640	2,904,276
Security, janitorial and professional fees	832,529	881,911
Others	982,393	1,411,844
	₱367,551,884	₱476,865,318

	September 2008	September 2007
General and administrative expenses:		
Management and professional fees	₱10,761,547	₱20,021,925
Salaries and directors' fees	4,494,913	9,151,933
Taxes and licenses	1,845,928	921,043
Depreciation and amortization	665,150	718,634
Employee benefits	397,821	1,178,505
Transportation and travel	346,031	728,242
Entertainment, amusement and recreation	31,350	12,572
Others	2,792,683	2,199,451
	₱21,335,423	₱34,932,305

In order to optimize the capacity and profitability of TA Power's power plant especially with the rising price of bunker fuel, TA Power started to participate in the Wholesale Electricity Spot Market (WESM) in January 2007. As such, engines have been subjected to frequent start and stop operations which increase 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.

13. Intangible Assets

	September 2008	December 2007
Deferred exploration costs	₱141,551,286	₱138,135,822
Customer contracts	38,403,732	47,266,132
	₱179,955,018	₱185,401,954

Following are the details and movements of intangible assets:

	Oil Exploration Costs	Mineral Explorations Costs	Total Deferred Exploration Costs	Customer Contracts	Total
Cost:					
At January 1, 2007	₱287,540,357	₱8,819,647	₱296,360,044	₱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	324,545	3,090,919	3,415,464	–	3,415,464
Write-off	(85,554,844)	–	(85,554,844)	–	(85,554,844)
At September 30, 2008	205,449,649	12,719,800	218,169,449	59,082,665	277,252,114
Allowance for impairment loss and amortization:					
At January 1, 2007	162,173,007	–	162,173,007	–	162,173,007
Amortization	–	–	–	11,816,533	11,816,533
At December 31, 2007	162,173,007	–	162,173,007	11,816,533	173,989,540
Amortization	–	–	–	8,862,400	8,862,400
Write-off	(85,554,844)	–	(85,554,844)	–	(85,554,844)
At September 30, 2008	76,618,163	–	76,618,163	20,678,933	97,297,096
Net book value:					
At September 30, 2008	₱128,831,486	₱12,719,800	₱141,551,286	₱38,403,732	₱179,955,018
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:

	September 2008	December 2007
SC No. 6 (Northwest Palawan)	₱113,165,488	₱113,028,483
SC No. 41 (Sulu Sea)	–	51,673,917
SC No. 42 (North Palawan)	–	33,880,927
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)	5,570,140	5,570,140
Sc No. 69 (Area 8)	5,833	–
Others	540,980	540,980
	₱205,449,649	₱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.

Customer Contracts

Customer contracts were acquired through business combinations. This account will be amortized evenly over their useful economic life of five years until 2011.

14. Accounts Payable and Other Current Liabilities

	September 2008	December 2007
Trade and nontrade accounts payable	₱155,416,127	₱108,455,684
Accrued expenses	9,970,111	50,593,778
Accrued directors' and annual incentives	17,329,769	24,714,168
Output tax	13,579,017	6,115,611
Due to related parties	4,718,082	775,473
Derivative liability	8,302,000	
Deferred rent income	141,111	35,278
Others	3,361,756	455,085
	₱212,817,973	₱191,145,077

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

15. Interest-bearing Loans and Borrowings

Current

Included in current interest-bearing loans and borrowings as of December 31, 2006 are:

- ₱165.0 million Philippine peso-denominated loans from a local bank which were used to finance the acquisition of CIPP. The loans have a fixed interest rate of 7.8% and with maturity on March 28, 2007 and January 9, 2007. The loans are secured by financial assets amounting to US\$3.2 million and ₱20.0 million which are under the custody of the creditor bank. These loans were fully paid and the collaterals were released in August 2007.
- ₱32.7 million U.S. dollar denominated loan of CIPP from a local bank with maturity on June 26, 2007. This loan was preterminated in January 2007.

Noncurrent

Long-term debt as of December 31, 2006 represents a term loan in the amount of ₱80.0 million used to finance the construction and installation of a 3.4 MW Bunker C-fired diesel power plant in Guimaras Island. The loan has a fixed interest rate of 12.7% payable quarterly and a term of seven years, inclusive of one year grace period on principal payment, which will mature on September 30, 2011. The loan is payable in equal quarterly amortization of ₱1.8 million. On December 27, 2005, the Company paid ₱40.0 million. The interest rate was converted from a fixed rate to a variable rate in 2005. This loan was fully paid in June 2007.

The loan is secured by: (i) a chattel mortgage on various machinery and equipment that constitute the 3.4 MW Bunker C-fired power plant located at Barangay San Miguel, Jordan, Guimaras; (ii) assignment of rights over the ESA with Guimelco; (iii) assignment of contract receivables from Guimelco; and (iv) assignment to the bank of proceeds from Performance Bond required from contractors and suppliers of the Company.

