COVER SHEET

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SEC Registration Number

PHINMA ENERGY CORPORATION AND SUB
SIDIARIES

(Company's Full Name)

Level 11 PHINMA Plaza 39 Plaza
Drive Rockwell Center
Makati City

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

ATTY. ALAN T. ASCALON	870-0100
(Contact Person)	(Company Telephone Number)

1 2	3 1	1 7 - A	0 3	2 4
Month	*Day*	(Form Type)	*Month*	*Day*
(Calendar Year)			(Annual Meeting)	

Not Applicable

(Secondary License Type, If Applicable)

—	—
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

3,196	—	—
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC Number 39274
File Number

PHINMA ENERGY CORPORATION
(formerly Trans-Asia Oil and Energy Development Corporation)
(Company's Full Name)

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

870-0100
(Telephone Number)

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

17-A
(Form Type)

Amendment Designation (If Applicable)

December 2017
(Period Ended Date)

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17- A

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

1.	For the fiscal year ended	**December 31, 2017**
2.	SEC Identification Number	**39274**
3.	BIR Tax Identification No.	**121-000-506-020**
4.	Exact name of issuer as specified in its charter	**PHINMA Energy Corporation Corporation**
5.	Province, Country or other jurisdiction of incorporation or organization	**Philippines**
6.	Industry Classification Code	**(SEC Use Only)**
7.	Address of principal office	**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	**Trans-Asia Oil and Energy Development Corporation**

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

Number of shares of common stock outstanding	**4,885,897,908** shares
Amount of debt outstanding	**₱7.0 billion**

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

Yes X No

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes X No

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

Yes X No

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

NA

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

NA

15. Documents incorporated by reference

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

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PART I – BUSINESS

Item 1. Description of Business

Business Development

PHINMA Energy Corporation (formerly Trans-Asia Oil and Energy Development Corporation) ("PHINMA Energy", or "the Company") was established by the Philippine Investment Management (PHINMA), Inc. on September 8, 1969 in line with PHINMA's vision to create a vehicle for building the nation's economy through self-reliance in energy. PHINMA Energy is engaged primarily in power generation and electricity supply, with secondary investments in petroleum and geothermal exploration. The Company was originally known as Trans-Asia Oil and Mineral Development Corporation, reflecting its original purpose of engaging in petroleum and mineral exploration and production. In order to diversify its product and revenue portfolio, the Company invested in power generation and supply, which eventually became its main business and revenue source. On April 11, 1996, the Company's name was changed to Trans-Asia Oil and Energy Development Corporation. Moving forward, on August 22, 2016, the Company embraced the name of its parent, to become known as PHINMA Energy Corporation, combining the Company's commercial success with PHINMA's longstanding reputation, in commemoration of PHINMA's 60th anniversary.

There were no bankruptcy, receivership or similar proceeding or any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business for the last three (3) years, whether by the Company or its subsidiaries.

Description of Principal Businesses

Power Generation

The principal product of power generation and supply is the electricity produced and delivered to the end-consumers. It involves the conversion of fuel or other forms of energy to electricity; or the purchase of electricity from power generation companies and the Philippine Wholesale Electricity Spot Market (WESM).

The Company conducts its power generation and supply activities directly or through its Joint Venture Company and subsidiaries.

The Electricity Supply business continues its active participation in the WESM through buying the electricity requirements of customers and selling the excess output of the Company's generation supply portfolio.

The Company's Principal Suppliers are South Luzon Thermal Energy Corp. and WESM (for electricity supply) and PTT and SL Harbor Bulk Terminal Corporation (for bunker fuel, the raw material or main fuel used for the Company's diesel power plants).

In 2017, the total energy sales reached 2,825 gigawatt hours (GWh), a 4.14% decrease from 2,947 GWh in 2016. Our primary customers, Lafarge-Holcim's cement plants in Bulacan and La Union, Philippine Economic Zone Authority's (PEZA's) Cavite Economic Zone, Republic, Inc., and new customers accounted for the bulk of the total energy sold while the remaining supply was sold to WESM.

Aside from the WESM, the Company also sourced electricity from contracted capacities with KEPCO SPC Power Corporation and TeaM (Philippines) Energy Corporation. In 2017, the Company's total generation capacity was 636.4. megawatts (MW) from 639.4 MW in 2016.

The Company does not have any foreign sales.

Transactions With and Dependence on Related Parties

PHINMA Power Generation Corporation (PPGC)

On April 10, 2014, PHINMA Power Generation Corporation ("PPGC"), formerly Trans-Asia Power Generation Corporation, purchased the shares of One Subic Power Generation Corp. ("OSPGC"), the lessee and operator of the 116 MW Subic Diesel Generator Power Plant (the "Subic Power Plant"). OSPGC has an existing Power Administration and Management Agreement (PAMA) with PHINMA Energy under which PHINMA Energy is given the right to administer and manage the net output of the Subic Power Plant in consideration of energy fees to be paid by PHINMA Energy to OSPGC. The Agreement commenced on December 26, 2012 and shall be effective throughout the term of the lease of the Subic Power Plant from the owner, Subic Bay Metropolitan Authority (SBMA).

The acquisition of OSPGC expanded PPGC's existing generation portfolio, adding to the 52MW Bunker C-Fired power plant in Bulacan serving Holcim's cement plant.

On June 2, 2017, the SEC approved the amendment of the company's Articles of Incorporation which changed its name from Trans-Asia Power Generation Corporation to PHINMA Power Generation Corporation.

In 2017, PPGC generated 44 gigawatt hours (GWh) of electricity.

CIP II Power Corporation (CIPP)

In December 2010, CIP II Power Corporation's ("CIPP") Board of Directors approved the transfer of its power plant from Laguna to Bacnotan, La Union, adjacent to the Holcim Cement Plant. Actual groundbreaking began on April 2011. The Plant was commissioned on December 21, 2012 and commenced commercial operations in January 2013.

The new location of the Plant not only allowed it to serve the requirements of the adjacent Holcim cement plant, but also to sell power to the WESM and PHINMA Energy, with the total energy sales of CIPP reaching 10.50 GWh for the period January to June 2013. Thereafter, CIPP and PHINMA Energy entered into a PAMA, where PHINMA Energy pays CIPP energy fees for its entire capacity.

In 2017, CIPP produced 22 GWh of electricity.

Guimaras Power Plant (GPP)

PHINMA Energy had an Electricity Supply Agreement (ESA) with Guimaras Electric Cooperative Inc. (GUIMELCO) which was signed on November 12, 2003 and subsequently amended on July 26, 2004 and renewed on March 27, 2015. Under the ESA, PHINMA Energy agreed to construct, operate and maintain a 3.4MW bunker Coal fired power plant in Guimaras. The power plant sells electricity primarily to GUIMELCO at the rate approved by the Energy Regulatory Commission (ERC). Installation of the power plant and construction of related facilities were completed in February 2005. Commercial operations commenced on June 26, 2005.

On April 29, 2016, GUIMELCO and the Corporation filed a joint application for approval of the Contract for the Sale of Electricity (CSE) between GUIMELCO and the Corporation with the ERC. Until the CSE is approved by the ERC, the 3.4MW Guimaras Power Plant ("GPP") has yet to supply power to GUIMELCO. However, the Company supplied peaking power to GUIMELCO on a limited basis, upon the request of GUIMELCO and the local government.

In 2017, a total of 2 GWh of electricity was sold both to GUIMELCO and WESM.

South Luzon Thermal Energy Corporation (SLTEC)

South Luzon Thermal Energy Corporation ("SLTEC") is a joint venture between the Company, AC Energy Holdings, Inc.of the Ayala group, and Axia Power Holdings Corporation of the Marubeni group. PHINMA Energy is the largest shareholder in SLTEC with a 45% interest, followed by Ayala with 35%, and Marubeni with 20%.

SLTEC provides reliable baseload power from its 2 x 135MW Coal-fired Power Plant in Calaca, Batangas utilizing cleaner coal technology herein referred to as Circulating Fluidized Bed (CFB) for negligible emissions and minimal environmental impact.

The construction, testing and commissioning of the 1st unit of SLTEC CFB Coal-fired Power Plant was completed during the 1st half of 2015. Commercial operations was achieved by April 24, 2015, in time for the summer months with historical peaks for heightened demand and tight supply. The 2nd unit started its commercial operations in February 21, 2016.

In 2017, SLTEC Unit 1 recorded an availability rate of 91%, while Unit 2 was at 86%.

On April 22, 2017, SLTEC took over the operation and maintenance of the power plant from the O&M Contractor. Early preparations for this shift led to the seamless and successful transfer of plant management. After the take-over, SLTEC's organic O&M team introduced major improvements to the plant operation and maintenance procedures and implemented equipment modifications.

SLTEC also initiated the construction of facilities that would help the employees reach their full career potential. The Multi-Purpose Hall is a building complete with venues for training and social functions, a full-sized basketball court, music room, a clinic, and a gym. A Staff House is also under construction.

For 2017, SLTEC reported a net income of ₱2.12 billion, with total production of 1,850 GWh from Unit 1 and Unit 2.

Maibarara Geothermal, Inc. (MGI)

Maibarara Geothermal, Inc. ("MGI"), a joint venture between PetroGreen Energy Corporation (65%), PNOC Renewable Corporation (10%), and the Company (25%), was incorporated and registered with the SEC on August 11, 2010. It is currently operating a 20 MW geothermal plant in the Maibarara geothermal field in Santo Tomas, Batangas, which commenced commercial operations in February 2014. The field was discovered by Philippine Geothermal, Inc. in the 1980s. MGI is the first renewable energy undertaking to be declared commercial by the government under the Renewable Energy Act of 2008.

An independent validation of resource assessment conducted by a New Zealand consulting firm concluded that there is a 90% probability that proven field reserves to date can support a power plant with 28 MW or higher for 25 years.

The Department of Energy (DOE) issued a Confirmation of Commerciality for the project, effectively converting its geothermal service contract from the Pre-Development to the Development/Commercial Stage. Among the ten (10) areas awarded under the first geothermal bid round of the DOE held in late 2009, the MGI contract holds the distinction of being the first to achieve this milestone.

MGI executed an Omnibus Loan and Security Agreement for a ₱ 2.4 billion loan facility with Rizal Commercial Banking Corporation (RCBC) and Bank of the Philippine Islands (BPI) to finance part of the ₱3.44 billion project cost.

The Phase 2 of the project adds another 12 MW to the facility. The new line was successfully synchronized to the Luzon grid on March 9, 2018, marking its first export of power to the grid.

In 2017, MGI produced 160.36 GWh of power.

PHINMA Renewable Energy Corporation (PHINMA R.E.)

PHINMA Renewable Energy Corporation ("PHINMA R.E."), formerly Trans-Asia Renewable Energy Corporation, a wholly owned subsidiary of the Company, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 2, 1994. It was established with the primary purpose of developing and utilizing renewable energy and pursuing clean and energy efficient projects. The vision of PHINMA R.E. is to become a significant player in emerging renewable energy through strategic partnerships, portfolio development, and vigorous but deliberate operating capacity build-up.

In line with the country's thrust of promoting the growth of renewable energy resources, PHINMA R.E. ventured into wind resource development projects and currently has 9 wind energy service contracts with an aggregate potential capacity of over 400 MW. This included the 54 MW Wind Project in San Lorenzo, Guimaras.

In December 27, 2014, PHINMA R.E. successfully completed the construction and commissioning of the 54 MW San Lorenzo Wind Project, the first wind farm completed in the Visayas. Since its officially recognized start of commercial operations, the wind farm was able to attain its maximum capacity of 52 MW representing 96% of the total installed capacity.

On December 1, 2015, the Company received its Certificate of Compliance from the ERC for its 54 MW San Lorenzo Wind Project. The certificate entitles PHINMA R.E. to recognize its Feed-in Tariff (FIT) at an approved rate of ₱7.40, with a retroactive period beginning December 27, 2014, for a guaranteed period of twenty (20) years until December 26, 2034.

On June 13, 2017, the SEC approved the amendment of the Company's Articles of Incorporation which changed its name from Trans-Asia Renewable Energy Corporation to PHINMA Renewable Energy Corporation.

In 2017, PHINMA R.E. generated 89.391 GWh of electricity.

One Subic Power Generation Corporation (OSPGC)

One Subic Power Generation Corporation ("OSPGC") was incorporated and registered with the SEC on August 4, 2010 to engage in the business of owning, constructing, operating, developing and maintaining all types of power generation plants. It started its operation on February 17, 2011. On May 12, 2014, PHINMA Power Generation Corporation, then known as Trans-Asia Power Generation Corporation, purchased from Udenna Energy Corporation (UDEC) the entire outstanding shares of stock of OSPGC. Prior to the acquisition, OSPGC was a wholly owned subsidiary of UDEC, a company incorporated and domiciled in the Philippines.

On December 21, 2017, the Subic Bay Metropolitan Authority (SBMA) approved the extension of the lease of the plant until July 19, 2030. In 2017, OSPGC produced 77 GWh of electricity.

Power Barge 101, 102 and 103

The Company executed a deed of sale on 12 August 2015 to finalize the sale and transfer of Power Barges 101, 102, and 103, from the Power Sector Assets and Liabilities Management (PSALM) Corporation, for a purchase price of ₱420 million. PB 101 and PB 102, located in Barrio Obrero, Iloilo City , declared commercial operations in February 2016. The Company entered into an Ancillary Services Procurement Agreement with NGCP which was recently approved by the ERC. PB 103 is currently located in a Cebu and has not started commercial operations yet.

In 2017, PB 101 and 102 produced 14 GWh of electricity.

Electricity Supply Business

Aside from contracting its own capacities as well as purchasing power from other suppliers, the Company also engages in electricity trading which revolves around buying electricity from and selling electricity to the WESM.

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

Trading revenues have been a source of revenue for the Company since 2008. The Company's management believes that the electricity supply business will continue to represent a major portion of the Company's revenues for the foreseeable future. The Company's management believes that its ownership of its generation plants and electricity supply agreements assures the Company of a reasonable off take volume and price, and presents the Company with opportunities to realize gains from electricity trading and bilateral contracts.

Future Projects

Solar Energy

PHINMA Energy sees a bright future for solar renewable energy. In July 2017, the company and the DOE entered into a 25-year Solar Energy Service contract covering a 648-hectare area in Bugallon, Pangasinan, where PHINMA Energy hopes to set up a 45MW solar farm. Subsequently in September, PHINMA Energy entered into another 25-year Solar Energy Service Contract covering a 486 hectare area in Batangas province, where it also hopes to construct a 45 MW solar farm. In addition to grid connected solar projects, PHINMA Energy is also exploring off grid solar applications, as well as rooftop PV Panel installations. In this light, in June 2017 it effected the change in corporate name of subsidiary Trans Asia Wind Power Corporation to PHINMA Solar Energy Corporation, which will engage in the development, operation, and maintenance of solar power generation facilities as well as the development of more retail solar products.

Distribution of Product

Electricity sales have been sold at the prevailing ERC approved rates for electric cooperatives and at market-determined prices for bilateral contracts. The WESM is another default market where electricity purchases are settled based on market or spot rates. Delivery of the product are coursed through transmission lines currently owned by National Grid Corporation of the Philippines (NGCP) and to a certain extent, the electric cooperatives and distribution utilities in exchange for wheeling charges.

Competition

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

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

The power generation facilities of GPP, PPGC, CIPP and OSPGC operate on diesel and bunker fuel. While these are more reliable than hydroelectric plants, their high cost of electricity production render these less competitive to baseload plants such as coal, geothermal and natural gas facilities of its competitors. In addition, R.A. 10963 or the TRAIN Law increased the excise tax rates of lubricating oil, diesel fuel and bunker fuel oil, among others, that are used for the power plants, may have material impact to the operations of the Company.

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

Dependence on Suppliers

Disruptions in the supply of fuel could result to substantial reduction in production or increased operating cost, and may have adverse effects on the Company's financial performance and financial position. Any delay in fuel deliveries or disruptions in fuel supply may also result in unplanned plant shutdowns. In 2017, the Company purchased Bunker C fuel for its power generation business from reliable suppliers PTT and SL Harbor Bulk Terminal Corporation to limit its dependence on a single supplier.

To avoid disruptions in fuel supply, long term contracts with the fuel suppliers were executed. In case of temporary fuel shortage along the supply chain, the oil companies will prioritize deliveries to the Company's plants.

In the event of *force majeure* events, however, everyone including the Company will be adversely affected. To mitigate this risk, the Company executes long term fuel supply contracts, and maintains safe and strategic inventory levels of fuel to ensure continuous electricity production. Furthermore, if any of the major suppliers fails to deliver, the Company may buy fuel from other vendors. With the establishment of good relationships with other fuel suppliers, PHINMA Energy can also obtain competitive alternative sources and arrange for the timely delivery of fuel.

Dependence on Customer

Existing off-take agreements assure a certain level of demand from the Company's customers. Under the ESA between PHINMA Energy and GUIMELCO, PHINMA Energy agrees to supply electricity generated by the power plant to GUIMELCO, and GUIMELCO must give priority to electricity generated by PHINMA Energy up to 1.8 MW over any other power source. PPGC and PHINMA Energy have a long-term ESA with Holcim where PPGC and PHINMA Energy guarantee to cover all of Holcim's electricity requirements for both the La Union and Bulacan cement plants. With othercustomers Republic, DPSI, PEZA, and new customers contracted in 2017, PHINMA Energy is not dependent on any single customer for the viability of the electricity business.

Related Party Transactions

PHINMA Energy contracts with its related parties as disclosed in the Consolidated Financial Statements. The Parent Company and its subsidiaries PPGC, CIPP, PHINMA R.E. and PHINMA Petroleum and Geothermal, Inc. have management contracts with ultimate parent Philippine Investment-Management (PHINMA), Inc.

Research and Development

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

Dependence on Environmental Factors

PHINMA R.E.'s 54MW San Lorenzo Wind Farm Project (SLWP) depends significantly on the available wind resources in order to generate power. Wind resources will vary from year to year, season to season, by the day, by the minute. The SLWP utilizes digital models to predict wind resource, but ultimately, weather factors will be too complex and impossible to predict with any accuracy.

<u>Petroleum Exploration</u>

PHINMA Energy, by itself and through its subsidiary, PHINMA Petroleum and Geothermal, Inc., is a minority investor in various consortia engaged in petroleum exploration, development and production.

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

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

As projects are mostly in the exploratory stage, the Company derives insignificant or no revenues from petroleum production. At this time, the Company believes it has sufficient petroleum projects on hand given its resources and risk tolerance.

Product and Distribution

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

Competition

While competition for market of petroleum does not have a significant bearing in the operations of the Company, PHINMA Energy's competitors compete on two fronts, namely: 1) petroleum acreage and 2) investment capital.

DOE awards petroleum contracts to technically and financially capable companies on a competitive bidding basis. Thus, the Company competes with foreign firms and local exploration companies such as PNOC Exploration Corporation, The Philodrill Corporation, Oriental Petroleum and Minerals Corporation, and Petroenergy Resources Corporation for acquisition of prospective blocks. While there is competition in the acquisition of exploration rights, the huge financial commitments associated therewith also provide opportunities for partnership, especially between local and foreign companies. Under a service contract, a substantial financial incentive is given to consortia with at least 15% aggregate Filipino equity. Thus, many foreign firms invite local exploration companies to join their venture to take advantage of said benefit and vice versa.

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

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

Regulatory Framework

The Company’s petroleum and mineral exploration business is subject to the following laws, rules and regulations:

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

P.D. 87, as amended, declares that the policy of the State is to hasten the discovery and production of indigenous petroleum through utilization of government and/or private resources, local and foreign, under arrangements calculated to yield maximum benefit to the Filipino people and revenues to the Philippine government and to assure just returns to participating private enterprises, particularly those that will provide services, financing, and technology and fully assume all exploration risks. The government may undertake petroleum exploration and production or may indirectly undertake the same through Service Contracts. Under a service contract, service and technology are furnished by a contractor for which it would be entitled to a service fee of up to 40% of net production proceeds. Where the Government is unable to finance petroleum exploration or in order to induce the contractor to exert maximum efforts to discover and produce petroleum, the service contract would stipulate that, if the contractor furnishes service, technology and financing, the proceeds of the sale of the petroleum produced under the service contract would be the source of payment of the service fee and the operating expenses due the contractor. Operating expenses are deductible up to 70% of gross production proceeds. If, in any year, the operating expenses exceed 70% of gross proceeds from production, the unrecovered expenses may be recovered from the operations of succeeding years. Intangible exploration costs may be reimbursed in full, while tangible exploration costs (such as capital expenditures and other recoverable capital assets) are to be depreciated for a period of five (5) or ten (10) years. Any interest or other consideration paid for any financing approved by the Government for petroleum development and production would be reimbursed to the extent of 2/3 of the amount, except interest on loans or indebtedness incurred to finance petroleum exploration.

Aside from reimbursing its operating expenses, a contractor with at least 15% Filipino participation is allowed to recover a Filipino participation incentive allowance equivalent to a maximum of 7.5 % of the gross proceeds from the crude oil produced in the contract area. Incentives to service contractors include (i) exemption from all taxes except income tax which is paid out of Government's share, (ii) exemption from all taxes and duties on importation of machinery, equipment, spare parts and materials for petroleum operations, (iii) repatriation of investments and profits and (iv) free market determination of crude oil prices. Finally, a subcontractor is subject to special income tax rate of eight percent (8%) of gross Philippine income while foreign employees of the service contractor and the subcontractor are subject to a special tax rate of 15 % on their Philippine income.

A service contract has a maximum exploration period of 10 years and a maximum development and production period of 40 years. Signature bonus, discovery bonus, production bonus, development allowance and training allowance are payable to the Government. Other pertinent laws and issuances include P.D. 1857, a law amending certain sections of P.D. 87, as amended, offering improved fiscal and contractual terms to service contractors with special reference to deepwater oil exploration; DOE Circular No. 2009-04-0004, a circular that establishes the procedures for the Philippine Contracting Rounds; DOE Circular No. 2003-05-006, a circular that provides the guidelines to the financial and technical capabilities of a viable petroleum exploration and production company; Executive Order No. 66 issued in 2002 which designated the DOE as the lead government agency in developing the natural gas industry; and DOE Circular 2002-08-005, a circular setting the interim rules and regulations governing the transmission, distribution and supply of natural gas.

Under P.D. 87, as amended, every service contractor that produces petroleum is authorized to dispose of same either domestically or internationally, subject to supplying the domestic requirements of the country on a pro-rata basis. There is a ready market for oil produced locally inasmuch as imported oil which comprised about 34**%** of the Philippines' primary energy mix in year 2010. Heavy dependence on foreign oil supply is not expected to change significantly over the next 10 years. On a case to case basis, the Government has allowed the export of locally produced crude oil in the past. The domestic natural gas industry is at the nascent stage, with supply coming from a single offshore field. Domestic gas production accounted for about seven percent (7%) of the country's primary energy mix in year 2010. The Government is actively promoting the use of natural gas for power, industry, commercial and transport applications, owing to environmental considerations and the need to diversify energy supply.

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

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

Under the IPRA, no concession, license, lease or agreement shall be issued by any government agency without the certification precondition ("CP") from the National Commission on Indigenous People. The CP states that the free, prior and informed consent ("FPIC") has been obtained from the concerned IPs. For areas not occupied by IPs, a certificate of non-overlap is issued instead by the NCIP. For areas occupied by IPs, the applicant and representatives from the NCIP will conduct consultations and consensus-building to obtain the consent of IPs. The FPIC is manifested through a memorandum of agreement with IPs, traditionally represented by their elders. The CP is then issued by the NCIP stating that the FPIC has been obtained from the IPs concerned.

The Company may operate in certain areas which are covered by ancestral domains of IPs. No resource extraction is allowed in such areas without first negotiating an agreement with IPs who will be affected by operations.

R. A. 8749 or The Philippine Clean Air Act of 1999

R.A. 8749 or the Philippine Clean Air Act of 1999 is a comprehensive air quality management program which aims to achieve and maintain healthy air for all Filipinos. Under this, the DENR is mandated to formulate a national program on how to prevent, manage, control and reverse air pollution using regulatory and market-based instruments, and set-up a mechanism for the proper identification and indemnification of victims of any damage or injury resulting from the adverse environmental impact of any project, activity or undertaking. To implement this law, the Government is promoting energy security thru a policy of energy independence, sustainability and efficiency. These involve:

(1) increasing oil and gas exploration;

(2) strengthening of the PNOC to spearhead the development of indigenous energy resources and building global partnerships and collaborative undertakings;

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

(4) expansion in the use of natural gas; and

(5) adoption of energy efficiency promotion strategies.

In support of this legislation, PHINMA Energy is participating in the oil and gas exploration and development of renewable energy sources. This is evident in the oil and gas exploration, and wind power projects of PHINMA Energy and its subsidiaries.

The Philippine Environmental Impact Statement System

Projects relating to petroleum and mineral exploration and production are required to comply with the Philippine EIS System. The Environmental Impact Statement (EIS) System was established by virtue of P.D. 1586 issued by former President Ferdinand E. Marcos in 1978. The EIS System requires all government agencies, government-owned or controlled corporations and private companies to prepare an Environmental Impact Assessment (EIA) for any project or activity that affects the quality of the environment. An EIA is a process that involves evaluating and predicting the likely impacts of a project (including cumulative impacts) on the environment and includes designing appropriate preventive, mitigating and enhancement measures to protect the environment and the community's welfare. An entity that complies with the EIS System is issued an Environmental Compliance Certificate (ECC), which is a document certifying that, based on the representations of the project proponent, the proposed project or undertaking will not cause significant negative environmental impacts and that the project proponent has complied with all the requirements of the EIS System.

To strengthen the implementation of the EIS System, Administrative Order No. ("AO") 42 was issued by the Office of the President of the Philippines in 2002. It provided for the streamlining of the ECC application processing and approval procedures. Pursuant to AO 42, the DENR promulgated DENR AO 2003-30, also known as the Implementing Rules and Regulations for the Philippine EIS System ("IRR"), in 2003.

Under the IRR, in general, only projects that pose potential significant impact to the environment would be required to secure ECCs. In determining the scope of the EIS System, two factors are considered, namely: (i) the nature of the project and its potential to cause significant negative environmental impacts, and (ii) the sensitivity or vulnerability of environmental resources in the project area.

Specifically, the criteria used for determining projects to be covered by the EIS System are as follows:

a. Characteristics of the project or undertaking -

   i. size of the project;

   ii. cumulative nature of impacts compared to other projects;

   iii. use of natural resources;

iv. generation of wastes and environment-related nuisance; and

v. environment-related hazards and risk of accidents.

b. Location of the project -

i. vulnerability of the project area to disturbances due to its ecological importance, endangered or protected status;

ii. conformity of the proposed project to existing land use, based on approved zoning or on national laws and regulations; and

iii. relative abundance, quality and regenerative capacity of natural resources in the area, including the impact absorptive capacity of the environment.

c. Nature of the potential impact -

i. geographic extent of the impact and size of affected population;

ii. magnitude and complexity of the impact; and

iii. likelihood, duration, frequency, and reversibility of the impact.

The ECC of a project not implemented within five (5) years from its date of issuance is deemed expired. The proponent must apply for a new ECC if it intends to pursue the project. The reckoning date of project implementation is the date of ground-breaking, based on the proponent's work plan as submitted to the EMB.

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

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

Under these laws, the Company could be subject to claims for personal injury or property damages, including damages to natural resources, which may result from the impact of the Company's operations. Failure to comply with these laws may also result in the suspension or termination of the Company's operations and subject it to administrative, civil and criminal penalties. Moreover, these laws could be modified or reinterpreted in ways that substantially increase the Company's costs of compliance. Any such liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on the Company's financial condition and results of operations.
PHINMA Energy's power supply and generation business is subject to the following laws, rules and regulations:

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

The power generation business of PHINMA Energy is governed by R.A. 9136 or the Electric Power Industry Reform Act of 2001. The enactment of the EPIRA has been a significant event in the Philippine energy industry. The EPIRA has three main objectives, namely: (i) to promote the utilization of indigenous, new and renewable energy resources in power generation, (ii) to cut the high cost of electric power in the Philippines, bring down electricity rates and improve delivery of power supply and (iii) to encourage private and foreign investment in the energy industry. The EPIRA triggered the implementation of a series of reforms in the Philippine power Industry. The two major (2) reforms are the restructuring of the electricity supply industry and the privatization of the National Power Corporation (NPC). The restructuring of the electricity industry calls for the separation of the different components of the power sector namely, generation, transmission, distribution and supply. On the other hand, the privatization of the NPC involves the sale of the state-owned power firm's generation and transmission assets (e.g., power plants and transmission facilities) to private investors. These two (2) reforms are aimed at encouraging greater competition and at attracting more private-sector investments in the power industry. A more competitive power industry will, in turn, result in lower power rates and a more efficient delivery of electricity supply to end-users.

Power generation is not considered a public utility operation under the EPIRA. Thus, a franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a Certificate of Compliance (COC) from the ERC to operate the generation facilities. A COC is valid for a period of five (5) years from the date of issuance. In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all of its facilities connected to the Grid meet the technical design and operational criteria of the Philippine Grid Code and the Philippine Distribution Code promulgated by the ERC. The ERC has also issued the "Guidelines for the Financial Standards of Generation Companies," which set the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two (2) fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties. The power plants of PHINMA Energy and its subsidiaries are required under the EPIRA to obtain a COC from the ERC for their generation facilities. They are also required to comply with technical, financial, and environmental standards provided in existing laws and regulations in their operations.

Restructuring of the Electricity Industry

One of the major reforms under the EPIRA involves the restructuring of the electricity supply industry, which calls for the separation of the different components of the electric power industry namely, generation, transmission, distribution and supply.

Under the EPIRA, power generation and supply (which are not considered public utility operations) are deregulated but power distribution and transmission continue to be regulated (as common electricity carrier business) by the ERC which replaced the Energy Regulatory Board.

To promote true competition and prevent monopolistic practices, the EPIRA provides for explicit caps or limits on the volume of electricity that a distribution utility can buy from an affiliated company that is engaged in power generation. Likewise, the law also provides that "no company or related group can own, operate or control more than 30% of the installed capacity of a grid and/or 25% of the national installed generating capacity".

Energy Regulatory Commission (ERC)

The ERC is an independent, quasi-judicial regulatory body tasked to promote competition in the power industry, encourage market development and ensure customer choice. Compared to its predecessor, the ERC has broader powers to prevent and penalize anti-competitive practices.

The ERC is the government agency in-charge of the regulation of the electric power industry in the Philippines. The ERC was created by virtue of Section 38 of the EPIRA to replace the Energy Regulatory Board (ERB). Its mission is to promote and protect long-term consumer interests in terms of quality, reliability, and reasonable pricing of a sustainable supply of electricity.

The relevant powers and functions of the ERC are as follows:

1. Promote competition, encourage market development, ensure customer choice and penalize abuse of market power in the electricity industry. To carry out this undertaking, ERC shall, promulgate necessary rules and regulations, including Competition Rules, and impose fines or penalties for any non-compliance with or breach of the EPIRA, the Implementing Rules and Regulations of the EPIRA, and other rules and regulation which it promulgates or administers as well as other laws it is tasked to implement/enforce.

2. Determine, fix and approve, after due notice and hearing, Transmission and Distribution Wheeling Charges, and Retail Rates through an ERC established and enforced rate setting methodology that will promote efficiency and non-discrimination.

3. Approve applications for, issue, grant, revoke, review and modify Certificate of Public Convenience and Necessity (CPCN), Certificate of Compliance (COC), as well as licenses and/or permits of electric industry participants.

4. Promulgate and enforce a national Grid Code and a Distribution Code that shall include performance standards and the minimum financial capability standards and other terms and conditions for access to and use of the transmission and distribution facilities.

5. Enforce the rules and regulations governing the operations of the Wholesale Electricity Spot Market (WESM) and the activities of the WESM operator and other WESM participants, for the purpose of ensuring greater supply and rational pricing of electricity.

6. Ensure that NPC and distribution utilities functionally and structurally unbundle their respective business activities and rates; determine the level of cross subsidies in the existing retail rates until the same is removed and thereafter, ensure that the charges of TransCo or any distribution utility bear no cross subsidies between grids, within grids, or between classes of customers, except as provided by law.

7. Set a Lifeline Rate for the Marginalized End-Users.

8. Promulgate rules and regulations prescribing the qualifications of Suppliers which shall include, among other things, their technical and financial capability and credit worthiness.

9. Determine the electricity End-users comprising the Contestable and Captive Markets.

10. Verify the reasonable amounts and determine the manner and duration for the full recovery of stranded debts and stranded contract costs of NPC and the distribution utilities.

11. Handle consumer complaints and ensure promotion of consumer interests.

12. Act on applications for cost recovery and return on Demand-Side Management (DSM) projects.

13. Fix user fees to be charged by TransCo for ancillary services to all electric power industry participants or self-generating entities connected to the Grid.

14. Review power purchase contracts between Independent Power Producers (IPP) and NPC, including the distribution utilities.

15. Monitor and take measures to discourage/penalize abuse of market power, cartelization and any anti-competitive or discriminatory behavior by any electric power industry participant.

16. Review and approve the terms and conditions of service of the TransCo or any distribution utility and any changes therein.

17. Determine, fix and approve a universal charge to be imposed on all electricity end-users.

18. Test, calibrate and seal electric watt-hour meters.

19. Implement pertinent provisions of R.A. No. 7832 or the Anti-Pilferage of Electricity Law.

20. Fix and regulate the rate schedule or prices of piped gas to be charged by duly the ERC is headed by a Chairperson together with four Commissioners.

Privatization of National Power Corporation (NPC) and creation of Power Sector Assets and Liabilities Management Corporation (PSALM)

Another major reform under the EPIRA is the privatization of the NPC which involves the sale of the state-owned power firm's generation and transmission assets (*e.g*., power plants and transmission facilities) to private investors. Government-owned NPC had been solely responsible for the total electrification of the country since 1936.

Under the EPIRA, the NPC generation and transmission facilities, real estate properties and other disposable assets, as well as its power supply contracts with IPPs were privatized. Two weeks after the EPIRA was signed into law, the PSALM, a government-owned and controlled corporation, was formed to help NPC sell its assets to private companies. The exact manner and mode by which these assets would be sold would be determined by the PSALM. The PSALM was tasked to manage the orderly sale, disposition and privatization of the NPC, with the objective of liquidating all of the NPC's financial obligations and stranded contract costs in an optimal manner.

Birth of the National Grid Corporation of the Philippines (NGCP)

Another entity created by the EPIRA was the National Transmission Corporation (TransCo), which would assume all of the electricity transmission functions of the NPC. In December 2007, TransCo was privatized through a management concession agreement. The management and operation of TransCo's nationwide power transmission system was turned over to a consortium called NGCP composed of Monte Oro Grid Resources Corporation, Calaca High Power Corporation and the State Grid Corporation of Hong Kong Ltd. The approved franchise of NGCP was for 50 years.

Thus, with the creation of the PSALM and NGCP to which the assets and debts of the NPC were transferred, the NPC was left with only the operation of Small Power Utilities Group or SPUG – a functional unit of the NPC created to pursue missionary electrification function.

Retail Competition and Open Access (RCOA)

The EPIRA mandates the implementation of open access to distribution network so that the benefits of competition in the generation/supply sector could really trickle down to the qualified consumers. The implementation of the retail competition and open access paves the way to the creation of the new segment in the power industry which is the Retail Electricity Suppliers (RES).

Retail competition and open access is a condition wherein contestable customers (*i.e*., industries, commercial establishments and residential users) can exercise freedom to choose their respective retail electricity supplier which could offer the most reasonable cost and provide the most efficient service. In other words, the ultimate objective of the open access reform is to provide consumer satisfaction through customer choice and empowerment.

Based on EPIRA, there are five (5) conditions for declaring the implementation of RCOA. These are (i) the establishment of the WESM, (ii) the approval of unbundled transmission and distribution wheeling charges, (iii) the initial implementation of the cross subsidy removal scheme, (iv) the privatization of at least 70% of the total generating assets of the NPC in Luzon and Visayas and (v) the transfer of the management and control of at least 70% of the total energy output of power plants under contract with the NPC to the IPP administrators.

The status of the conditions to retail competition and open access are as follows:

	EPIRA Requirement	**Status**
1.	Establishment of the WESM	Completed
2.	Approval of unbundled transmission & distribution wheeling charges	Completed
3.	Initial implementation of the cross subsidy removal scheme	Completed
4.	Privatization of at least 70% of the total generating asset capacity of NPC in Luzon	Completed

5. Privatization of management & control of at least 70% of the total energy output of power plant under contract with NPC to the IPPA. Completed

With the purpose of ensuring quality, reliable and affordable electricity under a regime of free and fair competition, the DOE and the ERC issued the following circulars and resolutions to promote customer choice and foster competition in the electricity supply sector:

a) **DOE Circular No. DC2015-06-0010, series of 2010**- *Providing Policies to Facilitate the Full Implementation of Retail Competition and Open Access (RCOA) in the Philippine Electric Power Industry* ("DOE Circular")*;*

b) **ERC Resolution No. 05, Series of 2016**- *A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers (RES) and Prescribing the Requirements and Conditions Therefor* ("ERC Resolution No. 5");

c) **ERC Resolution No. 10, Series of 2016**- *A Resolution Adopting the Revised Rules for Contestability* ("ERC Resolution No. 10");

d) **ERC Resolution No. 11, Series of 2016**- *A Resolution Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market* ("ERC Resolution No. 11");

e) **ERC Resolution No. 28, Series of 2016**- *Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, Series of 2016 entitled Revised Rules for Contestability* ("ERC Resolution No. 28");

The above resolutions/circulars required electricity end-users with an average monthly peak demand of at least one megawatt (1MW) to secure retail supply contracts with licensed retail electricity suppliers on or before February 26, 2017 while electricity end-users with an average monthly peak demand of at least 750 kilowatts (kW) were required to secure retail supply contracts by June 26, 2017.

The above circulars and resolutions were subject of court cases, where several parties sought the courts intervention to enjoin the implementation of the circulars and resolutions. The implementation of the above circulars and resolutions are presently subject of a Temporary Restraining Order (TRO) issued by the Supreme Court in the case docketed as G.R. No. 228588, entitled *Philippine Chamber of Commerce and Industry, San Beda College Alabang, Ateneo De Manila University and Riverbanks Development Corporation vs. Department of Energy, Hon. Alfonso G. Cusi in his official capacity as Secretary of the Department of Energy, The Energy Regulatory Commission and Jose Vicente B. Salazar in his official capacity as Chairman of the Energy Regulatory Commission and hon. Alfredo J. Non, Hon. Gloria Victoria C. Yap-Taruc, Hon. Josefina Patricia M. Asirit and Hon. Geronimo D. Sta. Ana, in their official capacity as incumbent Commissioners of the Energy Regulatory Commission.*

Notwithstanding the TRO issued by the Supreme Court, electricity end-users with average peak demands of 1MW and 750kW may still choose their retail electricity supplier on a voluntary basis.