Machinery and equipment with net carrying amount of ₱90.8 million as of December 31, 2006, have been pledged as security for the loan. The bank released the chattel mortgage on September 27, 2007.

16. Equity

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

	Number of Shares	
	September 2008	December 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	4,4713,558	–
Stock dividend during the year	–	–
Balance at end of year	1,662,298,650	1,105,056,728

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

As of September 30, 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 ₱338.5 million and ₱422.5 million as of September 30, 2008 and December 31, 2007, respectively, are not currently available for dividend distribution.

Dividends declared and paid in 2008, 2007, 2006 and 2005 are as follows:

Date of Declaration	Type	Dividend		Record Date
		Rate	Amount	
March 14, 2005	Special cash	₱0.04 per share	₱33,950,705	March 30, 2005
March 14, 2005	Cash	0.04 per share	33,950,705	March 30, 2005
March 14, 2005	Stock	30%	255,304,091	September 23, 2005
March 27, 2006	Cash	0.04 per share	44,202,269	May 23, 2006
April 2, 2007	Cash	0.04 per share	44,202,269	April 19, 2007
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, "First Time Adoption of Philippine Financial Reporting Standards," the Company availed of the exemption from applying PFRS 2, "Share-based Payment," to stock options granted after November 7, 2002 but are fully vested as of January 1, 2005.

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

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.

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	<ul style="list-style-type: none"> • Up to 33% of the allocated shares on the 1st year from date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.
Right to Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

18. Cost of Power Generation

	September 2008	September 2007
Fuel	₱464,076,173	₱305,595,604
Depreciation and amortization (see Note 21)	31,168,531	30,434,700
Repairs and maintenance	22,924,875	9,430,859
Labor (see Note 20)	14,399,394	11,250,476
Rental	12,358,241	19,387,627
Concession and other fees	10,001,822	8,620,364
Employee benefits (see Note 20)	1,967,107	1,446,043
Insurance	1,633,567	1,850,282
Taxes and licenses	1,455,521	1,530,025
Others	5,048,421	4,989,845
	₱565,033,652	₱394,535,825

19. General and Administrative Expenses

	September 2008	September 2007
Management and professional fees	₱35,297,095	₱45,694,309
Salaries and directors' fees (see Note 20)	24,416,177	13,957,800
Depreciation and amortization (see Note 21)	18,989,848	16,383,409
Building maintenance and repairs	7,263,189	5,576,451
Employee benefits (see Note 20)	3,005,777	1,621,556
Insurance, dues and subscriptions	2,467,566	4,352,480
Rent	2,143,399	610,309
General exploration	2,058,805	8,332,008
Retirement (see Notes 20)	1,885,328	1,100,715
Transportation and travel	1,691,813	3,063,982
Donation and contribution	1,593,140	507,670
Office supplies	1,464,437	1,217,980
Taxes and licenses	1,175,497	2,061,211
Entertainment, amusement and recreation	143,245	70,867
Others	3,365,049	2,384,763
	₱106,960,365	₱106,935,510

20. Personnel Expenses

	September 2008	September 2007
Salaries and directors' fees included under:		
Cost of power generation	₱14,399,393	₱11,250,476
General and administrative expenses	24,416,177	13,957,800
Deferred exploration costs	78,300	1,610,081
Retirement	1,885,328	1,100,715
Employee benefits included under:		
Cost of power generation	1,967,107	1,446,043
General and administrative expenses	3,005,777	1,621,556
	₱45,752,082	₱30,986,671

21. Depreciation and Amortization

Depreciation and amortization related to the following assets:

	September 2008	September 2007
Depreciation expense of property, plant and equipment and investment property included under:		
Cost of power generation	₱31,168,531	₱30,434,700
General and administrative expenses	10,127,448	7,521,009
	41,295,979	37,955,709
Amortization of intangibles included under -		
General and administrative expenses (see Note 15)	8,862,400	8,862,400
	₱50,158,379	₱46,818,109

22. Income Tax

The Company's deferred tax liabilities amounting to ₱78.2 million and ₱85.6 million as of September 30, 2008 and December 31, 2007, respectively, pertain to the tax effect of the difference between fair values and carrying amounts of net assets arising from the acquisition of CIPP and unrealized fair value gains on investments held for trading.

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

	September 2008	December 2007
Unrealized foreign exchange losses	₱107,191,734	₱107,191,734
NOLCO	71,986,618	71,986,618
Allowance for impairment losses	6,712,782	6,712,782
Accrued expenses	5,088,322	5,088,322
MCIT	4,691,155	4,691,155
Unamortized past service cost	4,024,685	4,024,685
Asset retirement obligation	3,883,808	3,883,808
Allowance for doubtful accounts	3,270,365	3,270,365
Allowance for probable losses on mineral exploration	76,618,163	162,173,007
Unrealized marked to market loss	65,644	65,644
Deferred rent income	35,278	35,278
	₱283,568,554	₱369,123,398

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

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

	September 2008	December 2007
Capitalized unrealized foreign exchange gains	(₱14,055,179)	(₱14,055,179)
Unrealized foreign exchange gains	52,505	(52,505)
Past service costs and accrued retirement	138,609	332,430
Accrual of expenses	10,741,331	
	(₱3,122,734)	(₱13,775,254)

MCIT amounting to ₱4.7 million and NOLCO totaling to ₱72.0 million can be claimed as deduction from income tax due and regular taxable income, respectively, as follows:

Expiry Date	Amount	
	MCIT	NOLCO
December 31, 2008	₱276,852	₱60,162,413
December 31, 2009	1,097,140	9,251,527
December 31, 2010	3,317,163	2,572,678
	₱4,691,155	₱71,986,618

MCIT amounting to ₱0.6 million and NOLCO amounting to ₱42.6 million expired in 2007.

23. EPS Computation

	September 2008	September 2007
(a) Net income	₱108,634,439	₱79,357,010
Common shares outstanding at beginning of year (see Note 16)	1,657,585,092	1,105,056,728
Weighted average number of shares issued during the year	4,713,558	-
(b) Weighted average common shares outstanding	1,662,298,650	1,105,056,728
Basic/Diluted EPS (a/b)	₱0.065	₱0.072

The Company's outstanding stock option has no dilutive effect in September 2008 and 2007. Also, the Company does not have any potential common share nor other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

24. Financial Risk Management Objectives and Policies

I. Objectives and Investment Policies

The PHINMA Group Treasury manages and invests the funds of the Company in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine Peso, U.S. dollar, Euro and Japanese yen. It is responsible for the sound and prudent management of the Company's financial assets that finance the Company's operations and investments in enterprises.

PHINMA Group Treasury focuses on the following major risks that may affect its transactions. These are:

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

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

Basic investment policies as approved by the Investment Committee are:

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

3) Exposure limits:

- a. For banks/fund managers: maximum 20% of total fund of each company per bank/fund
- b. For peso investments: minimal corporate exposure except for registered bonds for non-affiliates
- c. Limits on third currencies outside US dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee
- d. For total foreign currencies: maximum 50% of total portfolio
- e. For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review

II. Risk Management Process

1) Foreign Currency Risk

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 September 30, 2008 and December 31, 2007 are as follows (in thousands):

	U.S. Dollar		Euro	
	2008	2007	2008	2007
Assets:				
Cash and cash equivalents	\$8,866	\$8,768	EUR-	EUR-
Short-term investments	-	209	-	-
Investments in bonds and FXTNs	2,123	2,001	-	-
Investments in UITFs and mutual funds	-	-	-	-
Other receivables	37	90	-	-
	11,026	11,068	-	-
Liabilities -				
Accounts payable and other current liabilities	(2)	(44)	(3)	(80)
Notes payable	-	-	-	-
	(2)	(44)	(3)	(80)
Net foreign currency- denominated assets (liabilities)	\$11,024	\$11,024	(EUR3)	(EUR80)
Peso equivalent	₱518,670	₱455,071	(₱252)	(₱4,878)

In translating foreign currency-denominated financial assets and liabilities into peso amounts, the exchange rates used were ₱47.05 to US\$1.00 and ₱67.78 to EUR 1.00 as of September 30, 2008 and ₱41.28 to US\$1.00, and ₱60.55 to EUR 1.00 as of December 31, 2007.

The following table demonstrates the sensitivity to a reasonable possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax and equity (due to the changes in the fair value of monetary assets and liabilities) as of September 30, 2008:

Increase (Decrease) in U.S. Dollar Exchange Rate	Effect on	
	Profit Before Tax	Equity
	<i>(In Millions)</i>	
(₱0.25)	(₱2.20)	(₱1.43)
(0.50)	(4.39)	(2.85)
0.25	2.20	1.43
0.50	4.39	2.85

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', UITFs' and mutual funds' performance as well as their fund level, investment mix and duration are reviewed at least once a month or as often as required.
- b. Investments in non-rated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies/updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.
- c. For temporary investments in affiliates, transactions are done on an arms-length basis taking into account the affiliates' financial standing and ability to pay. Interest rates are based on a formula that considers the average of the borrowing and lending rates of the parties and maturity dates are strictly complied with.
- d. Discussions are done on every major investment by Treasury *en banc* before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a senior Treasury Officer supervises major transaction executions.
- e. Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.
- f. A custodian bank for peso instruments and foreign currency instruments has been appointed based on their track record on such service and the bank's financial competence.
- g. Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

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

2007	Neither Past Due nor Impaired			Past Due not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade and other receivables:						
Trade receivables from customers:						
Guimelco	P22,575,178	P-	P-	P2,237,917	P-	P24,813,095
Holcim	8,335,969					8,335,969
Locators	8,363,570	45,716,916	39,447,407	-	-	93,527,893
Due from related companies	16,420,364	-	-	-	23,532,366	39,952,730
Others	5,887,529	-	-	-	3,270,366	9,157,895
	P61,582,610	P45,716,916	P39,447,407	P2,237,917	P26,802,732	P175,787,582

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	Partly secured and 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:

- 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.
- Quoted equity instruments were assessed as high grade since the share prices were projected to move upward and it can be fully recovered.
- Unquoted equity instruments were assessed as high grade since these are shares of stock of PHINMA-managed companies.