Wholesale Electricity Spot Market (WESM)

The EPIRA provided for the creation of the WESM, a trading platform where electricity generated by power producers are centrally coordinated and traded like any other commodity in a market of goods. The objective is to provide a venue for free and fair trade of, and investment in, the electricity market for and by generators, distributors and suppliers. The WESM is implemented by a market operator, an autonomous group constituted by the DOE with equitable representation from electric power industry participants.

The DOE formulated the WESM rules, which provide for the procedures for (i) establishing the merit order dispatch instruction for each time period, (ii) determining the market-clearing price for each time period, (iii) administering the market and (iv) prescribing guidelines for market operation in system emergencies.

Distribution utilities may enter into bilateral power supply contracts, but for the first five (5) years from the establishment of the WESM, no distribution utility may source more than 90% of its total demand from bilateral power supply contracts. This is in keeping with the objective of promoting true market competition and to prevent harmful monopoly and market power abuse.

The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two (2).

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

Considering the challenges posed by climate change to the global economy, the development of renewable energy has gained prominence in recent years. The target of the PEP is to increase installed capacity of renewable energy from 5,439MW in 2010 to 7,311.50MW by 2020 or an average increase of 1.0% per annum. Wind energy is projected to post the largest increase in installed capacity at 25.0% per annum to reach 1,903MW by 2020. Solar and biomass are likewise projected to register double-digit growth rates of 12.6% and 11.5%, respectively. However, in spite of the robust growth projections for these three emerging energy resources, hydropower, and geothermal will still account for a combined 66% of total installed capacity of the renewable energy sector by 2020.

Measurable Targets for the Renewable Energy Sector, Philippine Energy Plan, 2017-2040

TECHNOLOGY	***Installed Capacity (as of 2010)***	***Target Capacity Addition (2011-2020)***	***Installed Capacity as of 31 December 2016***		
			Grid	***Own-use***	***Total Installed***
Geothermal	1,966.00	1,320.00	1,916.00		1,916.00
Hydro	3,400.00	3,502.30	3,618.00		3,618.00
Biomass	39	276.70	233.00	119.86	352.86
Wind	33	1,903.00	427.00		427
Solar	1	274.00	765.00	3.22	768.22
Ocean	-	35.50	-	-	-
TOTAL	5,439.00	7,311.50	6,959.00	123.08	7,082.08

The Renewable Energy Act of 2008

On 16 December 2008, then President Gloria Macapagal-Arroyo signed into law Republic Act No. 9513, also known as the Renewable Energy Act of 2008 (the RE Law). The RE Law then took effect on January 31, 2009. It aims to accelerate the development and exploration of renewable energy resources in the country such as wind, hydro and geothermal energy sources to achieve energy self-reliance and independence. It also aims to increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives.

With this act, it is envisioned that the country will aggressively develop resources such as solar, biomass, geothermal, hydropower, wind and ocean energy technologies. The said law is also expected to mitigate the global problem of climate change. The target is to make the Philippines 60% energy self-sufficient by 2010.

Specifically, the law provides prospective proponents in renewable energy with the following benefits and advantages:

1. Market
   a. Renewable portfolio market – all registered suppliers of electricity will have to source a certain percentage of their supply from eligible renewable energy sources
   b. Renewable energy market – refers to the market (to be incorporated in the WESM) where the trading of renewable energy certificates to an amount generated from renewable energy resources is made;
   c. Green option – provides end-users with the option to choose renewable energy resources as their sources of energy; also allows end-users to directly contract from renewable energy facilities their energy requirements distributed through their utilities; and
   d. Net metering for renewable energy – allows a user of renewable energy technology (e.g., solar) to sell back to a utility at the latter's retail price any excess in generation from the house electricity consumption.

2. Pricing mechanism through a Feed-in Tariff (FIT) system
   a. Allows a fixed price of electricity from renewable energy sources for 12 years, to be determined by the ERC in consultation with the National Renewable Energy Board (NREB) within one year upon the effectivity of the law and priority purchase, transmission, and payment from the national grid; and

   b. Mandated for electricity produced from wind, solar, ocean, run-of-river hydropower, and biomass.

3. Access to the grid through transmission and distribution system development
   a) Requires the Transmission Corporation and distribution utilities (DUs) to include required connection facilities for renewable energy-based projects in the Transmission and Distribution Plans subject to the approval of the DOE; and
   b) Connection facilities of renewable energy plants, including the extension of transmission and distribution lines, shall be subject only to ancillary services covering such connections.

The DOE is the lead government agency tasked to implement the provisions of the RE Law. The Implementing Rules and Regulations of the RE Law were released in May 2009 and presented the guidelines on the implementation of the various fiscal and non-fiscal incentives provided by the law, which include the following:

a. Renewable Portfolio Standards (RPS)

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

b. Feed-in Tariff (FIT) System

On July 27, 2012, the ERC approved the initial FITs that shall apply to generation from Run-of-River Hydro, Biomass, Wind, and Solar. The said FIT rates are as follows: ₱5.90/kwh for Run-of-River Hydro, ₱6.63/kwh for Biomass, ₱8.53/kwh for Wind and ₱9.68/kwh for Solar. The ERC, however, deferred fixing the FIT for Ocean Thermal Energy Conversion (OTEC) Resource for further study and data gathering. The decision came after a series of public hearings ending in March 2012, on the petition of the NREB for the setting of the FITs.

Under the RE Law, all qualified and registered generating plants with intermittent renewable energy resources shall enjoy the benefit of priority dispatch. Priority purchase, transmission and payment for such electricity is also provided for by the RE Law. Furthermore, all renewable energy generators are ensured of payment for electricity generated via the FIT Scheme for a period of twenty (20) years.

On May 17, 2013, PHINMA Renewable Energy Corporation, formerly Trans-Asia Renewable Energy Corp. received DOE's Declaration of Commerciality (DOC) for the San Lorenzo Project (the "Project"). The DOC means that the Project will be eligible to avail of the FIT, but only upon successful completion and commissioning of the Project.

c. The NGCP and all distribution utilities are mandated to include the required connection facilities for renewable energy-based electricity in their transmission and distribution development plans. They are also required to effect the connection of renewable energy-based power facilities with the grid, upon the approval of the DOE, at the start of their commercial operations. The ERC shall provide the mechanism for the recovery of the cost of these connection facilities.

d. The RE Law provides for the following fiscal-incentives:

1. Income tax holiday (ITH) for a period of seven (7) years from the start of commercial operation;
2. Exemption from duties on renewable energy machinery, equipment and materials;
3. Special realty tax rates on equipment and machinery;
4. Net operating loss carry over (NOLCO) of the renewable energy developer during the first three (3) years from start of commercial operation shall be carried over for the next seven (7) consecutive taxable years immediately following the year of such loss;
5. Corporate tax rate of 10%;
6. Accelerated depreciation;
7. Zero percent value-added tax on energy sale;
8. Tax exemption of carbon credits; and
9. Tax credit on domestic capital equipment and services related to the installation of equipment and machinery.

National Renewable Energy Board (NREB) and the Renewable Energy Management Bureau (REMB)

For purposes of the promoting the development of renewable energy resources, two new government bodies were created under the R.A 9513 or the Renewable Energy Law – the National Renewable Energy Board (NREB) and the Renewable Energy Management Bureau (REMB).

NREB will serve as the recommending body on renewable energy policies and action plans for implantation by the DOE. As provided under Section 27 of the Renewable Energy Law, the powers and functions of the NREB are as follows:

1. Evaluate and recommend to the DOE the mandated RPS and minimum RE generation capacities in off-grid areas, as it deems appropriate;
2. Recommend specific actions to facilitate the implementation of the National Renewable Energy Program (NREP) to be executed by the DOE and other appropriate agencies of government and to ensure that there will be no overlapping and redundant functions within the national government department and agencies concerned;
3. Monitor and review the implementation of the NREP, including compliance with the RPS and

minimum RE generation capacities in off-grid areas;
4. Oversee and monitor the utilization of the Renewable Energy Trust Fund created pursuant to Section 28 of the Renewable Energy Law and administered by the DOE; and
5. Perform such other functions, as may be necessary, to attain the objectives of the Renewable Energy Law.

The NREB shall be composed of a Chairman and one representative from the DOE, Department of Trade and Industry (DTI), Department of Environment and Natural Resources (DENR), National Power Corporation, (NPC), and NGCP, Philippine National Oil Company (PNOC) and Philippine Electricity Market Corporation (PEMC) shall be designated by their respective secretaries to the NREB on a permanent basis. The Board shall also have one representative from the following sectors: (1) renewable energy developers, (2) government financial institutions, (3) private distribution utilities, (4) electric cooperatives, (5) electricity suppliers, and (6) nongovernment organizations (NGOs), duly endorsed by their respective industry associations and all to be appointed by the President of the Republic of the Philippines.

On the other hand, REMB was created for the purpose of implementing the provisions of the Renewable Energy Law. The REMB shall replace the Energy Utilization Management Bureau under the DOE.

The power and functions of the REMB are as follows:

1. Implement policies, plans and programs related to the accelerated development, transformation, utilization and commercialization of renewable energy resources and technologies;
2. Develop and maintain a centralized, comprehensive and unified data and information base on renewable energy resources to ensure the efficient evaluation, analysis, and dissemination of data and information on renewable energy resources, development, utilization, demand and technology application;
3. Promote the commercialization / application of renewable energy resources including new and emerging technologies for efficient and economical transformation, conversion, processing, marketing and distribution to end users;
4. Conduct technical research, socio-economic and environment impact studies of renewable energy projects for the development of sustainable renewable energy systems;
5. Supervise and monitor activities of government and private companies and entities on renewable energy resources development and utilization to ensure compliance with existing rules, regulations, guidelines and standards;
6. Provide information, consultation and technical training and advisory services to developers, practitioners and entities involved in renewable energy technology and develop renewable energy technology development strategies; and
7. Perform other functions that may be necessary for the effective implementation of the Renewable Energy Law and the accelerated development and utilization of renewable energy resources in the country.

Environmental Laws

The Company's power generation operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations, such as R.A. 8749 or the Clean Air Act and Republic Act 9275 or the Philippine Clean Water Act, address, among other things, air emissions, wastewater discharges, the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions and employee exposure to hazardous substances. PHINMA Energy and its subsidiaries have incurred, and expect to continue to incur, operating costs to comply with such laws and regulations. In addition, PHINMA Energy and its subsidiaries have made and expect to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations.

Human Capital

As of December 31, 2017, PHINMA Energy has 294 employees: 87 employees are in its Makati office, 14 in GPP, 21 in CIPP in La Union, 38 for PPGC in Bulacan, 68 for Power Barges, 47 for OSPGC and 19 for PHINMA R.E. in Guimaras. Of the total employees, 31 are managers and officers, 251 are supervisors, and 12 are nonsupervisory employees. The Company has the intention of hiring additional employees for the ensuing months.

PHINMA Energy has no Collective Bargaining Agreement (CBA) with its employees. No employees went on strike for the past three (3) years nor is the Company aware of any intention of the employees to go on strike.

Aside from compensation, PHINMA Energy's employees are given medical, hospitalization, vacation and sick leave, and personal accident insurance benefits. Also, the Company has a retirement fund which is part of the PHINMA Jumbo Retirement Plan. It is a funded, noncontributory defined benefit pension plan covering all full time employees of PHINMA and its affiliates. The benefits are based on tenure and remuneration during the years of employment. In addition to this, employees were also given an opportunity to save up for their retirement by way of a Defined Contribution Plan (DCP) which the Company set-up as a supplement to the current Defined Benefit Retirement Plan. The features of the Defined Contribution Plan allowed employees to make financial decisions for their future.

PHINMA Energy has likewise been developing its succession program to fill in key positions within the organization, as well as to deepen the bench in anticipation of future growth. In 2017, the Company organized Financial Literacy workshops which were attended by employees from various areas of operations. Other leadership and competency-based trainings were likewise organized by the Company to address employees' developmental needs. These were Coaching for Success, Presentation skills workshop, Innovation through Design Thinking and Leading through Strategic Execution.

With the implementation of the Data Privacy Act, learning sessions and workshops were also conducted for the employees.

Aside from this, PHINMA Energy employees were empowered to pursue their own interests through a program entitled Best Version of You. Regular employees were encouraged to attend courses which support their personal hobbies or interests.

CORPORATE SOCIAL RESPONSIBILITY

PHINMA Energy is strongly committed in improving the quality of life in areas where the company operates.

In 2017, PHINMA Energy institutionalized its sustainability strategy by benchmarking its impact with the global standards. This initiative hopes to create a long-term blueprint that will guide the company in its sustainability commitments, specifically on our planet, stakeholders and nation's progress, towards a more transformative CSR.

- **Harnessing Energy Literacy for Planet Earth (HELP Earth)**

Social empowerment can greatly be achieved by placing education at the very core of the advocacy. In 2017, HELP Earth Education was able to train over 800 HELP Earth Savers Club members and provide channels to implement student-driven activities for the environment. Aside from this, PHINMA Energy continues its commitment to promote energy literacy and love for the environment. The Hamon ni Juan Matipid Interactive Workshop provides fun and interactive workshop so that learning can be felt and experienced by our young students. Aside from our flagship initiatives for education, the Company continues to support the Department of Education's Adopt-a-School project in 23 partner schools. Through Brigada Eskwela, PHINMA Energy was able to mobilize active volunteers and provide materials needed by the student before start the start of the school year. We have engaged more than 10,000 students in 33 schools since HELP Earth's beginnings back in 2009.

Aside from the investments for energy and environmental awareness, PHINMA Energy has a strong sense of social responsibility of implementing it own environmental initiatives. The Company has adopted a total of 82 hectares of upland forest area and has planted over 18,000 indigenous seedlings. The 50-hectare Bininit Project along Ipo Watershed in Bulacan and the 5-hectare Mt. Tipo Project in Bataan intends the preserve the critical watershed in the area. The Company also takes part in creating a learning environment for future foresters by supporting the 27-hectare Tanglad Arboretum Project in Guimaras. Apart from the green initiatives, it is PHINMA Energy's major interest to protect the ecosystem along coastal communities. The Company was able to mobilize its employee volunteers and partner communities to participate in 5 different coastal and clean-up drives in Bulacan, Cebu, Guimaras and Iloilo. Alongside this project is the planting of over 1,000 mangroves along the coastline of San Lorenzo, Guimaras.

- **Progressive Undertakings on Nation-building and Life-enhancing Advocacies (PUNLA)**

PUNLA, or Progressive Undertakings on Nation-building and Life-enhancing Advocacies continues to sow seeds of hope by creating enabling mechanisms to empower our partner stakeholders by enhancing their skills and capacities to help them realize their dreams.

To date, PHINMA Energy's partner communities has been active in participating in various socio-economic activities in the community by operating the 12 active livelihood initiatives established through the technical and financial support of PHINMA Energy. The implemented initiatives came from intensive social integration and participatory planning with the communities to come up with project relevant to their culture and realities. In 2017, the Company has established new partnerships with the Municipal Tourism Office of San Lorenzo, Guimaras and Guimaras Provincial Economic Development Office. These government agencies assisted in local registration and organizational development, as well as in accessing new markets in the region. The joint efforts resulted in 180% increase in revenue for the livelihood groups augmenting the income of over 100 households. Through these new partnerships, PHINMA Energy laid out stronger foundation for sustainability and growth of the livelihood projects in 2018.

For a more wholistic approach to community development, PHINMA Energy also placed a significant attention on other components of social wellness of community. The Company was able to support 5 Day-Care Centers and Supervised Neighborhood Play (SNPs) through rehabilitation and provision of learning tools for kids. The "Kariton ni Juan Project" also encouraged PHINMA employees to participate in this endeavor by donating educational materials and toys. Apart from this, the Company was able to participate in disaster risk management and disaster preparedness of the Municipality of San Lorenzo. PHINMA Energy in partnership with Philippine National Police and Philippine Red Cross, was able to train the Barangay Health Workers and Barangay Police in 4 barangays on basic life saving, first aid, and basic self-defense. PHINMA Energy remains steadfast in creating a safe place and improving the community resiliency of our local stakeholders.

- **Special Interest Groups for Life-balance Activities (SIGLA)**

PHINMA Energy aspires to promote a healthy working environment for our employees to drive personal growth and create venue for to pursue their special interest. Special Interest Group for Life-balance Activities, or SIGLA, continues to provide this venue for fellowship and camaraderie as we have continued to support more than 10 special interest groups within the head office and our subsidiaries, ranging from movie, sports, fitness and financial literacy. The SIGLA clusters are employee-driven anchored on their passion and enthusiasm to ensure the sustainability of the program. To promote wellness, the Company also implemented a special campaign to promote walking for fitness. The Triowalk, wherein teams of three were provided with pedometer to measure step counts, garnered a participation rate of 97% and started a trend on health consciousness within the group.

PHINMA Energy also takes pride in the involvement of its employees in designing and implementing development programs for our stakeholders. In 2017, PHINMA Energy as achieve a volunteer participation rate of 96% - a clear indicator that indeed, CSR is part of the corporate DNA of our employees. PHINMA Energy shall continue to cultivate this culture of service as we live by the PHINMA mantra of “Making Lives Better” for our nation.

Awards and Recognition

Year 2017 has been a remarkable year as PHINMA Energy has been recognized by international organizations for our responsible business practices and commitment to promote corporate citizenship.

PHINMA Energy was a recipient of the prestigious Asia Responsible Entrepreneurship Awards (AREA) of Enterprise Asia. HELP Earth Environment was awarded in the Green Leadership Category for “believing in the larger responsibility for recognizing the impact of running their business to the environment and seeks to reduce and reverse the impact.” On other hand, PUNLA – Kababayan Program for Sustainable Livelihood was awarded in the Social Empowerment Category given to model companies that “promote empowerment of communities that are socially excluded or that suffer discrimination in work.

The Company was also recognized by Asia Corporate Excellence and Sustainability (ACES) Awards by MORS Group as one of the Top CSR Advocates in Asia. The award is presented to companies that “lead various CSR initiatives integrated into its policies and operations, and has a high level of employee and top management involvement in the programs” and has “genuine interest in the well-being of all of its stakeholders.”

Risk Factors

<u>Risks Related to the Business</u>

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

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

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

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

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

The Company maintains diversified sources of spare parts from all over the world. It also continuously monitors market prices from various sources other than its own regular suppliers to identify alternate sources of spare parts and materials. In instances where replacement parts have longer delivery times, the plants normally maintain inventories of its critical parts.

A transmission line breakdown may prevent the Company from delivering power to its customers.

Power must be wheeled from the generation source through transmission lines to reach the consumer. The Company supplies power to Holcim's cement plant, exposing the Company to natural or man-made risks of transmission line failures that may prevent the delivery of power. Furthermore, the power that the Company purchases from the WESM is likewise delivered via transmission lines to both the La Union and Bulacan cement plants of Holcim. A breakdown of the transmission line when: (a) power purchased from the WESM may be lower than the Company's own cost of generation, and (b) WESM prices are higher and the Company has excess generating capacity may prevent the Company from taking advantage of trading opportunities available in the electricity spot market.

A natural mitigating measure that the Company has used is to locate its plants near its customers, thereby reducing the use and therefore dependence on transmission lines. TAPGC is located right beside the Bulacan plant of Holcim and the Guimaras Power Plant is located within the island. In the case of Holcim's La Union cement plant, the Company has CIPP's 21 MW plant to provide peaking and backup power in that region.

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

In 2015, the Company purchased Bunker C fuel for its power generation business from diverse sources: PTT, Petron Corporation and SL Harbor Bulk Terminal Corporation. Any delay in fuel deliveries or disruptions in fuel supply may result in unplanned plant shutdowns. To protect against such disruptions in fuel supply, long term contracts with the fuel supplier were executed. The oil company will give priority deliveries to the Company's plants in case of temporary fuel shortage along the supply chain. Further, if the fuel supplier fails to deliver, the Company may buy fuel from other vendors with the fuel supplier liable to the replacement cost, allowing the Company to sustain its competitiveness. In the event of *force majeure* situations, however, the Company's operations will be adversely affected.

To mitigate this risk, the Company maintains safe and strategic inventory levels of fuel to ensure continuous electricity production. With its strategic initiatives and established strong relationships with other fuel suppliers, the Company could obtain alternate sources and arrange the timely delivery of fuel.

SLTEC has secured a long-term coal supply agreement with Semirara Mining Corporation (SMC) for the fuel requirements of its 2 X 135MW coal-fired power plant in Calaca, Batangas. SMC is the country's largest coal producer which contributes about 92% of local coal production. In order to ensure the security of coal supply, SLTEC has likewise entered into a separate coal supply agreement with a major coal company in Indonesia based on an initial validity period of three years subject to additional term extension.

Moving forward, the Company shall continue cultivating relationships with alternative suppliers in the region to mitigate supply delivery risk and as fall back sources in the future. It is also planning into entering the fuel supply business through its subsidiary, One Subic Oil Distribution Corporation, which will supply fuel mainly to PHINMA Energy Group's diesel plants.

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

The Company may face risks from foreign exchange rate fluctuations, especially as it affects fuel prices and the cost of spare parts and equipment. Foreign currency risk is a risk of loss from carrying out operations, or holding assets and liabilities, in a foreign currency. The magnitude of the risk has increased in recent years because of the growth in international trade and financing and the increased magnitude of exchange rate fluctuations.

Foreign currency risk is managed by holdings of cash and securities in Philippine pesos and foreign currencies according to an approved currency exposure allocation scheme.

Foreign exchange risks are also managed by constant monitoring of the political and economic environments and trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.

The Company may not collect all or a portion of its receivables.

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

To mitigate this risk, the Company continues to assess the financial condition of its customers on a regular basis. In cases where a customer shows financial difficulty, the Company may reduce power supply, cut off credit entirely or change payment terms to payment in advance to reduce exposure to collection risk and subsequent payment defaults.

The Company may also explore the possibility of requiring security or deposit holdouts for customers whose requirements reach a certain level.

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

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

To mitigate this risk, the Company has a backup power plant that can be used as bilateral supplier in the event that market prices increase beyond the price that the Company can buy. Furthermore, the Company has contracted capacity from OSPGC's 116 MW power plant located in Subic Bay, Zambales, and MGI's 20 MW geothermal plant located in Sto. Tomas, Batangas, SLTEC's 2x135 MW coal-fired power plant located in Calaca, Batangas and up to 45 MW from Sem-Calaca Power Corporation to be able to sell more power during high spot market prices. This is a hedging technique wherein suppliers refrain from taking any electricity from the market whenever market price increases beyond its reference price.

The Company's petroleum projects may not yield oil or gas deposits in commercial quantities, thus adversely affecting the recovery of the Company's investments.

The major risk associated with the Company's oil projects is exploration risk. There is no certainty of finding commercial petroleum below the surface of the earth. Commercial deposits of petroleum lie deep in the bowels of the earth, and the ultimate objective of exploration work is to find out where these are located. Unfortunately, no instrument or methodology has yet been invented that would directly point to the existence of a commercial deposit. Present methods used in exploration are indirect probes where data are subject to interpretation or "best judgment". This is where the risk emanates, but it is mitigated by careful and judicious application of scientific methods and data analyses. To manage exploration risk, the Company employs various methods to identify and quantify exploration risk using geological and risk-economic yardsticks. The following approaches are used, as applicable:

1. *Use of technical expertise and state-of-the-art technology.* Technical expertise refers to tapping the professional and special capabilities of experienced professionals or teams with proven success records in resource determination or delineation. State-of-the-art technology refers to "computer-based" analysis and interpretation of exploration data which enable modelling of subsurface conditions that could host commercial volumes of oil.

2. *Phased exploration programs with clear exit points.* Exploration is carried out in phases or stages depending on the complexity of the problem at hand. At the end of each phase, the exploration participants are given a chance to assess the results and consequently decide whether to proceed or exit from the work program. It follows that encouraging results from a certain phase shall provide

incentive to proceed to the next phase; otherwise the Company can withdraw if the chances of success are perceived to be low.

3. *Determination of participation levels based on available risk capital, expenditure commitments and probability of success.* The extent to which the Company participates in any given exploration program is a function of risk capital at its disposal, the expenses required to finance the exploration program and the chance of success from said exploration program. It is quite clear that, given a program with high probability of success but where the required expenditure commitment is large, participation will be constrained by disposable capital.

4. *Investment in exploration projects with varying risk profiles.* This approach dictates that the Company's oil exploration project portfolio should contain a judicious mix of high- and low-risk projects.

5. *Participation in exploration consortia, in the event 100% equity is not warranted by risk assessment.* Where the assessment says the risk is too high for a single entity to assume, it would be prudent to spread the risk by entertaining participation of other parties in a company-owned acreage, or joining an exploration consortium

6. *Distribution of participation in many rather than one or a few contracts or tenements.* The Company diversifies its project risks by participating in many projects rather than in a single project.

7. *Use of options, whenever feasible.* Some exploration projects are designed in such manner that "options" for entry and exit are provided. This is meant to cater to a wide spectrum of risk tolerance by the incoming party. Options are usually cheap or affordable at the early stages of the project. Then, they gradually increase in value as exploration progresses to such level where the risk is easily discernible and the potential rewards are more or less foreseeable. Under this scenario, the investor is given some flexibility as to when he should commit to the project.

8. *Dilution of interest in phases of work which entail heavy expenditures or high risk*. As the exploration program advances towards its conclusion, the magnitude of expenditures increases to the point that those who were able to gain entry at the early stages might no longer afford the forward financial commitments. One way to mitigate the burden and at the same time retain the interest in the project is to allow dilution or reduction in one's participating interest. The main objective is to maintain an interest in the project until commercial operations commence.

9. *Capping of annual exploration expenditures to projected Company income for the year.* This approach places a self-imposed ceiling on the amount of expenditures that may be used for participation in exploration projects. This expenditure level must be affordable for the Company, i.e. in the event of failure, the Company should still be able maintain a strong financial standing.

10. *Investment in less risky, non-exploration ventures or projects to balance risk exposure.* This approach directs the Company to invest in ventures with greater chance of success or with a more predictable revenue stream to offset the potential ill effects of risky exploration ventures.

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

The Company holds financial instruments composed of cash and cash equivalents, listed shares of stocks, and investments in mutual and trust funds in Philippine pesos. These are used to finance the Company's operations and investments.

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

The Company's principal financial instruments are managed by PHINMA's Treasury Department by establishing "red lines," which are reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that serve as guides whether to buy, hold or sell financial instruments as applicable as approved by management. Regular comparison is also done with defined benchmarks. Market and portfolio reviews are done at least once a week during the weekly Treasury Department meeting and as often as necessary should market conditions require so. Monthly reports are prepared by Finance for board review.

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

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

In order to mitigate the credit risk, investments are restricted only to the Company's duly accredited domestic and foreign banks and mutual funds. The Company's investible funds can be invested in one bank/mutual fund up to 50% of the Company's outstanding investments however this limit is subject to PHINMA's Treasury Department's periodic assessment of the banks'/funds' financial soundness and business performance. For unit investment trust fund (UITF) and mutual funds, fund placements cannot exceed 10% of the UITF's or mutual fund's fund size. UITF's and mutual funds' investment performances are reviewed weekly and monthly.

Investments in non-rated securities, primarily corporate bonds, 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 (such as Standard and Poor's, and Moody's). All major investments are discussed and approved by the Company's Investment Committee.

Exposure limits are tracked for every transaction; major transaction executions are closely supervised. Market and portfolio reviews are done at least once a week during the weekly Treasury Department meeting and as often as necessary should market conditions require so. Monthly reports are prepared by Finance for board review.

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

The Company may be exposed to liquidity risk, when the Company's working capital becomes insufficient to meet near-term financial requirements.

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

Maturities of each investment are spread out into various lengths of time as may be required by the Company's plans and cash flow needs.

The Company's operations adverse impact on the environment and may adversely affect its financial condition and results of operations.

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

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

The Company complies with all environmental regulations prescribed by the DENR. The Company regularly assesses the environmental impact of its business activities and implements control measures to minimize environmental risks. Among other items, the Company regularly incurs expenditures for:

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

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

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

4. promotion of renewable energy sources.The Company also procures insurance cover for pollution and environmental damage that may be caused by its operations.

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

Many of the Company's operations are located in environmentally sensitive areas and near residential communities. The Company and its subsidiaries and affiliates are at risk with regard to the ethical, social and environmental challenges posed by its operations. There is growing pressure on the Company to closely examine its impacts on, and role within, the society and the communities where it operates. It also faces complex issues as the people in these areas are often economically disadvantaged and characterized by the absence of the proper skills, inadequate governance, a weak supplier base and inadequate physical and social infrastructure. In addition, the Company must adapt to a variety of local conditions, regulations and cultural differences.

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

Competition in the businesses of the Company is intense.

The Company and its subsidiaries and affiliates are subject to intense competition. Each of the Company's businesses may be particularly affected by competition as follows:

Power Generation and Supply. The Company competes with other power generating companies in supplying power to customers. With the full implementation of EPIRA and its purpose of establishing a transparent and efficient electricity market via more competition, a substantial number of the Company's customers may choose to buy power from third party suppliers. The execution of bilateral contracts protects the Company because the customers are contractually obliged to purchase exclusively from the Company.

A more competitive environment due to the implementation of Retail Competition and Open Access (RCOA), as set forth by EPIRA, could also result in the emergence of new competitors. There will be some competitors that may have a competitive advantage over the Company due to greater financial resources, more extensive operational experience, and thus be more successful than the Company in acquiring existing power generation facilities or obtaining financing for the construction of new power generation facilities. However, the Company currently has very attractive liquidity and healthy credit ratios which put it in a unique position to pursue its own growth strategies. With an unleveraged balance sheet, a calibrated growth strategy necessary to meet competition can be pursued.

Also, the Company's existing power generation facilities that operate on diesel fuel have a higher cost of electricity production that may render them uncompetitive to the coal, geothermal and natural gas facilities of its competitors. To decrease costs and increase competitiveness, the Company and its power generating units constantly monitor the trends in the global oil market. PHINMA Energy increases fuel inventory when prices are forecasted to increase to mitigate and manage cost. The Company is also developing additional power generation projects that can produce electricity at more competitive rates, particularly the 12 MW Phase 2 geothermal power plant of MGI, which is expected to start commercial operations in the first quarter of 2018.

Oil and Gas Exploration. The Company competes with foreign and local exploration companies for acquisition of prospective blocks.

However, due to the capital-intensive nature of oil and gas exploration and the high risks involved, there are oftentimes opportunities to partner with these competing firms and, thereby, mutually spread costs and risks. The Company forged new partnerships and expanded existing alliances with foreign and local companies that share its investment strategy and who can provide capital and technical expertise. Exploration partners include foreign groups such as NorAsian Energy Ltd. (controlled by Otto Energy Ltd of Australia) as well as local outfits such as PetroEnergy and Philodrill.

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

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

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

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

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

In order to mitigate the risks, the Company ensures that its partners in all of its business ventures are credible, reliable and have proven track records. The Company also makes certain that every agreement it enters into has remedy provisions that the defaulting or terminating party shall remain liable for its proportionate share in accordance with its participating interest at the time of default of all costs, expenses and all liabilities.

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

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

The Company maintains insurance coverage to protect itself against these hazards. There is no assurance however, that existing coverage will provide adequate protection against all events. In addition, the Company's insurance policies are subject to periodic renewal, so the costs, terms and conditions of such policies may increase substantially from one period to the next, due to conditions beyond the Company's control. Any decrease in the scope of its insurance coverage may expose the Company to material losses should any adverse events occur. At the same time, the Company's financial performance may be adversely affected if insurance premiums increase substantially.

<u>Risks Relating to the Company's Growth</u>

The Company's growth strategy of venturing into new power generation projects having different risk and return profiles, may not achieve the expected results.

The Company's growth strategy involves (i) entering into new partnerships and alliances, and (ii) investments in new power generation projects. Success in implementing this strategy is dependent on the Company's ability to assess and acquire potential partners and to close financing and acquisition transactions.

This growth strategy will require greater allocation of management resources away from daily operations, and will require the Company to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties, which could strain the Company's ability to complete projects at a high level of quality and on time. The Company will be required to manage its internal control and compliance functions to ensure that it will be able to comply with legal and contractual obligations and minimize operational and compliance risks. There can be no assurance that, in connection with its expansion, the Company will not experience capital constraints, construction delays, operational difficulties at new operational locations and training an increasing number of personnel to manage the expanded business. A failure to adapt effectively to the rapid growth, including strains on management and logistics, could result in losses or development costs that are not recovered as quickly as anticipated, if at all. Such problems could have a material adverse effect on the Company's present and expected financial performance.

To mitigate this risk, the Company goes through an extensive and rigorous due diligence investigation of every new project it pursues. Programs that management deem unduly risky, regardless of their potential returns, are not pursued. The Company puts utmost importance on the risk-return assessment on any project.

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

There is no assurance that the Company will be able to raise all of the capital requirements to carry out its growth strategies at acceptable terms. Failure to obtain these financing packages at the desired terms would adversely affect the Company's ability to execute its growth strategies.

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

The feasibility (FS), grid impact (GIS), and all geotechnical studies for the construction of a 600 to 1,000MW coal-fired plant in Sual, Pangasinan have been completed. Currently ongoing is the environmental impact study. In the renewable energy business, particularly wind energy development, pre-development activities in two (2) wind sites; Sibunag located in Guimaras and in Ballesteros located in Cagayan continued during the year. These projects will ensure that PHINMA R.E. has a portfolio of wind projects that can be placed into development stage once your renewable company is able to secure a Power Purchase Agreement (PPA) with power off-takers particularly the Distribution Utilities (DUs) and Electric Cooperatives (ECs) located in western Visayas and northern Luzon.

There is a possibility that any or none of these projects may prove to be feasible and even if any of these projects are shown to be feasible, there is no assurance that actual construction and operating costs will approximate those indicated in their respective feasibility studies. Any material deviation from expected project parameters, returns and costs can adversely affect the Company's ability to grow its power generating capacity and therefore its long term revenue growth prospects.

The following are some risks involved in the construction of the Company's additional electricity generation facilities:

1. machinery breakdown;
2. failure to obtain necessary governmental permits and approvals;
3. failure to purchase suitable land for the generation facilities;
4. work stoppages and other employee-related actions;
5. major contractual disputes with its EPC Contractor;
6. local opposition in host communities;
7. political and social unrest including terrorism;
8. engineering and environmental problems;
9. delays in construction and operations; and
10. cost overruns

Should the Company experience any of these problems, it may not be able to deliver its power at competitive prices, thereby decreasing profitability.

To manage this risk, the Company employs the services of contractors and suppliers through a stringent decision and awarding process. Projects are constructed through turnkey Engineering, Procurement and Construction (EPC) contracts. Some of the factors that influence the decisions are: (i) reputation of the contractor/bidder, (ii) its track record in delivering similar projects, and (iii) the acceptability of its project proposal.

The 54 MW Wind Farm Project may experience delays in collection of FIT differential

Under the Renewable Energy Law, all qualified and registered generating plants with intermittent renewable energy resources shall enjoy the benefit of priority dispatch. Priority purchase, transmission and payment for such electricity is also provided for by the RE Law. Furthermore, all renewable energy generators are ensured of payment for electricity generated via the FIT Scheme for a period of twenty (20) years.

On December 1, 2015, PHINMA R.E. received its Certificate of Compliance from the ERC for its 54 MW San Lorenzo Wind Project. The certificate entitles the Company to recognize its FIT at an approved rate of 7.40, with a retroactive period beginning December 27, 2014, for a guaranteed period of twenty (20) years until December 26, 2034.

While the FIT mechanism guarantees an approved rate of 7.40/kw for capacity generated and dispatched to the grid, payment will be administered through two distinct channels: 1.) As market operator, PEMC shall pay PHINMA R.E. for all generation dispatched at prevailing electricity spot market price cleared during the hourly interval of dispatch for the energy generated by PHINMA R.E., while 2.) TRANSCO shall pay PHINMA R.E. for the differential amount between the guaranteed FIT rate of 7.40 and prevailing market price or cleared spot market price.

The FIT Allowance (FIT-All) is an amount billed to and shouldered by electricity end-users, and this amount billed to consumers must be approved by the ERC before distribution utilities can include FIT-All in their billing. Fluctuations in prevailing electricity prices are largely affected by changes in demand and supply as well as reserve availability, and the amount of FIT differential also fluctuates accordingly. TransCo does not have sufficient funds at present, TransCo can apply for additional FIT-All rate to be billed in the future.

To manage this risk, PHINMA R.E. actively manages its cash and liquidity position, to ensure that payments to service debt covenants are secure and available. PHINMA R.E. exercises strict operational and cost management practices to optimize plant efficiency and availability as well as control expenses.

The Company may encounter more intense competition in marketing its generation capacity to secure long-term contracts.

With additional power projects increasing supply capacity, securing long-term electricity supply contracts with customers becomes subject to greater competition. Wider energy reserves inversely impacts electricity prices, bringing about lower tariff rates during periods of greater supply capacity.

To manage this risk, the Company aggressively markets its generation capacities for upcoming projects during pre-development and construction stages, securing customer contracts for at least seventy percent of total capacity, which is also a prerequisite to avail of commercial financing. The Company has the option to secure additional customer contracts for the remaining capacity or participate in trading through the electricity spot market.

The Company's operations will largely depend on its ability to retain the services of its senior officers.

The Company's directors and members of its senior management have been an integral part of its success. The knowledge, experience and expertise they bring have been key components of the Company's profitability and performance. These are difficult to replace. A change in key Company management and executive personnel may adversely affect its operations and business.

The Company has embarked on a high level and long term succession program for key positions in critical senior management and line roles. Notably, a high turnover of employees has not been characteristic.

Risks Relating to the Philippines

The operations of the Company are concentrated in the Philippines, and therefore any downturn in general economic conditions in the Philippines could have a material adverse impact on the Company.

Historically, the Company's results of operations have been influenced, and will continue to be influenced, to a significant degree by the general state of the Philippine economy and as a result, its income and results of operations depend, to a significant extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the peso and the imposition of exchange controls.

In addition, global financial, credit and currency markets have, since the second half of 2007, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and global economy, which would be likely to cause economic conditions in the Philippines to deteriorate. There can be no assurance that current or future Governments will adopt economic policies conducive to sustaining economic growth.

Any political instability in the Philippines may adversely affect the Company.

The Philippines has from time to time experienced political and military instability. The Philippine constitution provides that in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there has been political instability in the Philippines, including public and military protests arising from alleged misconduct by the previous administration. No assurance can be given that the political environment in the Philippines will stabilise. Any political instability in the future result in inconsistent or sudden changes in the economy, regulations and policies that affect the Company, which could have an adverse effect on its business, results of operations and financial condition.

Terrorist activities in the Philippines could destabilize the country, adversely affecting the Company's businesses.

The Philippines has been subject to sporadic terrorist attacks in the past several years.

The Company's power generation assets could be vulnerable to terrorist attacks due to their significant impact on local and national economic activity. The occurrence of a terrorist attack at one of the Company's generating assets could have a significant negative impact on the Company's business. There can be no assurance that the Philippines will not be subject to further terrorist or criminal activities in the future, and violent acts arising from, and leading to, instability and unrest may have a material effect on our financial condition, results of operations and prospects.