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

3) Liquidity Risk

Definition

Liquidity risk is financial risk due to uncertain liquidity of a bond or asset in the portfolio. Uncertain liquidity can happen if the credit rating of a corporate bond, hence its acceptability, falls. If the issuing company encounters unexpected problems (like regulatory reversals), it experiences sudden unexpected cash outflows, or some other event seriously affecting its tradability or when counterparties avoid trading with or lending to the corporation or when the Central Bank through the banking system curtails credit.

Liquidity risk also happens under market conditions where banks cut credit supply. Liquidity risk can also be simple mismatching of investment maturities with cash flow requirements such that gains have to be sacrificed because of the mismatch.

Management of Risk

- a. Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.
- b. Continuous monitoring of the weekly/monthly cash flows as well as frequent updates of the annual plans of the Company.
- c. Investment maturities are spread on a weekly, monthly, and annual basis as indicated in the Company's plans. Average duration of investments should adhere to the investment parameters approved by the Investment Committee.
- d. When necessary, placements are pre-terminated or securities liquidated; but this is largely avoided.

The table below summarizes the maturity profile of the Company's financial liabilities as of September 31, 2008 based on contractual undiscounted payments.

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱115,763,613	₱39,652,514	₱-	₱-	₱-	₱155,416,127
Accrued expenses	9,970,111	-	-	-	-	9,970,111
Accrued directors' and annual incentives	17,329,769	-	-	-	-	17,329,769
Due to related parties	4,718,082	-	-	-	-	4,718,082
Others	3,502,867	-	-	-	-	3,502,867
Due to stockholders	5,100,713	-	-	-	-	5,100,713
Customers' deposits	-	-	1,720,800	11,570,179	12,648,662	25,939,641
Other noncurrent liability	-	-	-	3,219,257	-	3,219,257
	₱156,385,155	₱39,652,514	₱1,720,800	₱14,789,436	₱12,648,662	₱225,196,567

Security deposits from customers of CIPP amounted to ₱25.9 million (gross of unamortized discount of ₱5.3 million) and ₱23 million as of September 30, 2008 and December 31, 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	4-5 Years	Total
Sept. 30, 2008 Fixed Rate							
Special savings account (SSA)	1.25-9.5%	₱1,148,140	₱-	₱-	₱-	₱-	₱1,148,140
Investments in bonds and FXTNs	8.375-17.5%	37,342	19,902	134,837	4,107	27,349	223,537

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above table are noninterest-bearing investments and are therefore not subject to interest rate volatility.

The following table demonstrates the sensitivity to a reasonable possible change in the interest rates, with all other variables held constant, of the Company's profit before tax and equity:

September 30, 2008	Increase (Decrease) in Basis Points	Effect on	
		Profit Before Tax	Equity
FXTN	25	(₱532,394)	(₱425,916)
Special deposit account (SDA)	25	1,034,559	827,647
SSA	25	1,171,750	937,400
FXTN	(25)	532,394	425,916
SDA	(25)	(1,034,559)	(827,647)
SSA	(25)	(1,171,750)	(937,400)

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.

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 period ended September 30, 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 consolidated balance sheet. The Company's policy is to keep debt-to-equity ratio below the maximum ratio of 2:1.

	September 2008	December 2007
	<i>(In Thousands)</i>	
Total liabilities	₱517,348	₱469,673
Total equity	2,875,753	2,861,882
Debt-to-equity ratio	0.18:1	0.16:1

25. Financial Instruments

Fair Values

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

	Carrying Amount		Fair Value	
	September 2008	December 2007	September 2008	December 2007
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱1,187,560,110	₱1,211,421,333	₱1,187,560,110	₱1,211,421,333
Short-term investments	-	8,639,904	-	8,639,904
Receivables:				
Trade	126,676,957	87,302,887	126,676,957	87,302,887
Due from related companies	16,420,364	755,549	16,420,364	755,549
Others	5,887,529	30,198,428	5,887,529	30,198,428
	1,336,544,960	1,338,318,101	1,336,544,960	1,338,318,101
Financial assets at FVPL:				
Investments held for trading	271,879,737	134,058,401	271,879,737	134,058,401
Derivative asset*	1,377,451	34,001,351	1,377,451	34,001,351
	273,257,188	168,059,752	273,257,188	168,059,752
AFS investments:				
Quoted	102,384,628	129,787,480	102,384,628	129,787,480
Unquoted	101,586,986	94,463,017	101,586,986	94,463,017
	203,971,614	224,250,497	203,971,614	224,250,497
Total financial assets	₱1,813,773,762	₱1,730,628,350	₱1,813,773,762	₱1,730,628,350
Financial Liabilities				
Financial liability at FVPL -				
Derivative liability**	₱8,302,000	₱-	₱8,302,000	₱-
Other financial liabilities:				
Accounts payable and other current liabilities	199,238,956	185,029,466	199,238,956	185,029,466
Customers' deposits	20,679,335	20,081,531	20,679,335	20,081,531
Due to stockholders	5,100,713	5,340,277	5,100,713	5,340,277
Other noncurrent liability	3,219,257	2,792,642	3,219,257	2,792,642
	228,238,261	213,243,916	228,238,261	213,243,916
Total financial liabilities	₱236,540,261	₱213,243,916	₱236,540,261	₱213,243,916

* Presented as part of other current assets.

** Presented as part of accounts payable and other current liabilities.

The following methods and assumptions are used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables, Notes Payable, Accounts Payable and Other Current Liabilities, Due to Stockholders. Carrying amount approximates fair value due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair values of investments held for trading and listed AFS investments. The fair values of unlisted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS in the near future.

Derivative Asset. The fair value of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Company has outstanding currency forward contracts with an aggregate notional amount of US\$3.6 million and weighted average contracted forward rate of ₱45.23 to US\$1.00 as of September 30, 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. As of September 30, 2008, the net fair value loss on these currency forward contracts was ₱8.3 million. The net fair value gains 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 consolidated balance sheet.

The net movements in fair value changes of freestanding forward currency transactions are as follows:

	September 2008	December 2007
Balance at beginning of year	₱32,623,900	₱15,508,980
Net changes in fair value during the year	(14,914,080)	103,603,681
Fair value of settled contracts	(26,011,820)	(86,488,761)
Balance at end of year	(₱8,302,000)	₱32,623,900

The net changes in fair value during the year are included in the “Net gain on derivatives” account in the consolidated statement of income.

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

The net movements in fair value changes of these embedded derivatives are as follows:

	September 2008	December 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 during the year are included in the “Net gain on derivatives” account in the consolidated statement of income.

Customers' Deposits. The fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rates used range from 4.04% to 5.68% in 2007.

Other Noncurrent Liability. The fair value of the Company's long-term payable to Ascendas is based on the discounted value of the expected future cash flow using applicable interest rate for similar type of instrument. Discount rate used was 5.81%.

Details of interest and other financial income and interest and other financial charges are as follow:

Interest and Other Financial Income

	September 2008	September 2007
Interest income	₱37,656,321	₱23,668,516
Net gains on investments held for trading:		
Gain (loss) on redemption/sale of investments held for trading	(1,787,994)	4,191,893
Unrealized gains (loss) from changes in fair value of investments held for trading	(1,403,683)	(3,071,290)
Amortization of bond premium/discount	(2,887,821)	(882,803)
	₱31,576,823	₱23,906,316

Interest and Other Financial Charges

	September 2008	September 2007
Interest expense on loans and borrowings	₱-	₱9,099,686
Amortization of debt issuance cost		2,005,714
Amortization of discount on customers' deposits	83,780	293,675
Accretion of asset retirement obligation	278,384	276,352
Other financial charges	16,532	1,150,545
	₱378,696	₱12,825,972

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION
 Consolidated Aging of Accounts Receivable
 As of September 30, 2008
 (In Thousands)

	September 2008						
	Neither Past Due nor		Past Due but not Impaired				Past Due and
	Total	Impaired	<30 days	30-60 days	60-90 days	90-120 days	Impaired
<i>(In Thousands)</i>							
Trade	₱126,677	₱110,348	₱1,346	₱10,740	₱1,749	₱2,494	₱-
Due from related companies	39,953	16,421	-	-	-	-	23,532
Others	9,158	5,864	23	-	-	-	3,271
Total	₱175,788	₱132,633	₱1,369	₱10,740	₱1,749	₱2,494	₱26,803
Allowance for doubtful accounts	(26,803)						26,803
Total	₱148,985	₱132,633	₱1,369	₱10,740	₱1,749	₱2,494	₱-

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated revenues increased to ₱421.6 million in the third quarter of 2008 compared with ₱383.5 million in the same period last year. Following are the material changes in revenues in the Consolidated Income Statement for the third quarter of 2008:

- Trading revenue of ₱42 million was reported in the third quarter of 2008.
- Generation revenues increased to ₱207 million from ₱174 million on account of higher energy sales and power rates.
- Company's share in generation revenues of a joint venture dropped to ₱152.6 million from ₱192.2 million as a result of lower power rate.
- Company's share in other income of a joint venture improved to ₱6 million from ₱2 million brought about by the collection of an insurance claim.
- Interest and other financial income increased to ₱13.4 million from ₱10.9 million due to the higher level of fund placements and interest rates.
- Dividend income improved to ₱13 thousand from ₱4 thousand brought about by cash dividend received from available-for-sale investments.
- Other income declined to ₱523.7 thousand from ₱4.5 million, the latter however included the service income earned in 2007.