Any decrease in the credit ratings of the Philippines may adversely affect the Company's business.

The Philippines is currently rated below investment grade by major international credit rating agencies such as Moody's S&P and Fitch. While in recent months these rating agencies have assigned positive or stable outlooks to the Philippines' sovereign rating, no assurance can be given that these agencies will not in the future downgrade the credit ratings of the Government and, therefore, Philippine companies, including the Company. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Subsidiaries and Affiliates

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

Name of Company	Percentage of Ownership
PHINMA Renewable Energy Corporation (PHINMA R.E)	100.00%
PHINMA Petroleum and Geothermal Inc. (PPG)	50.74%
CIP II Power Corporation (CIPP)	100.00%
One Subic Oil Distribution Corp.	100.00%
Palawan55 Exploration & Production Corporation	30.65%

PHINMA Power Generation Corporation (PPGC)	100.00%
One Subic Power Generation Corporation (OSPGC)	100.00%
South Luzon Thermal Energy Corporation (SLTEC)	45.00%
ACTA Power Corporation	50.00%
Maibarara Geothermal, Inc. (MGI)	25.00%
PHINMA Solar Energy Corporation (PHINMA Solar)	100.00%

PHINMA Renewable Energy Corporation ("PHINMA R.E."), formerly Trans-Asia Renewable Energy Corporation. PHINMA R.E. is a wholly owned subsidiary of PHINMA Energy. This corporation was incorporated and registered with the SEC on September 2, 1994. PHINMA R.E. is engaged in the development and utilization of renewable sources of energy (e.g. wind). PHINMA R.E. operates and maintain the 54MW Wind Farm in San Lorenzo, Guimaras.

PHINMA Petroleum and Geothermal, Inc. ("PPG"), formerly Trans-Asia Petroleum Corporation ("TAPET"). This corporation was incorporated and registered with the SEC on September 28, 1994. PPG is engaged in oil exploration & well development. On August 28, 2012, TAPET amended its Articles of Incorporation to change its name from Trans-Asia (Karang Besar) Petroleum Corporation to Trans-Asia Petroleum Corporation and to increase its authorized capital stock from P40,000,000 to P1,000,000,000.

On July 22, 2013, the Board of Directors of PHINMA Energy declared a property dividend to PHINMA Energy shareholders of 123,161,310 in TAPET or 2.55 Shares for every 100 shares in PHINMA Energy, and cash in the amount of ₱0.013 per share to all stockholders of record of PHINMA Energy as of 5 August 2013, subject to the approval by SEC and other regulatory agencies. In lieu of this dividend, shareholders in the US will receive Php0.0385 for every PHINMA Energy shares held. On August 8, 2014 the Board of Directors of TAPET authorized the application for listing by way of introduction of 100% of the issued and outstanding Shares.

On August 14, 2014, SEC approved the registration and listing of shares of the Parent Company. On August 28, 2014, the Corporation listed by way of introduction at the Philippine Stock Exchange with "TAPET" as its stock symbol. TAPET has not started commercial operations.

On May 31, 2017, TAPET amended its Articles of Incorporation to change its name from Trans-Asia Petroleum Corporation to PHINMA Petroleum and Geothermal, Inc., using "PPG" as its stock ticker symbol, to reflect the company's expansion into geothermal exploration.

CIP II Power Corporation ("CIPP"). On December 28, 2006, the Company purchased 100% of the shares of stock of CIPP, a wholly owned subsidiary of Ascendas Utilities PTE Limited (Ascendas), a Singaporean corporation. CIPP operated a 21 MW Bunker C-fired power plant in Carmelray Industrial Park II (CIP II) Special Economic Zone in Calamba City, Laguna and the sole provider of power in the industrial park. It was incorporated and registered with the SEC on June 2, 1998 and with the Philippine Economic Zone Authority (PEZA) on June 23, 1998, as an ecozone utilities enterprise. In December 2010, CIPP's Board of Directors approved the transfer of its 21MW oil fired power plant from Laguna to Bacnotan, La Union. The plant was successfully transferred to La Union and started commercial operations on January 17, 2013.

One Subic Oil Distribution Corp., formerly Trans-Asia Gold and Minerals Development Corp. TA Gold was incorporated and registered with the SEC on July 2, 2007. TA Gold was primarily engaged in the business of mining and mineral exploration within the Philippines and other countries. Effective March 2009, TA Gold suspended its exploration activities.

On April 9, 2017, the Board of Directors approved the change of name from Trans-Asia Gold and Minerals Development Corporation to One Subic Oil Distribution Corp. The primary purpose was changed to engage in the fuel oil importation and distribution business.

Palawan55 Exploration & Production Corporation ("Palawan55"). Palawan55 is a subsidiary of PHINMA Petroleum and Geothermal Inc. This corporation was incorporated and registered with the SEC on November 16, 2012. Palawan55 is engaged in the development and utilization of crude oil, natural gas, natural gas liquids and other forms of petroleum. It holds a 6.82% interest in Service Contract No. 55. The corporation has not started its commercial operation.

PHINMA Power Generation Corporation ("PPGC"), formerly Trans-Asia Power Generation Corporation. PHINMA Energy embarked on diversification to leverage its risks associated with its main line of business. Besides petroleum operations, PHINMA Energy ventured into the business of energy development, principally power generation. It formed TAPGC in a joint venture with Holcim. PHINMA Power Generation Corporation was incorporated on March 14, 1996. It is involved in the operation and maintenance of a power generation plant, including the related facilities, machinery and equipment. The power plant has a capacity of 52 MW and is a supplier of Holcim's electricity requirements at the Holcim plant in Norzagaray, Bulacan. The ERC granted PPGC a certificate of registration as a Wholesale Generator in October 2006 for its participation in the WESM.

On January 1, 2013 Holcim Philippines executed a Share Purchase Agreement for the purchase by PHINMA Energy of Holcim's 50% stake in PPGC.

In the 2nd quarter of 2014, PPGC embarked on a major expansion by acquiring a 116-MW Diesel Power Plant located inside the Subic Bay Freeport Zone. One Subic Power Generation Corporation (OSPGC), used to be owned by Udenna Energy Corporation, tripled TAPGC's generation portfolio, which is a welcome addition to the 52-MW Bunker C-Fired power plant in Bulacan.

On June 2, 2017, the SEC approved the amendment of the company's Articles of Incorporation which changed its name from Trans-Asia Power Generation Corporation to PHINMA Power Generation Corporation.

One Subic Power Generation Corp. ("OSPGC"). On May 12, 2014, PPGC purchased from Udenna Energy Corporation (UDEC) the entire outstanding shares of stock of OSPGC, the lessee and operator of the 116 MW Subic Diesel Generator Power Plant (the "Subic Power Plant"). OSPGC was incorporated and registered with the SEC on August 4, 2010 to engage in the business of owning, constructing, operating, developing and maintaining all types of power generation plants. It started its operation on February 17, 2011. Prior to the acquisition, OSPGC was a wholly owned subsidiary of UDEC, a company incorporated and domiciled in the Philippines.

OSPGC has an existing Power Administration and Management Agreement with PHINMA Energy under which PHINMA Energy is given the right to administer and manage the net output of the Subic Power Plant in consideration of energy fees to be paid by PHINMA Energy to OSPGC. The Agreement commenced on February 17, 2011 and shall be effective throughout the term of the lease of the Subic Power Plant from the owner, Subic Bay Metropolitan Authority (SBMA).

On December 21, 2017, the Subic Bay Metropolitan Authority (SBMA) approved the extension of the lease of the plant until July 19, 2030.

South Luzon Thermal Energy Corporation (SLTEC). PHINMA Energy entered into a joint venture with Ayala Corporation in June 2011 to undertake the construction of a 2 x 135MW clean coal power plant in Calaca, Batangas. The project is managed by a distinct entity, South Luzon Thermal Energy Corporation (SLTEC), owned 50/50 by PHINMA Energy and AC Energy Holdings Inc, the power arm of the Ayala conglomerate. In December 2016, Axia Power Holdings Philippines Inc. (APHPC), a subsidiary of Marubeni Corporation, purchased PHINMA Energy's 5% interest and ACEHI's 15% interest in SLTEC.

The plant was constructed by D. M. Consunji, Inc. and the equipment were supplied from China through China National Technical Import and Export Corporation. The project officially commenced in December 2011, with the 1st unit of the plant starting its commercial operations in April 2015, and the 2nd unit in February 2016.

PHINMA Energy purchases all the power generated by the power plant in accordance with a 15-year exclusive power purchase agreement with SLTEC. This will help sustain and support the electricity supply business of the Company.

ACTA Power Corporation. PHINMA Energy entered into a joint venture with Ayala Corporation in February 2012. The new entity, ACTA Power Corporation (ACTA), is owned 50/50 by PHINMA Energy and AC Energy Holdings Inc. ACTA has not started commercial operations.

Maibarara Geothermal, Inc. (MGI). MGI was incorporated and registered with the SEC on August 11, 2010, to implement the integration development of the Maibarara geothermal field in Calamba, Laguna and Sto.Tomas, Batangas for power generation. The first unit of the plant commenced commercial operation on February 8, 2014. The second unit was synchronized to the Luzon grid to March 9, 2018.

PHINMA Solar Energy Corporation ("PHINMA Solar"), formerly Trans-Asia Wind Power Corporation. Trans-Asia Wind Power Corporation was incorporated and registered with the SEC on July 26, 2013. Its primary purpose is to construct, develop, own, operate, manage, repair and maintain wind power generation plants, to generate electricity from such power plants and to market and sell the electricity produced thereby.

On August 22, 2013, PHINMA Renewable Energy Corporation formerly Trans-Asia Renewable Energy Corporation assigned its 100% equity interest in Trans-Asia Wind to PHINMA Energy for a total cash consideration of 116 million. As a result of the assignment, Trans-Asia Wind became a wholly owned subsidiary of PHINMA Energy.

On June 27, 2017, the Company amended its Articles of Incorporation to change its name to PHINMA Solar Energy Corporation. Its primary purpose is to engage in the development, operation, and maintenance of solar power generation facilities as well as the development of more retail solar products.

Item 2. Properties

PHINMA Energy owns the following fixed assets:

In thousands

Properties	Location	Amount
Land and land improvements	Bacnotan, La Union, Norzagaray, Bulacan and Guimaras	252,241
Building and improvements	Makati City, Guimaras and Norzagaray, Bulacan	493,256
Machinery and equipment	Guimaras, Norzagaray, Bulacan, Bacnotan La Union, and Iloilo	6,881,019
Transportation equipment	Makati City, Guimaras Norzagaray Bulacan, Subic and Bacnotan La Union	38,869
Mining and other equipment	Makati City, Guimaras and Bacnotan La Union	54,662
Office furniture, equipment and others	Makati City, Guimaras, Bacnotan La Union and Norzagaray, Bulacan	60,750

Properties	Location	Amount
Construction In progress	Guimaras	419
Total		**7,781,216**
Less: Accumulated depletion, depreciation and amortization		**1,651,015**
Net		**6,130,201**

Source: Audited consolidated financial statements as of December 31, 2017

The land and land improvements of the Company is approximately 27,800 square meter (sqm). This include lots in Norzagaray, Bulacan, and Bacnotan, La Union where the power plants are located. In San Lorenzo Wind Farm, most parcels of land were acquired which approximate 605,800 sqm. but some lots were successfully entered as finance lease.

Building and improvements are located in the Plants and PHINMA Plaza, Rockwell Center, Makati City. They include the Company's share in the construction cost of PHINMA Plaza which was completed in October 2001 and where the Company holds its office. Also included in building and improvements are leasehold improvements located in Guimaras and Subic.

Machinery and equipment includes a 52MW Bunker C-Fired power plant in Bulacan, the21MW Bunker C-Fired power plant in La Union, capitalized equipment for the Subic power plant, three (3) Power Barges in Iloilo and Cebu and the 54MW wind farm in Guimaras. This includes cost of construction, plant and equipment and other direct costs.

Transportation equipment, mining equipment, office furniture and equipment are used by officers and personnel based in Makati, Guimaras, Bacnotan, La Union, Norzagaray, Bulacan, Subic and Barrio Obrero, Iloilo and Lapu-Lapu City. The Company has complete ownership of the above properties which have no mortgages or liens.

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

Item 3. Legal Proceedings

As of December 31, 2017, PHINMA Energy has no knowledge and/or information that any of the Company's Directors, Officers or nominees for election as Directors is, presently or during the last five (5) years, involved in any legal proceeding which will have any material effect on the Company, its operations, reputation, or financial condition. Furthermore, none of the Company's Directors and senior Executive Officers have been the subject of the following during the last five (5) years: (a) bankruptcy petition by or against any business of which such Director was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time; (b) a conviction by final judgment, in a criminal proceeding, domestic or foreign, or a pending criminal proceeding, domestic or foreign; (c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; or (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Aside from the following, there are no legal proceedings to which PHINMA Energy is a party or which involves any of the Company's property:

PHINMA Energy Corporation vs. Power Sector Assets and Liabilities Management Corporation (Civil Case No. R-MKT-17-03089-CV)

On September 14, 2017, PHINMA Energy filed a case seeking to restrain PSALM from terminating the "Administration Agreement for the Selection and Appointment of Independent Power Producer Administrators for the Strips of Energy of the Unified Leyte Geothermal Power Plants located in Tongonan, Leyte" (the "Agreement") on grounds of Administrator's default.

On November 07, 2013, PHINMA Energy (then Trans-Asia Oil and Energy Development Corporation) was declared as one of the winning bidders with the right to administer 40 Megawatts (MW) "strips of energy" from the ULGPP. On November 08, 2013, typhoon Yolanda severely hit Region 8 which resulted in extensive damage to the ULGPP. It was only after a one (1) year delay that PSALM awarded the Strips to the bidders.

In several letters to PSALM, PHINMA Energy formally sought the renegotiation of the Agreement and proposed several measures for relief. Representatives of PSALM and PHINMA Energy met on several occasions. PHINMA Energy wrote PSALM expressing the difficulties suffered by the Administrators under the Agreement.

PHINMA Energy, through counsel, wrote a letter exercising its right to withdraw from the Agreement. Discussions on the termination were initiated. However, PHINMA Energy received a Notice from PSALM of the Administrator Default and PSALM has resolved to terminate the Agreement and forfeit the Performance Bond. On December 28, 2017, PHINMA Energy and PSALM agreed to mutually terminate the Administration Agreement for the 40 megawatt strip of energy of the Unified Leyte Geothermal Power Plant. The Company has settled all its obligations with PSALM. The case has been withdrawn and no further claims will be pursued.

In the Matter of the Application for Approval of the Contract for the Sale of Electricity between Guimaras Electric Cooperative, Inc., and Trans-Asia Oil and Energy Development Corporation **(ERC Case No. 2016-071 RC)**

On April 29, 2016, GUIMELCO and the Corporation filed a joint application for approval of the Contract for the Sale of Electricity (CSE) between GUIMELCO and the Corporation. Under the CSE, the Corporation will supply the peaking electricity requirements of GUIMELCO for a period of ten (10) years from approval of the Energy Regulatory Commission. Hearings were conducted by the ERC and all pleadings and documentary submissions were completed in November 2016.

We are still awaiting ERC's issuance of the Decision.

Trans-Asia Oil and Energy Development Corporation v. Commissioner of Internal Revenue CTA Case No. 9078

The Bureau of Internal Revenue (BIR) issued on May 27, 2015 a Final Decision on Disputed Assessment (FDDA), assessing the Company for deficiency donor's tax in the total amount of ₱174,936,138.07, allegedly arising from the Company's distribution of property dividends to its stockholders of record as of August 5, 2013, consisting of 123,161,310 shares of stock of Trans-Asia Petroleum Corporation, pursuant to the Resolution of the Company's Board of Directors dated July 22, 2013.

The Company filed on June 26, 2015 a Petition for Review before the Court of Tax Appeals (CTA) assailing the assessment for donor's tax on the following grounds: (1) that the distribution of dividends is a distribution of profits, and not a disposition that results in any capital gain on the part the Company, (2) that the Company did not receive any consideration as a result of a dividend distribution, and thus, the Company did not realize any gain or increase of wealth, and (3) that there was no donative intent on the part of the Company when it distributed dividends to its shareholders.

The case is still ongoing. If the CTA rules in favor of the validity of the assessment and holds the Company liable for donor's tax, the Company will have to pay the donor's tax of ₱129 million plus interests, penalties and surcharges.

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

As of February 28, 2018, 4,889,774,922 shares of PHINMA Energy common stock are outstanding and entitled to vote at the Annual Shareholders Meeting. Of the said outstanding voting shares, 4,414,421,006 are owned by Filipinos and 475,353,916 are owned by foreign nationals.

Only holders of PHINMA Energy's stock of record at the close of business on March 12, 2018 are entitled to notice of the Annual Shareholders Meeting and to vote thereat.

The stockholders have cumulative voting right with respect to the election of the Company's Directors. Each stockholder may vote in person or by proxy the number of shares of stock standing in his own name in the books of the Company as of the record date of the meeting. Moreover, a stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the whole number of directors to be elected, and provided, further, that no delinquent stock shall be voted (Section 24, Corporation Code).

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

Market Price

PHINMA Energy's common shares are listed with the Philippine Stock Exchange. Below are the high and low sales prices as of December 31, 2017, 2016 and 2015:

Period	High	High adj	Low	Low adj
Calendar 2017				
Fourth quarter	1.80		1.52	
Third quarter	2.08		1.7	
Second quarter	2.22		1.91	
First quarter	2.48		2.18	
Calendar 2016				
Fourth quarter	2.3		2.02	
Third quarter	2.6		2.15	
Second quarter	2.95		2.28	
First quarter	2.89		1.98	
Calendar 2015				
Fourth quarter	2.28		1.87	
Third quarter	2.33		1.65	
Second quarter	2.58		2.09	
First quarter	2.50		2.18	

A. Stockholders

The Company had 3,196 registered shareholders as of December 31, 2017. The following table sets forth the top 20 shareholders of the Company, their nationality, the number of shares held, and the percentage of ownership as of December 31, 2017.

No.	Name of Stockholders	Citizenship	No. of Shares Held	% of Ownership
1	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Filipino	Filipino	3,527,020,522	72.13%
2	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Non-Filipino	Foreign	563,640,156	11.53%
3	PHINMA Corporation	Filipino	449,331,621	9.19%
4	Philippine Investment Management Consultants, Inc.	Filipino	201,850,612	4.13%
5	Emar Corporation	Filipino	37,283,937	0.76%
6	Francisco Genaro Ozamiz Lon	Filipino	17,000,000	0.35%
7	Ramon R. Del Rosario, Jr.	Filipino	3,957,527	0.08%
8	Phil. Remnants Co., Inc.	Filipino	2,801,218	0.06%
9	Victor Juan Del Rosario	Filipino	2,625,639	0.05%
10	Peter Mar or Annabelle C. Mar	Filipino	2,055,000	0.04%
11	Renato O. Labasan	Filipino	1,520,000	0.03%
12	Teresita A. Dela Cruz	Filipino	1,502,221	0.03%
13	Guillermo D. Luchangco	Filipino	1,500,001	0.03%
14	Belek, Inc.	Filipino	1,484,002	0.03%
15	Francisco L. Viray	Filipino	1,429,759	0.03%
16	Joseph D. Ong	Filipino	1,397,663	0.03%
17	William How &/OR Benito How	Chinese	1,333,457	0.03%
18	Alexander J. Tanchan &/OR Dolores U. Tanchan	Filipino	1,072,867	0.02%
19	Benjamin S. Austria	Filipino	1,022,982	0.02%
20	Victor J. Del Rosario or Ma. Rita S. Del Rosario	Filipino	954,603	0.02%

B. Dividends

There is no restriction on payment by PHINMA Energy of dividends other than the availability of retained earnings following the SEC rule on calculation of available retained earnings for dividend declaration.

PHINMA Energy declares cash or stock dividends to its common shareholders on a regular basis in amounts determined by the Board of Directors taking into consideration the results of the

Company's operations, its cash position, investments and capital expenditure requirements, and unrestricted retained earnings. The Company also declares special cash dividends where appropriate.

Dividends declared and paid in 2014 up to 2017 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount *	Record Date
March 24, 2014	Cash	0.04 per share	194,555	April 7, 2014
February 23, 2015	Cash	0.04 per share	194,602	March 9, 2015
February 23, 2016	Cash	0.04 per share	194,606	March 9, 2016
December 16, 2016	Cash	0.04 per share	195,436	January 4, 2017
March 3, 2017	Cash	0.04 per share	195,436	March 17, 2017

As of December 31, 2017, PHINMA Energy's retained earnings amounted to Php4.02 billion, of which Php 3.06 billion were equity in net earnings of investee companies that are not available for dividend declaration.

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

On April 2, 2007, the Company's Board of Directors and Stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares as (a) stock grants for officers and managers of the Company; and (b) stock options for directors, officers and employees of PHINMA Energy and its subsidiaries and affiliates under the terms and conditions as may be determined by the Executive Committee. On May 7, 2008, the Company suspended that Stock Option Plan and reinstated it on July 22, 2013. The Stock Options have no remaining contractual life as of December 31, 2016

The Company implemented the Company's Stock Grants Plan for its executives who resulted in the issuance of 0.3 million and 4.7 million shares in first semesters ended June 30, 2009 and June 30, 2008, respectively. The Committee decided to implement the Company's Stock Grant for its executives which resulted in the grant of 0 shares for 2017, 3,877,014 shares for 2016, 1,795,098 million shares for 2015, 0 shares for 2014, and 695,877 shares for 2013. Shares issued under the Stock Grants Plan have a holding period of three (3) years.

The executive stock grants are given to officers and managers of the Company computed at a predetermined percentage of their variable compensation pay based on certain performance criteria. Issuance of these shares are exempt from registration under Section 10.2 of the Securities Regulation Code which states that the Commission may exempt certain transactions if it finds that the requirements for registration under the Code is not necessary in the public interest or for the protection of the investors such as by reason of the small amount involved or the limited character of the public offering. The Plan falls under Section 10.2 because the offer is limited only to qualified directors, officers and employees of PHINMA Energy and its subsidiaries and affiliates.

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Item 6. Management's Discussion and Analysis or Plan of Operation

The Company posted consolidated net income amounting to **₱347 million** for the year ended 2017 compared to **₱1.38 billion**.in previous year The following are the material changes in the Consolidated Statements of Income for the year ended December 31, 2017 and 2016:

Revenues

	For the year ended			
In thousands	2017	2016	Inc (Dec)	%
Revenue from sale of electricity	17,011,044	15,465,866	1,545,178	10%
Dividend income	8,483	7,433	1,050	14%
Rental income	706	4,574	(3,868)	-85%

- The increase in **revenues from sale of electricity** was primarily due to the higher energy sales from the Parent Company's power supply business as the Company was able to close new retail electricity supplier (RES) contracts, tempered by the low market prices during the year.
- The **dividend income** received from the Company's various investments were higher in 2017 compared to 2016.
- **Rental income** decreased as a result of the non-renewal of one of the Parent Company's rental contracts and the Company's use of the office space.

Costs and Expenses

	For the year ended			
In thousands	2017	2016	Inc (Dec)	%
Costs of sale of electricity	16,929,239	14,105,874	2,823,365	20%
General & administrative expenses	664,550	899,635	(235,085)	-26%

- The increase in the **costs of sale of electricity** was mainly due to the higher RES sales and termination costs of the Administration Agreement for the 40 megawatt strip of energy of the Unified Leyte Geothermal Power Plant. The termination allows the Company to improve its supply costs while maintaining a diversified portfolio.

- The decrease in **general and administrative expenses** is mainly due to lower employee costs, professional fees and provision for probable losses on deferred exploration costs. In 2016, the Company booked one-time capital gains tax and provision for doubtful accounts.

Other Income and Expenses

	For the year ended			
In thousands	2017	2016	Inc (Dec)	%
Interest & other financial charges	(513,566)	(468,485)	(45,081)	10%
Equity in net earnings of associates & JV	1,024,995	886,224	138,771	16%
Other inome - net*	105,618	552,879	(447,261)	-81%

In thousands	For the year ended 2017	2016	Inc (Dec)	%
*Other income - net				
Interest & other financial income	87,185	46,077	41,108	89%
Gain on derivatives - net	9,399	8,741	658	8%
Foreign exchange loss - net	(8,373)	(7,208)	(1,165)	16%
Provision for unrecoverable input tax	-	(2,568)	2,568	
Gain (loss) on sale of:				
Property, plant & equipment	-	27,863	(27,863)	
Available-for-sale investments	(17)	7	(24)	-343%
Investments	-	444,207	(444,207)	
Others	17,424	35,760	(18,336)	-51%
	105,618	552,879	(447,261)	

- **Interest and other finance charges** went up due to additional long-term loan availed by the Parent Company.
- Higher **equity in net income of associates and JV** were posted in 2017 due to scheduled and forced outages of SLTEC and MGI in 2016.
- **Other income - net** - went down due to the combined effects of the following:
  - Increase in interest and other financial income due to higher fair value gains on investments held for trading and higher level of investments.
  - Increase of gain on derivatives primarily from forward contracts entered into in 2017.
  - Higher foreign exchange loss on foreign-currency denominated deposits from appreciation of peso by end of 2017.
  - Allowance was provided for unrecoverable input tax in 2016.
  - Gain on sale of transmission assets of CIP and TAREC to a third party in 2016.
  - Gain was realized on the sale of available-for-sale investments in 2016 as compared to loss in 2017.
  - Sale of 5% interest in SLTEC in 2016. The decrease in miscellaneous income during the year was due to lower shared and pass-through expenses.

Provision for (benefit from) income tax

In thousands	For the year ended 2017	2016	Inc (Dec)	%
Current	72,722	114,623	(41,901)	-37%
Deferred income tax	(376,400)	(54,172)	(322,228)	595%

- The decrease in the provision for income tax - current was due to lower consolidated taxable income in 2017.
- Higher **benefit from deferred income tax** in 2017 was due to the tax effect of pension and other post-employment benefits, NOLCO, deferred revenues and the difference between the fair value of initial recognition and transaction price of long-term receivables.

Material changes in Consolidated Statements of Financial Position accounts

Financial Highlights

ASSETS				
	Year ended December			
In thousands	**2017**	**2016**	**Inc (Dec)**	**%**
Current Assets				
Cash and cash equivalents	1,300,999	395,582	905,417	229%
Short-term investments	478,362	2,498	475,864	19050%
Investments held for trading	1,483,519	3,061,270	(1,577,751)	-52%
Fuel & spare parts - at cost	321,525	231,146	90,379	39%
Other current assets	1,236,005	1,136,005	100,000	9%
Noncurrent Assets				
Available-for-sale investments	293,127	309,070	(15,943)	-5%
Investment properties	50,915	24,380	26,535	109%
Deferred tax income assets - net	430,280	71,849	358,431	499%

- The Consolidated Statements of Cash Flows detail the material changes in cash and cash equivalents, short-term investments and investments held for trading.
- **Fuel & spare parts** increased due to increased inventory of bunker fuel oil.
- **Other current assets** increased due increase in input taxes, creditable withholding taxes and deposit receivable related to operations.
- **Available-for-sale investments** decreased due to lower market value of investments.
- **Investment properties** increased as a result of reclassification of fixed assets from property, plant and equipment in 2017.
- **Deferred income tax assets** increased due to the tax effect of pension & other post-employment benefits, NOLCO, deferred revenues and difference in fair value of financial instruments.

LIABILITIES				
	Year ended December			
In thousands	2017	2016	Inc (Dec)	%
Current Liabilities				
Accounts payable and other current liabilities	3,882,493	4,118,674	(236,181)	-6%
Income and withholding taxes payable	42,308	99,396	(57,088)	-57%
Due to stockholders	15,300	91,203	(75,903)	-83%
Current portion of long-term loans	226,949	200,785	26,164	13%
Noncurrent Liabilties				
Pension & other employment benefits	36,110	47,585	(11,475)	-24%
Deferred tax income liabilities - net	111,387	126,890	(15,503)	-12%
Other noncurrent liabilities	682,000	148,252	533,748	360%
Equity				
Unrealized fair value gains on available-for sale investments	85,924	109,366	(23,442)	-21%
Remeasurement losses on defined benefit plan	(3,130)	(8,562)	5,432	-63%
Accumulated share in other comprehensive income of a joint venture	(3,413)	(277)	(3,136)	1132%
Non-controlling Interests	78,110	84,706	(6,596)	-8%

- **Accounts payable and other current liabilities** is lower due to the decrease in trade payables and output tax.
- The decrease in **income and withholding taxes payable** was mainly due to lower tax withheld at the end of 2017..
- **Due to stockholders** decreased due to the settlement of cash dividend declared in December 16, 2016.
- **Current portion of long-term loans** increased due to higher maturing loan repayments.
- **Pension and other employees' benefits** decreased due to the lower accrual of retirement expense during the year.
- **Deferred income tax liabilities** decreased due to tax effect of the amortization of leasehold rights and depreciation of excess of fair value over cost of power plant.
- **Other noncurrent liabilities** significantly jumped due to deferred revenue and long-term security deposits of new customers.
- **Unrealized fair value gains on available-for-sale investments** declined due to the decrease in value of stock investments.
- **Remeasurement losses on defined benefit plan** decreased due to actuarial gains recognized in 2017.
- **Accumulated share in other comprehensive income of a joint venture** increased due to the adjustment in remeasurement loss on defined benefit plan of SLTEC.
- **Non-controlling interests** decreased due to the net losses posted by TA Petroleum and Palawan55.

Key Performance Indicators

The key performance indicators of PHINMA Energy and its majority owned subsidiaries, as consolidated, are the following:

KPI	Formula	31-Dec-17 Audited	31-Dec-16 Audited	Increase (Decrease) Difference	%
Liquidity Ratios					
Current ratio	Current assets / Current liabiltiies	2.08	1.92	0.16	8
Acid test ratio	Cash + Short-term investments + Accounts Receivables + Other liquid assets / Current liabilities	1.71	1.62	0.09	6
Solvency Ratios					
Debt/Equity ratio	Total Liabilities / Total Equity	1.27	1.29	(0.02)	(2)
Asset to equity ratio	Total Assets / Total Equity	2.27	2.29	(0.02)	(1)
Interest coverage ratio	Earnings before interest & tax (EBIT) / Interest expense	1.08	4.08	(3.00)	(73)
Net Debt to Equity Ratio	Debt - Cash & cash equivalents / Total equity	0.91	0.91	0.01	1

KPI	Formula	31-Dec-17 Unaudited	31-Dec-16 Unaudited	Increase (Decrease) Difference	%
Profitability Ratios					
Return on equity	Net income after tax / Average stockholder's equity	3.83%	16.30%	(12.47)	(77)
Return on assets	Net income after taxes / Total assets	1.68%	7.04%	(5.36)	(76)
Asset turnover	Revenues / Total assets	82.25%	78.86%	3.39	4

Current ratio & Acid test ratio

Current ratio & acid test ratio slightly increased due to the 8% decrease in liabilities while assets remained the same.

Debt to equity ratio

Debt to equity ratio slightly decreased due to the 2% increase in equity brought about by net income for the year less payment of cash dividends.

Asset to equity ratio

Asset to equity ratio slightly decreased as total assets minimally increased by 1% as compared to 2% increase in total equity.

Interest coverage ratio

Interest coverage ratio decreased brought about by lower earnings before interest and tax in 2017 as compared to 2016.

Net debt to equity ratio

Net debt equity ratio remained the same.

Return on equity and assets

Return on equity and assets went down due to lower net income in 2017.

Asset turnover

Asset turnover slightly increased as revenues increased by 52% as compared to 9% increase in average total assets.

Material events and uncertainties

- Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way – The Company does not expect any liquidity problems

- There were no events that trigger direct or contingent financial obligation that was material to the Company. There were no contingent assets or contingent liabilities since the last annual balance sheet date.

- 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 reporting period.

- Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures -
  - The Parent Company will use internally generated funds for continuing the rehabilitation of the power barges acquired from PSALM.
  - The Company has wind, solar, hydro and interest in geothermal service contracts which are in various stages of development. The Company is also exploring other opportunities in the power business and related businesses and plans to finance such projects with a combination of equity and debt in the project company.

- Any known trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations
  - The results of operations of the Company and its subsidiaries depend, to a significant extent, on the performance of the Philippine economy.
  - The company was able to achieve a significant volume of customer migration due to the implementation of Retail Competition and Open Access (RCOA). PHINMA Energy ended the year as the second largest single electricity supplier with a market share of 12.2%
  - However, a more competitive environment and operation of priority-dispatch variable renewable energy have driven market prices of electricity downward, resulting in lower margins.
  - Movements in the WESM prices could have a significant favorable or unfavorable impact on the Company's financial results.
  - The Company is continuously working to close mutually beneficial contracts with customers and manage supply portfolio costs.

- 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 operations subject to seasonality and cyclicality except for the operation of PHINMA Renewable's wind farm. The wind regime is high during the first quarter due to the northeast monsoon and wind turbines generate more power to be supplied to the grid. The generation drops in the second and third quarter due to low wind regime brought about by the southwest monsoon.

- There were no material events that had occurred subsequent to the balance sheet date that have not been reflected in the Financial Statements and this report.

Calendar 2016

SC 6 (Offshore Northwest Palawan)

Block A

CY 2016 work program consisting of specialized geophysical studies, which commenced in November 2015, was completed by December 31, 2016.

The consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies.

Block B

The consortium formulated a work program for the next five years of the extension period which started on March 1, 2015. Partners submitted, for the DOE's approval, a 3-year work program consisting mainly of geophysical studies with a corresponding budget amounting to US$724,000. The geophysical studies were completed by the third quarter of 2016.

To improve the viability of the primary prospect, the consortium requested the DOE to reconfigure the contract area to include an adjoining block, which hosts an oil field where production had been suspended.

The Company holds 7.78% and 14.063% participating interests in Block A and Block B, respectively. SC 6 is valid until February 28, 2024 subject to fulfillment of work commitments for each of the three 5-year terms comprising the 15-year extension period of SC 6 in respect of Block A and B and payment of training assistance, development assistance and scholarship funds to the DOE.

On February 20, 2017, the Company gave notice to the consortium of relinquishment of its14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include the Company's 2.475% carried interest.

SC 51 (Northwest Leyte/Cebu Strait)

On 11 May 2015, DOE approved the request for an extension of Sub Phase 5 to July 8, 2016.

The DOE ruled that the outstanding training commitment funds must be settled before the transfer of Otto Energy's interest could be given due course. Negotiations between the DOE, Otto Energy and the Filipino partners continues.

The Company's 6.67% participating interest in SC 51 would be adjusted to 33.34% upon DOE approval of the withdrawal of Otto Energy.

SC 55 (Offshore West Palawan)

The DOE extended the term of SC 55 until December 23, 2017. The transfer of interest from Otto Energy to the continuing parties is under processing by the DOE.

The Company holds 6.82% participating interest in SC 55.

SC 69 (Camotes Sea)

On June 30, 2016, the Company signed a licensing agreement with a seismic contractor for the acquisition of 750 km of seismic data under the multi-client survey. The seismic contractor in a letter dated August 18, 2016 informed the Company that it could not proceed with the Company's leg of the survey due to permitting and weather constraints. The consortium requested an extension of the term of SC 69 due to Force Majeure. The approval of the aforementioned extension remains pending with the DOE.

The Company's participating interest in SC 69 is 50%.

SC 50 (North Palawan)

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. Negotiations between the DOE and Frontier Oil for possible reinstatement of SC 50 continues. Also, approval of the assignment of 10% participating interest in SC 50 to the Company remains.

Financial Performance

The Company posted a higher consolidated net income amounting to **₱1.38 billion** for the year ended 2016 as compared to previous year amounting to **₱906 million**. The following are the material changes in the Consolidated Statements of Income for the year ended December 31, 2016 and 2015:

Revenues

	For the years ended December			
In thousands	2016	2015	Inc (Dec)	%
Revenue from sale of electricity	₱ 15,465,866	₱ 13,456,926	₱ 2,008,940	15
Dividend income	7,433	8,797	(1,364)	(16)

- The increase in **revenues from sale of electricity** was primarily due to the higher energy sales from the Parent Company's power supply business and from the sale of electricity of Trans-Asia Renewable Energy Corporation (TAREC) and Power Barges 101 and 102, which declared commercial operations in February 2016.
- The **dividend income** received from the Company's various investments were lesser in 2016 as compared to 2015 as the latter included cash dividend received from Union Galvasteel Corporation.

Costs and Expenses

	For the years ended December			
In thousands	2016	2015	Inc (Dec)	%
Cost of sale of electricity	₱ 14,105,874	₱ 11,813,442	₱ 2,292,432	19
General & administrative expenses	899,635	510,466	389,169	76
Total Costs and Expenses	₱ 15,005,509	₱ 12,323,908	₱ 2,681,601	22

- The increase in the **cost from sale of electricity** was mainly due to the higher energy sales in kWh. Cost of repairs and maintenance also went up with the full operation of TAREC, PB 101 and PB 102. Taxes and licenses and other costs incurred in operating the power barges including salaries, pension and employees benefits and depreciation made up the rest of the increases. PB 103, currently located in Cebu, is still undergoing rehabilitation.

- The increase in **general and administrative expenses** is mainly due to higher salaries and professional fees, increased level of operations which resulted in higher taxes and licenses and headcount, provision for doubtful account and provision for probable losses on deferred exploration costs.

Other Income and Expenses

In thousands	For the year ended December 2016	2015	Inc (Dec)	%
Interest & other finance charges	(₱ 468,485)	(₱ 449,480)	(₱ 19,005)	4
Equity in net income of associates & JV	886,224	372,214	514,010	138
Other income (loss) – net*	552,879	45,823	507,056	1,107

In thousands	For the year ended December 2016	2015	Inc (Dec)	%
***Other income (loss)**				
Interest & other financial income	₱ 46,077	₱ 16,257	₱ 29,820	183
Gain (loss) on sale of:				
Property, plant & equipment	27,863	(3,284)	31,147	-
AFS investments	7	(18)	25	-
Investment	444,207	213	443,993	208,447
Gain on derivatives - net	8,741	18,048	(9,307)	(52)
Foreign exchange loss - net	(7,208)	(20,880)	(13,672)	65
Unrecoverable input tax	(2,568)	-	(2,568)	-
Impairment loss on AFS investments	-	(12,424)	12,424	-
Option fee	-	35,159	(35,159)	-
Others	35,760	12,752	23,008	180

- **Interest and other finance charges** went up due to higher long-term debt of TAREC.
- Higher **equity in net income of associates and JV** was accounted for by higher earnings include the contribution of South Luzon Thermal Energy Corporation (SLTEC), with both Unit 1 and Unit 2 in commercial operations. Unit 2 started commercial operations in February 2016.
- **Other income (loss) - net** - went up due to the combined effects of the following:
    - Increase in interest and other financial income due to higher fair value gains on investments held for trading and accretion of the discount on the receivables.
    - Gain on sale of transmission assets of CIP and TAREC to a third party.
    - Gain was realized on the sale of available-for-sale investments in 2016.
    - Sale of 5% interest in SLTEC.
    - Decrease of gain on embedded derivatives primarily from lower fuel inventory compared to 2015.
    - Lower realized foreign exchange loss on foreign-currency denominated deposits from depreciation of peso.
    - Allowance was provided for unrecoverable input tax
    - There was no impairment loss on AFS investment 2016.
    - Option fee for SC 55 was booked as income in 2015.
    - Increase in miscellaneous income during the year was due to billing of shared and pass-through expenses.

Provision for (benefit from) income tax

In thousands	For the year ended December 2016	2015	Inc (Dec)	%
Current	₱ 114,623	₱ 221,437	(₱ 106,814)	(48)
Deferred income tax	(54,172)	(12,469)	(41,703)	334
Total provision for income tax	₱ 60,451	₱ 208,967	(₱ 148,517)	(71%)

- The decrease in the provision for income tax was due to lower taxable income of the parent company. PHINMA R.E. is entitled to income tax holiday incentive for the operation of its wind farm in Guimaras.
- Higher **benefit from deferred income tax** in 2016 was due to the tax effect of the provision for doubtful accounts, provision for probable losses on deferred exploration costs and the difference between the fair value at initial recognition and transaction price of long-term receivables.

Material changes in Consolidated Statements of Financial Position accounts

Financial Highlights

In thousand	Years ended December 2016	2015	Increase (Decrease) Amount	%
ASSETS				
Cash and cash equivalents	₱ 395,582	₱ 355,743	₱ 39,839	11
Short-term investments	2,498	-	2,498	-
Investments held for trading	3,061,270	942,142	2,119,128	225
Receivables	3,846,003	3,466,310	379,693	11
Fuel & spare parts - at cost	231,146	310,929	(79,783)	(26)
Other current assets	1,136,005	1,052,366	83,639	8
Plant, property and equipment	6,414,568	7,381,816	(967,248)	(13)
Investments properties	24,380	26,341	(1,961)	(7)
Goodwill & other intangible assets	391,000	434,586	(43,586)	(10)
Deferred income tax assets - net	71,849	31,303	40,546	130
Other noncurrent assets	725,363	157,328	568,035	361

- The Consolidated Statements of Cash Flows detail the material changes in cash and cash equivalents, short-term investments and investments held for trading.
- **Receivables** slightly rose due to additional customers of the Parent Company and the recognition of FIT-All receivables by PHINMA R.E. from the National Transmission Corporation.
- **Fuel & spare parts** declined due to decreased inventory of bunker fuel oil and due to consignment contract.
- **Other current assets** increased due increase in input taxes, creditable withholding taxes and deposit receivable.
- The decrease in **plant, property and equipment** was mainly attributable to the disposal of the transmission assets of TAREC and CIPP.
- **Investment properties** decreased as a result of depreciation recognized in 2016.
- **Goodwill and other intangible assets** dropped due to the provision for probable losses recognized in 2016, reclassification of deferred exploration costs to receivables and amortization of leasehold rights.

- **Deferred income tax assets** increased due to the tax effect of pension & other post employment benefits, provision for doubtful accounts, provision for probable losses and difference in fair value of financial instruments.
- **Other noncurrent assets** significantly increased mainly due to the long-term receivable arising from the sale of transmission assets.

	Year ended December 31		Increase (decrease)	
In thousand	**2016**	**2015**	Amount	%
LIABILITIES & EQUITY				
Accounts payable and other current liabilities	₱ 4,118,674	₱ 3,104,537	₱ 1,014,137	33
Income and withholding taxes payable	99,396	65,517	33,879	52
Due to stockholders	91,203	11,570	79,633	688
Current portion of long-term loans	200,785	58,454	142,331	243
Long-term loans - net of current portion	6,793,566	7,131,048	(337,482)	(5)
Pension & other employment benefits	47,585	33,813	13,772	41
Deferred tax income liabilities - net	126,890	142,554	(15,664)	(11)
Other noncurrent liabilities	148,252	118,383	29,869	25
Additional paid in capital	81,209	40,783	40,426	99
Other equity reserve	18,338	34,913	(16,575)	(47)
Unrealized FV gains on AFS investments	109,366	101,478	7,888	8
Remeasurement losses on defined benefit plan	(8,562)	(2,735)	5,827	213
Accumulated share in OCI of JV	(277)	(357)	(80)	(22)
Retained Earnings	3,859,659	2,845,559	1,014,100	36
Non-controlling interests	84,706	104,403	(19,697)	19

Liabilities and Equity

- **Accounts payable and other current liabilities** increased due to the increase in due to related parties, accrued expenses and nontrade payables.
- The increase in **income and withholding taxes payable** was due to higher income taxes withheld for remittance to the BIR.
- **Due to stockholders** rose due to the cash dividend declared in December 16, 2016 and paid on January 16, 2017.
- Total **long-term loans (current & non-current)** declined due to partial settlement of TAREC loans upon receipt of the proceeds from its sale of transmission assets.
- **Pension and other employees' benefits** increased due to the accrual of retirement expense during the year.
- **Deferred income tax liabilities** decreased due to tax effect of the amortization of leasehold rights and depreciation of excess of fair value over cost of power plant.
- **Other non-current liabilities** increased due to additional security deposits from various customers and finance lease obligation of TAREC.
- The increase in **additional paid in capital** and decrease in **other equity reserve** is attributable to the issuance of capital stock due to exercise of employee stock options and reclassification of the forfeited stock options from other equity reserve to additional paid-in capital.
- **Accumulated share in other comprehensive income of joint venture** decreased due to the adjustment in remeasurement loss on defined benefit plan of SLTEC.
- **Retained earnings** went up due to higher profit in 2016, net of dividends declared during the year.
- **Non-controlling interests** decreased due to the net losses posted by TA Petroleum and Palawan55.

  The key performance indicators of PHINMA Energy and its majority owned subsidiaries, as consolidated, are the following:

KPI	Formula	31-Dec-16	31-Dec-15	Increase (Decrease)	
				Difference	%
Liquidity Ratios					
Current ratio	Current assets / Current liabilities	1.92	1.89	0.03	2
Acid test ratio	Cash + Short-term investments + Accounts Receivables + Other liquid assets / Current liabilities	1.62	1.47	0.15	10
Solvency Ratios					
Debt/Equity ratio	Total Liabilities / Total Equity	1.29	1.34	(0.05)	(4)
Asset to equity ratio	Total Assets / Total Equity	2.29	2.34	(0.05)	(2)
Interest coverage ratio	Earnings before interest & tax (EBIT) / Interest expense	4.08	3.48	0.60	17
Net Debt to Equity Ratio	Debt - Cash & cash equivalents, short-term investments and investment held for trading / Total equity	0.91	1.18	(0.27)	(23)

KPI	Formula	31-Dec-16	31-Dec-15	Increase (Decrease)	
				Difference	%
Profitability Ratios					
Return on equity	Net income after tax	16.30%	11.93%	4.37	37
	Average stockholder's equity				
Return on assets	Net income after taxes	7.04%	5.14%	1.90	37
	Total assets				
Asset turnover	Revenues	78.86%	76.50%	2.36	3
	Total assets				

Current ratio & Acid test ratio

Current ratio & acid test ratio increased due to 42% increase in current assets brought about by increase in cash and cash equivalent, investment held for trading and trade receivables.

Debt to equity ratio

Debt to equity ratio slightly decreased due to the 13% increase in equity brought about by higher net income.

Asset to equity ratio

Asset to equity ratio slightly decreased as total assets increased by 11% as compared to 13% increase in total equity.

Interest coverage ratio

Interest coverage ratio increased brought about by higher earnings before interest and tax in 2016 as compared to 2015.

Net debt to equity ratio

Net debt equity ratio decreased due to the 13% decrease in net debt brought about by the partial payment long-term loans.

Return on equity

Return on equity went up due to higher net income in 2016.

Return on assets

Return on asset increased as average total assets increase by 11% as compared to 53% increase in net income in 2016.

Asset turnover

Asset turnover slightly increased as revenues increased by 15% as compared to 11% increase in average total assets.

During the Calendar Year 2016:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- The Company had two (2) reportable segments namely: petroleum and mining exploration and power business. The fund placements are incidental to the Company's petroleum and mining 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 other than those already disclosed in the Consolidated Financial Statements.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date except those already disclosed in the Consolidated Financial Statements.
- There were no operations subject to seasonality and cyclicality except for the operation of TAREC's wind farm. The wind regime is high during the first and last quarter of the year due to the northeast monsoon and wind turbines generate more power to be supplied to the grid. The generation drops in the second and third quarters due to low wind regime brought about by the southwest monsoon.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company except for those mentioned in the Consolidated Financial Statements.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations except those already disclosed in the Consolidated Financial Statements.
- 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 except for the sale of 5% stake in SLTEC to Axia Power Holdings Philippines Corporation (APHPC).
- 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 except those mentioned in the Consolidated Financial Statements.

Calendar year 2015

Oil & Gas

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

Block A

Philodrill, The Operator, engaged a contractor to perform the programmed seismic data processing and quantitative interpretation. The consortium completed its CY 2015 work program consisting of geological and geophysical evaluation in third quarter of 2015.

The DOE approved the consortium's CY 2016 work program consisting of specialized geophysical studies. The project commenced in fourth quarter of 2015.

PPG's participating interest reverted to 7.78% following the withdrawal of farminee, Pitkin Petroleum.

Block B

The consortium completed seismic interpretation and satellite gravity studies Seismic reprocessing of 400 sq. km. 3D seismic data continued. The project is about 75% complete as of end 2015.

The DOE approved a six - month extension of the current Sub-Phase to August 28, 2016.

The Company holds 7.78% and 14.063% participating interests in Block A and Block B, respectively.

<u>SC 51 (Northwest Leyte/Cebu Strait)</u>

The DOE granted a six month extension of Sub-Phase 5 to 31 July 2014 to enable the Operator, Otto, to complete its post well evaluation of the results of the Duhat2 well.

The Duhat2 well was plugged and abandoned in 3Q 2013 when it failed to reach its reservoir objective due to drilling problems.

On 5 May, 2014, Otto Energy notified TAPET and the other partners in the consortium that it has elected to withdraw from SC 51. Otto Energy's withdrawal from SC 51 and the transfer of its participating interest to the remaining parties are subject to the approval of the DOE.

The remaining Filipino partners opted to continue exploration work in the area, but requested the DOE suspension of the term of Sub-Phase 5 from the date Otto Energy notified the DOE of its withdrawal from SC 51, until the DOE approves the transfer of Otto's interest to the Filipino partners.

The DOE denied Otto's request that Duhat2 well be credited as a compliant well under Sub-Phase 5, but Otto has contested the DOE's ruling. The partners are in discussion with the DOE on how to address this issue.

PPG owns 6.67%% participating interest in SC 51 which will become 33.34% upon DOE approval of the withdrawal of Otto Energy.

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

Otto Energy, the Operator, completed the drilling of the Hawkeye – 1 well to a total depth of 2,920 meters. The well discovered gas which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract. Otto Energy informed its partners of its decision to withdraw from the service contract.

On December 22, 2015, the consortium requested the DOE a 2 - year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye - 1 on the remaining prospectivity of the area. As at February 23, 2016, the request remains pending with the DOE.

Palawan55 Exploration & Production Corporation, a subsidiary of TAPET, holds 6.82% participating interest in SC 55.

SC 69 (Camotes Sea)

Following DOE approval of the assignment of Otto Philippines' interests to the Company and Frontier Gasfields, the Company's participating interest in SC 69 was adjusted from the current 6% to 50%.

On March 17, 2014, the Parent Company and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until December 31, 2014. The DOE extended the term of Sub-Phase 3 to May 7, 2015 to enable the remaining parties to proceed with planned exploration activities.

As at April 17, 2015, the consortium entered Sub-Phase 4 (May 2015 to May 2016) which entails a commitment to either undertake a 3D seismic program or drill an exploratory well. The DOE approved the consortium's requests that participation in a proposed multi-client 2D seismic survey be credited as fulfillment of its work obligation under the current Sub-Phase and a 6 – month extension of the term of SC 69 to November 2016.

SC 50 (North Palawan)

Frontier Oil, the Operator, applied for a Force Majeure in view of the unilateral cancellation of its rig contract by the counter party.

On October 5, 2015, the DOE denied the Operator's request and, consequently, ruled that the contract effectively expired in March 2015. As at October 20, 2015, Frontier Oil contested DOE's position and engaged the DOE in discussions aimed at mutually acceptable resolution of the issue.

Frontier requested a 2-year moratorium on contract obligations in January 2016.

Financial Performance

For the year ended December 31, 2015, consolidated net income surged to ₱906 million in 2015 from ₱180 million in 2014. Following are the material changes in the Consolidated Statements of Income between 2015 and 2014:

Revenue

	Years ended December 31		Increase (Decrease)	
In thousands	**2015**	**2014**	**Amount**	**%**
Revenue from sale of electricity	₱ 13,456,926	₱ 10,741,307	₱ 2,715,619	25
Dividend income	8,798	6,840	1,958	29

- The ample growth of revenue from sale of electricity is attributable to higher energy sales for the power supply business and the sale of electricity of PHINMA R.E., which qualified for the Feed-in Tariff (FIT) rate of ₱7.40 for every kilowatt hour (kWh) sold from its 54MW wind farm in the island of Guimaras starting from its commercial operations date on December 27, 2014.
- Dividend income increased as a result of higher dividends received from Union Galvasteel Corporation (UGC).

<u>Cost and expenses</u>

In thousands	Years ended December 31 2015	2014	Increase (Decrease) Amount	%
Cost of sale of electricity	₱11,813,442	₱9,829,788	₱ 1,983,654	20
General & administrative expenses	510,466	386,134	124,332	32

- The increase in cost of sale of electricity was driven by the increase in energy sales in kWh. Depreciation, repairs and maintenance and insurance also went up with the full year operations of TAREC and OSPGC in 2015.
- General and administrative expenses increased due to higher management and professional fees, salaries, and taxes and licenses.

Other income (loss) - net

Following are the material changes in cost and expenses in the Consolidated Statements of Income between 2015 and 2014.

In thousands	Years ended December 31 2015	2014	Increase (Decrease) Amount	%
Others income (loss)				
Interest & other financial charges	₱ (449,480)	₱ (170,969)	₱ 278,511	163
Option fee	35,159	-	35,159	-
Foreign exchange gain (loss)	(20,880)	(751)	20,129	2680
MTM gain (loss) on derivatives	18,048	(35,220)	53,268	-
Interest & other financial income	16,257	6,113	10,144	166
Reversal of (provision for):				
Impairment loss on AFS investments	(12,424)	-	12,424	-
Doubtful Accounts	-	(33,365)	(33,365)	-
Gain (loss) on sale of:				
Property, plant & equipment	(3,265)	505	(3,770)	-
Available-for-sale- investments	(18)	404	422	-
Gain on pre-existing relationship	-	8,724	(8,724)	-
Miscellaneous income	12,946	4,034	8,912	221
	₱ (403,657)	**₱ (220,525)**	**(₱ 183,132)**	**83**

- Interest expense doubled with the full year payment of interest from long term loans availed in 2014. In 2014, PHINMA R.E. capitalized a portion of its interest expense amounting to ₱ 95.3 million.
- Option fee was received from a third party for Service Contract 55.
- Foreign exchange loss went up in 2015 brought about by depreciation of peso.
- Net gain on embedded derivatives primarily from fuel purchases was reported in 2015 compared to a loss in 2014. Net loss on embedded derivatives in 2014 included 15.3 million from fuel purchases, 12.1 million from long-term loans and 7.8 million from currency forward contracts.
- Interest and other financial income increased primarily due to higher fair value gains on investment held for trading in 2015 compared to 2014.
- Provision for impairment loss of available-for-sale investments was set up in 2015.
- The Company set-up provision for doubtful account in 2014. None was made in 2015.
- Loss from sale of property, plant and equipment was reported in 2015 due to disposal of damaged and scrapped assets.

- Loss on sale of available-for-sale investments was recorded in 2015 due to lower market value of investments.
- Gain on settlement of pre-existing relationship was due to the acquisition of OSPGC in 2014.
- Miscellaneous income consists of scrap sales, share in expenses and other income and expenses, the individual components of which are not material in amount and nature.

In thousands	Years Ended December 31 2015	2014	Increase (Decrease) Amount	%
Equity in net losses of associates & JV	**₱ 372,214**	**₱ (2,616)**	₱ 374,830	-

Equity in net earnings of associates and joint venture jumped in 2015 primarily due to net income from SLTEC which started commercial operations on April 24, 2015 and due to net income from full year operations of Maibarara Geothermal Inc. (MGI).

Provision for (benefit from) income tax

In thousands	Years Ended December 31 2015	2014	Increase (Decrease) Amount	%
Current	₱ 221,436	₱ 131,945	₱ 89,491	68
Deferred income tax	(12,469)	1,174	(13,643)	-
	₱ 208,967	**₱ 133,119**	(₱ 75,848)	57

As a result of higher taxable income in 2015, provision for income tax increased by 57% which includes benefit from deferred income tax.

Net Income

Consolidated net income for the year ended December 31, 2015 was five times higher than 2014 net income as a consequence of the above cited factors.

Financial Highlights

In thousand	Years ended December 31 2015	2014	Increase (Decrease) Amount	%
ASSETS				
Cash and cash equivalents	**₱ 355,743**	₱ 541,571	(₱ 185,829)	(34)
Investments held for trading	**942,142**	377,793	564,349	149
Receivables	**3,466,310**	3,055,022	411,288	13
Other current assets	**1,052,366**	840,315	212,051	25
Plant, property and equipment	**₱ 7,381,816**	₱ 6,863,059	₱ 518,757	8
Investments in associates and joint ventures	**4,171,641**	3,747,462	424,179	11
Available-for-sale investments	**295,768**	268,598	27,170	10
Investments properties	**26,341**	28,302	(1,961)	(7)
Deferred income tax assets - net	**31,303**	35,199	(3,896)	(11)
Other noncurrent assets	**157,328**	86,665	70,663	97
LIABILITIES & STOCKHOLDERS' EQUITY				
Accounts payable and other current liabilities	**₱ 3,104,537**	₱ 2,285,438	₱ 819,099	36
Income and withholding taxes payable	**65,517**	46,439	19,078	41
Due to stockholders	**11,570**	9,135	2,435	27
Current portion of long-term loans	**58,454**	29,255	29,199	100
Long-term loans - net of current portion	**₱ 7,131,048**	₱ 6,729,591	₱ 401,457	6
Pension & other employment benefits	**33,813**	28,652	5,161	18
Deferred tax income liabilities - net	**142,554**	158,459	(15,905)	(10)
Other noncurrent liabilities	**118,383**	82,268	36,115	44

Capital Stock: ACS - 8.4 B shs, P 1 par value	**4,865,146**	4,865,146	-	-
Additional paid in capital	**40,783**	38,258	2,525	6
Other equity reserve	**34,913**	35,992	(1,078)	(3)
Unrealized FV gains on available-for-sale investments	**101,478**	74,515	26,963	36
Remeasurement losses on defined benefit plan	**(2,735)**	(1,454)	(1,281)	88
Accumulated share in other comprehensive income of JV	**(357)**	215	(572)	-
Retained Earnings	**2,845,559**	2,128,208	717,351	34
Treasury shares	**(28,793)**	(28,793)	-	-
Total equity attributable to equity holders of Parent Company	**7,855,994**	7,112,086	743,908	10
Non-controlling interests	**104,403**	110,036	(5,633)	(5)
Total Equity	**₱ 7,960,397**	**₱ 7,222,122**	₱ 737,335	10
TOTAL LIABILITIES & EQUITY	**₱ 18,626,273**	**₱ 16,591,359**	₱ 2,034,914	12

- **Cash and cash equivalents** decreased due to operating activities of the company. On the other hand, **investments held for trading** went up due increase in investments held for trading of PHINMA R.E.. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents and investments held from trading.
- **Receivable**s went up with the additional customers of the Parent Company and the FIT differential receivables recognized by PHINMA R.E. from the National Transmission Corporation.
- **Other current assets** increased in 2015 brought about by increase in input taxes of PHINMA R.E. resulting from the wind farm construction, deposit receivable and creditable withholding taxes.
- **Property, plant and equipment** increased due to the capital expenditures of PHINMA R.E. and acquisition of three power barges in July 2015.
- **Investments in associates and interests in joint venture** increased due to income earned from SLTEC and MGI.
- **Available-for-sale investments** increased due to shares received from third party as option fee for Service Contract 55.
- **Investment properties** decreased proportionately with the depreciation recognized in 2015.
- **Other noncurrent assets** rose due to receivable from third party.

Liabilities and Equity

- **Accounts payable and other current liabilities** reflected the increased level of operations with additional trade payables.
- **Income and withholding tax payable** went up due to higher income taxes and taxes withheld.
- **Due to stockholders** increased due to unclaimed cash dividend checks.
- The reclassification of long-term loans from noncurrent accounted for the increase in the **current portion of long-term loans.**
- **Pension and other employee's benefits** increased due to accrual of retirement expense during the period.
- **Deferred income tax liabilities** decreased due to tax effect of the amortization of leasehold rights and depreciation of excess of fair value over cost of power plant.
- **Other noncurrent liabilities** increased due to additional deposits received from customers.
- **Additional paid-in capital** increased due to the adjustments relating to unexercised stock options.
- **Unrealized fair value gains on available-for-sale investments** went up due to higher market value of investments.
- **Remeasurement losses on defined benefit plan** increased due to actuarial losses.

- **Accumulated share in other comprehensive income of a joint venture** decreased due to recognition of remeasurement loss on defined benefit plan of SLTEC.
- **Retained earnings** went up due to higher net income in 2015.
- **Non-controlling interests** decreased due to net losses posted of TAPET and Palawan55.

The key performance indicators of PHINMA Energy and its majority owned subsidiaries, as consolidated, are the following:

KPI	Formula	31-Dec-15	31-Dec-14	Increase (Decrease) Difference	%
Liquidity Ratios					
Current ratio	Current assets / Current liabilities	1.89	2.16	(0.27)	(12)
Acid test ratio	Cash + Short-term investments + Accounts Receivables + Other liquid assets / Current liabilities	1.47	1.68	(0.20)	(12)
Solvency Ratios					
Debt/Equity ratio	Total Liabilities / Total Equity	1.34	1.30	0.04	3
Asset to equity ratio	Total Assets / Total Equity	2.34	2.30	0.04	2
Interest coverage ratio	Earnings before interest & tax (EBIT) / Interest expense	3.48	2.83	0.65	23
Net Debt to Equity Ratio	Debt - Cash & cash equivalents, short term investment & investment held for trading / Total equity	1.18	1.17	0.01	1

KPI	Formula	31-Dec-15	31-Dec-14	Increase (Decrease)	
				Difference	%
Profitability Ratios					
Return on equity	Net income after tax / Average stockholder's equity	11.93%	2.51%	0.09	375
Return on assets	Net income after taxes / Total assets	5.14%	1.31%	0.04	2938
Asset turnover	Revenues / Total assets	76.50%	77.98%	(0.01)	(2)

Current ratio & Acid test ratio

Current ratio and acid test ratio decreased due to 38% increase in current liabilities brought about by increase in trade payables.

Debt to equity ratio

Debt to equity ratio slightly increased due to the 14% increase in liabilities brought about by additional long-term loan availed in second quarter of 2015

Asset to equity ratio

Asset to equity ratio slightly increased as total assets increased by 13% as compared to 10% increase in total equity.

Interest coverage ratio

Interest coverage ratio increased brought about by higher earnings before interest and tax in 2015 as compared to 2014.

Net debt to equity ratio

Net debt equity ratio slightly increased due to the 11% increase in net debt brought about by additional long-term loan availed in second quarter of 2015.

Return on equity

Return of equity went up due to higher net income in 2015.

Return on assets

Return on asset increased as average total assets increase by 28% as compared to 402% increase in net income in 2015.

Asset turnover

Asset turnover slightly decreased as revenues increase by 25% as compared to 28% increase in average total assets.

During the Calendar Year 2015:

- There were no unusual items that affected assets, liabilities, equity, net income or cash flows.
- The Company had two (2) reportable segments namely: petroleum and mining exploration and power business. The fund placements are incidental to the Company's petroleum and mining 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 other than those already disclosed in the Consolidated Financial Statements.
- There were no contingent assets or contingent liabilities since the last annual balance sheet date except those already disclosed in the Consolidated Financial Statements.
- There were no operations subject to seasonality and cyclicality.
- There were no material trends, demands, commitments, events or uncertainties known to the Company that would likely affect adversely the liquidity of the Company except for those mentioned in the Consolidated Financial Statements.
- There were no trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations except those already disclosed in the Consolidated Financial Statements.
- 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 except those mentioned in the Consolidated Financial Statements.

Item 7. Financial Statements

The consolidated financial statements of PHINMA Energy and subsidiaries included in the 2017 Annual Report to Stockholders are incorporated herein for reference.

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

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

SGV has been PHINMA Energy's Independent Public Accountant since 1969. The Audit Committee, the Board of Directors and the stockholders of PHINMA Energy approved the engagement of SGV as the Company's external auditor for 2017. The services rendered by SGV for the calendar year ended December 31, 2017 included the examination of the parent and consolidated financial statements of the Company, assistance in the preparation of the Company's annual income tax return, and other services related to filing of reports made with the SEC.

The engagement partner who conducted the audit for Calendar Year 2017 is Ms. Marydith C. Miguel, an SEC accredited auditing partner of SGV. This is Ms. Miguel's fifth and last year as engagement partner for the Company.

During the past five (5) years, there has been no event in which PHINMA Energy and SGV had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosures or auditing scope or procedures.

PHINMA Energy complied with SRC Rule 68, paragraph 3(b)(ix) which requires the rotation of external auditors or signing partners every five (5) years of engagement and the mandatory two-year cooling-off period for the re-engagement of the same signing partner or individual auditor.

The external auditors for the current year and for the most recently completed fiscal year are expected to be present at the Annual Shareholders Meeting and to answer any question. They are likewise given an opportunity to give statements if they desire to do so.

Audit and Audit-Related Fees

PHINMA Energy paid SGV the amount of ₱ 1,200,000 for each of calendar years 2016, 2015 and 2014, for professional services rendered for the audits of the Company's annual financial statements and for services that are normally provided by external auditors in connection with statutory and regulatory filings or engagement. There were no other services rendered or fees billed for products and services provided by SGV.

The Audit Committee discusses the nature and scope of the audit with the external auditor before the audit commences. It pre-approves audit fees, plans, scope and frequency one (1) month before the conduct of external audit. It evaluates and determines non-audit work by the external auditor and reviews the non-audit fees paid to the external auditor, both in relation to their significance to the audit and in relation to the Company's total expenditure on consultancy. In 2017, PHINMA Energy paid the amount P57,837.21 for the Corporate Governance training of its directors and officers conducted by SGV.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Directors and Executive Officers

a.) Directors

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

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

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

None of the members of the Board of Directors directly owns more than 2% of Company's shares.

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

Directors	Age	Citizenship	Position
Ramon R. Del Rosario, Jr.	73	Filipino	Director and Chairman of the Board
Oscar J. Hilado	80	Filipino	Director and Vice Chairman
Francisco L. Viray	69	Filipino	Director, President and CEO

Roberto M. Laviña	67	Filipino	Director and Treasurer
Magdaleno B. Albarracin, Jr.	81	Filipino	Director
Victor J. del Rosario	69	Filipino	Director
Pythagoras L. Brion, Jr.	65	Filipino	Director, SVP and CFO
Ricardo V. Camua	74	Filipino	Independent Director
David L. Balangue	66	Filipino	Independent Director
Guillermo D. Luchangco	78	Filipino	Independent Director
Corazon dela Paz-Bernardo.	77	Filipino	Independent Director

The business experiences of the Company's incumbent Directors for at least the last five (5) years are as follows:

Ramon R. del Rosario, Jr., 73, Filipino, has been a Director of the Company since 2002, and was elected as Chairman of the Board of Directors and Chairman of the Executive Committee of the Company on April 10, 2017. He is the President and CEO of PHINMA Inc. and PHINMA Corp. He is also the Chairman of PHINMA Power Generation Corporation, PHINMA Renewable Energy Corporation, CIP II Power Corporation, PHINMA Petroleum and Geothermal, Inc., Palawan55 Exploration and Production Corporation, One Subic Power Generation Corp., PHINMA Solar Energy Corporation, One Subic Oil Distribution Corp., PHINMA Microtel Hotels, Inc, PHINMA Hospitality, Inc. and the Chairman of the Boards of Trustees of Southwestern University, University of Iloilo, University of Pangasinan, Araullo University and Cagayan de Oro College. He is a Director of several PHINMA-managed companies and currently serves as a member of the Board of Directors of Ayala Corp. and as Chairman of United Pulp and Paper Company of the Siam Cement Group. He served as Secretary of Finance of the Philippines from 1992 to1993. He is the Chairman of the National Museum of the Philippines and Philippine Business for Education (PBED). He was the former Chairman of the Makati Business Club, the Integrity Initiative and Ramon Magsaysay Award Foundation. He was selected as the Most Outstanding Student of the Philippines in 1967, one of the Ten Outstanding Young Men (TOYM) of the Philippines in 1978, and the MAP Management Man of the Year in 2010. He is the brother of Mr. Victor J. del Rosario. Mr. del Rosario obtained his Bachelor of Science in Accounting and Bachelor of Arts in Social Sciences degrees *(Magna cum Laude)* from De La Salle University and Master's degree in Business Administration from the Harvard Business School.

Oscar J. Hilado, 80, Filipino, is currently the Vice Chairman of the Board (since April 10, 2017). He served as Chairman of the Company's Board of Directors for 9 years and Chairman of the Executive Committee for 17 years. He has been a director of the Company since its incorporation in 1969. He has been the Chairman of PHINMA Inc. since January 1994 and has served as CEO thereof from January 1994 to August 2005. He is likewise the Chairman of the Board & Chairman of the Executive Committee of PHINMA Corp., Chairman of the Board of PHINMA Property Holdings Corp., Vice Chairman of Union Galvasteel Corporation and Vice Chairman of PHINMA Petroleum and Geothermal Inc. and PHINMA Power Generation Corp. He is a Director of One Subic Power Generation Corp., Palawan55 Exploration & Production Corporation, PHINMA Renewable Energy Corporation, One Subic Oil Distribution Corporation, PHINMA Solar Energy Corporation, Manila Cordage Corp., Seven Seas Resorts & Leisure, Inc., A. Soriano Corporation, Philex Mining Corporation, Smart Communications, Inc. Digital Telecommunications Phils., Inc. (DIGITEL), Rockwell Land Corporation and Roxas Holdings, Inc.. He received his Bachelor of Science degree in Commerce from De La Salle College (Bacolod) in 1958 and his Master's degree in Business Administration from the Harvard Graduate School of Business in 1962.

Francisco L. Viray, 69, Filipino, has been the President and Chief Executive Officer of the Company since April 2007. He has been a Director of the Company since 1998 and has served as the Company's Executive Vice-President from April 2004 to April 2007. He is concurrently the President & CEO of PHINMA Power Generation Corporation, PHINMA Renewable Energy Corporation, PHINMA Petroleum and Geothermal, Inc., One Subic Oil Distribution Corp. and PHINMA Solar Energy Corp. He is the Vice-Chairman & CEO of CIP II Power Corporation, One Subic Power Generation Corp. and Palawan55 Exploration & Production Corporation. At present, Mr. Viray is a member of the Boards of Trustees of Araullo University, Cagayan de Oro College and University of Pangasinan of the PHINMA Education Network (PEN). He joined the PHINMA Group in 1999, a year after he served as Secretary of the

Department of Energy from 1994 to 1998. Earlier, he was President of the National Power Corporation beginning May 1993. He also served on the Board of Directors of Meralco, Petron, Union Cement Corporation (now Holcim Philippines, Inc.) and United Pulp and Paper Company, Inc. Mr. Viray received his Bachelor of Science and Master's degrees in Electrical Engineering from the University of the Philippines and his Doctorate degree in Engineering from West Virginia University.

Roberto M. Laviña, 67, Filipino, is the Senior Executive Vice-President and Chief Operating Officer (COO) of PHINMA Inc. & PHINMA Corp. and concurrently is the President & CEO of PHINMA Property Holdings Corp. He is also the Treasurer of PHINMA Energy and is a member of the Board of all the companies in the PHINMA Group which include companies in power generation, education, hotels, steel roofing, property development, oil exploration, strategic consulting and insurance brokerage. Mr. Laviña is the President of PHINMA Foundation. He has a Bachelor of Arts in Economics degree from Ateneo de Manila University and a Masters in Business Management from Asian Institute of Management. He finished his Program for Management Development at Harvard University in 1988. He has been a director of the Company since April 12, 2005.

Pythagoras L. Brion, Jr., 65, Filipino, was elected Senior Vice-President & CFO of the Company on March 20, 2012. He is concurrently Executive Vice President and Chief Financial Officer of PHINMA Inc. and Senior Vice-President and Treasurer of PHINMA Corp.; EVP, Treasurer & CFO of PHINMA Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., PHINMA Petroleum and Geothermal, Inc. and Palawan55 Exploration & Production Corporation. Mr. Brion is the Treasurer & CFO of One Subic Oil Distribution Corp. and the Treasurer of PHINMA Renewable Energy Corporation and PHINMA Solar Energy Corp. Mr. Brion likewise serves various executive posts in the PHINMA-managed companies in steel building systems, education, hospitality and property. He joined the PHINMA group in 1992. He received his Bachelor of Science degree in Management Engineering from Ateneo de Manila University and holds a Master's degree in Business Administration from University of the Philippines. He has been a director of the Company since 2014.

Magdaleno B. Albarracin, Jr., 81, Filipino, joined the PHINMA Group in 1971 as a consultant. He is currently the Vice-Chairman of PHINMA Inc. and is the Chairman of its Executive Committee. He is also Vice-Chairman of PHINMA Education Holdings, Inc.. He is a member of the Boards of Directors of PHINMA Foundation, Union Galvasteel Corporation, PHINMA Energy, PHINMA Power Generation Corporation, One Subic Power Generation Corp., PHINMA Petroleum and Geothermal, Inc., PHINMA Renewable Energy Corporation, and PHINMA Property Holdings Corp.. He is the former Chairman of the Board of Trustees of the University of San Carlos in Cebu City, and was a member of the UP Board of Regents. He was formerly Chairman of UP Engineering Research and Development Foundation and President of Holcim Philippines, Inc. He was a director of Holcim from 1986 to 2014. Dr. Albarracin received his Bachelor of Science degree in Electrical Engineering from the University of the Philippines and Master of Science degree in Electrical Engineering from the University of Michigan. He received his Master's degree in Business Administration from the University of the Philippines and Doctorate degree in Business Administration from Harvard University. He has been a director of the Company since 1986.

Victor J. del Rosario, 69, Filipino, was elected as Director on September 15, 2008. He is the Vice-Chairman of Union Galvasteel Corporation and is the Executive Vice-President and Chief Strategic Officer of PHINMA Inc. For PHINMA Corp, he is Executive Vice-President and Chief Finance Officer. He is also a member of the Boards of Directors of PHINMA Inc. and various PHINMA-managed companies. Mr. Del Rosario is the brother of Mr. Ramon R. del Rosario, Jr. Mr. Victor del Rosario is an Economics and Accounting graduate of De La Salle University and holds a Master's degree in Business Administration from Columbia University.

Ricardo V. Camua, **74,** Filipino, has been a Director of the Company since 1996. He served as the President and Chief Executive Officer of Manila Cordage Company from 2000 to 2009 and Manco Synthetics, Inc. from 2007 to 2009. Mr. Camua was the Vice-President and member of the Boards of Directors of Manco Insurance Agents Inc. and Tupperware Realty Corporation. In 2005, he was elected Director of Filmag Holdings, Inc. He has been the President of Ricardo V. Camua & Co., Inc. (RVCCI) since 2008. Mr. Ricardo Camua has a Bachelor of Science degree in Electrical Engineering from Mapua Institute of Technology.

David L. Balangue, 66, Filipino, was elected as Independent Director of the Company on March 24, 2010. He is an accounting and auditing professional whose career spanned 38 years at SGV & Co., the Philippines' largest audit and accounting professional services firm. He is a former Chairman & Managing Partner of the Firm, and was admitted to partnership in 1982. He is the current Chairman of the Philippine Financial Reporting Standards Council and is a past president of the Philippine Institute of CPAs, Management Association of the Philippines, Financial Executives Institute and The Manila Polo Club, Inc. He also sits as an Independent Director in Holcim Philippines, Inc., Manulife Financial Plans, Inc., Roxas Holdings, Inc. and Philippine Bank of Communications. Mr. Balangue holds a bachelor's degree in Commerce, major in Accounting (Magna Cum Laude) from Manuel L. Quezon University and a Master of Management degree, with distinction, from the Kellogg School of Management of Northwestern University in Evanston, Illinois, USA as an SGV scholar and where he received a Distinguished Scholar Award and was elected to the Beta Gamma Sigma, an exclusive honors fraternity. He placed second highest in the 1972 Philippine CPA Board Examinations.

Guillermo D. Luchangco, **78,** Filipino, has been an Independent Director of the Company since April 2013. He is the Chairman and Chief Executive Officer of The ICCP Group, which includes Science Park of the Philippines, Inc., Pueblo de Oro Development Corp., Cebu Light Industrial Park, Inc., Regatta Properties, Inc., RFM-Science Park of the Philippines, Inc., and Manila Exposition Complex, Inc.; Chairman of Investment & Capital Corporation of the Philippines and Chairman & President of Beacon Property Ventures, Inc. Mr. Luchangco also sits on the board of public companies PHINMA Corporation, Roxas & Company, Inc. and Ionics Inc. Mr. Luchangco received his Bachelor of Science degree in Chemical Engineering (Magna Cum Laude) from the De La Salle University and holds a Master's degree in Business Administration from Harvard Business School.

Corazon dela Paz Bernardo, **77**, Filipino, was elected as an Independent Director of PHINMA Energy on April 12, 2016. She is the Honorary President of the International Social Security Association (ISSA), an affiliate of the International Labor Organization, based in Geneva, Switzerland. She was the first woman and first non-European to be elected as ISSA's President from 2004 to 2010. She is the first woman President of the Social Security System from 2001 to 2008 and the first woman elected partner of Price Waterhouse International in 1973. She was Chairman and Senior Partner of Joaquin Cunanan & Co. (Price Waterhouse Philippines) from 1981 to 2001, and was in the World Board of Price Waterhouse World Firm from 1992 to 1995. She has served as Trustee or Commissioner of the Philippine Health Insurance Corporation (Philhealth), Home Development Mutual Fund (PAG-IBIG), National Commission on the Role of Filipino Women, University of the East, UE Ramon Magsaysay Memorial Medical Center, Medical Doctors Inc. (Makati Medical Center), Miriam College, the Makati Business Club, MFI Foundation (where she also serves as treasurer), the Philippine Business for Education (PBEd), the BDO Foundation, and the Laura Vicuna Foundation for Streetchildren. She sits on the boards of Republic Glass Holdings Corporation, and Roxas & Co., Inc. She serves as adviser the board and audit committees of BDO Unibank, Inc. and the audit committee of PLDT. Mrs. dela Paz-Bernardo was a Director of San Miguel Corporation, PLDT, Philex Mining, and Ionics Inc. and Chairperson of Equitable PCI Bank while serving as SSS President. Mrs. dela Paz-Bernardo graduated from the University of the East with a Bachelor of Business Administration degree in 1960 (Magna Cum Laude) and was the topnotcher of the CPA board examination. She obtained her MBA in 1965 from Cornell University in New York as a Fulbright grantee. She is a TOWNS and TOFIL awardee.

b) __Executive Officers__

The Officers of PHINMA Energy are elected by the Board of Directors immediately after each Annual Shareholders Meeting. The Officers hold office for one (1) year and until their respective successors are elected and qualified.