Consolidated costs and expenses grew to ₱492.3 million in the third quarter of 2008 from ₱352.1 million in the same period last year. Following are the material changes in costs and expenses in the Consolidated Income Statement for the third quarter of 2008:

- Trading cost of ₱62.5 million was incurred in the third quarter of 2008.
- Cost of power generation rose to ₱240.3 million from ₱139.7 million on account of higher energy sales and fuel cost.
- General and administrative expenses declined to ₱33.4 million from ₱52.4 million brought about by lower professional fees.
- Company's share in cost of generation of a joint venture increased to ₱176.4 million from ₱163 million as a result of higher fuel cost.
- Company's share in general and administrative expenses of a joint venture declined to ₱7.5 million from ₱9.8 million due to lower professional fees and salaries.
- Regarding the currency forward contracts entered into by the company, a net loss on derivatives of ₱7.4 million was reported in the third quarter of 2008 due to the depreciation of the peso. A net gain on derivatives of ₱19.5 million was registered in the same period last year with the appreciation of peso.
- For the company's foreign currency holdings, a foreign exchange gain of ₱24.9 million was earned in the third quarter of 2008 following the depreciation of the peso. A foreign exchange loss of ₱11.6 million was reported in the same period last year due to the appreciation of peso.
- Interest and other financial charges dropped to ₱135.8 thousand from ₱2.1 million on account of the settlement of all loans of the Company in 2007.
- Equity in net losses of associates dropped to ₱566.3 thousand from ₱1.3 million brought about by the lower net loss of Bacnotan Industrial Park Corporation.
- Loss on sale of available-for-sale investments of ₱74.5 thousand was reported in the third quarter of 2008 as a result of the drop in market value of the said investments. Gain on sale of available-for-sale investments of ₱274.4 thousand was registered in the same period last year.
- Gain on sale of property and equipment of ₱15 thousand was earned in the third quarter of 2008.

- Other income improved to ₱11.1 million from ₱8.1 million brought about by the reversal of an expense accrued last year but not utilized.

Company's share in income tax of a joint venture was zero in the third quarter of 2008 while ₱6.5 million was reported in the third quarter of 2007.

As a consequence of the above-cited factors, a net loss of ₱68.1 million was reported in the third quarter of 2008 compared with a net income of ₱27.4 million in the same period last year.

Consolidated revenues increased to ₱1.2 billion in the nine months ended September 30, 2008 compared with ₱1.1 billion in the same period last year. Following are the material changes in revenues in the Consolidated Income Statement for the nine months ended September 30, 2008:

- Trading revenue of ₱202.4 million was reported in the nine months ended September 2008.
- Generation revenues grew to ₱545.9 million from ₱453.5 million brought about by higher energy sales and power rate.
- Company's share in generation revenues of a joint venture declined to ₱456.2 million from ₱615.3 million due to lower energy sales and power rate.
- Company's share in other income of a joint venture decreased to ₱6.4 from ₱7.6 million on account of lower interest income from the drop in the level of fund placements.
- Interest and other financial income improved to ₱31.6 million from ₱23.9 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 declined to ₱1.6 from ₱14.1 million, the latter however was inclusive of service income earned in 2007.

Consolidated costs and expenses increased to ₱1.1 billion in the nine months ended September 2008 against ₱1 billion in the same period last year. Following are the material changes in costs and expenses in the Consolidated Income Statement for the nine months ended September 30, 2008:

- Trading cost of ₱148.5 million was incurred in the nine months ended September 2008.
- Cost of power generation rose to ₱565 million from ₱394.5 million as a result of higher fuel cost.
- Company's share in cost of power generation of a joint venture declined to ₱367.5 million from ₱476.8 million on account of lower energy generated and repairs and maintenance expenses incurred by a joint venture.
- Company's share in general and administrative expenses of a joint venture decreased to ₱21.3 million from ₱34.9 million brought about by lower professional fees and salaries.
- Regarding the currency forward contracts entered into by the company, a net loss on derivatives of ₱14.9 million was reported in the nine months ended September 2008 due to the depreciation of the peso. A net gain on derivatives of ₱40.7 million was earned in the same period last year with the appreciation of peso.
- For the company's foreign currency holdings, a foreign exchange gain of ₱64.8 million was reported in the nine months ended September 2008 following the depreciation of the peso. A foreign exchange loss of ₱39.6 million was registered in the same period last year due to the appreciation of the peso.
- Interest and other financial charges dropped to ₱378.7 thousand from ₱12.8 million on account of the settlement of all loans of the Company in 2007.
- Equity in net earnings of associates of ₱3.9 million was reported in the nine months ended September 2008 brought about by higher net income of Bacnotan Industrial Park Corporation. Equity in net loss of associates of ₱2.5 million was reported in the same period last year.
- A reversal of allowance for impairment on investment in an associate of ₱3.4 million was recorded in the first semester of 2007.
- Loss on sale of available-for-sale investments of ₱31.2 thousand was reported in the nine months ended September 2008 as a result of the drop in market value of the said

investments. Gain on sale of available-for-sale investments of ₱1 million was earned in the same period last year.