None of the Officers of PHINMA Energy holds more than two percent (2%) of the Company's shares.

The incumbent Officers of PHINMA Energy and their qualifications (i.e. age, citizenship, positions held) are as follows:

Executive Officers	Age	Citizenship	Position
Francisco L. Viray	69	Filipino	President and CEO
Roberto M. Laviña	67	Filipino	Treasurer
Rizalino G. Santos	66	Filipino	Sr. Vice President – Power Business
Virgilio R. Francisco, Jr.	60	Filipino	Sr. Vice President
Pythagoras L. Brion, Jr.	65	Filipino	Sr. Vice President and CFO
Raymundo A. Reyes, Jr.	65	Filipino	Sr. Vice President
Mariejo P. Bautista	53	Filipino	SVP – Finance and Controller
Cecille B. Arenillo	60	Filipino	Vice President and Compliance Officer
Alan T. Ascalon	43	Filipino	VP – Legal
Danilo L. Panes	61	Filipino	Vice President
Ma. Teresa P. Posadas	50	Filipino	AVP – Human Resources
Danielle R. del Rosario	40	Filipino	AVP – Head of Sales and Marketing
Arthur R. Villacorte	51	Filipino	AVP – Materials Management
Troy A. Luna	55	Filipino	Corporate Secretary
Daneia Isabelle F. Palad	28	Filipino	Assistant Corporate Secretary

The business experiences of the Company's Officers for at least the last five (5) years are as follows:

Francisco L. Viray, 69, has been the President and Chief Executive Officer of the Company since April 2007. He has been a Director of the Company since 1998 and has served as the Company's Executive Vice-President from April 2004 to April 2007. He is concurrently the President & CEO of PHINMA Power Generation Corporation, PHINMA Renewable Energy Corporation, PHINMA Petroleum and Geothermal, Inc., One Subic Oil Distribution Corp. and PHINMA Solar Energy Corp. He is the Vice-Chairman & CEO of CIP II Power Corporation, One Subic Power Generation Corp. and Palawan55 Exploration & Production Corporation. At present, Mr. Viray is a member of the Boards of Trustees of Araullo University, Cagayan de Oro College and University of Pangasinan of the PHINMA Education Network (PEN). He joined the PHINMA Group in 1999, a year after he served as Secretary of the Department of Energy from 1994 to 1998. Earlier, he was President of the National Power Corporation beginning May 1993. He also served on the Board of Directors of Meralco, Petron, Union Cement Corporation (now Holcim Philippines, Inc.) and United Pulp and Paper Company, Inc. Mr. Viray received his Bachelor of Science and Master's degrees in Electrical Engineering from the University of the Philippines and his Doctorate degree in Engineering from West Virginia University.

Roberto M. Laviña, 67, is the Senior Executive Vice-President and Chief Operating Officer (COO) of PHINMA Inc. & PHINMA Corp. and concurrently is the President & CEO of PHINMA Property Holdings Corp. He is also the Treasurer of PHINMA Energy and is a member of the Board of all the companies in the PHINMA Group which include companies in power generation, education, hotels, steel roofing, property development, oil exploration, strategic consulting and insurance brokerage. Mr. Laviña is the President of PHINMA Foundation. He has a Bachelor of Arts in Economics degree from Ateneo de Manila University and a Masters in Business Management from Asian Institute of Management. He finished his Program for Management Development at Harvard University in 1988.

Virgilio R. Francisco, Jr., 60, is a Professional Industrial Engineer. He earned his Bachelor of Science degree in Management and Industrial Engineering from Mapua Institute of Technology (MIT). He is a Senior Vice President of the Company and is a Director and the President of South Luzon Thermal Energy Corp. He was formerly the Senior Vice President and General Manager of CIP II Power Corporation, the Executive Vice President and General Manager of Asia Coal Corp. and Bacnotan Industrial Park Corp. He is a member of the Foundation of Outstanding Mapuans, Inc. He has been the Senior Vice President of the Company since April 2009.

Pythagoras L. Brion, Jr., 65, was elected Senior Vice-President & CFO of the Company on March 20, 2012. He is concurrently Executive Vice President and Chief Financial Officer of PHINMA Inc. and Senior Vice-President and Treasurer of PHINMA Corp.; EVP, Treasurer & CFO of PHINMA

Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., PHINMA Petroleum and Geothermal, Inc. and Palawan55 Exploration & Production Corporation. Mr. Brion is the Treasurer & CFO of One Subic Oil Distribution Corp. and the Treasurer of PHINMA Renewable Energy Corporation and PHINMA Solar Energy Corp. Mr. Brion likewise serves various executive posts in the PHINMA-managed companies in steel building systems, education, hospitality and property. He joined the PHINMA group in 1992. He received his Bachelor of Science degree in Management Engineering from Ateneo de Manila University and holds a Master's degree in Business Administration from University of the Philippines.

Raymundo A. Reyes, Jr., 65, holds a Bachelor of Science degree in Chemistry and Master of Science degree in Geology from the University of the Philippines and is both a licensed geologist and chemist. After a short teaching and graduate assistantship stint at the U.P. Department of Chemistry and Department of Geology and Geography, he started his career as a geologist with the Philippine National Oil Company in 1976, and was subsequently seconded to the Department of Energy and its predecessor agencies. In 1987, he joined the Company as Exploration Manager and in 1994, became its Vice President for Exploration. He is currently PHINMA Energy's Senior Vice President. He is concurrently the President & COO of Palawan55 Exploration and Production Corporation, Executive Vice President & COO of PSE-listed PHINMA Petroleum and Geothermal, Inc. and Vice President of Maibarara Geothermal, Inc., a 25%-owned subsidiary of the Company. He is a Director of PHINMA Petroleum and Geothermal, Inc. (since February 2013), Palawan55 Exploration and Production Corporation (since February 2013) and Maibarara Geothermal, Inc. (since April 2016).

Rizalino G. Santos, 66, finished his Bachelor and Master of Science degrees in Electrical Engineering from the University of the Philippines. His relevant course/program participation includes training in energy and electricity planning by the Energy Center of Pennsylvania, Institute of International Education (IIE), and International Atomic Energy Agency (IAEA). He also attended study tours on electric utility practices, deregulation and privatization in US, UK, Germany, Japan and New Zealand. Prior to becoming an Independent Power Systems Consultant, he was the Vice-President for Market Operations of TRANSCO from March 2003 to October 2004. He was an incorporator of the Philippine Electricity Market Corp. (PEMC), and served as a director and Vice President from December 2003 to March 2004. He worked in the National Power Corporation (NPC) for nineteen (19) years, working mainly at the Corporate Planning Group where he was responsible for the country's Power Development Program (PDP). He joined PHINMA Energy on August 1, 2006 as Vice President for Electricity Trading and Marketing. He is currently Senior Vice President – Power Business of PHINMA Energy. He is also President & COO of CIP II Power Corporation and of One Subic Power Generation Corp., and Executive Vice President & COO of PHINMA Power Generation Corporation.

Mariejo P. Bautista, 53**,** obtained her Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines. She is a Certified Public Accountant with a Master's degree in Business Management from the Asian Institute of Management. She worked with SyCip Gorres Velayo & Co. in 1987 and with various multinational manufacturing and service companies up to August 2011. She joined PHINMA Energy in September 2011. She is the Senior Vice President – Finance & Controller of PHINMA Energy, Trans Asia Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., PHINMA Renewable Energy Corporation, PHINMA Petroleum and Geothermal, Inc., One Subic Oil Distribution Corp., PHINMA Solar Energy Corporation and Palawan55 Exploration and Production Corporation.

Cecille B. Arenillo, 60, is a Certified Public Accountant with a Bachelor of Science degree in Commerce from the University of Sto. Tomas. She is currently the Vice President for Treasury and the Compliance Officer of PHINMA Corp., Vice President and Compliance Officer of PHINMA Petroleum and Geothermal, Inc. and PHINMA Property Holdings Corporation, Vice President & PHINMA Group Compliance Officer of PHINMA, Inc. and Asst. Treasurer of Union Galvasteel Corporation. She was elected as the Vice President and Compliance Officer of the Company on August 1, 2009.

Alan T. Ascalon, 43, is the Vice President for Legal and Head of Corporate Affairs of PHINMA Energy. He is a director of PHINMA Renewable Energy Corporation, and the Corporate Secretary of PHINMA Renewable Energy Corporation, One Subic Power Generation Corp., One Subic Oil Distribution Corp., Palawan55 Exploration and Production Corp., PHINMA Power Generation

Corporation, CIP II Power Corporation, and PHINMA Solar Corporation. He was the Assistant Legal Counsel of PHINMA, Inc. from 2005 to 2008. He graduated from the University of the Philippines with a Bachelor of Arts degree in Journalism in 1996 and a Bachelor of Laws degree in 2000.

Danilo L. Panes, 61, is a licensed Mining Engineer. He obtained his Bachelor of Science degree in Mining Engineering from Mapua Institute of Technology as a government scholar. He joined the Company in May 1996 as Project Development Manager and was promoted to Assistant Vice President for Renewable Energy in May 2006. He obtained his MBA studies from De La Salle University and completed the Management Development Program at the Asian Institute of Management. He is currently holding the position of Vice President in PHINMA Renewable Energy Corporation and Vice President for Renewable Energy in PHINMA Energy Corporation.

Danielle R. del Rosario, 40, is the Assistant Vice President and Head of Sales and Marketing for the Company. She joined PHINMA Energy in 2013 as Head of Corporate Affairs. She joined PHINMA in 2011 as Program Director (2011-2013) for the PHINMA National Scholarship Program of the PHINMA Foundation. Formerly with the banking industry, Ms.del Rosario trained in Citibank as a relationship manager and investment specialist (2003-2007) and with BDO Private Bank Wealth Advisory and Trust Group (2007-2009). She obtained her Bachelor of Science in Business Administration and Accountancy degree, Cum Laude, from the University of the Philippines Diliman, and a Master in Business Administration, with the gold medal highest academic distinction, from the University of Regis joint program with the Ateneo Graduate School of Business. She is a member of the Makati Business Club and Integrity Initiative.

Ma. Teresa P. Posadas, 50, has been the Company's Assistant Vice President for Human Resources since April 2015. In addition to her role in Human Resources, Ms. Posadas is the Company's Data Privacy Officer and Assistant Corporate Secretary of PHINMA Foundation Inc. since 2004. Her employment with PHINMA began in May 1989, then a fresh graduate of Maryknoll College with a degree of Bachelor of Science in Behavioural Science. In 2013, Ms. Posadas completed her Management Development Program from the Asian Institute of Management.

Arthur R. Villacorte, 51, was the Purchasing Officer of Union Cement Corp. (now La Farge-Holcim) from October 1991 to March 2003. During his term, he handled major expansion projects of the Cement Group. He later migrated to Canada and served as one of the procurement personnel in the Vancouver-Canada Line SNC-SELI Project from Sept. 2005 to May 2006. Upon his return to the Philippines, he joined as the Procurement Lead of the Ramcar Group of Companies-Battery Group from July 2006 to October 2007. He joined PHINMA Energy in October 2007, and is presently the Company's Assistant Vice President for the Materials Management Department. He spearheads the Procurement Consolidation Program of the different PHINMA companies. In addition to his Basic Management Program from Asian Institute of Management (AIM) in May 2013, he acquired certifications as an International Procurement and Sourcing manager from the International Purchasing and Supply Chain Management Institute (IPSCMI) in June 2016. Mr. Villacorte is a graduate of Bachelor of Science in Electronics & Communications Engineering.

Troy A. Luna, 55, was elected Corporate Secretary in April 2017. He also acts as Corporate Secretary of various Corporations including PHINMA Corporation, PHINMA Petroleum and Geothermal, Inc., The Philippine Investment-Management (PHINMA), Inc. and other PHINMA-related corporations such the Pamantasan ng Araullo (Araullo University), Inc., Cagayan de Oro, Inc., University of Pangasinan, Inc., University of Iloilo, Southwestern University, Inc., St. Jude College, Inc., PHINMA Education Holdings, Inc., Asian Plaza, Inc., Union Galvasteel Corporation, ABCIC Property Holdings, Inc., Toon City Animation, Inc. and other unrelated companies such as TCL Sun, Inc., Newminco Pacific Mining Corporation and Philippine Business for Education, Inc. He holds a Liberal Arts in Economics degree from the De La Salle University. He is a lawyer by profession, having earned his Bachelor of Laws degree from the Ateneo de Manila University School of Law in 1986 and was admitted to the Philippine Bar in 1987. He is a Senior and name Partner of the Migallos & Luna Law Offices.

Daneia Isabelle F. Palad, 28, was elected Assistant Corporate Secretary on April 10, 2017. She joined the Firm of Migallos & Luna in February 2015 and was admitted to the Philippine Bar in April of the same year. She received her Bachelor of Arts degree in both Economics and Development Studies from the

Ateneo de Manila University in 2010, with a minor in Chinese Studies from Sun Yat Sen University in Guangzhou City, China. She earned her Juris Doctor degree from the Ateneo College of Law in 2014. In practice, she has been heavily involved in business law, securities law, mergers and acquisition, intellectual property law, and litigation

c) ***Family Relationships***

Mr. Ramon R. del Rosario, Jr. is the brother of Mr. Victor J. del Rosario and the father of Ms. Danielle R. del Rosario.

Mr. Arthur R. Villacorte and Mr. Virgilio R. Francisco are cousins.

Other than the foregoing family relationships, none of the Directors, Executive Officers or persons nominated to be elected to PHINMA Energy's Board are related up to the fourth civil degree, either by consanguinity or affinity.

d) Independent Directors

The independent directors of PHINMA Energy are as follows:

1. Mr. Ricardo V. Camua
2. Mr. David L. Balangue
3. Mr. Guillermo D. Luchangco
4. Ms. Corazon dela Paz-Bernardo

The foregoing independent directors were nominated by Mr. Oscar J. Hilado. Mr. Hilado is not related to any of the independent directors either by consanguinity or affinity.

The independent directors of PHINMA Energy are not Officers or substantial shareholders of the Company. Mr. Ricardo V. Camua is not a Director or Officer of PHINMA Energy's related companies. Mr. David L. Balangue, however, is a member of the Boards of Directors of PHINMA Power Generation Corporation and One Subic Power Generation Corp. as Independent Director while Mr. Guillermo D. Luchangco is an independent director of PHINMA Corporation. Ms. Corazon dela Paz-Bernardo is an independent director of PHINMA Petroleum & Geothermal, Inc.

e) Significant Employee

Other than the Directors and Officers, other employees who may have significant influence in PHINMA Energy's major and/or strategic planning and decision-making, are:

Mr. Eduardo A. Sahagun, 61, is the President of PHINMA Solar Corporation and Union Galvasteel Corporation. He served as the President of Holcim Philippines, Inc. since January 1, 2013 until April 19, 2017 and served as its Chief Executive Officer since January 1, 2013 until November 1, 2016. Mr. Sahagun served as Senior Vice President of Commercial at Holcim Philippines, Inc. from 2007 to December 31, 2012. He served as Senior Vice President of Sales, Marketing, Distribution, Technical Services & Commercial at Holcim Philippines, Inc. from August 1, 2007 to 2012. He served as Director of Holcim Philippines Inc. since July 20, 2010 until May 8, 2017. Mr. Sahagun is a Certified Public Accountant and holds a Bachelor of Science in Commerce degree. He also holds a Masters in Management Science degree from Arthur D. Little Management Education Institute in Boston, Massachusetts and a Masters in Business Administration degree from the Ateneo Graduate School of Business.

f) Involvement in Certain Legal Proceedings

As of March 1, 2018, PHINMA Energy has no knowledge and/or information that any of the Company's Directors, Officers or nominees for election as Directors is, presently or during the last five (5) years, involved in any legal proceeding which will have any material effect on the Company, its operations, reputation, or financial condition. Furthermore, none of the Company's Directors and senior Executive Officers have been the subject of the following during the last five (5) years: (a) bankruptcy petition by or against any business of which such Director was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time; (b) a conviction by final judgment, in a criminal proceeding, domestic or foreign, or a pending criminal proceeding, domestic or foreign; (c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; or (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Aside from the following, there are no legal proceedings to which PHINMA Energy is a party or which involves any of the Company's property:

PHINMA Energy Corporation vs. Power Sector Assets and Liabilities Management Corporation (Civil Case No. R-MKT-17-03089-CV)

On September 14, 2017, PHINMA Energy filed a case seeking to restrain PSALM from terminating the "Administration Agreement for the Selection and Appointment of Independent Power Producer Administrators for the Strips of Energy of the Unified Leyte Geothermal Power Plants located in Tongonan, Leyte" (the "Agreement") on grounds of Administrator's default.

On November 07, 2013, PHINMA Energy (then Trans-Asia Oil and Energy Development Corporation) was declared as one of the winning bidders with the right to administer 40 Megawatts (MW) "strips of energy" from the ULGPP. On November 08, 2013, typhoon Yolanda severely hit Region 8 which resulted in extensive damage to the ULGPP. It was only after a one (1) year delay that PSALM awarded the Strips to the bidders.

In several letters to PSALM, PHINMA Energy formally sought the renegotiation of the Agreement and proposed several measures for relief. Representatives of PSALM and PHINMA Energy met on several occasions. PHINMA Energy wrote PSALM expressing the difficulties suffered by the Administrators under the Agreement.

PHINMA Energy, through counsel, wrote a letter exercising its right to withdraw from the Agreement. Discussions on the termination were initiated. However, PHINMA Energy received a Notice from PSALM of the Administrator Default and PSALM has resolved to terminate the Agreement and forfeit the Performance Bond.On January 2, 2018, PHINMA Energy PSALM agreed to mutually terminate the Administration Agreement for the 40 megawatt strip of energy of the Unified Leyte Geothermal Power Plant. The Company has settled all its obligations with PSALM. The case has been withdrawn and no further claims will be pursued.

In the Matter of the Application for Approval of the Contract for the Sale of Electricity between Guimaras Electric Cooperative, Inc., and PHINMA Energy Corporation **(ERC Case No. 2016-071 RC)**

On April 29, 2016, GUIMELCO and the Corporation filed a joint application for approval of the Contract for the Sale of Electricity (CSE) between GUIMELCO and the Corporation. Under the CSE, the Corporation will supply the peaking electricity requirements of GUIMELCO for a period of ten (10) years from approval of the Energy Regulatory Commission. Hearings were conducted by the ERC and all pleadings and documentary submissions were completed in November 2016.

We are still awaiting from the ERC the issuance of the Decision.

PHINMA Energy Corporation vs. Commissioner of Internal Revenue
CTA Case No. 9078

The Bureau of Internal Revenue ("BIR") issued on May 27, 2015 a Final Decision on Disputed Assessment ("FDDA"), assessing the Company for deficiency donor's tax in the total amount of Php174,936,138.07, allegedly arising from the Company's distribution of property dividends to its stockholders of record as of August 5, 2013, consisting of 123,161,310 shares of stock of PHINMA Petroleum and Geothermal, Inc., pursuant to the Resolution of the Company's Board of Directors dated July 22, 2013.

The Company filed on June 26, 2015 a Petition for Review before the Court of Tax Appeals ("CTA") assailing the assessment for donor's tax on the following grounds: (1) that the distribution of dividends is a distribution of profits, and not a disposition that results in any capital gain on the part the Company, (2) that the Company did not receive any consideration as a result of a dividend distribution, and thus, the Company did not realize any gain or increase of wealth, and (3) that there was no donative intent on the part of the Company when it distributed dividends to its shareholders.

The case is still ongoing. Parties have finished presenting evidence. If the CTA rules in favor of the validity of the assessment and holds the Company liable for donor's tax, the Company will have to pay the donor's tax of Php129 M plus interests, penalties and surcharges.

PHINMA Renewable Energy Corporation vs. Commissioner of Internal Revenue (CTA Case No. 9516)

On August 15, 2016, the Company filed with the BIR a letter and application for tax credits or refund for the Company's excess and unutilized input VAT for the period July 1, 2014 to June 30, 2015 amounting to P335.76 million attributable to the Company's zero-rated sales. On December 19, 2016, the Company received a letter from the BIR denying the Company's administrative claim for refund of excess and unutilized input VAT for the period July 1, 2014 to December 31, 2014. As at December 31, 2017, BIR has not granted or denied the Company's administrative claim for refund for the period January 1, 2015 to June 30, 2015. On January 11, 2017, the Company filed with the CTA a Petition for Review. As at February 28, 2018, the case is still pending.

CIP II Power Corporation Tax Assessment for Taxable Year 2013

On September 5, 2017, CIPP received a final decision on disputed assessment from the BIR demanding the payment of a total amount of P341.73 million for various alleged deficiency taxes for taxable year 2013. On October 4, 2017, CIPP filed its request for reconsideration with the Office of the Commissioner. As at February 28, 2018, the case is still pending.

Item 10. Executive Compensation

For the calendar years ended 31 December 2017, 2016 and 2015, the total salaries, allowances and bonuses paid to the Directors and Executive Officers of PHINMA Energy as well as the estimated compensation of the Company's Directors and Executive Officers for calendar year 2018 are as follows:

Name/Position	Year	Salaries	Bonus	Others
CEO and Top 4 Most Highly Compensated Executive Officers (Total Compensation)				
Francisco L. Viray, *President and CEO*				
Ramon R. del Rosario, Jr, *Vice Chairman*				
Pythagoras L. Brion, Jr., *SVP & CFO*				
Mariejo P. Bautista, *SVP- Finance & Controller*				
Rizalino G. Santos, *SVP – Power Business*				

Estimated	2018	21,530,366	-	690,000
	2017	27,542,866	11,819,293	711,200
	2016	28,077,500	89,101,554	755,000

All Other Officers and Directors as a Group (Total Compensation)

Unnamed (Estimated)	2018	12,987,585	-	2,040,000
	2017	12,221,185	20,032,560	1,619,057
	2016	10,180,170	22,389,920 (a)	2,015,941

(a) Includes bonus accrued in 2016 but paid in 2017.
(b) Includes bonus accrued in 2015 but paid in 2016.

a) Compensation of Directors

The Directors receive allowances, per diem and bonuses based on a percentage of the net income of PHINMA Energy for each fiscal year.

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

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

Under PHINMA Energy's By-Laws, the Officers of the Company shall hold office for one (1) year and until their successors are chosen and qualified in their stead. Any Officer elected or appointed by the majority of the Board of Directors may be removed by the affirmative vote of the Board of Directors.

PHINMA Energy does not have written contracts with any of its Executive Officers or other significant employees.

c) Compensatory Plan or Arrangement

The compensation received by Officers who are not members of the Board of Directors of PHINMA Energy consists of salaries, bonuses and other benefits.

All permanent and regular employees of the Company and its subsidiaries are covered by the PHINMA Group retirement plan (the "Plan"). The Plan provides benefits upon normal retirement beginning at age sixty (60), early retirement beginning at age fifty (50) with completion of at least ten (10) years of service, voluntary separation beginning upon completion of at least ten (10) years of service, total and physical disability, death and involuntary separation. The benefits are based on the employee's final monthly basic salary and length of service.

d) Warrants and Options Outstanding

On April 2, 2007, the Board of Directors and stockholders granted PHINMA Energy authority to set aside a total of one hundred million (100,000,000) shares from the unsubscribed portion of the Company's authorized shares for the following purposes and under terms and conditions as determined by the Executive Committee of the Board of Directors:

a. Stock grants to Officers and managers of the Company; and
b. Stock options for Directors, Officers and employees of the Company and its subsidiaries and affiliates for the purposes.

On January 8, 2008, the SEC approved the Company's Executive Stock Grants Plan and Stock Option Plan.

The Executive Stock Grants Plan is available to all Officers of PHINMA Energy and its subsidiaries, including unclassified managers. Upon achievement of the Company's goals and the determination of any variable compensation, twenty percent (20%) of the variable compensation of the Officers or managers who are entitled to avail of the Executive Stock Grants Plan are given in the form of PHINMA Energy's shares with a twenty percent (20%) discount on the weighted average closing price for twenty (20) trading days before the date of the grant but not lower than the par value of P1.00 per share. The first stock grants were subject to a holding period of one (1) year for the first one-third (1/3) of the shares, two (2) years for the next one-third (1/3) of shares and three (3) years for the remaining one-third (1/3) of the shares. Succeeding stock grants are subject to a holding period of three (3) years.

The Stock Option Plan is available to all Directors, and permanent Officers and employees of PHINMA Energy and its affiliates/subsidiaries. Employees may purchase up to thirty-three percent (33%) of their allocated shares within the first year of the grant, up to sixty-six percent (66%) on the second year of the grant, and up to one hundred percent (100%) on the third year of the grant, in cash at the weighted average closing price for twenty (20) trading days prior to date of grant but not lower than the par value of P1.00 per share

On May 7, 2008, the Company's Stock Option Committee suspended the implementation of the Stock Option Plan. The Committee decided to implement the Company's Stock Grant for its executives which resulted in the grant of 0 shares for 2017, 3,877,014 shares for 2016, 1,795,098 million shares for 2015, 0 shares for 2014, and 695,877 shares for 2013.

On July 22, 2013, the grant date, the Company lifted the suspension of the Stock Option Plan and awarded additional options under the same plan. Exercise price is ₱2.29 per share. The Company's stock options have no remaining contractual life as of December 31, 2016.

The table below shows the allocation of shares for the Stock Option Plan:

1. CEO & Executive Officers		
Ramon R. Del Rosario, Jr.	Chairman	2,500,000
Francisco L. Viray	President & CEO	3,000,000
Oscar J. Hilado	Vice-Chairman	3,000,000
Roberto M. Laviña	SEVP / Treasurer	2,500,000
Raymundo A. Reyes, Jr.	SVP – Energy Resources Development	1,750,000
Rizalino G. Santos	SVP – Power Business	1,750,000
Total		**14,500,000**
2. All executive officers as a group		
Various		9,225,000
3. All directors as a group who are not executive officers		
Various		10,500,000
4. All other employees as a group		
Various		7,865,303
GRAND TOTAL		**42,090,303**

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

Approved Number of Shares

Up to 100 million shares from the Company's ₱2 billion authorized capital stock.

Executive Stock Grants Plan

Purpose	To motivate officers to achieve the Company's goals, to help make their personal goals and corporate goals congruent and reward them for the resulting increase in value of PHINMA Energy shares
Coverage	For all officers of PHINMA Energy and its subsidiaries and affiliates, including unclassified managers who are covered by the Company's Variable Compensation Plan
Share Price	20% discount on weighted average closing price for 20 trading days before the date of grant but not lower than par value of ₱1.00 per share
Vesting Period	Upon achievement of the Company's goals and the determination of the payout under the Variable Compensation Plan
Payout Scheme	As 20% of the officer's annual variable compensation
Holding Period From Grant Date	For 1st stock grants, 1/3 of shares should have a holding period of one (1) year; 1/3 of shares should have a holding period of two (2) years and the balance should be held for three (3) years. For succeeding stock grants, all shares should have a holding period of three (3) years. The holding periods shall be annotated on the stock certificates.

Stock Option Plan

Coverage	Directors, permanent officers and employees of TA and its affiliates and subsidiaries
Option Price	At weighted average closing price for 20 trading days prior to date of grant but should not be lower than par value of ₱1.00 each share
Period Of Option	Valid for three (3) years from date of grant: Up to 33% of the allocated shares can be exercised on the 1st year from date of grant; Up to 66% of the allocated shares can be exercised on the 2nd year from date of grant; and Up to 100% of the allocated shares can be exercised on the 3rd year from date of grant.
Payment Of Shares	Cash payment required upon exercise of option.
Right To Exercise Option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the

	effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.
Administration of the Plan	The Company's Stock Option Committee shall have the power to amend or modify the terms and conditions of the Plan provided that no amendment shall, in any way, affect the rights already acquired and vested prior to the amendment thereof.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

Title of Class of Shares	Name & Address of Record Owner & Relationship with Issuer	Name & Address of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares Held	% Held
Common	Philippine Depository and Trust Corporation[1] MSE Bldg., Ayala Avenue, Makati City Stockholder		Filipino 72.13% Foreign 11.53%	4,090,660,708	83.66%
Common	PHINMA Corporation (or PHINMA Corp., formerly Bacnotan Consolidated Industries, Inc.)[2] Level 12 PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City Stockholder	PHINMA Corp., which is also the record owner. Mr. Oscar J. Hilado, Chairman of the Board, is the person appointed to exercise voting power.	Filipino	449,331,621	9.20%

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

PCD is a private institution established in March 1995 to improve operations in securities transactions. PCD seeks to provide a fast, safe and highly efficient system for securities settlement. The PCD was organized to implement an automated book-entry system of handling securities transaction in the Philippines.

As of December 31, 2017, AB Capital Securities, Inc. ("ABCSI") is the only PCD Nominee who holds more than five percent (5%) of the Company's securities. ABCSI is one of the Philippines' leading local stock brokerage firms with over thirty (30) years industry presence. It is one of the pioneers in online stock trading.

[2] **PHINMA Corp.**, was incorporated on 12 March 1957. Its principal activity is investment in shares of various subsidiaries and affiliates engaged in the manufacture of galvanized and pre-painted coils and sheets, property development, power and energy development and education. The ultimate parent company of PHINMA Corp. and its subsidiaries is PHINMA, Inc. PHINMA Corp. is listed in the Philippine Stock Exchange. The principal stockholders of PHINMA Corp. are PHINMA, Inc. and PDTC.

b) Security Ownership of Management

None of the directors and officers owns five percent (5%) or more of the outstanding capital stock of PHINMA Energy. The table below shows the securities owned by the directors and officers of the Company as of December 31, 2017:

Title of Class	Name of Owner	Citizenship	No. of Shares Held	Nature	% of Class
Common	Oscar J. Hilado	Filipino	6,000,000	Direct	0.12
Common	Ramon R. del Rosario, Jr.	Filipino	17,793,450	Direct	0.91
			26,745,698	Indirect	
Common	Francisco L. Viray	Filipino	14,312,487	Direct	0.31
			614,000	Indirect	
Common	Roberto M. Laviña	Filipino	3,376,434	Direct	0.07
Common	Guillermo D. Luchangco	Filipino	1,500,001	Direct	0.03
Common	Magdaleno B. Albarracin, Jr.	Filipino	13,427,926	Direct	0.27
Common	Ricardo V. Camua	Filipino	1,727,000	Direct	0.04
Common	Victor J. del Rosario	Filipino	4,620,362	Direct	0.64
			26,745,698	Indirect	
Common	David L. Balangue	Filipino	2,610,001	Direct	0.05
Common	Corazon dela Paz-Bernardo	Filipino	1	Direct	0.00
Common	Raymundo A. Reyes, Jr.	Filipino	1,839,798	Direct	0.04
Common	Rizalino G. Santos	Filipino	3,861,632	Direct	0.08
Common	Virgilio R. Francisco, Jr.	Filipino	2,417,857	Direct	0.05
Common	Pythagoras L. Brion, Jr.	Filipino	1,001,321	Direct	0.02
Common	Mariejo P. Bautista	Filipino	1,816,677	Direct	0.04
Common	Alan T. Ascalon	Filipino	464,173	Direct	0.01
Common	Cecille B. Arenillo	Filipino	300,000	Direct	0.01
Common	Danilo L. Panes	Filipino	279,737	Direct	0.00
Common	Danielle R. del Rosario	Filipino	483,401	Direct	0.01
Common	Arthur R. Villacorte	Filipino	346,561	Direct	0.01
Common	Ma. Teresa P. Posadas	Filipino	224,898	Direct	0.00
	TOTAL		**132,509,113**		**2.71**

c) Voting Trust Holders of 5% or more

PHINMA Energy is not aware of any person holding five percent (5%) or more of the Company's outstanding shares under a voting trust agreement or similar agreement.

d) Changes in Control

There are no arrangements that may result in a change in control of PHINMA Energy, nor has there been any change in control since the beginning of the last fiscal year and for the last three (3) years.

Item 12. Certain Relationship and Related Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individual or corporate entities.

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

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For year ended December 31, 2017 and 2016, the Company has not recorded any impairment of receivables from receivables owed by the related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In the ordinary course of business, the Company transacts with associates affiliates, jointly controlled entities and other related parties on advances, loans, reimbursement of expenses, office space rentals, management service agreements and electricity supply.

2017

Company	**Amount/ Volume**	**Nature**	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate Parent					
PHINMA, Inc.					
Rental and other income	**771**	Rent and share in expenses	**54**	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	**80,903**	Management fees and share in expenses	**(31,164)**	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	**49,308**	Cash dividend	**–**	On demand	Unsecured
Joint Ventures					
SLTEC					
Revenue from sale of electricity, rental and other income	**27,213**	Sale of electricity, rent and share in expenses	**20,046**	30-day, non-interest bearing	Unsecured, no impairment
Investments and advances (see Note 12)	**1,056,742**	Dividends received	**–**	30-day, non-interest bearing	Unsecured, no impairment
Costs of sale of electricity	**8,230,415**	Purchase of electricity	**(1,035,505)**	30-day, non-interest bearing	Unsecured

ACTA					
Investments and advances (see Note 12)	**18,074**	Additional investment	**–**	Non-interest bearing	Unsecured, no impairment
Associates					
Asia Coal					
Accounts payable and other current liabilities	**–**	Advances	**(254)**	Non-interest bearing	Unsecured
MGI					
Costs of sale of electricity	**830,802**	Trading cost	**(83,101)**	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 12)	**25,000**	Dividend received	**–**	Non-interest bearing	Unsecured, no impairment
Investments and advances (see Note 12)	**80,250**	Additional investment	**–**	Non-interest bearing	Unsecured, no impairment
Entities Under Common Control					
PHINMA Property Holdings Corporation (PPHC)					
Accounts payable and other current liabilities	**–**	Advances	**(171)**	30-60 day, non-interest bearing	Unsecured
PHINMA Corporation					
Dividend and other income	**5,387**	Cash dividend and share in expenses	**–**	30-60 day, non-interest bearing	Unsecured, no impairment
Other expenses	**3,763**	Share in expenses	**(1,429)**	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	**51,285**	Cash dividends	**–**	On demand	Unsecured
Accounts payable and other current liabilities	**4,178**	Purchase of dollars	**–**	On demand	Unsecured
Union Galvasteel Corp. (UGC)					

Dividend income	**3,334**	Cash dividend	**–**	30-60 day, non-interest bearing	Unsecured, no impairment
Rental income	**329**	Rent	**214**	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	**–**	Rental deposit	**(159)**		
General and administrative expenses	**108**	Roofing materials	**–**	30-60 day, non-interest bearing	Unsecured
T-O Insurance, Inc.					
General and administrative expenses	**112,000**	Insurance expense and membership fees	**(36,062)**	30-60 day, non-interest bearing	Unsecured
Receivables	**15**	Refund of overpayment	**–**	30-60 day, non-interest bearing	Unsecured, no impairment
Emar Corporation					
Other income	**64**	Share in expenses	**–**	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	**4,279**	Cash dividend	**–**	On demand	Unsecured
PHINMA Education Holdings Inc. (PHINMA Education)					
General and administrative expenses	**2,298**	Service fee	**–**	30-60 day, non-interest bearing	Unsecured
Other Related Parties					
Directors					
General and administrative expenses	**33,546**	Directors' fee and annual incentives	**(19,757)**	On demand	Unsecured
Stockholders					
Due to stockholders	**89,564**	Cash dividends	**(15,300)**	On demand	Unsecured
Due from related parties (see Note 8)			**20,314**		

Advance to an associate (see Note 12)	
Due to related parties (see Note 17)	**(1,187,845)**
Accrued directors and annual incentives (see Note 17)	**(19,757)**
Due to stockholders	**(15,300)**

In thousand

2016						
Company		**Amount /Volume**	**Nature**	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate Parent	-					
PHINMA Inc.	Revenue	1,100	Rent and share in expenses	63	30–60 day terms; noninterest-bearing	Unsecured; no impairment
	Expenses	104,055	Management fee and share in expenses	(53,998)	30–60 day terms; noninterest-bearing	Unsecured
	Payable	97,855	Cash dividend	(48,928)		
	Payable	-	Rental deposit	(186)	Noninterest-bearing	Unsecured
Joint Venture	-					
SLTEC	Revenues	28,074	Trading revenues, rent and share in expenses	4,204	30 day terms; noninterest-bearing	Unsecured; no impairment
	Investment	644,945	Dividend income	-		
	Cost and Expenses	6,077,461	Trading cost	(931,569)	30 day terms; noninterest-bearing	Unsecured
	Payable	-	Rental deposit	(590)	Noninterest-bearing	Unsecured
Associates						
MGI	Cost	785,167	Trading cost	(79,263)	30 day terms; noninterest-bearing	Unsecured
	Investment	-	Advances	45,000	Non-interest bearing	Unsecured; no impairment

Asia Coal	Payable	-	Advances	(254)	Noninterest-bearing	Unsecured
<u>Other Related Parties</u>	-					
Phinma, Corp.	Revenues	5,387	Dividend income and share in expenses	-	30–60 day terms; noninterest-bearing	Unsecured; no impairment
	Expenses	2,169	Share in expenses	(397)	30 day terms; noninterest-bearing	Unsecured
	Payable	102,394	Cash dividend	(51,285)	On demand	Unsecured
T-O Insurance	Expenses	91,400	Insurance & Membership fees	(30,631)	30–60 day terms; noninterest-bearing	Unsecured
	Receivable	69	Refund of overpayment of insurance	-	30–60 day terms; noninterest-bearing	Unsecured; no impairment
	Payable	2,335	Purchase of dollar		30–60 day; noninterest-bearing	Unsecured
PPHC	Payable	-	Advances	(171)	30–60 day terms; noninterest-bearing	Unsecured
UGC	Revenues	2,281	Dividend income	-	30–60 day; noninterest-bearing	Unsecured; no impairment
	Expenses	92	Roofing materials	(67)	30–60 day ; noninterest-bearing	Unsecured
Emar Corp.	Revenues	64	Share in expenses	-	30–60 day ; noninterest-bearing	Unsecured; no impairment
	Payable	8,559	Cash dividend	(4,273)	On demand	Unsecured
Phinma Education	Expenses	2,698	Service fee	(2,698)	30–60 day terms; noninterest-bearing	Unsecured
Directors	Expenses	72,846	Directors' fee and annual	(51,478)	On Demand	Unsecured

		incentives			
Stockholders					
Payable	179,320	Cash dividend	(91,203)	On Demand	Unsecured
Receivable	-	Withholding tax on property dividend	35	On Demand	Unsecured
Due from related parties			**4,267**		
Receivable from stockholders			**35**		
Advances to an associate			**45,000**		
Due to related parties			**(1,204,310)**		
Due to stockholders			**(91,203)**		
Accrued directors and annual incentives			**(51,478)**		

2015

Company	**Amount /Volume**	**Nature**	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate Parent					
PHINMA Inc. Revenue	969	Rent and share in expenses	16	30–60 day terms; noninterest-bearing	Unsecured; no impairment
Expenses	73,489	Management fee and share in expenses	(31,698)	30–60 day terms; noninterest-bearing	Unsecured
Payable		Rental deposit	(186)	noninterest-bearing	Unsecured
Joint Venture					
SLTEC Revenue	154,260	Trading revenues, rent and share in expenses	6,624	30 day terms; noninterest-bearing	Unsecured; no impairment
Cost and Expenses	2,338,331	Trading cost	(491,978)	30 day terms; noninterest-bearing	Unsecured
Payable	-	Rental deposit	(590)	End of lease term	Unsecured
ACTA Investment	7,537	Advances for future subscriptions	7,537	Noninterest-bearing	Unsecured; no impairment
Associates					
MGI Cost	772,280	Trading cost	(81,618)	30 day terms; noninterest-bearing	Unsecured
Investment	45,000	Advances for future subscriptions	45,000	Noninterest-bearing	Unsecured; no impairment

Receivable	300	Reimbursement	-	30–60 day terms; noninterest-bearing	Unsecured; no impairment
Asia Coal Payable	-	Advances	(254)	Noninterest-bearing	Unsecured
<u>Other Related Parties</u>					
Phinma, Corp. Revenue	5,387	Cash dividend and share in expenses	-	30–60 day; noninterest-bearing	Unsecured; no impairment
Expenses	2,268	Share in expenses	(406)	30 day; non-interest bearing	Unsecured
Payable	9,864	Purchase of dollar & euro	-	30 day; non-interest bearing	Unsecured
T-O Insurance Expenses	43,500	Insurance	(7,780)	30–60 day ; noninterest-bearing	Unsecured
Payable	47,346	Insurance	(48,889)	30–60 day ; noninterest-bearing	Unsecured
Receivable	185	Refund of overpayment of insurance	-	30–60 day ; noninterest-bearing	Unsecured; no impairment
PPHC Payable	-	Advances	(171)	30–60 day ; noninterest-bearing	Unsecured
UGC Revenues	3,649	Cash dividend	-	30–60 day ; noninterest-bearing	Unsecured; no impairment
Directors Expenses	29,063	Directors' fee and annual incentives	(18,500)	On Demand	Unsecured
Stockholders Payable	194,606	Cash dividend	(11,570)	On Demand	Unsecured
Receivable	-	Withholding tax on property dividend	35	On Demand	Unsecured; no impairment
Due from related parties			**6,640**		
Receivable from stockholders			**35**		
Advances to associates and other related parites			**52,537**		
Due to related parties			**(663,570)**		
Due to stockholders			**(11,570)**		
Accrued directors and annual incentives			**(18,500)**		

Philippine Investment Management (PHINMA), Inc (PHINMA, Inc.)