- Gain on sale of property and equipment declined to ₱15.2 thousand from ₱82.2 thousand.
- Provision for impairment of available-for-sale investments of ₱20 thousand was reported in the nine months ended September 2007.
- Other income increased to ₱14.3 million from ₱10.2 million about by the reversal of an expense accrued last year but not utilized.

Provision for income tax rose to ₱4.4 million from ₱279 thousand due to higher taxable income in the nine months ended September 2008. Benefit from deferred income tax decreased to ₱7.4 million from ₱7.8 million, the latter included the tax effect on the unamortized discount on customers' deposits. Company's share in income tax of a joint venture of ₱38.9 million was reported in the nine months ended September 2007 due to its higher taxable income.

As a consequence of the above-cited factors, net income rose to ₱108.6 million in the nine months ended September 30, 2008 compared with ₱79.3 million in the same period last year.

Total consolidated assets increased to ₱3.4 billion as of September 30, 2008 from ₱3.3 billion as of December 31, 2007. Total consolidated liabilities grew to ₱517.3 million from ₱469.7 million. Total equity remained steady at ₱2.9 billion.

Following are the material changes in the accounts in the Consolidated Balance Sheet as of September 30, 2008:

- Cash and cash equivalents decreased slightly to ₱1.18 from ₱1.2 billion. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents.
- Short-term investments of ₱8.6 million in 2007 were converted to short-term deposits in April 2008.
- Investments held for trading increased to ₱271.9 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 ₱149 million from ₱118.2 million brought about by trading revenues which started this current year and higher generation revenues.
- Fuel and spare parts increased to ₱74.6 million from ₱56.1 million on account of the higher fuel cost.
- Other current assets fell to ₱22 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 ₱184.8 million from ₱144 million brought about by higher fuel and spare parts inventory.
- Property, plant and equipment declined to ₱629.9 million from ₱663.4 million on account of the depreciation expenses in the nine months ended September 2008.
- Investments in associates grew to ₱164.3 million from ₱160.4 million due to the higher net income posted by Bacnotan Industrial Park Corporation.
- Available-for-sale investments declined to ₱204 million from ₱224.2 million brought about by the lower market value of said investments
- Intangible assets decreased to ₱180 million from ₱185.4 million due to the amortization for the nine months ended September 2008.
- Investment property decreased to ₱3.4 million from ₱3.6 million on account of depreciation expenses for the nine months ended September 2008.
- Company's share in noncurrent assets of a joint venture declined to ₱321.3 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 ₱212.78million from ₱188.8 million on account of higher fuel cost.
- Due to stockholders declined to ₱5.1 million from ₱5.3 million.
- Income and withholding tax payable decreased to ₱1.6 million 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 ₱179.7 million from ₱140.9 million due to the increase in its trade and nontrade payables.
- Customers' deposits increased to ₱20.7 million from ₱17.5 million on account of the deposits received from new locators.
- Pension and other post employment benefits increased to ₱8.6 million from ₱6.4 million due to the accrual of pension expense.
- Deferred tax liabilities dropped to ₱78.2 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 asset retirement obligation.
- Company's share in noncurrent liability of a joint venture declined to ₱3.1 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 ₱52.2 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 ₱1.1 billion from ₱1 billion due to higher net income in the nine months ended September 2008.

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

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

Current ratio declined to 4.73 as of September 30, 2008 from 5.06 as of December 31, 2007 due to the increase in trade and nontrade liabilities and company's share in current liabilities of a joint venture.

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

The ratio of current assets to total assets increased to 55.7% as of September 30, 2008 from 51.5% as of December 31, 2007 due to rise in investments held for trading, receivables, fuel inventory and company's share in current assets of a joint venture.

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

Debt/equity ratio increased slightly to 0.18:1 as of September 30, 2008 from 0.16:1 as of December 31, 2007 brought about by higher accounts payable and other current liabilities and company's share in current liabilities of a joint venture.

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

The rate of return on stockholders' equity improved to 3.8% for the nine months ended September 30, 2008 as compared with 3.2% for the same period last year due to higher net income recorded in the nine months ended September 2008.

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

Earnings per share declined to P 0.065 from P 0.072 on account of higher average number of common outstanding shares following the stock rights offering in December 2007.

During the nine months ended September 30, 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 cyclicity.
- 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.