Philippine Investment Management (PHINMA), Inc (PHINMA, Inc.)

As of December 31, 2017, PHINMA, Inc. directly owns 1,232,637,503 shares of PHINMA Energy which represent 25.21% of the Company's total outstanding shares of stock.

Except for PHINMA Power Generation Corporation whose contract with PHINMA, Inc. is up to 2021, the Company and its subsidiaries CIP II Power Corporation and PHINMA Renewable Energy Corporation have management contracts with PHINMA, Inc. up to 2018, renewable thereafter upon mutual agreement. On February 23, 2016, the PHINMA Petroleum and Geothermal, Inc. BOD approved the suspension of the management contract for 2016.

PHINMA Power Generation Corporation (formerly Trans-Asia Power Generation Corporation)

On Dec. 27, 2013, PHINMA Power and PHINMA Energy entered into a Power Administration and Management Agreement which gave PHINMA Energy the right to administer, sell and dispatch all of the capacity of PHINMA Power for a period of ten (10) years. In addition, PHINMA Energy leases part of PHINMA Energy's office space to PHINMA Power.

CIP II Power Corporation (CIP II)

CIP II and PHINMA Energy executed a Power Administration and Management Agreement effective as of June 26, 2013 which gave PHINMA Energy the right to administer and manage the entire capacity and net output of CIP II, for a period of ten (10) years.

One Subic Power Generation Corp. (OSPGC)

One Subic Power Generation Corp. ("OSPGC"), the lessee and operator of the 116 MW Subic Diesel Generator Power Plant (the "Subic Power Plant"), was incorporated and registered with the SEC on August 4, 2010 to engage in the business of owning, constructing, operating, developing and maintaining all types of power generation plants. It started its operation on February 17, 2011. On May 12, 2014, PHINMA Power Generation Corp. purchased from Udenna Energy Corporation (UDEC) the entire outstanding shares of stock of OSPGC. Prior to the acquisition, OSPGC was a wholly owned subsidiary of UDEC, a company incorporated and domiciled in the Philippines.

OSPGC has an existing Power Administration and Management Agreement with PHINMA Energy under which PHINMA Energy is given the right to administer and manage the net output of the Subic Power Plant in consideration of energy fees to be paid by PHINMA Energy to OSPGC. The Agreement commenced on February 17, 2011 and shall be effective throughout the term of the lease of the Subic Power Plant from the owner, Subic Bay Metropolitan Authority (SBMA).

Maibarara Geothermal Inc. (MGI)

Maibarara Geothermal, Inc. (MGI), a joint venture between PetroGreen Energy Corporation (65%), PNOC Renewable Corporation (10%), and the Company (25%), was incorporated and registered with the SEC on August 11, 2010. It is currently operating a 20MW geothermal plant in the Maibarara geothermal field in Santo Tomas, Batangas, which commenced commercial operations in February 2014. The field was discovered by Philippine Geothermal, Inc. in the 1980s. MGI is the first renewable energy undertaking to be declared commercial by the government under the Renewable Energy Act of 2008.

PHINMA Energy purchases all of the power generated by MGI's 20 MW Geothermal Plant located in Maibarara.

South Luzon Thermal Energy Corporation (SLTEC)

SLTEC is a joint venture among the Company, AC Energy Holdings, Inc. (ACEHI) and Axia Power Holdings Philippines Corporation (APHPC). ACEHI is a wholly-owned subsidiary of the Ayala Corporation while APHPC is a subsidiary of Marubeni Corporation. SLTEC owns a 2 x 135MW Coal-fired Power Plant in Calaca, Batangas utilizing clean coal technology herein referred to as CFB (Circulating Fluidized Bed) for negligible emissions and minimal environmental impact. PHINMA Energy purchases all of the power generated by SLTEC.

PHINMA Corporation

As of February 28, 2018, PHINMA Corporation directly owns 1,282,301,198 shares of PHINMA Energy which represent 26.22% of the Company's total outstanding shares of stock. PHINMA Energy likewise owns shares of stock of PHINMA Corporation and receives cash dividends when such is declared and distributed by PHINMA Corporation.

PHINMA Corporation bills PHINMA Energy for its share in internal audit expenses. Like PHINMA Energy, PHINMA Corporation is controlled by PHINMA, Inc. through a management contract.

PHINMA Property Holdings Corporation (PPHC)

PPHC, like PHINMA Energy, is controlled by PHINMA, Inc. through a management contract. As PHINMA Energy owns shares of stock of PPHC, it receives cash dividends when such is declared and distributed by PPHC.

Union Galvasteel Corporation (UGC) [formerly Atlas Holdings Corporation (AHC)]

Like PHINMA Energy, UGC is under the control of PHINMA, Inc. The Company owns shares of stock of UGC and receives cash dividends when such is declared and distributed by UGC.

Asian Plaza, Inc.

Asian Plaza, Inc. also has a management contract with PHINMA, Inc. PHINMA Energy, being a stockholder of Asian Plaza, Inc. receives cash dividends when such is declared and distributed by Asian Plaza, Inc.

T-O Insurance Brokers, Inc.

T-O Insurance Brokers, Inc. is likewise controlled by PHINMA, Inc. through a management contract. PHINMA Energy insures its properties through T-O Insurance Brokers, Inc.

Directors

PHINMA Energy recognizes bonuses to Directors computed based on net income before the effect of the application of the equity method of accounting.

In addition to the foregoing, PHINMA Energy has provided guarantees for the following related party payables:

Maibarara Geothermal, Inc. (MGI)

PHINMA Energy is a Project Sponsor for MGI's Php2.4 billion Term Loan Facility for the Maibarara Geothermal Power Plant. In the event of a default of MGI, the Company, as Project Sponsor, is obliged to:

a. Assign, mortgage or pledge all its right, title and/or interest in and its shares of stock in MGI, including those that may be issued in the name of the Company;

b. Assign its rights and/or interests in the Joint Venture Agreement executed by and among the Company, PetroGreen Energy Corporation and PNOC-Renewables Corporation; and

c. Provide Project Sponsor support for the completion of the Project under such terms and conditions that may be agreed upon by the Company and the Lenders

South Luzon Thermal Energy Corporation (SLTEC)

SLTEC signed an Omnibus Loan and Security Agreement with its local third party creditor banks. Under the terms of the Agreement, PHINMA Energy shall:

a. Enter into supply agreements with end users sufficient to cover such capacity required by SLTEC to break-even for 2 years within 18 months from first drawdown. The consequence of failure is a draw-stop (i.e. SLTEC will not be able to draw on the loan);

b. Commit to provide advances to SLTEC in proportion to the Company's equity interest in SLTEC to fund the project cost of the SLTEC power plant project;

c. Guarantee jointly with AC Energy to redeem the loan in the event that SLTEC defaults on the loan, and lenders are not able to consolidate title to the project site because title to the properties have not been issued; and

d. Pledge its shares in SLTEC as security, and assign its offtake contracts to the lenders sufficient to cover such capacity required by SLTEC to break-even.

PHINMA Renewable Energy Corporation ("PHINMA R.E.")

Under the Sponsor Support Agreement which forms Part G of the Omnibus Agreement dated December 18, 2013 which was entered into by and among PHINMA Renewable Energy Corporation ("PHINMA R.E.") as Borrower, Security Bank Corporation – Trust Division as Facility Agent for the lenders and Collateral Trustee for the secured parties, and PHINMA Energy as Sponsor, the Company undertakes to provide:

a. Base Equity Contribution – an amount equivalent to 30% of the cost of the San Lorenzo Wind Farm Project (the "Project") in San Lorenzo, Guimaras which the Company as Sponsor must infuse into the Project.

b. Cost Overrun Support – the obligation to deposit and pay or cause to be deposited and paid in cash the amounts needed to cover any cost overruns in respect of the Project at any time from Closing Date until the Takeover Date, including all funding required to enable the Project to achieve the Commercial Operations Date.

c. Technical Support – all necessary support and assistance including by way of the provision of personnel, expertise, know-how, professional managerial services, technology or specialized equipment in order to assist PHINMA R.E. in completing the Project in accordance with Project requirements.

d. DSRA Funding Obligation – the amount required to ensure that the Debt Service Reserve Account is equal to the then applicable Required Debt Service Reserve Amount until PHINMA R.E. obtains a DOE Certificate of Endorsement for FIT Eligibility and a Renewable Energy Payment Agreement for the entire electricity output of the Project.

e. Sponsor Mandatory Redemption Obligation – right of the Lenders to require the Company to pay the outstanding loan amount, including interest, and all other amounts payable by PHINMA R.E. in case that, at the time of the issuance of a Declaration of Default, titles to all of the land assets have not been acquired by or issued in the name of PHINMA R.E.; or if, notwithstanding the acquisition or issuance of titles in the name of PHINMA R.E., the Collateral Trustee, or the winning bidder in the foreclosure sale fails or is otherwise unable to obtain legal, indefeasible, and incontestable title to the land assets or any portion thereof by reason of PHINMA R.E.'s failure to register and annotate the mortgage on the relevant titles or a claim registered or filed by a claimant.

PART V – CORPORATE GOVERNANCE

Item 14. Compliance Program

Compliance Program

CORPORATE GOVERNANCE

The Board of Directors, officers and employees of PHINMA Energy Corporation ("PHINMA Energy" or the "Company") commit themselves to the principles and best practices embodied in its Manual on Good Corporate Governance. PHINMA Energy believes that good corporate governance is a necessary component of what constitutes sound strategic business management and will therefore exert every effort to ensure adherence thereto within the organization.

Compliance Officer

The Board of Directors designates a Compliance Officer who reports to the Chairman of the Board. As required of publicly-listed companies, the appointment of the Compliance Officer is properly disclosed to the Securities and Exchange Commission ("SEC").

The Compliance Officer's duties include ensuring proper onboarding of new directors (i.e., orientation on the company's business, charter, articles of incorporation and by-laws, among others), monitor, review, evaluate and ensure compliance by the Corporation, its officers and directors with the relevant laws, with the Code of Corporate Governance ("Code"), rules and regulations and all governance issuances of regulatory agencies, appear before the Securities and Exchange Commission upon summon on matters in relation to compliance with the Code, ensure the integrity and accuracy of all documentary submissions to regulators, determine violation/s of the Code and recommend to the Board the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation, identify possible areas of compliance issues and work towards the resolution of the same, develop and establish, subject to approval of the Board of Directors, a monitoring and evaluation system to determine compliance with this Manual, which system shall provide for a procedure that fulfils the requirements of due process, ensure the attendance of board members and key officers to relevant trainings and perform such other duties and responsibilities as may be provided by the SEC.

Integrated Annual Corporate Governance Report (I-ACGR)

SEC MC No. 15, Series of 2017 was released in December 2017 which mandates all publicly-Listed companies to submit an Integrated Annual Corporate Governance Report (I-ACGR) covering all relevant information for the year 2017 on May 30, 2018. The report supersedes the Annual Corporate Governance Report (ACGR) last submitted for 2016.

As of December 31, 2017, PHINMA Energy has substantially complied with the principles and best practices contained in the Manual on Good Corporate Governance. There were no sanctions imposed on any director, officer or employee for non-compliance of the Manual.

Compliance Report

As required by the Philippine Stock Exchange, the Compliance Officer submitted on March 30, 2017, the Compliance Report on Corporate Governance for the year 2016. For the said year under review, the Company is compliant with all guidelines of the Compliance Report.

For the year 2017, the report is superseded by the submission of the I-ACGR due on May 30, 2018.

PART VI – EXHIBITS AND SCHEDULES

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

a.) *List of Exhibits*

Exhibit A	-	Consolidated Audited Financial Statements for the Calendar Year 2017
Exhibit B	-	Parent Audited Financial Statements for the Calendar 2017

b.) *Schedules on SEC Form 17- C*

The Company filed the following reports on SEC 17-C during the fiscal year 2017 by this report:

Date of filing	Item Reported
January 06, 2017	*Subscription of Shares* Subscription by PHINMA Energy Corporation to the preferred shares of Trans-Asia Renewable Energy Corporation (TAREC) To provide funds to the subsidiary and build up its capital base Trans-Asia Renewable Energy Corporation is engaged in renewable energy generation

Subject of the Disclosure
Subscription of Shares
Background/Description of the Disclosure
Subscription by PHINMA Energy Corporation to the preferred shares of Trans-Asia Renewable Energy Corporation (TAREC)

Rationale for the transaction including the benefits which are expected to be accrued to the Issuer as a result of the transaction
To provide funds to the subsidiary and build up its capital base

Details of the acquisition or disposition

Date	Jan 5, 2017

Manner
Full payment in cash of 25% of 25% of increase in Authorized Capital Stock
Description of the company to be acquired or sold
Trans-Asia Renewable Energy Corporation is engaged in renewable energy generation

The terms and conditions of the transaction

Number of shares to be acquired or disposed	750,000,000
Percentage to the total outstanding shares of the company subject of the transaction	15%
Price per share	1.00

Nature and amount of consideration given or received
Full payment in cash of P187,500,000
Principle followed in determining the amount of consideration
Par value of shares
Terms of payment
25% of subscribed paid in – balance subject to call of Company's Board
Conditions precedent to closing of the transaction, if any
SEC Approval
Any other salient terms
This is a subscription to shares of the Company

Identity of the person(s) from whom the shares were acquired or to whom they were sold

Name	**Nature of any material relationship with the Issuer, their**	

Effect(s) on the business, financial condition and operations of the Issuer, if any
In accordance with Philippine Financial Reporting Standards, no gain or loss will be recognized on the transaction.
Other Relevant Information
None

	directors/ officers, or any of their affiliates	
Trans-Asia Renewable Energy Corporation	TAREC is a wholly-owned subsidiary of PHINMA Energy Corporation	

January 12, 2017

Subject of the Disclosure
Subscription of shares
Background/Description of the Disclosure
Subscription by PHINMA Energy Corporation to the preferred shares of Trans-Asia Renewable Energy Corporation (TAREC)

Date of Approval by Board of Directors	Dec 8, 2015

Rationale for the transaction including the benefits which are expected to be accrued to the Issuer as a result of the transaction
To provide funds to the subsidiary and build up its capital base

Details of the acquisition or disposition

Date	Jan 11, 2017

Manner
Full payment in cash .
Description of the company to be acquired or sold
Trans-Asia Renewable Energy Corporation is engaged in renewable energy generation

The terms and conditions of the transaction	
Number of shares to be acquired or disposed	1,600,000,000
Percentage to the total outstanding shares of the company subject of the transaction	32
Price per share	1.00

Nature and amount of consideration given or received
Full payment in cash of P1,600,000,000
Principle followed in determining the amount of consideration
Par value of shares
Terms of payment
Full payment in cash
Conditions precedent to closing of the transaction, if any
SEC Approval
Any other salient terms
This is a subscription to shares of the Company

Effect(s) on the business, financial condition and operations of the Issuer, if any
In accordance with Philippine Financial Reporting Standards, no gain or loss will be recognized on the transaction.
Other Relevant Information
None

January 13, 2017

1) Full payment of balance of 750 M preferred shares in Trans-Asia Renewable Energy Corporation in the aggregate amount of P750 M
2) Subscription and payment of 1.6 B preferred shares in Trans-Asia Renewable Energy Corporation in the amount of P1.6 B

PHINMA Energy Corporation ("the Corporation") subscribed to, and paid for 2.35 B preferred shares in Trans-Asia Renewable Energy Corporation ("TAREC"), a wholly-owned subsidiary, for the total amount of P2.35 B at P1.00/share.

On January 5, 2017 the Corporation subscribed to 750 M preferred TAREC shares wherein 25% of which was paid on the same date amounting to Php 187.5 M with the balance of Php 562.5 M paid on 11 January 2017.

On January 11, 2017 the Corporation subscribed to 1.6 Billion preferred TAREC shares and paid in full the amount of Php1.6 Billion.

January 31, 2017

Notice of Annual Shareholders Meeting

Please be advised that the annual meeting of shareholders of PHINMA Energy Corporation will be held on Monday, April 10, 2017, at 2:30 in the afternoon at the Manila Peninsula Hotel, Makati City.

AGENDA

1. Call to Order
2. Proof of Notice and Determination of Quorum
3. Minutes of Previous Meeting
4. Annual Report of Management and Confirmation of all acts of the Board of Directors and of Management since the last Annual Shareholders Meeting
5. Election of Directors
6. Appointment of External Auditors
7. Other Matters
8. Adjournment

For the explanation of each agenda item, please refer to Annex A.

The record date for the determination of the shareholders entitled to notice of said meeting and to vote thereat is at March 10, 2017.

February 06, 2017

Clarification of news article entitled "Phinma Energy defers building 900-MW coal-fired power plant in Sual, Pangasinan" that appeared in the BusinessMirror (Internet Edition) dated February 5, 2017.

This is in reply to your request for clarification of the news article entitled "Phinma Energy defers building 900-MW coal-fired power plant in Sual, Pangasinan" that appeared in BusinessMirror (Internet Edition) on February 5, 2017. The article reported in part that:

"PHINMA Energy Corp. has deferred plans to put up a 900-megawatt (MW) coal-fired power plant in Sual, Pangasinan.

'*Deferred. Maraming supply. Who knows that by 2020 we may go for it?' Phinma Energy President Francisco Viray said.*

He said the company might revisit plans to push through with the power project 'between 2020 and

2025'.

. . . ."

We confirm the statements expressed by our President on the plans for the Sual power project.

We will advise the Exchange promptly of any developments in the project as applicable.

March 06, 2017

Please be informed that at the regular meeting of the Board of Directors of PHINMA Energy Corporation held today, March 3, 2017, the following were approved:

1. Audited financial statements for the year ended December 31, 2016 showing consolidated net income of P1.382Billion.
2. Declaration of cash dividend of P.04 per share payable on March 31, 2017 to all stockholders of record as of March 17, 2017.

April 5, 2017

SEC approval of the Amendments to the Articles of Incorporation Trans-Asia Renewable Energy Corporation (TAREC), a wholly-owned subsidiary of PHINMA Energy Corporation, to increase its capital stock.

On March 31, 2017, the SEC approved the increase of the capital stock of Trans-Asia Renewable Energy Corporation (TAREC) from P 2,000,000,000.00 divided into 2,000,000,000 shares of the par value of P 1.00 each to P 5,000,000,000.00 divided into 5,000,000,000 shares of the par value of P 1.00 each, as approved by the Board of Directors on December 8, 2015.

April 11, 2017

Results of the Annual Stockholders' Meeting of PHINMA Energy Corporation

PHINMA Energy Corporation held its Annual Stockholders' Meeting on 10 April 2017 at the Peninsula Hotel Manila

List of elected directors for the ensuing year with their corresponding shareholdings in the Issuer

Name of Person	Shareholdings in the Listed Company		Nature of Indirect Ownership
	Direct	Indirect	
Ramon R. del Rosario, Jr.	17,383,812	26,745,698	thru Emar Corporation
Oscar J. Hilado	6,500,000	0	-

Francisco L. Viray	13,165,500	614,000	thru Mrs. Jacoba Viray
Roberto M. Laviña	3,048,724	0	-
Magdaleno B. Albarracin, Jr.	13,427,926	0	-
Victor J. del Rosario	4,620,362	26,745,698	thru Emar Corporation
Pythagoras L. Brion, Jr.	786,724	0	-
Ricardo V. Camua	1,727,000	0	-
David L. Balangue	2,610,001	0	-
Guillermo D. Luchangco	1,500,001	0	-

External auditor	Sycip, Gorres, Velayo & Company

Corazon S. dela Paz-Bernardo	1	0	-

1. Confirmation of Annual Report of Management including Financial Statements
2. Ratification of all acts and resolutions of the Board of Directors and Management since the last annual shareholders meeting
3. Election of Directors
4. Appointment of Sycip, Gorres, Velayo & Company as External Auditors

May 17, 2017

PHINMA Energy Discloses First Quarter 2017 Results
PHINMA Energy Corporation (PHINMA Energy or the Company) disclosed on May 15, 2017 its first quarter 2017 financial results.

By the end of the first quarter of 2017, PHINMA Energy successfully switched contestable customers with over 100MW in peak load demand. As of March 2017, PHINMA Energy holds a 12% market share, making it the second largest single Retail Electricity Supplier in the country. Revenue from the sale of electricity correspondingly increased 16% to Php 3.6 billion on higher energy sales from the Company's power supply business. During the period, however, company affiliate South Luzon Thermal Energy Corporation carried out scheduled preventive maintenance and shutdown on both line 1 and line 2 coal fired power plants. As a result, equity in net earnings of associates of the Company decreased to Php 82 million in the first quarter of 2017, from Php 119 million in the previous year. Interest and financial charges of the Company for the period increased to Php 158 million from Php 117 million in the previous year. New long term loans were availed of to fund new equity capital in Trans Asia Renewable Energy Corporation (TAREC). Resulting consolidated net income of the Company decreased to Php 77 million in the period, from Php 265 million in the previous year.

The Company continues to be committed to renewable energy. TAREC, the wholly-owned renewable energy subsidiary of the Company, delivered 49.2 GWh of electricity over the period from its 54-MW Wind Farm in Guimaras, an increase over the 45.0 GWh delivered in the previous year, on higher wind volume. Revenue from the Guimaras wind farm correspondingly increased 9% to Php 364 million in the period.

Construction is underway on the 12 MW Line 2 geothermal power plant expansion of affiliate Maibara Geothermal Inc., which is scheduled for commercial operation by the last quarter of 2017. Other renewable energy expansion plans include wind farm installation prospects for subsidiary TAREC in Guimaras and Cagayan, which can be developed once the energy policy of the Government becomes more definitive.

July 5, 2017

Solar Energy Service Contract

PHINMA Energy Corporation and the Department of Energy (DOE) entered into a Solar Energy Service Contract which grants the PHINMA Energy the exclusive right to explore, develop and utilize the solar energy resource in a 648 hectare area in the Municipality of Bugallon, Province of Pangasinan. Pre-development activities such as yield assessment, environmental impact study and system impact study are underway and are expected to be completed within the year. PHINMA Energy hopes to construct a 40MW solar plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years."

July 6, 2017	*Solar Energy Service Contract* PHINMA Energy Corporation and the Department of Energy (DOE) entered into a Solar Energy Service Contract which grants the PHINMA Energy the exclusive right to explore, develop and utilize the solar energy resource in a 648 hectare area in the Municipality of Bugallon, Province of Pangasinan. Pre-development activities such as yield assessment, environmental impact study and system impact study are underway and are expected to be completed within the year. PHINMA Energy hopes to construct a 45MW solar plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years." To amend previously indicated solar plant capacity from 40MW to 45MW.
July 17, 2017	*Manila Standard news article entitled "6 eye Laguna Lake power plants"* *We respond to a news article published in the Manila Standard today which states in part*: "The Energy Department said it received six proposals from different companies to develop big hydro power projects harnessing Laguna Lake. Energy Department director Mario Marasigan told reporters that Laguna Lake, the country's largest freshwater lake, could host five projects with a total capacity of 2,000 megawatts. "There are proposals for pumped storage [power projects] using the lake….Right now we have accepted six proposals. That means service contracts applications over Laguna Lake," Marasigan said. He said the proposals came from local companies such as Phinma Energy Corp. (formerly Trans-Asia Oil and Energy Development Corp.) and Citicore Power. "All of these projects would be pumped storage. They will pump water of the Laguna Lake upward then if they need to generate they will also release the water there," Marasigan said. He said the proposals were to develop power projects with a capacity of 400 MW to 600 MW each, depending on feasibility studies. These would be located in Tanay and Pililla in Rizal province or towns in Laguna." We confirm that in 2014, PHINMA Energy submitted an application with the Department of Energy to develop a 300-MW pumped storage hydro project in Pililla, Rizal. However, the final decision to invest in the project will depend on favorable results of feasibility studies and the ability to secure the required clearances and permits.
August 15, 2017	*Net Income for First half of 2017* PHINMA Energy Corporation (PHEN) posted a net income of P298 million in the first half of 2017, compared to P542 million last year on lower electricity prices.

The company was able to achieve a significant volume of customer migration due to the implementation of Retail Competition and Open Access (RCOA). Despite the temporary restraining order issued by the Supreme Court, PHINMA Energy was able to garner 14% Retail Electricity Supply (RES) market share.

However, heightened competition and increasing penetration of must dispatch variable renewable energy (VRE) have driven market prices of electricity downward. The number of additional customers due to the implementation of RCOA, were below targeted volumes as a result of the TRO.

Under the foregoing environment in the industry, the Company is continuously working to manage supply portfolio costs to remain competitive and is hopeful that more contestable customers will be encouraged to participate voluntarily in RCOA. Together with increasing electricity demand due to the planned construction activities in the country, the Company remains positive on its prospects for the second half of the year.

September 11, 2017

Matters taken up during the Board meeting held today, September 11,2017.

The Board of Directors of PHINMA Energy Corporation ("PHINMA Energy") today authorized the filing of a case against Power Sector Assets and Liabilities Management ("PSALM") Corp., to restrain the termination of the Administration Agreement for the Selection and Appointment of Independent Power Producer Administrators (IPPAs) for the Strips of Energy of the Unified Leyte Geothermal Power Plants ("ULGPP") located in Tongonan, Leyte (the "Agreement") on grounds of Administrator's default.

On November 07, 2013, PHINMA Energy (then Trans-Asia Oil and Energy Development Corporation) was declared as one of the winning bidders with the right to administer 40 Megawatts (MW) "strips of energy" from the ULGPP. On November 08, 2013, typhoon Yolanda severely hit Region 8 which resulted in extensive damage to the ULGPP. It was only after a one (1) year delay that PSALM awarded the Strips to the bidders.

In several letters to PSALM, PHINMA Energy formally sought the renegotiation of the Agreement and proposed several measures for relief. Representatives of PSALM and PHINMA Energy met on several occasions. PHINMA Energy wrote PSALM expressing the difficulties suffered by the Administrators under the Agreement.

PHINMA Energy, through counsel, wrote a letter exercising its right to withdraw from the Agreement. Discussions on the termination were initiated. However, PHINMA Energy received a Notice from PSALM of the Administrator Default and PSALM has resolved to terminate the Agreement and forfeit the Performance Bond.

September 13, 2017

Solar Energy Service Contract

PHINMA Energy Corporation and the Department of Energy (DOE) entered into a Solar Energy Service Contract which grants PHINMA Energy the exclusive right to explore, develop and utilize the solar energy resource in a 486 hectare area in the City of Lipa and Municipality of Padre Garcia, Province of Batangas. PHINMA

Energy hopes to construct a 45MW solar plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years.

September 13, 2017	Filing of complaint for damages with prayer for a writ of preliminary injunction/writ of preliminary mandatory injunction and temporary restraining order against Power Sector Assets and Liabilities Management ("PSALM") Corp. and its former President Emmanuel R. Ledesma, Jr.

PHINMA Energy seeks to restrain PSALM from terminating the "Administration Agreement for the Selection and Appointment of Independent Power Producer Administrators for the Strips of Energy of the Unified Leyte Geothermal Power Plants located in Tongonan, Leyte" (the "Agreement") on grounds of Administrator's default.

On November 07, 2013, PHINMA Energy (then Trans-Asia Oil and Energy Development Corporation) was declared as one of the winning bidders with the right to administer 40 Megawatts (MW) "strips of energy" from the ULGPP. On November 08, 2013, typhoon Yolanda severely hit Region 8 which resulted in extensive damage to the ULGPP. It was only after a one (1) year delay that PSALM awarded the Strips to the bidders.

In several letters to PSALM, PHINMA Energy formally sought the renegotiation of the Agreement and proposed several measures for relief. Representatives of PSALM and PHINMA Energy met on several occasions. PHINMA Energy wrote PSALM expressing the difficulties suffered by the Administrators under the Agreement.

PHINMA Energy, through counsel, wrote a letter exercising its right to withdraw from the Agreement. Discussions on the termination were initiated. However, PHINMA Energy received a Notice from PSALM of the Administrator Default and PSALM has resolved to terminate the Agreement and forfeit the Performance Bond. Thus the filing of the Complaint.

Name of the court or agency:	RTC-Makati City
Date Instituted:	Sept 13, 2017
Docket number:	R-MKT-17-0308-CV

Principal parties:	Complainant- PHINMA Energy Corporation Defendants- PSALM and Emmanuel R. Ledesma, Jr.

Civil case for damages and annulment of the Agreement with prayer for a writ of preliminary injunction/writ of preliminary mandatory injunction and temporary restraining order (TRO).

The case has no material adverse effect on the operations of the Corporation. The grant of the prayer for a temporary restraining order (TRO) will restrain PSALM from terminating the Agreement on the ground of Administrator's Default and prevent PSALM from asserting any further claim to the detriment of the Corporation. In the event that the Court rules in favor of PHINMA Energy, the Agreement may be invalidated and an award for damages may be made to the Corporation. An adverse decision may open the Company to possible financial claims by PSALM.

October 06, 2017	Clarification of BusinessWorld News Article on PHINMA Energy's new projects We confirm the accuracy of the news report appearing in today's issue of Businessworld titled "Phinma Energy eyes 4 new projects," which states in part: "PHINMA ENERGY Corp. is studying four new projects with a total capacity of 925.6 megawatts (MW) that will mark the company's move to diversity its power generation portfolio to include gas and hydropower, company officials said. 'With all the coal plants being planned, you'll have enough for 2025,' said Francisco L. Viray, Phinma Energy president and chief executive officer, in a briefing in Quezon City, when asked about the company's plan to develop new resources. Three of the four projects under the pre-development stage are combined cycle gas turbines (CCGT), and the remaining one is a hydroelectric power plant. They have all been cleared by the Department of Energy (DoE) to conduct grid impact studies. These projects are the 383-MW Sta.Ana CCGT power plant in Port Irene, Sta. Ana, Cagayan; 383-MW Sual CCGT floating power plant in Brgy. Baquioen, Sual, Pangasinan; 138 MW Argao floating CCGT power plant in Brgy. Bulasa, Argao, Cebu; and 21.6 MW Ilog hydroelectric power plant in Mabinay, Negros Oriental. . . . ." We wish to clarify that these projects are in the pre-development stage and that no final investment decision has been made on any of them.
November 13, 2017	Notice of Annual Shareholders' Meeting of PHINMA Energy Corporation Please be advised that the annual meeting of shareholders of PHINMA Energy Corporation will be held on Wednesday, April 11, 2018, at 2:00 in the afternoon. Type of meeting: Annual

Date of Approval by Board of Directors	Nov 13, 2017
Date of Stockholders' Meeting	Apr 11, 2018
Time	2:00 PM
Venue	TBA

Record Date	Mar 12, 2018
Agenda	1. Call to Order 2. Proof of Notice and Determination of Quorum 3. Minutes of Previous Meeting 4. Annual Report of Management and Confirmation of all acts of the Board of Directors and of Management since the last Annual Shareholders Meeting 5. Election of Directors 6. Appointment of External Auditors 7. Other Matters 8. Adjournment The record date for the determination of the shareholders entitled to notice of said meeting and to vote thereat is at March 12, 2018.

Inclusive Dates of Closing of Stock Transfer Books	
Start Date	Mar 13, 2018
End Date	Apr 11, 2018

December 29, 2017

Termination of the Administration Agreement for the Unified Leyte Geothermal Power Plant

PHINMA Energy Corporation and Power Sector Assets and Liabilities Management Corporation (PSALM) have agreed to mutually terminate the Administration Agreement for the 40 megawatt strip of energy of the Unified Leyte Geothermal Power Plant.

The termination allows the Company to improve its supply costs while maintaining a diversified portfolio. The Company has settled all its obligations with PSALM.

PHINMA Energy Corporation will withdraw the case it filed earlier and no further claims will be pursued.

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 APR 1 3 2018.

PHINMA Energy Corporation

By:

FRANCISCO L. VIRAY
President and CEO

ROBERTO M. LAVIÑA
Treasurer

Raymundo A. Reyes Jr.

RAYMUNDO A. REYES, JR.
Senior Vice President

PYTHAGORAS L. BRION, JR.
SVP & Chief Financial Officer

RIZALINO G. SANTOS
SVP-Power Business

MARIEJO P. BAUTISTA
SVP-Finance and Controller

TROY A. LUNA
Corporate Secretary

Republic of the Philippines)
Makati City) S.S.

SUBSCRIBED AND SWORN to before me this APR 1 3 2018 day of April, 2017 affiant(s) exhibiting to me his/her Driver's License/Passport/Community Tax Certificates, as follows:

Name	Driver's License No./ Passport No./ Senior Citizen No.	Date of Issue/Expiration Date
Francisco L. Viray	EC3546900	February 27, 2015
Roberto M. Laviña	EC1494118	June 28, 2014
Raymundo A. Reyes, Jr.	EC6433773	January 7, 2016
Pythagoras L. Brion, Jr.	P3455624A	June 22, 2017
Rizalino G. Santos	EC8135826	June 27, 2016
Mariejo P. Bautista	N02-96-322934	May 13, 2017
Troy A. Luna	P3486441A	June 24, 2017

Jordan Mae T. Chua
JORDAN MAE T. CHUA
Notary Public for the City of Makati
Until December 31, 2018
Commission No. M-413
Attorney's Roll No. 63561/ 08 May 2014
PTR No. MKT 5919742/12 January 2017/Makati City
IBP Lifetime No. 012851/02 April 2015/Quezon City
MCLE Compliance No. V – 0021825/01 June 2015
3rd Flr, The PHINMA Plaza, 39 Plaza Drive,
Rockwell Center, Makati City

Notary Public

Doc. No. 457
Page No. 92
Book No. V
Series of 2018

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

The Board of Directors
PHINMA Energy Corporation

MEMBERSHIP OF THE COMMITTEE

The Audit Committee is composed of two (2) independent directors and one (1) non-executive director. An independent director, Mr. David L. Balangue, chairs the Audit Committee. The other members are Ms. Corazon de la Paz - Bernardo (independent director) and Mr. Victor del Rosario (non-executive director). Other attendees at Committee meetings (or parts thereof) were the Chief Financial Officer, Group Internal Audit, Group Controller, Compliance Officer and the external auditors. The Committee has accounting expertise and adequate understanding of the Company's business and industry in which it operates.

ROLE OF THE COMMITTEE

The roles and responsibilities of the Committee are defined in the Audit Committee Charter which is available on our website at *http://www.transasia-energy.com/ta/wp-content/uploads/2015/01/TAO-Audit-Committee-Charter.pdf.* As a Board-level Committee, we assist the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to the financial statements and financial reporting process, internal control system, internal and external auditor's performance, and compliance with legal and regulatory matters including approving and recommending the appointment, reappointment, removal, fees and assessing the integrity and independence of the external auditor.

We are pleased to report our activities for Calendar Year 2017.

ACTIVITIES OF THE COMMITTEE

The Audit Committee had four (4) meetings during the year. Overall, attendance is at seventy-seven percent (77%). The meetings were timed to review the quarterly and yearly financial reporting of the Company. Also, the Committee reviewed the results of the annual audit of the external auditor, SGV & Co., the findings and status of Group Internal Audit's engagements and the status of Integrity Assurance activities and the 2016 Audit Committee Report.

We received information and support from Management, the Compliance Officer and Group Internal Audit to enable us to effectively carry out our functions as defined in our Charter approved by the Board of Directors.

Management's Financial Report

We reviewed and endorsed to the Board of Directors for approval the 2016 audited consolidated financial statements and the 2017 unaudited quarterly consolidated financial statements.

Informatively, in our first meeting for 2018 held on February 26, 2018, we likewise reviewed and endorsed to the Board of Directors for approval the 2017 audited consolidated financial statements presented in this 2017 annual report. We also reviewed the summary of audit differences and found these to be clearly immaterial to the financial statements. These activities were performed in the following context:

- Management has primary responsibility for the financial statements and the financial reporting process.
- SyCip, Gorres, Velayo & Co. (SGV & Co.) is responsible for expressing an opinion on the annual audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. They have likewise confirmed that the audit was conducted in accordance with Philippine Standards on Auditing.

We also reviewed the Management Representation Letter prior to its submission by Management to the external auditors.

External Audit
The Audit Committee assessed the ongoing effectiveness, suitability and quality of the external auditor and the audit process through feedback from members of the Committee and a questionnaire-based internal review with Management. On the basis of their performance and qualifications, we endorsed to the Board of Directors the nomination of Sycip, Gorres, Velayo & Co. (SGV) as the Company's external auditor for 2017.

During the year, we reviewed and approved the scope and deliverables of the SGV audit plan. The Committee ensured that SGV's scope included the review of Company's compliance to Philippine Financial Reporting Standards (PFRS). Non-audit services and related fees for their services were also reviewed and we concluded that these fees are not significant to impair their independence.

In our Committee meeting held February 26, 2018, we agreed to propose to the Board of Directors the retention of SGV & Co. as the external auditor for 2018.

Internal Audit
We reviewed and approved the Internal Audit plan for 2017 and found them to be appropriate. Based on this plan, the Committee received and reviewed the audit reports submitted by Group Internal Audit and found that the Company's internal control system is adequate and effective.

We also reviewed the organization and performance of Group Internal Audit for 2017 and found them to be sufficiently independent and effective.

Risk Oversight
In 2017, the oversight of risk management and audit functions were originally performed by a single committee, the Audit and Risk Oversight Committee. These two functions were eventually separated and assigned to two distinct committees, the Audit Committee and the Risk Oversight Committee. To facilitate the continuity of risk-related discussions, the Audit Committee continued to perform the risk oversight functions up to the end of 2017 and held meetings to review key emerging risks, particularly in relation to the Company's exposure to retail clients.

Integrity Assurance Program
We reviewed the status of ongoing activities related to the Company's Integrity Assurance program. This program provides a formal structure for institutionalizing policies, programs and mechanisms based on good corporate governance and ethical business practices, including the adoption of a Code of Business Conduct and the creation of a whistleblower policy and hotline. The Company's officers and employees have substantially complied with the policies under the Code.

Audit Committee Performance
We performed a self-assessment of the Committee's performance against the approved Audit Committee Charter in line with the guidelines issued by Securities and Exchange Commission for publicly listed companies. Based on this assessment, we attest to the Committee's effective performance of its duties in 2017.

DAVID L. BALANGUE
Chairman, Independent Director

CORAZON DE LA PAZ-BERNARDO
Vice Chairman, Independent Director

VICTOR J. DEL ROSARIO
Non-Executive Director

EXHIBIT A

PHINMA ENERGY CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2017 and 2016
And Years Ended December 31, 2017, 2016 and 2015

PHINMA ENERGY

SECURITIES & EXCHANGE COMMISSION
Ground Floor, Secretariat Building,
Philippine International Convention Center,
Pasay City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **PHINMA Energy Corporation and Subsidiaries**, formerly Trans-Asia Asia Oil and Energy Development Corporation, (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2017 and December 31, 2016 and for each of the three years in the period ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the Stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders for the years ended December 31, 2017 and 2016, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

RAMON R. DEL ROSARIO, JR.
Chairman of the Board

FRANCISCO L. VIRAY
President & Chief Executive Officer

PYTHAGORAS L. BRION, JR.
SVP and Chief Financial Officer

Signed this 28th day of February 2018

(Page 2 of Statement of Management's
Responsibility for Consolidated Financial Statements)

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

SUBSCRIBED AND SWORN to before me this MAR 1 4 2018 affiant(s) exhibiting to me their Passport and Driver's License, as follows:

Name	**Passport No.**	**Date of Issue**	**Place of Issue**
Ramon R. Del Rosario, Jr.	EB9971711	13 January 2014	Manila
Francisco L. Viray	EC3546900	25 February 2015	Manila
Pythagoras L. Brion, Jr.	P3455624A	22 June 2017	Manila

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-68
UNTIL DECEMBER 31, 2018
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016333/4-10-2013
IBP O.R No. 7067[illegible] LIFETIME MEMBER JAN. 28, 2007
PTR No. 6607019- JAN 03, 2018
EXECUTIVE BLDG. CENTER
MAKATI AVE., COR., JUPITER

Doc. No. 413
Page No. 84
Book No. 289
Series of 2018

PHINMA ENERGY CORPORATION
Financial Highlights

	31-Dec-17	31-Dec-16	31-Dec-15
Current Assets	8,682,208	8,672,504	355,743
Total Assets	20,758,533	20,627,895	18,626,273
Current Liabilities	4,167,050	4,510,058	3,240,078
Total Liabilities	11,618,974	11,626,351	10,665,876
Total Equity	9,139,559	9,001,544	7,960,397
Paid-in Capital	4,973,543	4,967,107	4,905,929
Total Revenues	17,020,233	15,477,873	13,470,170
Net Income	347,168	1,382,531	905,852
Earnings Per Share	0.07	0.29	0.19
Current Ratio	2.08:1	1.92:1	1.89:1
Acid Test Ratio	1.71:1	1.62:1	1.47:1
Debt/Equity Ratio	1.27:1	1.29:1	1.34:1
Asset-to-Equity Ratio	2.27:1	2.29:1	2.34:1
Interest Rate Coverage Ratio	1.08:1	4.08:1	3.48:1
Net Debt to Equity Ratio	0.91:1	0.91:1	1.18:1
Return on Equity	3.83%	16.30%	11.93%
Return on Assets	1.68%	7.04%	5.14%
Asset Turnover	82.25%	78.86%	76.50%

(Amounts in thousand pesos except earnings per share and ratios)

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	6	9	-	0	3	9	2	7	4	

COMPANY NAME

PHINMA ENERGY CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
–	870-0100	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
3,196	04/11	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Yolanda D. Añonuevo	ydanonuevo@phinma.com.ph	870-0100	–

CONTACT PERSON's ADDRESS

Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City, Philippines 1200

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PHINMA Energy Corporation
Level 11, PHINMA Plaza
39 Plaza Drive, Rockwell Center
Makati City

Opinion

We have audited the consolidated financial statements of PHINMA Energy Corporation and its Subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Goodwill

Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to test annually the amount of goodwill for impairment. The goodwill amounting to ₱234.15 million as of December 31, 2017 arose from the Company's acquisition of One Subic Power Generation Corporation in 2014. This annual impairment test is significant to our audit because the amount is material to the financial statements. In addition, management's assessment process in the determination of the recoverable amount of the cash-generating unit (CGU) to which the goodwill belongs, requires significant judgment and is based on significant assumptions, specifically prices in the energy spot market, fuel prices and discount rates. The Company's disclosures about goodwill are included in Notes 4 and 14 to the consolidated financial statements.

Audit response

We obtained an understanding of the Company's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate and gross margins. We compared the revenue growth and gross margins to the historical data of the CGU and inquired about the rationale for the changes from prior year. Likewise, we compared the Company's key market-related assumptions with external industry data. These assumptions include energy spot market prices, energy generated and fuel prices. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Provisions and Contingencies

As discussed in Note 36 to the consolidated financial statements, the Company is involved in legal proceedings and assessments for local and national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgment by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and application of the laws and tax rulings.

Audit response

We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the tax assessments, and obtained correspondences with the relevant tax authorities and opinions of the external tax counsel. We evaluated the tax position of the Company by considering the tax laws, rulings and jurisprudence.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Marydith C. Miguel.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621301, January 9, 2018, Makati City

February 28, 2018

PHINMA ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 32)	**₱1,300,999**	₱395,582
Short-term investments (Note 32)	**478,362**	2,498
Investments held for trading (Notes 6, 32 and 33)	**1,483,519**	3,061,270
Receivables (Notes 7, 28 and 32)	**3,861,798**	3,846,003
Fuel and spare parts - at cost (Note 8)	**321,525**	231,146
Other current assets (Notes 9 and 32)	**1,236,005**	1,136,005
Total Current Assets	**8,682,208**	8,672,504
Noncurrent Assets		
Property, plant and equipment (Note 10)	**6,130,201**	6,414,568
Investments and advances (Note 11)	**4,057,602**	4,019,161
Available-for-sale investments (Notes 12, 32 and 33)	**293,127**	309,070
Investment properties (Note 13)	**50,915**	24,380
Goodwill and other intangible assets (Note 14)	**380,146**	391,000
Deferred income tax assets - net (Note 26)	**430,280**	71,849
Other noncurrent assets (Notes 15 and 32)	**734,054**	725,363
Total Noncurrent Assets	**12,076,325**	11,955,391
TOTAL ASSETS	**₱20,758,533**	₱20,627,895
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16, 27, 28 and 32)	**₱3,882,493**	₱4,118,674
Income and withholding taxes payable	**42,308**	99,396
Due to stockholders (Notes 19, 28, and 32)	**15,300**	91,203
Current portion of long-term loans (Notes 17, 32 and 33)	**226,949**	200,785
Total Current Liabilities	**4,167,050**	4,510,058
Noncurrent Liabilities		
Long-term loans - net of current portion (Notes 17, 32 and 33)	**6,622,427**	6,793,566
Pension and other employee benefits (Note 27)	**36,110**	47,585
Deferred income tax liabilities - net (Note 26)	**111,387**	126,890
Other noncurrent liabilities (Note 18)	**682,000**	148,252
Total Noncurrent Liabilities	**7,451,924**	7,116,293
Total Liabilities	**11,618,974**	11,626,351

(Forward)

	December 31	
	2017	2016
Equity		
Capital stock (Note 19)	**₱4,889,775**	₱4,885,898
Additional paid-in capital	**83,768**	81,209
Other equity reserve (Note 19)	**18,338**	18,338
Unrealized fair value gains on available-for-sale investments (Note 12)	**85,924**	109,366
Remeasurement losses on defined benefit plan (Note 27)	**(3,130)**	(8,562)
Accumulated share in other comprehensive loss of a joint venture (Note 11)	**(3,413)**	(277)
Retained earnings (Note 19)	**4,018,980**	3,859,659
Treasury shares (Note 19)	**(28,793)**	(28,793)
Total equity attributable to equity holders of Parent Company	**9,061,449**	8,916,838
Non-controlling interests (Note 30)	**78,110**	84,706
Total Equity	**9,139,559**	9,001,544
TOTAL LIABILITIES AND EQUITY	**₱20,758,533**	₱20,627,895

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Figures)

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Revenue from sale of electricity (Note 31)	**₱17,011,044**	₱15,465,866	₱13,456,926
Dividend income (Note 12)	**8,483**	7,433	8,797
Rental income	**706**	4,574	4,447
	17,020,233	15,477,873	13,470,170
COSTS AND EXPENSES			
Costs of sale of electricity (Notes 21, 23 and 24)	**16,929,239**	14,105,874	11,813,442
General and administrative expenses (Notes 22, 23 and 24)	**664,550**	899,635	510,466
	17,593,789	15,005,509	12,323,908
INTEREST AND OTHER FINANCE CHARGES (Note 25)	**(513,566)**	(468,485)	(449,480)
EQUITY IN NET INCOME OF ASSOCIATES AND JOINT VENTURES (Note 11)	**1,024,995**	886,224	372,214
OTHER INCOME - NET (Note 25)	**105,617**	552,879	45,823
INCOME BEFORE INCOME TAX	**43,490**	1,442,982	1,114,819
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)			
Current	**72,722**	114,623	221,436
Deferred	**(376,400)**	(54,172)	(12,469)
	(303,678)	60,451	208,967
NET INCOME	**₱347,168**	₱1,382,531	₱905,852
Net Income (Loss) Attributable To:			
Equity holders of the Parent Company	**₱353,764**	₱1,402,228	₱911,016
Non-controlling interests (Note 30)	**(6,596)**	(19,697)	(5,164)
	₱347,168	₱1,382,531	₱905,852
Basic/Diluted Earnings Per Share (Note 29)	**₱0.07**	₱0.29	₱0.19

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME FOR THE YEAR	**₱347,168**	₱1,382,531	₱905,852
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods			
Net changes in the fair market value of AFS investments (Note 12)	**(23,049)**	8,313	14,773
Recycling of fair value change of certain quoted available-for-sale due to impairment (Note 12)	**–**	–	12,424
Income tax effect (Note 12)	**(393)**	(425)	(234)
	(23,442)	7,888	26,963
Other comprehensive income (loss) not to be reclassified directly to profit or loss in subsequent periods			
Remeasurement gains (losses) on defined benefit plan (Note 27)	**7,760**	(8,261)	(1,829)
Income tax effect	**(2,328)**	2,434	548
	5,432	(5,827)	(1,281)
Share in other comprehensive income (loss) of a joint venture and an associate - net of deferred income tax (Note 11)			
Remeasurement gains (losses) on defined benefit plan	**(3,136)**	49	(572)
Disposal during the year	**–**	31	–
	(3,136)	80	(572)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(21,146)**	2,141	25,110
TOTAL COMPREHENSIVE INCOME	**₱326,022**	₱1,384,672	₱930,962
Total Comprehensive Income (Loss) Attributable To:			
Equity holders of the Parent Company	**₱332,618**	₱1,404,369	₱936,126
Non-controlling interests (Note 30)	**(6,596)**	(19,697)	(5,164)
	₱326,022	₱1,384,672	₱930,962

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 19)	Additional Paid-in Capital	Other Equity Reserve (Note 19)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 12)	Remeasurement Losses on Defined Benefit Plan (Note 27)	Accumulated Share in Other Comprehensive Loss of a Joint Venture (Note 11)	Retained Earnings (Note 19)	Treasury Shares (Note 19)	Total	Non-controlling Interests (Note 30)	Total Equity
BALANCES AT DECEMBER 31, 2016	**₱4,885,898**	**₱81,209**	**₱18,338**	**₱109,366**	**(₱8,562)**	**(₱277)**	**₱3,859,659**	**(₱28,793)**	**₱8,916,838**	**₱84,706**	**₱9,001,544**
Net income	–	–	–	–	–	–	**353,764**	–	**353,764**	**(6,596)**	**347,168**
Other comprehensive income (loss)	–	–	–	**(23,442)**	**5,432**	**(3,136)**	–	–	**(21,146)**	–	**(21,146)**
Total comprehensive income (loss)	–	–	–	**(23,442)**	**5,432**	**(3,136)**	**353,764**	–	**332,618**	**(6,596)**	**326,022**
Dividends declared (Note 19)	–	–	–	–	–	–	**(194,443)**	–	**(194,443)**	–	**(194,443)**
Issuance of stocks - stock grants (Note 20)	**3,877**	**2,559**	–	–	–	–	–	–	**6,436**	–	**6,436**
	3,877	**2,559**	–	–	–	–	**(194,443)**	–	**(188,007)**	–	**(188,007)**
BALANCES AT DECEMBER 31, 2017	**₱4,889,775**	**₱83,768**	**₱18,338**	**₱85,924**	**(₱3,130)**	**(₱3,413)**	**₱4,018,980**	**(₱28,793)**	**₱9,061,449**	**₱78,110**	**₱9,139,559**
BALANCES AT DECEMBER 31, 2015	₱4,865,146	₱40,783	₱34,913	₱101,478	(₱2,735)	(₱357)	₱2,845,559	(₱28,793)	₱7,855,994	₱104,403	₱7,960,397
Net income	–	–	–	–	–	–	1,402,228	–	1,402,228	(19,697)	1,382,531
Other comprehensive income (loss)	–	–	–	7,888	(5,827)	80	–	–	2,141	–	2,141
Total comprehensive income (loss)	–	–	–	7,888	(5,827)	80	1,402,228	–	1,404,369	(19,697)	1,384,672
Dividends declared (Note 19)	–	–	–	–	–	–	(388,128)	–	(388,128)	–	(388,128)
Issuance of stocks - stock options (Note 20)	20,752	25,765	–	–	–	–	–	–	46,517	–	46,517
Reversal of other equity reserve on a joint venture	–	–	(1,914)	–	–	–	–	–	(1,914)	–	(1,914)
Forfeiture of stock options (Note 20)	–	14,661	(14,661)	–	–	–	–	–	–	–	–
	20,752	40,426	(16,575)	–	–	–	(388,128)	–	(343,525)	–	(343,525)
BALANCES AT DECEMBER 31, 2016	₱4,885,898	₱81,209	₱18,338	₱109,366	(₱8,562)	(₱277)	₱3,859,659	(₱28,793)	₱8,916,838	₱84,706	₱9,001,544

	Attributable to the Equity Holders of the Parent Company										
	Capital Stock (Note 19)	Additional Paid-in Capital	Other Equity Reserve (Note 19)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 12)	Remeasurement Losses on Defined Benefit Plan (Note 27)	Accumulated Share in Other Comprehensive Loss of a Joint Venture (Note 11)	Retained Earnings (Note 19)	Treasury Shares (Note 19)	Total	Non-controlling Interests (Note 30)	Total Equity
BALANCES AT DECEMBER 31, 2014	₱4,865,146	₱38,258	₱35,991	₱74,515	(₱1,454)	₱215	₱2,128,208	(₱28,793)	₱7,112,086	₱110,036	₱7,222,122
Net income	–	–	–	–	–	–	911,016	–	911,016	(5,164)	905,852
Other comprehensive income (loss)	–	–	–	26,963	(1,281)	(572)	–	–	25,110	–	25,110
Total comprehensive income (loss)	–	–	–	26,963	(1,281)	(572)	911,016	–	936,126	(5,164)	930,962
Dividends declared (Note 19)	–	–	–	–	–	–	(193,609)	–	(193,609)	–	(193,609)
Equity-based compensation expense (Note 20)	–	–	1,862	–	–	–	–	–	1,862	–	1,862
Acquisition of non-controlling interest	–	–	(415)	–	–	–	(56)	–	(471)	(469)	(940)
Forfeiture of stock options (Note 20)	–	2,525	(2,525)	–	–	–	–	–	–	–	–
	–	2,525	(1,078)	–	–	–	(193,665)	–	(192,218)	(469)	(192,687)
BALANCES AT DECEMBER 31, 2015	₱4,865,146	₱40,783	₱34,913	₱101,478	(₱2,735)	(₱357)	₱2,845,559	(₱28,793)	₱7,855,994	₱104,403	₱7,960,397

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱43,490**	₱1,442,982	₱1,114,819
Adjustments for:			
Equity in net earnings of associates and joint ventures (Note 11)	**(1,024,995)**	(886,224)	(372,214)
Interest and other finance charges (Note 25)	**513,566**	468,485	449,480
Depreciation and amortization (Note 24)	**399,384**	413,091	397,116
Interest and other financial income (Note 25)	**(87,185)**	(46,077)	(16,257)
Gain on derivatives - net (Notes 25 and 33)	**(9,399)**	(8,741)	(18,048)
Dividend income (Notes 12 and 28)	**(8,483)**	(7,433)	(8,797)
Movement of pension and other employee benefits (Note 27)	**3,327**	5,816	12,850
Foreign exchange loss (gain) - net	**6,851**	(151)	20,880
Provisions for (reversals of):			
Plug-in and abandonment	**11,384**	–	–
Probable losses on deferred exploration costs (Note 14)	**4,892**	22,713	–
Accrued liabilities	**(2,236)**	(5,800)	–
Impairment loss on available-for-sale investments (Notes 12 and 25)	**–**	–	12,424
Loss on write-off of property, plant and equipment	**–**	–	2,089
Loss (gain) on sale of:			
Investment in joint venture (Note 25)	**–**	(444,207)	–
Property, plant and equipment (Note 25)	**–**	(27,863)	3,071
Available-for-sale investments (Note 25)	**17**	(7)	18
Changes in fair value of long-term receivable	**165**	–	–
Deferred exploration costs written-off (Note 14)	**–**	1,192	–
Gain on option fee (Note 25)	**–**	–	(35,159)
Equity-based compensation expense (Note 20)	**–**	–	1,862
Operating income (loss) before working capital changes	**(149,222)**	927,776	1,564,134
Decrease (increase) in:			
Receivables	**(17,365)**	(406,796)	(411,220)
Fuel and spare parts - at cost	**(90,379)**	79,783	(3,832)
Other current assets	**(104,787)**	(181,498)	(223,122)
Increase (decrease) in accounts payable and other current liabilities	**(318,681)**	1,069,746	789,410
Provisions for doubtful accounts (Note 7)	**4,542**	53,195	–
Provisions for unrecoverable input tax (Notes 9 and 25)	**–**	2,568	–
Net cash generated from (used in) operations	**(675,892)**	1,544,774	1,715,370
Income and withholding taxes paid	**(63,011)**	(113,077)	(201,583)
Net cash flows from (used in) operating activities	**(738,903)**	1,431,697	1,513,787

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments held for trading	**(₱21,604,487)**	(₱2,106,124)	(₱551,561)
Short-term investment (Note 33)	**(485,653)**	(2,498)	
Property, plant and equipment (Note 10)	**(125,138)**	(229,617)	(835,406)
Advances to associates (Note 11)	**(80,250)**	–	(45,000)
Investments in a joint venture (Note 11)	**(18,073)**	(5,639)	–
Deferred exploration costs (Note 14)	**(10,209)**	(15,888)	(10,500)
Available-for-sale investments	**(7,215)**	–	(10,718)
Advances in joint ventures (Note 11)	**–**	–	(7,537)
Proceeds from:			
Sale and redemption of investments held for trading	**23,219,212**	–	–
Termination of short-term investments	**2,498**		
Sale of property, plant and equipment	**511**	411,923	1,203
Sale of available-for-sale investments	**92**	291	11,491
Sale of investment in joint venture (Note 11)	**–**	841,771	–
Settlement of currency forward contracts	**–**		
Receipt of option fee (Note 12)	**–**	–	11,433
Increase in other noncurrent assets	**(1,399)**	(124,541)	(77,736)
Cash dividends received (Notes 11 and 12)	**1,090,225**	651,384	8,797
Interest received	**33,723**	13,953	3,401
Settlement of derivatives from fuel purchases (Note 33)	**–**	8,767	17,867
Net cash flows from (used) in investing activities	**2,013,837**	(556,218)	(1,484,266)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock (Note 19)	**6,436**	46,516	–
Long-term loans (Note 17)	**2,350,000**	–	480,000
Payments of:			
Long-term loans (Note 17)	**(2,520,651)**	(210,500)	(30,000)
Interest on long-term loans	**(443,216)**	(504,147)	(450,587)
Cash dividends	**(270,347)**	(182,491)	(191,174)
Debt issuance costs (Note 17)	**(11,750)**	–	(22,395)
Finance leases	**(7,331)**	(3,134)	(1,475)
Mortgage loan	**–**	(461)	(1,411)
Acquisition of non-controlling interest	**–**	–	(940)
Increase in other noncurrent liabilities	**527,115**	18,517	24,064
Net cash flows used in financing activities	**(369,744)**	(835,700)	(193,918)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**227**	60	(21,431)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**905,417**	39,839	(185,828)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**395,582**	355,743	541,571
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 5 and 32)	**₱1,300,999**	₱395,582	₱355,743

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except When Otherwise Indicated)

1. Corporate Information and Status of Operations

PHINMA Energy Corporation ("PHINMA Energy or the Parent Company"), incorporated on September 8, 1969, and its subsidiaries: PHINMA Power Generation Corporation (PHINMA Power), formerly Trans-Asia Power Generation Corporation; CIP II Power Corporation (CIPP); PHINMA Renewable Energy Corporation (PHINMA Renewable), formerly Trans-Asia Renewable Energy Corporation; One Subic Oil Distribution Corporation (One Subic Oil), formerly Trans-Asia Gold and Minerals Development Corporation; PHINMA Solar Energy Corporation (PHINMA Solar), formerly Trans-Asia Wind Power Corporation; One Subic Power Generation Corporation (One Subic); PHINMA Petroleum and Geothermal, Inc. (PHINMA Petroleum), formerly Trans-Asia Petroleum Corporation; and Palawan55 Exploration & Production Corporation (Palawan55), collectively referred to as "the Company", were incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The direct and ultimate parent company of PHINMA Energy is Philippine Investment-Management (PHINMA), Inc., also incorporated in the Philippines. PHINMA Energy is managed by PHINMA, Inc. under an existing management agreement (see Note 28). The Company and PHINMA, Inc. are domiciled in the Philippines.

The Parent Company is engaged in power generation and trading, oil and mineral exploration, development and production. The Parent Company was registered as a Wholesale Aggregator (WA) and is a licensed Retail Electricity Supplier (RES). The WA license authorized the Parent Company to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). By virtue of Energy Regulatory Commission (ERC) Resolution No. 12 Series of 2015, also known as the Resolution to Discontinue the Wholesale Aggregator Scheme as Embodied in the Rules for the Registration of the Wholesale Aggregators, the ERC resolved to discontinue the wholesale aggregation scheme and that all existing licenses shall be effective only until the end of their respective terms. The license of the Parent Company as a WA effectively expired on December 19, 2016. As a RES, the Parent Company is allowed to supply electricity to the contestable market pursuant to the EPIRA. Other activities of the Parent Company include investing in various operating companies and financial instruments.

In 2016, the Parent Company changed its corporate name to PHINMA Energy Corporation and extended its corporate life for another 50 years. The SEC issued the Certificate of Amended Articles of Incorporation, dated August 15, 2016, while the Bureau of Internal Revenue (BIR) issued an amended Certificate of Registration, dated August 25, 2016 for the change in the name of the Parent Company.

PHINMA Power was incorporated and registered with the SEC on March 18, 1996. PHINMA Power is engaged in power generation. In October 2006, the Philippine Electricity Market Corporation (PEMC) approved PHINMA Power's application for registration as trading participant for both generation and customer categories in the Wholesale Electricity Spot Market (WESM). Both the Parent Company and PHINMA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM. Effective December 26, 2013, PHINMA Power entered into a Power Administration and Management Agreement (PAMA) valid for ten years with PHINMA Energy for the administration and management by PHINMA Energy of the entire capacity and net output of PHINMA Power starting 2014. In addition to the capacity fee, PHINMA Energy is billed by PHINMA Power for transmission and fuel costs. On January 23, 2017, PHINMA Power's Board of Directors (BOD) approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Power Generation Corporation. The amended Articles of Incorporation were issued by the SEC on June 2, 2017 while the Certificate of Registration was issued by the BIR on June 8, 2017.

CIPP was incorporated and registered with the SEC on June 2, 1998. CIPP is a utilities enterprise, the primary purpose of which was to develop and operate a power supply and distribution system at Carmelray Industrial Park II Special Economic Zone in Calamba, Laguna. In April 2009, CIPP sold its distribution assets resulting in the cessation of CIPP's operations and separation of substantially all of its employees effective January 31, 2010. On February 22, 2010 and March 24, 2010, the BOD and stockholders, respectively, of the Parent Company approved the proposed merger of the Parent Company and CIPP subject to the approval by the SEC. In December 2010, CIPP's BOD approved the transfer of its 21 MW bunker C-fired power plant from Laguna to Barangay Quirino, Bacnotan, La Union which was completed in 2012. In 2013, CIPP and PHINMA Energy entered into a PAMA valid for ten years for the latter's administration and management of the entire capacity and net output of CIPP. As at February 28, 2018, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

PHINMA Renewable was incorporated and registered with the SEC on September 2, 1994. It was established with the primary purpose of developing and utilizing renewable energy and pursuing clean and energy-efficient projects. On May 20, 2013, the Philippine Department of Energy (DOE) confirmed the Declaration of Commerciality of PHINMA Renewable's 54 MW San Lorenzo Wind Power project (SLWP) in Guimaras. On October 7, 2014, the SLWP started delivering power to the grid and on February 16, 2015, PHINMA Renewable received from the DOE the confirmation of start of Commercial Operations declared on December 27, 2014. On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the ERC.

On December 8, 2015, PHINMA Renewable's BOD approved to increase its authorized capital stock from ₱2,000.00 million divided into 2 billion shares with par value of ₱1.00 per share to ₱5,000.00 million composed of ₱2,000.00 million common shares with par value of ₱1.00 per share and ₱3,000.00 million preferred shares with a par value of ₱1.00 per share. The increase in authorized capital stock was approved by the SEC on March 31, 2017. On January 30, 2017, PHINMA Renewable's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Renewable Energy Corporation. The amended Articles of Incorporation were issued by the SEC on June 13, 2017 while the Certificate of Registration was issued by the BIR on June 21, 2017.

PHINMA Petroleum was incorporated and registered with the SEC on September 28, 1994. PHINMA Petroleum is engaged in oil exploration and well development. On November 28, 2012, the SEC approved the increase in authorized capital stock of PHINMA Petroleum from ₱40 million divided into 4 billion shares with a par value of ₱0.01 per share to ₱1 billion divided into 100 billion shares with a par value of ₱0.01 per share. It also approved the change in its name to PHINMA Petroleum and the primary purpose from power generation to oil and gas exploration and production.

PHINMA Petroleum listed its shares with the Philippine Stock Exchange (PSE) by way of introduction on August 28, 2014. On April 10, 2017, PHINMA Petroleum's BOD approved the amendment of its Articles of Incorporation to change PHINMA Petroleum's corporate name to PHINMA Petroleum and Geothermal, Inc. and to include in its primary and secondary purposes the exploration and development of geothermal resources. The amended Articles of Incorporation were issued by the SEC on May 31, 2017 while the Certificate of Registration was issued by the BIR on June 14, 2017. As at February 28, 2018, PHINMA Petroleum has not started commercial operations.

The registered office address of PHINMA Petroleum is Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

One Subic Oil was incorporated and registered with the SEC on July 2, 2007 to primarily engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD approved the suspension of exploration activities of One Subic Oil effective March 31, 2009. On August 9, 2017, One Subic Oil's BOD approved the amendment of the Articles of Incorporation to change the corporate name to One Subic Oil Distribution Corporation, to change its primary purpose to importation, storage, transportation, distribution and disposal of any and all kinds of fuel and petroleum products, and to change the principal office of the corporation to Causeway Extension, Subic Gateway District, Subic Bay Freeport Zone, Subic. The amended Articles of Incorporation were issued by the SEC on August 9, 2017. As at February 28, 2018, One Subic Oil has not started commercial operations for its petroleum distribution business.

Palawan55 was incorporated and registered with the SEC on November 16, 2012. Palawan55 is engaged in the development and utilization of crude oil, natural gas, natural gas liquids and other forms of petroleum. As at February 28, 2018, Palawan55 has not started its commercial operations. The registered office address of Palawan55 is 11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

PHINMA Solar was incorporated and registered with the SEC on July 26, 2013. Its primary purpose is to construct, develop, own, operate, manage, repair and maintain wind power generation plants, to generate electricity from such power plants and to market and sell the electricity produced thereby. On January 30, 2017, PHINMA Solar's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Solar Energy Corporation, to include in its primary and secondary purposes the development, operation and maintenance of solar power generation plants and the development of solar products and to increase the number of directors to nine. The amended Articles of Incorporation were issued by the SEC on June 27, 2017 while the Certificate of Registration was issued by the BIR on June 30, 2017. As at February 28, 2018, PHINMA Solar has not started commercial operations.

On June 29, 2011, the Parent Company entered into a 50-50 joint venture agreement with AC Energy Holdings, Inc. (AC Energy) to form South Luzon Thermal Energy Corporation (SLTEC), the primary purpose of which is to generate, supply and sell electricity to the public through the operation of a 2 x 135 MW coal fired power plant in Calaca, Batangas. SLTEC was incorporated on July 29, 2011. The construction, testing and commissioning of the first unit of SLTEC Circulating Fluidized Bed Coal-fired Power Plant was completed during the first half of 2015 and started its commercial operations on April 24, 2015. The second unit started its commercial operation on February 21, 2016. On December 20, 2016, the Parent Company sold 5% interest in SLTEC to Axia Power Holdings Philippines Corporation (APHPC), which also purchased a 15% interest in SLTEC from AC Energy. The current ownership structure of SLTEC is as follows: 45% PHINMA Energy, 35% AC Energy, and 20% APHPC. The registered office address of SLTEC is KM. 117 National Road, Phoenix Industrial Park Phase II Puting Bato West, Calaca, Batangas.

The Parent Company has 50% interest in ACTA Power Corporation (ACTA), a joint venture with AC Energy. ACTA is engaged in the business of owning, developing, constructing, operating and maintaining power generation facilities as well as generation and sale of electricity. ACTA was incorporated on February 9, 2012 and has not started commercial operations as at February 28, 2018.

One Subic was incorporated and registered with the SEC on August 4, 2010 to engage in the business of owning, constructing, operating, developing and maintaining all types of power generation plants. On November 18, 2010, PHINMA Energy and One Subic entered into a PAMA wherein PHINMA

Energy administers and manages the entire generation output of the 116 MW diesel power plant in Subic, Olongapo City. The PAMA became effective on February 17, 2011. On May 12, 2014, PHINMA Power purchased from Udenna Energy Corporation (UDEC) the entire outstanding shares of stock of One Subic. Prior to the acquisition, One Subic was a wholly owned subsidiary of UDEC, a company incorporated and domiciled in the Philippines. On January 23, 2017, One Subic's BOD approved the amendment of the Articles of Incorporation for the change in the primary purpose to include exploration, discovery, development, processing, and disposal of any and all kind of petroleum products. The amended Articles of Incorporation were approved by the SEC on June 19, 2017.

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

The consolidated financial statements of the Company were authorized for issuance by the Parent Company's BOD on February 28, 2018.

2. Basis of Preparation and Consolidation and Statement of Compliance

Basis of Preparation and Statement of Compliance
The consolidated financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements were prepared on a historical cost basis, except for investments held for trading, derivative financial instruments 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 Parent Company's functional and presentation currency. All values are rounded off to the nearest thousands (000), except par values, per share amounts, number of shares and when otherwise indicated.

Basis of Consolidation and Statement of Compliance
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and,
- the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity while any resultant gain or loss is recognized in the consolidated statement of income. Any investment retained is recognized at fair value.

NCI represents the interests in the subsidiaries not held by the Parent Company, and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to holders of the Parent Company. NCI shares in losses even if the losses exceed the NCI in the subsidiary.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

		Percentage of Ownership (%)			
		2017		2016	
	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
PHINMA Power	Power generation	**100.00**	**–**	100.00	–
CIPP	Power generation	**100.00**	**–**	100.00	–
PHINMA Renewable	Renewable energy generation	**100.00**	**–**	100.00	–
One Subic Oil	Distribution of petroleum products*	**100.00**	**–**	100.00	–
PHINMA Solar	Renewable energy generation	**100.00**	**–**	100.00	–
One Subic	Power generation	**–**	**100.00**	–	100.00
PHINMA Petroleum	Oil, gas, and geothermal exploration	**50.74**	**0.40**	50.74	0.40
Palawan55	Oil and gas exploration	**30.65**	**35.46**	30.65	35.46

** Mineral exploration in 2016.*

3. Summary of Significant Accounting Policies and Disclosures

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PAS 7*, Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of the changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 35 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the years ended December 31, 2016 and 2015.

- Amendments to PFRS 12*, Disclosure of Interest in Other Entities, clarification of the Scope of the Standard (*Part of *Annual Improvements to PFRS 14 - 2016 Cycle)*

- PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when these become effective.

Effective beginning January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is currently assessing the impact of the adoption of these amendments on the consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method.

  Based on the Company's initial assessment, the requirements of PFRS 15 on the following may have an impact on the Company's consolidated financial position, performance and disclosures:

  - Recognition of revenue on contracts dependent on ERC - approved rates to be applied retrospectively, which may result in the recognition of contract asset (revenue) or liability (reduction in revenue) depending on the final approved rate and agreed payment arrangement.
  - Change in presentation for energy-based contracts with maximum contracted capacity. Reimbursement of energy delivered in excess of maximum contracted capacity is currently recognized as an addition to trading cost but will be recognized as a reduction to revenue under PFRS 15.
  - Change in presentation for energy-based contracts with consideration payable to customer for sale of customer's unutilized energy, which is currently recognized as an addition to trading cost but will be recognized as a reduction to revenue under PFRS 15.
  - Effect of contract modifications based on new criteria provided under PFRS 15.

  In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Company is currently assessing what needs to be changed in its current systems, internal controls, policies and procedures to enable the Company to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Company is currently performing its initial impact assessment of all three phases of PFRS 9. However, on transition, the effect of these changes is not expected to be material for the Company.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their consolidated statements of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies
The accounting policies set out below have been applied consistently to all periods presented in the Company's financial statements.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Company elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in the consolidated statement of income. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Business Combination Involving Entities Under Common Control
Business combinations involving entities under common control are accounted for by applying the pooling of interests method. The assets and liabilities of the combining entities are combined and reflected at their carrying amounts reported in the Company's consolidated statement of financial position. The consolidated statement of income, comprehensive income and cash flows reflect the result of the combining entities in full, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date entities had been under common control.

Under the pooling of interests method of accounting, the results of operations and cash flows of the Parent Company and its subsidiaries are combined from the beginning of the financial period in which the acquisition occurred and their assets and liabilities are combined at the amounts at which these were previously recorded at the Company's consolidated financial statements as if these had been part of the group for the whole of the current and preceding periods.

Current versus Noncurrent Classification
The Company presents assets and liabilities in consolidated statement of financial position based on current or noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statement of financial position are composed of cash in banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

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

Fair Value Measurement
The Company measures investments held for trading, AFS investments and derivative financial instruments at fair value at each reporting date. Fair value related disclosures for financial

instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Quantitative disclosures of fair value measurement hierarchy, see Note 33
- Investment properties, see Note 13
- Financial instruments (including those carried at amortized cost), see Note 33

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described in Note 33, based on the lowest level input that is significant to the fair value measurement as a whole.

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

“Day 1” Difference
Where the transaction price in a non-active market is different from the fair value of 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” difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where data used are 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” difference amount.

Financial Instruments - Initial Recognition and Subsequent Measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial Recognition and Measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement

a. Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39.

Net changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as gain or loss on changes in fair value of investment held for trading under “Interest and other financial income” included in “Other income - net” account. Interest and other financial income or charges are recorded when earned or incurred, respectively, while dividend income is recorded when the right to receive payment has been established.

The Company has no financial assets designated at FVPL on initial recognition.

As at December 31, 2017 and 2016, the Company’s investments in unit investment trust funds (UITFs) and Fixed Treasury Notes (FXTNs) are classified as financial assets held for trading (see Notes 6 and 33).

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVPL.

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

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

As at December 31, 2017 and 2016, the Company's derivative assets, included under "Other current assets" account in the consolidated statements of financial position, are classified as a financial asset at FVPL (see Notes 9 and 33).

b. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization and loss arising from impairment are included in "Other income - net" in the consolidated statement of income.

As at December 31, 2017 and 2016, the Company's cash and cash equivalents, short-term investments, receivables and refundable deposits are classified as loans and receivables (see Notes 5, 7, 9, 15 and 33).

c. *HTM investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investments when the Company has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

As at December 31, 2017 and 2016, the Company has no financial assets classified as HTM investments.

d. *AFS financial assets*

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of income. Interest earned while holding AFS financial assets is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to the consolidated statement of income over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

As at December 31, 2017 and 2016, the Company's investments in listed and unlisted equity securities, golf club shares and investment in a UITF that is neither classified as held for trading nor designated at FVPL are classified as noncurrent AFS financial assets (see Notes 12 and 33).