OPERATION OF THE COMPANY CONCERNING EXPLORATION

Please refer to attached Review of Operations (Annex B-1)

PROGRESS REPORT
For the Quarter, July 1, 2008 to September 30, 2008

OIL PRODUCTION

SC 6 Cadlao (Northwest Palawan)

The DOE granted a 15-year extension of Service Contract No. 6 as it pertains to the Cadlao Production Area effective March 1, 2009.

Blade Petroleum acquired Oriental Petroleum's entire 55% participating interest in the block.

Trans-Asia holds a 1.65% royalty interest in the Cadlao Production Area.

OIL EXPLORATION

SC 6 Block A (Northwest Palawan)

In a consortium meeting held on August 27, 2008, Vitol GPC Investments presented to partners the results of their technical evaluation pursuant to the Farm-In Agreement.

Due to limited reserves, Vitol concluded that development of the Octon discovery will only be economically feasible as a tie back to Galoc production operations in a second phase of development.

Vitol requested partners to extend the deadline for the farm-in decision until such time as a decision is made by the SC 14 Galoc consortium to proceed to the Galoc Phase 2 Project.

Trans-Asia holds a 7.78% working interest and a 2.475% carried interest in the block.

SC 6 Block B/SC 14 Tara/SC 14 B-1 North Matinloc (Northwest Palawan)

Trans-Asia signed Option Agreements with VenturOil Philippines covering the above contract blocks granting the latter the exclusive right to

conduct technical evaluation of said blocks until December 2008 and the option to acquire 70% interest in each block. VenturOil has not secured the signatures of all participating interest holders as of end of the 3rd Quarter 2008, and has not signed the agreements.

Trans-Asia has 14.063%, 22.50% and 6.103% participating interests in SC 6 Block B, SC 14 Tara and SC 14 B-1 North Matinloc, respectively.

SC 51 (East Visayas)

The Argao-1 and Bahay-1 well proposals were completed.

The site surveys for the Argao-1 and Bahay-1 well locations are in progress.

Proposed amendments to the Joint Operating Agreement are under discussion by the partners. The case filed by NGOs against DENR for issuance of a Certificate of Non-Coverage for the consortium's 2007 3D seismic survey was dismissed by a Bohol court for lack of merit.

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

SC 55 (Ultra Deepwater West Palawan)

The consortium requested the DOE the swapping of work commitments for the 2nd and 3rd Sub-Phases of the Exploration Period to enable the consortium to drill the first commitment well under the service contract by August 5, 2010, instead of August 5, 2009. A rig scouting survey revealed that a rig suitable for the drilling of the primary prospect will not be available until the first half of 2010.

The DOE approved the partners' request and confirmed that the deadline to drill one (1) ultra deepwater under the 3rd Sub-Phase is 5 August 2010.

Trans-Asia holds 15% participating interest in SC 55.

SC 69 (Camotes Sea)

Readability tests on vintage 9-track seismic tapes yielded 98% data recovery. Retrieval of all available tapes for seismic reprocessing is in progress.


Trans-Asia has 30% participating interest in SC 69.

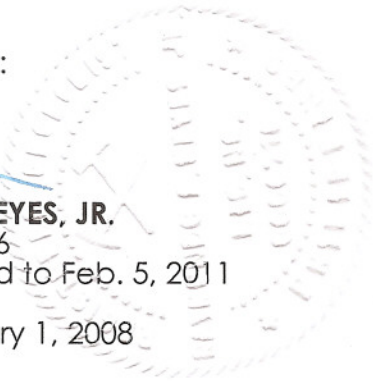
MINERALS

EPA No. 000084-II (Isabela)

The Mines and Geosciences Bureau Regional Office No. 2 transferred the Exploration Permit Application of Trans-Asia Oil to its wholly-owned subsidiary, Trans-Asia Gold and Minerals Development Corporation.

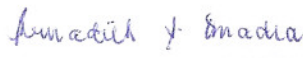
Certified Correct:


RAYMUNDO A. REYES, JR.
Geologist No. 716
PRC License Valid to Feb. 5, 2011
PTR No. 1057357
Issued on February 1, 2008
at Makati City



Signed in the presence of:





ANNEX C

Reports on SEC Form 17-C

The Company filed the following reports on SEC 17-C during the nine months ended September 30, 2008 covered by this report:

Date of Filing	Items Reported
August 4, 2008	<p>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.</p> <p>The bore hole reached a final total depth of 234.66 meters below ground level. Results are under evaluation.</p>
August 29, 2008	<p>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.</p> <p>Trans-Asia Oil and Trans-Asia Gold have previously signed an Operating Agreement pertaining to said MPSA.</p>
August 29, 2008	<p>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.</p> <p>Trans-Asia Oil has 15% participating interest in SC 55.</p>
September 8, 2008	<p>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.</p>
September 15, 2008	<p>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.</p>

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.