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated statement of financial position) when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Impairment of Financial Assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant judgments and estimates, see Note 4
- Receivables, see Notes 7 and 32
- AFS investments, see Notes 12 and 32

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

Financial Assets Carried at Amortized Cost
For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of income. Interest income, recorded under "Other income - net" account in the consolidated statement of income, continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other income - net" account in the consolidated statement of income.

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 Financial Assets
For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income, is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded under of "Other income - net" account in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Financial Liabilities

Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, as derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable and other current liabilities (excluding statutory payables), due to stockholders, long-term loans and other noncurrent liabilities including derivative liabilities.

Subsequent Measurement
The subsequent measurement of financial liabilities depends on their classification, as described below:

a. *Financial liabilities at FVPL*

   Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVPL.

   Financial liabilities are classified as held for trading if these are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

   Gains or losses on liabilities held for trading and derivative liability not designated as hedging instrument are recognized in the consolidated statement of income.

   Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied. As at December 31, 2017 and 2016, the Company has not designated any financial liability at FVPL.

b. Other financial liabilities

After initial recognition, other financial liabilities that are interest-bearing are measured at amortized cost using the EIR method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in "Other income - net" account in the consolidated statement of income.

As at December 31, 2017 and 2016, the Company's accounts payable and other current liabilities (excluding statutory payables), due to stockholders, long-term loans, deposit payables and other noncurrent liabilities are classified as other financial liabilities (see Notes 16, 17, 18, 28 and 32).

Debt Issue Costs
Debt issue costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the EIR method.

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

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

The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

There is no offsetting of financial assets and financial liabilities and any similar arrangements that are required to be disclosed in the consolidated financial statements as at December 31, 2017 and 2016.

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

<u>Property, Plant and Equipment</u>
Property, plant and equipment, except land, is stated at cost, net of accumulated depreciation and impairment losses. Such cost includes the cost of replacing a part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement

if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost, net of accumulated impairment losses, if any.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating the Company's property, plant and equipment are disclosed in Note 10.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the periods and methods of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. These are adjusted prospectively, if appropriate.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

An item of property, plant and equipment and any significant part initially recognized 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 asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognized.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for operational use.

<u>Leases</u>
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A reassessment is made after the inception of the lease, if any, if the following applies:

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

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

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

Company as a Lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under "Other income - net" account in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as "Rent" included under "Costs of sale of electricity" and "General and administrative expenses" in the consolidated statement of income on a straight-line basis over the lease term.

Company as a Lessor
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate used by the Company is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

All other borrowing costs are expensed in the period in which these occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency Denominated Transactions and Balances
Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized as "Foreign exchange loss - net" under "Other income - net" in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair values are determined. The gains or losses arising on translation of non-monetary items measured at fair value are treated in line with the recognition of the gains or losses on the change in fair values of the items (i.e., translation differences on items which the fair value gains or losses are recognized in OCI or in the consolidated statement of income are also recognized in OCI or in the consolidated statement of income, respectively).

Interests in Joint Arrangements
PFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint Operations
A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities and share in the revenues and expenses relating to the arrangement. The Company's service contracts (SC) are assessed as joint operations.

Investments in Associates and Joint Ventures
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Company's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share in the net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The consolidated statement of income reflects the Company's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Company's share in profit or loss of the associate or the joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate or joint venture.

If the Company's share in losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Company discontinues recognizing its share of further losses.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Investment Properties

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

Investment properties are derecognized either when disposed of or when permanently withdrawn from use and no future economic benefit is expected from disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Leasehold Rights

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

Intangible assets with finite lives are amortized over their economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are 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 that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

The useful lives of leasehold rights are assessed as finite. The amortization expense on leasehold rights are recognized as “Depreciation and amortization” under “Costs of sale of electricity” account in the consolidated statement of income.

Deferred Exploration Costs

The Company follows the full cost method of accounting for exploration costs determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities, net of any 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 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.

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 indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Property, Plant and Equipment and Investment Properties
For property, plant and equipment and investment properties, the Company assesses for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

Investments in Associates and Interests in Joint Ventures
The Company determines at the end of each reporting period whether there is any objective evidence that the investments in associates and interests in joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and interests in joint ventures, and its carrying amount.

Goodwill
Goodwill is tested for impairment annually and more frequently when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Leasehold Rights
Intangible assets with finite useful lives are tested for impairment when circumstances indicate that the carrying value may be impaired.

Deferred Exploration Costs
Among the factors considered by management in the impairment assessment of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic.

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

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the

reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as “Other income - net” account in the consolidated statement of income.

Asset Retirement Obligation
The Company is legally required under a lease agreement to dismantle certain machinery and equipment and restore the leased site at the end of the lease contract term. The Company recognizes the fair value of the liability for this obligation and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, which are

being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The liability is subsequently carried at amortized cost using the EIR method with the related interest expense recognized in the consolidated statement of income.

Pensions and Other Post-employment Benefits

Defined Benefit Plan
The Company operates separate and distinct retirement plans for PHINMA Energy, PHINMA Power and CIPP, which require contributions to be made to separately administered funds. Other entities are covered by Republic Act (R.A.) 7641, otherwise known as “The Philippine Retirement Law”, which provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641. The cost of providing benefits is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which these occur. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognized in the consolidated statement of income on the earlier of:

- The date of the plan amendment or curtailment; or,
- The date that the Company recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation under “Costs of sale of electricity” and “General and administrative expenses” accounts in the consolidated statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when these are accrued to the

employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Capital Stock

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

Stock Options and Grants

Stock options and grants are accounted for in accordance with PFRS 2, that is, the cost of stock option awards are measured by reference to the fair value at the date on which they are granted. The fair value is determined using the binomial method. The cost of such awards is 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 is recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income 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.

If the outstanding options are dilutive, its effect is reflected as additional share dilution in the computation of diluted EPS.

Additional Paid-in Capital (APIC)

APIC represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Treasury Shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in APIC. Share options exercised during the reporting period are satisfied with treasury shares.

Other Equity Reserve
Other equity reserves are made up of equity transactions other than capital contributions such as share in equity transactions of associates and joint ventures and share-based payment transactions.

Retained Earnings
Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income, net of any dividend declaration.

Cash Dividend and Non-cash Dividend to Equity Holders of the Parent Company
The Company recognizes a liability to make cash or non-cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. A corresponding amount is recognized directly in equity.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of Electricity
Sale of electricity is consummated whenever the electricity generated by the Company is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is based on sales price. Sales of electricity using bunker fuel are composed of generation fees from spot sales to the WESM and supply agreements with third parties and are recognized monthly based on the actual energy delivered.

Starting December 27, 2014, sales of electricity to the WESM using wind are based on the FIT rate under the FIT System and are recognized monthly based on the actual energy delivered.

Meanwhile, revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided. Revenue from sale of electricity through Retail Supply Contract (RSC) is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Equity in Net Income (Losses) of Associates and Joint Ventures
The Company recognizes its share in the net income or loss of associates and joint ventures proportionate to the equity in the economic shares of such associates and joint ventures, in accordance with the equity method.

Dividend Income
Dividend income is recognized when the Company's right to receive the payment is established, which is generally when shareholders of the investees approve the dividend.

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

Rental Income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature.

Other Income
Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized when incurred.

Taxes

Current Income Tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

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

Deferred Income Tax
Deferred income tax is provided using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income;

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in the consolidated statement of income.

Creditable Withholding Taxes
Creditable withholding taxes represent amounts withheld by the Company’s customers and is deducted from the Company’s income tax payable.

Value-added Tax (VAT)
Expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and,
- When receivables and payables are stated with the amount of VAT included

The amount of VAT recoverable from the taxation authority is recognized as “Input VAT” under “Other current assets”, while VAT payable to taxation authority is recognized as “Output VAT” under “Accounts payable and other current liabilities” in the consolidated statement of financial position.

Earnings Per Share
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 at 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
The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 34 to the consolidated financial statements.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. If it is probable that an outflow of resources embodying economic benefits will occur and the liability's value can be measured reliably, the liability and the related expense are recognized in the consolidated financial statements.

Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to the financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it is virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the consolidated financial statements.

Events After the Reporting Period
Post year-end events that provide additional information about the Company's position as at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

Determination of Whether an Arrangement Contains a Lease
PHINMA Energy supplies all the electricity requirements or sells all of its output under the Electricity Supply Agreement (ESA) with certain customers (see Note 31). The Company has evaluated the arrangements and the terms of the ESA and determined that the agreements do not qualify as leases. Accordingly, fees billed to these customers are recognized as revenue from sale of electricity.

Under PHINMA Energy's Power Purchase Agreement (PPA) with SLTEC and Maibarara Geothermal Inc. (MGI), PHINMA Energy agreed to purchase all of SLTEC and MGI's output (see Note 31). The Company has evaluated the arrangements and the terms of the PPA and determined that the agreements do not qualify as leases. Accordingly, fees paid to SLTEC and MGI are recognized under "Costs of sale of electricity".

The Company also entered into various easements and right of way agreements with various land owners to support the erection of transmission lines to be used to connect its 54 MW Wind Farm Project in Guimaras. These agreements contain a lease as the arrangements convey the right to use the item and PHINMA Renewable has control over the utility of the asset.

Classification of Leases - the Company as Lessee
The Company exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Company. Lease contracts, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased items are classified as finance leases. Otherwise, these are considered as operating leases.

The Company has entered into a lease contract with GUIMELCO for a parcel of land used only as a site for electric generating plant and facilities, where it has determined that the risks and rewards related to the properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The lease is, therefore, accounted for as an operating lease (see Note 31).

One Subic has a lease contract with Subic Bay Metropolitan Authority (SBMA) for a parcel of land and electric generating plant and facilities where it has determined that the risks and rewards related to the properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The lease is, therefore, accounted for as an operating lease (see Note 31).

The Company has entered into various lease agreements with individual land owners where the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset, among others, which indicates that it does not transfer substantially all the risks and rewards from the various land owners to the Company incidental to the ownership of the parcels of land. These leases are classified as operating leases.

The Company has entered into various lease agreements with individual land owners where the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset, which indicates that the risks and rewards related to the asset are transferred to the Company. These leases are classified as finance leases.

Classification of Leases - the Company as Lessor
The Company had a lease agreement for the lease of its investment property. The Company had determined that the risks and rewards of ownership of the underlying property were retained by the Company. Accordingly, the leases are classified as an operating lease.

Determining and Classifying a Joint Arrangement
Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangements.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement. Specifically, the Company considers:

- the structure of the joint arrangement - whether it is structured through a separate vehicle;
- when the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:

  a. the legal form of the separate vehicle;
  b. the terms of the contractual arrangement; and,
  c. other facts and circumstances (when relevant).

This assessment often requires significant judgments on the conclusion on joint control and whether the arrangement is a joint operation or a joint venture, which may materially impact the accounting. As at December 31, 2017 and 2016, the Company's SCs are joint arrangements in the form of a joint operation.

Classification of Joint Venture
The Company's joint control arrangements in which the Company has rights to the net assets of the investees are classified as joint ventures.

As at December 31, 2017 and 2016, the Company holds 45% of the voting rights of SLTEC (see Notes 1 and 11). The Company holds 50% of the voting rights of ACTA as at December 31, 2017 and 2016. The Company has joint control over these arrangements as under the contractual agreements, unanimous consent is required from two or more parties to the agreements for all relevant activities.

The Company's joint arrangements are also structured through a separate vehicle and provide the Company and the parties to the agreements with rights to the net assets of the separate vehicle under the arrangements.

Material Partly-Owned Subsidiaries
The consolidated financial statements include additional information about subsidiaries that have NCI that are material to the Company (see Note 30). Management determined material partly-owned subsidiaries as those with balance of NCI greater than 5% of total NCI's and those subsidiaries which type of activities those engage in are important to the Company as at the end of the year.

Material Associates and Joint Ventures
The consolidated financial statements include additional information about associates and joint ventures that are material to the Company (see Note 11). Management determined material associates and joint ventures as those associates and joint ventures where the Company's carrying amount of investments is greater than 5% of the total investments and advances in associates and joint ventures as at the end of the year.

Impairment of AFS Investments
The Company treats AFS investments in quoted shares of stock as impaired when there has been a significant and prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as greater than 12 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. For unquoted shares, the Company determines that unquoted AFS investments

are impaired when there is information about significant changes with adverse effects that have taken place in the market, economic or legal environment in which the issuer operates and indicate that the carrying amount of the investment in the equity instrument may not be recovered.

The Company assessed that there is no evidence of impairment as at December 31, 2017 and 2016. In 2015, the Company's AFS investments were impaired as a result of significant decline in the fair value of its investments in certain quoted shares. The loss recognized under the "Other income - net" account in the 2015 consolidated statement of income amounted to ₱12.42 million (see Note 25).

The carrying value of AFS investments amounted to ₱293.13 million and ₱309.07 million as at December 31, 2017 and 2016, respectively (see Note 12).

Estimates

Estimating Allowance for Doubtful Accounts
The Company maintains allowance for doubtful accounts based on the results of the individual and collective assessment. Under the individual assessment, the Company considers the significant financial difficulties of the customer or significant delays in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the financial asset, as well as historical loss experience. Allowance for doubtful accounts is recorded when management believes that the receivable balance cannot be provided or realized after exhausting all efforts and courses of action. For the collective assessment, the Company groups its receivables based on the credit risk characteristics (customer type, past-due status and terms) of its customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. The methodology and assumptions used for the individual and collective assessments are based on management's judgments and estimates. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The Company recognized ₱4.54 million, ₱53.20 million and nil as provisions for doubtful accounts for the years ended December 31, 2017, 2016, and 2015, respectively (see Notes 7 and 22). As at December 31, 2017 and 2016, the allowance for doubtful accounts amounted to ₱120.87 million and ₱116.33 million, respectively. The carrying value of trade and other receivables amounted to ₱3,861.80 million and ₱3,846.00 million as at December 31, 2017 and 2016, respectively (see Note 7).

Recoverability of Input VAT
Input VAT represents taxes paid on purchases of applicable goods and services which can be recovered as tax credit against future output VAT liability of the Company. The Company is also allowed to recover excess input VAT by filing a claim for refund or tax credit certificate with the BIR. In 2016, PHINMA Renewable filed with the BIR a claim for tax credit certificate of its input VAT amounting to ₱335.76 million (see Note 36). The input VAT filed was classified as "Tax credits receivable" account under "Other current assets" in the consolidated statement of financial position (see Note 9).

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

As at December 31, 2017 and 2016, deferred income tax assets recognized by the Company amounted to ₱447.34 million and ₱83.42 million, respectively (see Note 26). The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred income tax assets were recognized are disclosed in Note 26.

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Leasehold Rights
The Company estimates the useful lives of property, plant and equipment, investment properties and leasehold rights based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment properties and leasehold rights are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment properties are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. In 2017 and 2016, there were no changes in the assessed useful lives of the assets.

The total depreciation and amortization of property, plant and equipment, investment properties and leasehold rights amounted to ₱399.38 million, ₱413.09 million and ₱397.12 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

Impairment of Non-financial Assets, Other than Goodwill and Deferred Exploration Costs
The Company assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill and deferred exploration costs, at each reporting date. These non-financial assets (investments and advances, property, plant and equipment, investment properties and leasehold rights) are tested for impairment whenever events or changes in circumstances indicate that carrying amount of the asset may not be recoverable. This requires an estimation of the value in use of the CGUs. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In cases where the value in use cannot be reliably measured, the recoverable amount is based on fair value less costs to sell.

The carrying amounts of the Company's non-financial assets other than goodwill and deferred exploration costs as at December 31 are as follows:

	2017	2016
Property, plant and equipment (see Note 10)	**₱6,130,201**	₱6,414,568
Investments and advances (see Note 11)	**4,057,602**	4,019,161
Investment properties (see Note 13)	**50,915**	24,380
Leasehold rights (see Note 14)	**41,149**	57,339

No impairment loss was deemed necessary on these non-financial assets in 2017, 2016 and 2015.

Accumulated impairment losses on investments amounted to ₱1.56 million as at December 31, 2017 and 2016 (see Note 11).

Impairment of Deferred Exploration Costs
The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount.

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.

The Company considers the status of the service contracts and its plans in determining the recoverable amount of the deferred exploration costs.

The Company recognized impairment losses on deferred exploration costs amounting to ₱4.89 million, ₱22.71 million and nil for the years ended December 31, 2017, 2016, and 2015, respectively. The carrying value of deferred exploration costs amounted to ₱104.85 million and ₱99.51 million as at December 31, 2017 and 2016, respectively (see Note 14).

Impairment of Goodwill
The Company subjects goodwill to an impairment test annually and whenever there is an indication that it is impaired. This requires an estimation of the value in use of the related CGU. The value in use calculation requires the Company to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to ₱234.15 million as at December 31, 2017 and 2016 (see Note 14). No impairment loss has been recognized on goodwill in 2017, 2016 and 2015.

Pension and Other Employee Benefits
The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Pension and other employee benefits liability amounted to ₱54.57 million and ₱58.99 million as at December 31, 2017 and 2016, respectively (see Note 27).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 27.

Share-based Payments
The Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and

dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the binomial method. The expected life of the stock options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Parent Company.

No expense arising from share-based payments has been recognized by the Company for the years ended December 31, 2017 and 2016, respectively (see Note 20). In 2015, expense arising from share-based payments amounted to ₱1.86 million.

Contingencies and Tax Assessments
The Company is currently involved in various legal proceedings and assessments for local and national taxes (see Note 36). The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's consolidated financial statements.

5. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	**₱120,897**	₱46,989
Short-term deposits	**1,180,102**	348,593
	₱1,300,999	₱395,582

Cash in banks earn interest at the respective bank deposit rates of 0.25% per annum for its peso and dollar accounts, respectively. Short-term deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income earned on cash in banks in 2017, 2016 and 2015 amounted to ₱0.25 million, ₱0.08 million and ₱0.23 million, respectively. Interest income earned on short-term deposits in 2017, 2016 and 2015 amounted to ₱32.87 million, ₱13.22 million and ₱2.40 million, respectively (see Note 25).

Short-term deposits account includes debt service reserves amounting to ₱45.17 million and ₱105.90 million as at December 31, 2017 and 2016, respectively for the wind project loan facility (see Note 17).

6. Investments Held for Trading

	2017	2016
UITFs	**₱1,329,701**	₱3,061,270
FXTNs	**153,818**	–
	₱1,483,519	₱3,061,270

The net changes in fair value of investments held for trading, included in "Interest and other financial income" account presented under "Other income - net" in the consolidated statements of income, amounted to ₱36.98 million, ₱20.10 million and ₱12.79 million gains in 2017, 2016 and 2015, respectively (see Note 25).

Investments in UITFs as at December 31, 2017 and 2016 include debt service reserves amounting to ₱47.09 million and ₱109.56 million, respectively, for the wind project loan facility (see Note 17).

7. Receivables

	2017	2016
Trade	**₱3,745,679**	₱3,827,378
Due from related parties (see Note 28)	**20,314**	4,267
Receivables from:		
Third parties	**120,862**	34,755
Assignment of Mineral Production Sharing Agreement (MPSA) (see Note 14)	**39,365**	39,365
Consortium - SC 50 (see Note 14)	**20,000**	20,000
Consortium - SC 52 (see Note 14)	**19,444**	19,444
Employees	**2,636**	3,581
Stockholders (see Note 28)	**–**	35
Others	**14,367**	13,505
	3,982,667	3,962,330
Less allowance for doubtful accounts	**120,869**	116,327
	₱3,861,798	₱3,846,003

Trade receivables mainly represent receivables from PEMC, NGCP, National Transmission Corporation (TransCo) for the FIT and from the Company's bilateral customers. Trade receivables consist of noninterest-bearing and interest-bearing receivables. The term is generally 30 to 60 days.

Receivables from third parties as at December 31, 2017 mainly represent the current portion of the Company's noninterest-bearing receivables from NGCP (see Note 15). In 2016, the Company had a receivable from third party arising from the sale of spare parts.

As at December 31, the aging analysis of receivables is as follows:

	2017						
		Neither Past Due nor	**Past Due but not Impaired**				**Past Due and**
	Total	**Impaired**	**<30 Days**	**30–60 Days**	**61–90 Days**	**91–120 Days**	**Impaired**
Trade	**₱3,745,679**	**₱1,991,626**	**₱90,559**	**₱62,378**	**₱20,648**	**₱1,541,702**	**₱38,766**
Due from related parties	**20,314**	**20,314**	**–**	**–**	**–**	**–**	**–**
Others	**216,674**	**131,987**	**7**	**8**	**4**	**2,565**	**82,103**
	₱3,982,667	**₱2,143,927**	**₱90,566**	**₱62,386**	**₱20,652**	**₱1,544,267**	**₱120,869**

	2016						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	91–120 Days	<30 Days
Trade	₱3,827,378	₱2,233,632	₱113,969	₱52,311	₱30,979	₱1,362,263	₱34,224
Due from related parties	4,267	4,267	–	–	–	–	–
Others	130,685	45,012	–	112	39	3,419	82,103
	₱3,962,330	₱2,282,911	₱113,969	₱52,423	₱31,018	₱1,365,682	₱116,327

The movements in the allowance for doubtful accounts on individually impaired receivables in 2017 and 2016 are as follows:

	2017		
	Trade	Others	Total
Balances at beginning of year	**₱34,224**	**₱82,103**	**₱116,327**
Provision for the year (see Note 22)	**4,542**	**–**	**4,542**
Balances at end of year	**₱38,766**	**₱82,103**	**₱120,869**

	2016		
	Trade	Others	Total
Balances at beginning of year	₱20,473	₱42,659	₱63,132
Provision for the year (see Notes 14 and 22)	13,751	39,444	53,195
Balances at end of year	₱34,224	₱82,103	₱116,327

Due to its interpretation of the WESM Rules, the PEMC allocates its uncollected receivables due from power purchasers in the WESM to the generators who sold power to the WESM. On December 23, 2013, the Supreme Court (SC) issued a 60-day Temporary Restraining Order ("TRO") enjoining the MERALCO and the ERC from implementing the Automatic Generation Rate Adjustment (AGRA) mechanism for the November 2013 billing period. The AGRA allows automatic pass through of the cost of power purchased from WESM. In turn, MERALCO did not pay PEMC a significant portion of its November and December 2013 power bills. PEMC in turn, did not pay the Company the full amount of its electricity sales. On April 22, 2014, the SC extended indefinitely the TRO it issued over the collection of the November 2013 power rate increase.

The ERC issued an Order (ERC Case No. 2014-021 MC) dated March 3, 2014 voiding the WESM prices of November and December 2013 bills. As directed by ERC, PEMC recalculated regulated prices and issued WESM adjustment bills in March 2014 which the Company recorded resulting to an increase in receivables and net trading revenues.

Certain market players filed motions for reconsideration resulting in ERC's issuance of another Order dated March 27, 2014 for PEMC to provide market participants an additional 45 days, or up to May 12, 2014 to settle their WESM bills covering the adjustments for the period October 26 to December 25, 2013. ERC extended the settlement of WESM bills to a non-extendible period of 30 days up to June 11, 2014 which resulted in a Multilateral Agreement where the WESM Trading Participants agreed to be bound to a payment schedule of 6 months or 24 months subject to certain conditions. The Company signed the Agreement on June 23, 2014. In 2016, the Company collected ₱205.31 million, under the said Multilateral Agreement and was recognized as payable and included under "Trade Payables" in the "Accounts payable and other current liabilities" account in the consolidated statements of financial position. In June 2016, the 24-month period of repayment prescribed; hence, the Company provided an allowance for doubtful accounts related to the receivables under the Multilateral Agreement amounting to ₱13.75 million.

8. Fuel and Spare Parts - at cost

	2017	2016
Fuel	**₱243,679**	₱159,052
Spare parts	**77,846**	72,094
	₱321,525	₱231,146

Fuel charged to “Costs of sale of electricity” in the consolidated statements of income amounted to ₱763.87 million, ₱728.47 million and ₱931.99 million in 2017, 2016 and 2015, respectively (see Note 21).

9. Other Current Assets

	2017	2016
Creditable withholding taxes	**₱598,526**	₱385,997
Tax credits receivable (see Note 36)	**335,759**	335,759
Deposit receivables	**176,989**	39,725
Prepaid expenses	**94,756**	88,875
Input VAT	**20,127**	285,577
Derivative assets (see Notes 32 and 33)	**9,848**	72
	₱1,236,005	₱1,136,005

Creditable withholding taxes represent amounts withheld by the Company’s customers and are deducted from the Company’s income tax payable.

On August 15, 2016, PHINMA Renewable applied for a tax credit certificate with the BIR in relation to its excess and unutilized input VAT attributable to the Company’s zero-rated sales of power generated from its 54 MW San Lorenzo wind farm. Petition for Review on the Company’s application for tax credit certificate is still pending before the Court of Tax Appeals (CTA) (see Note 36).

Input VAT is recognized when the Company purchases goods and services from a VAT-registered supplier.

Prepaid expenses pertain to insurance, taxes, rent and other expenses paid in advance.

Deposit receivables include advances to suppliers and land owners and deposits to distribution utilities.

10. Property, Plant and Equipment

The details and movements of this account for the year ended December 31 are shown below:

2017

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost								
Balance at beginning of year	₱251,488	₱428,651	₱6,698,824	₱37,692	₱37,766	₱54,674	₱228,283	₱7,737,378
Additions	753	40,778	35,632	3,994	16,916	6,524	21,295	125,892
Disposals	–	–	–	(2,817)	–	(448)	–	(3,265)
Reclassifications	–	–	249,159	–	–	–	(249,159)	–
Transfer to investment property (see Note 13)	–	(4,306)	(102,596)	–	–	–	–	(106,902)
Transfer from investment property (see Note 13)	–	28,133	–	–	–	–	–	28,133
Retirement	–	–	–	–	(20)	–	–	(20)
Balance at end of year	252,241	493,256	6,881,019	38,869	54,662	60,750	419	7,781,216
Accumulated depreciation								
Balance at beginning of year	1,236	246,135	997,211	10,878	24,776	42,574	–	1,322,810
Depreciation (see Notes 24 and 35)	–	46,090	316,768	7,375	4,445	5,458	–	380,136
Disposals	–	–	–	(2,311)	–	(443)	–	(2,754)
Transfer from investment property (see Note 13)	–	16,838	–	–	–	–	–	16,838
Transfer to investment property (see Note 13)	–	(3,626)	(62,369)	–	–	–	–	(65,995)
Retirement	–	–	–	–	(20)	–	–	(20)
Balance at end of year	1,236	305,437	1,251,610	15,942	29,201	47,589	–	1,651,015
Net Book Value	₱251,005	₱187,819	₱5,629,409	₱22,927	₱25,461	₱13,161	₱419	₱6,130,201

	2016							
	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost								
Balance at beginning of year	₱248,658	₱389,114	₱7,095,724	₱29,741	₱30,486	₱49,208	₱524,895	₱8,367,826
Additions	2,830	39,537	60,760	12,953	7,280	5,591	50,534	179,485
Disposals	–	–	(780,768)	(5,002)	–	(125)	–	(785,895)
Reclassifications	–	–	347,146	–	–	–	(347,146)	–
Adjustments	–	–	(24,038)	–	–	–	–	(24,038)
Balance at end of year	251,488	428,651	6,698,824	37,692	37,766	54,674	228,283	7,737,378
Accumulated depreciation								
Depreciation (see Notes 24 and 35)	–	58,571	320,166	6,682	2,994	6,591	–	395,004
Balance at beginning of year	1,236	187,564	730,369	8,951	21,782	36,108	–	986,010
Disposals	–	–	(54,870)	(4,755)	–	(125)	–	(59,750)
Adjustments	–	–	1,546	–	–	–	–	1,546
Balance at end of year	1,236	246,135	997,211	10,878	24,776	42,574	–	1,322,810
Net Book Value	₱250,252	₱182,516	₱5,701,613	₱26,814	₱12,990	₱12,100	₱228,283	₱6,414,568

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

Category	Years
Buildings and improvements	6-25 years
Machinery and equipment	9-25 years
Transportation equipment	3-5 years
Land improvements	10 years
Mining and other equipment	10 years
Office furniture, equipment and others	3-10 years

Purchase of Power Barges
On July 8, 2015, Power Barges 101, 102 and 103 were officially transferred from Power Sector and Liabilities Management Corporation (PSALM) to PHINMA Energy after its sale in 2014. In February 2016, Power Barges 101 and 102 received their respective Certificates of Compliance and started operations and all related capitalized costs were reclassified from "Construction in Progress" to "Machinery and Equipment". As at December 31, 2017, the total costs capitalized to Power Barges 101 and 102 included under "Machinery and Equipment" account amounted to ₱386.42 million. These costs include the purchase price and all other dry-docking and repair costs.

In October 2017, Power Barge 103 received its Certificate of Compliance from the ERC. All related costs capitalized to Power Barge 103 were reclassified from Construction in Progress to Machineries and Equipment. As at December 31, 2017, the carrying amount of Power Barge 103 included in Machinery and Equipment amounted to ₱252.12 million.

Wind Projects
On October 7, 2014, the 54 MW Wind Power project in San Lorenzo, Guimaras started delivering power to the grid. Commercial operations started on December 27, 2014. The carrying amounts of the wind farm included under "Machinery and equipment" account as at December 31, 2017 and 2016 amounted to ₱4,518.83 million and ₱4,722.98 million, respectively, while those under "Land and land improvements" account as at December 31, 2017 and 2016 amounted to ₱197.18 million and ₱196.43 million, respectively.

PHINMA Renewable commissioned wind measuring devices in several sites. Three devices were already decommissioned earlier due to low wind regime and typhoon damage. Wind masts in Aparri and Ballesteros were decommissioned in January and February 2016, respectively, due to their deteriorated condition, rendering both structures unsafe. Wind masts located in Sibunag and San Lorenzo, Guimaras were likewise decommissioned in May and June 2016, respectively, also due to their deteriorated condition.

On December 23, 2016, a new wind mast was installed in San Lorenzo, Guimaras for wind resource analysis and correlation with the 54 MW San Lorenzo Wind Farm. In May 2017, the wind mast in Nueva Valencia was decommissioned due to its deteriorated condition. As at February 28, 2018, PHINMA Renewable' remaining wind measuring device continue to gather wind resource measurements at San Lorenzo.

Sale of Transmission Assets
PHINMA Renewable and CIPP executed Deeds of Sale with the NGCP on April 22, 2016 and May 23, 2016, respectively, for the disposition of transmission assets and PHINMA Renewable's submarine cable pursuant to Section 8 of RA No. 9136 or the EPIRA and the ERC decisions. As at date of sale, the carrying value of transmission assets and submarine cables sold by PHINMA Renewable and CIPP amounted to ₱660.15 million and ₱65.17 million, respectively. Receivables

from NGCP arising from these sales are included under “Receivables” and “Other noncurrent assets” (see Notes 7 and 15).

Land Held under Finance Leases
The Company entered into finance leases of land in Barangay Suclaran and Cabano in San Lorenzo, Guimaras and Barangay Zaldivar and Sawang in Buenavista, Guimaras to facilitate the construction of the San Lorenzo wind farm (see Note 31). The carrying amount of land held under finance leases, included under “Land and land improvements”, as at December 31, 2017 and 2016 amounted to ₱116.81 million and ₱116.06 million, respectively.

Mortgaged Property and Equipment
PHINMA Renewable’s wind farm with carrying value of ₱4,518.83 million and ₱4,722.98 million included under “Machinery and Equipment” account is mortgaged as security for the ₱4.3 billion term loan as at December 31, 2017 and 2016 (see Note 17).

11. Investments and Advances

Details of investments in associates and interests in joint ventures and the carrying amounts as at December 31 are as follows:

	Percentage of Ownership	**2017**	2016
Investments in associates:			
MGI	25.00	**₱535,230**	₱365,071
Asia Coal Corporation (Asia Coal)*	28.18	**631**	631
Union Aggregates Corporation (UAC)**	31.25	**–**	–
		535,861	365,702
Interests in joint ventures:			
SLTEC	45.00	**3,490,213**	3,595,028
ACTA	50.00	**31,528**	13,431
		3,521,741	3,608,459
Advances to an associate -			
MGI		**–**	45,000
		₱4,057,602	₱4,019,161

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

The details and movements of investments as well as the advances in associates and interests in joint ventures accounted for under the equity method are as follows:

	2017	2016
Investments in associates and interests in joint ventures		
Acquisition costs:		
Balance at beginning of year	**₱3,531,934**	₱3,877,060
Additions	**98,323**	5,639
Conversion from advances*	**45,000**	7,537
Disposal	–	(358,302)
Balance at end of year	**3,675,257**	3,531,934
Accumulated equity in net earnings:		
Balance at beginning of year	**426,832**	224,815
Equity in net earnings for the year	**1,024,995**	886,224
Disposals	–	(39,262)
Dividends received	**(1,081,741)**	(644,945)
Balance at end of year	**370,086**	426,832
Accumulated share in OCI:		
Balance at beginning of year	**(277)**	(357)
Share in other comprehensive income (loss)	**(3,136)**	49
Disposal	–	31
Balance at end of year	**(3,413)**	(277)
Other equity transactions:		
Balance at beginning of year	**17,231**	19,145
Disposal	–	(1,914)
Balance at end of year	**17,231**	17,231
Less accumulated impairment losses	**1,559**	1,559
	4,057,602	3,974,161
Advances to an associate and a joint venture		
Balance at beginning of the year	**45,000**	52,537
Additions		
Advances converted to investment*	**(45,000)**	(7,537)
Balance at end of year	–	45,000
Total investments and advances	**₱4,057,602**	₱4,019,161

**ACTA's application for increase in authorized capital stock was approved on January 25,2016. Consequently, the advances were converted to an investment in a joint venture. In 2017, advances to MGI were converted to an investment in associate.*

Investments in Associates

MGI
The Parent Company subscribed to 25% of the capital stock of MGI which was incorporated and registered with the SEC on August 11, 2010, to implement the integrated development of the Maibarara geothermal field in Calamba, Laguna and Sto. Tomas, Batangas for power generation. MGI's registered business address is 7th F JMT Building, ADB Avenue, Ortigas Center, Pasig City.

The summarized financial information of MGI, a material associate of the Parent Company, as at and for the years ended December 31 and the reconciliation with the carrying amount of the investments and advances in the consolidated financial statements are shown below:

Summarized Statements of Financial Position

	2017	2016
Current assets	**₱625,746**	₱646,672
Noncurrent assets	**4,964,246**	3,708,771
Total assets	**5,589,992**	4,355,443
Current liabilities	**(400,884)**	(457,812)
Noncurrent liabilities	**(3,048,187)**	(2,437,347)
Net assets	**2,140,921**	1,460,284
Proportion of the Company's ownership	**25%**	25%
Carrying amount of investments	**₱535,230**	₱365,071

Summarized Statements of Income

	2017	2016	2015
Revenue from sale of electricity	**₱832,084**	₱784,609	₱772,011
Costs of sale of electricity	**384,475**	380,770	324,834
Gross profit	**447,609**	403,839	447,177
Interest expense - net	**(124,347)**	(219,871)	(193,989)
General and administrative expenses	**(35,043)**	(43,350)	(45,189)
Other income (charges) - net	**175**	(104)	(344)
Income before income tax	**288,394**	140,514	207,655
Provision for income tax	**121**	11	38
Net income	**₱288,273**	₱140,503	₱207,617
Other comprehensive loss	**(8,636)**	–	–
Total comprehensive income	**₱279,637**	₱140,503	₱207,617

On September 16, 2011, the Parent Company entered into an ESA with MGI under which the Parent Company will purchase the entire net electricity output of MGI's power plant for a period of 20 years at an agreed price, subject to certain adjustments (see Note 31). Commercial operations of MGI started in February 2014.

The Parent Company is also a Project Sponsor for MGI's ₱2.40 billion Term Loan Facility for the 20 MW Maibarara Geothermal Power Plant and ₱1.40 billion Project Loan Facility for its 12 MW Maibarara Expansion Project. In the event of a default of MGI, as a Project Sponsor, the Company is obligated to:

- assign, mortgage or pledge all its right, title and/or interest in and its shares of stocks in MGI, including those that may be issued in the name of the Parent Company;
- assign its rights and/or interests in the Joint Venture Agreement executed on May 19, 2010 with PNOC Renewables Corporation;
- secure the debt service reserve account (DSRA) with a standby letter of credit , when reasonably required and pursuant to the terms of the facilities;
- guarantee the completion of the projects and for this purpose, the Parent Company undertakes to:
  i. contribute to MGI its pro-rata share of the funds necessary to enable MGI to complete the construction of its projects; and,

ii. make cash advances or otherwise arrange to provide MGI with funds sufficient to complete construction, in the event that MGI does not have sufficient funds available to cover the full cost of constructing and completing the project due to costs overrun.

The loan covenants covering the outstanding debt of MGI include, among others, maintenance of debt-to-equity and debt-service ratios. As at December 31, 2017 and 2016, MGI is in compliance with the said loan covenants.

In 2015, the construction of Phase 2 of the project commenced. Upon completion, Phase 2 will add 12 MW to MGI's capacity. As at February 28, 2018, preparations are underway for Unit 2's synchronization to the Luzon grid which will mark its first export of power.

The advances of ₱45.00 million granted by the Parent Company in 2015 were converted to investments in associates in 2017. In 2017, the Parent Company invested additional capital amounting to ₱80.25 million and received dividend of ₱25.00 million from MGI. No dividend was received by the Company in 2016 and 2015.

Asia Coal
On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of its corporate life to October 31, 2009. Asia Coal shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. As at February 28, 2018, Asia Coal is still in the process of securing a tax clearance with the BIR in connection with the filing with the SEC of its application for dissolution.

Asia Coal has not engaged in any activity since filing for the shortening of its corporate life.

Interests in Joint Ventures
The summarized financial information of SLTEC, a material joint venture of the Parent Company, as at and for the years ended December 31 and the reconciliation with the carrying amount of the investment in the consolidated financial statements are shown below:

Summarized Statements of Financial Position

	2017	2016
Current assets	**₱5,367,311**	₱5,809,486
Noncurrent assets	**16,889,069**	18,176,636
Current liabilities	**(2,883,687)**	(2,817,167)
Noncurrent liabilities	**(11,665,557)**	(13,231,086)
Net assets	**7,707,136**	7,937,869
Proportion of the Company's ownership	**45%**	45%
Parent Company's share in the net assets	**3,468,211**	3,572,041
Other adjustments*	**22,002**	22,987
Carrying amount of investment	**₱3,490,213**	₱3,595,028

**Alignment of accounting policies on excess revenue over costs of testing and commissioning.*

Additional Information

	2017	2016
Cash and cash equivalents	**₱1,403,297**	₱2,536,538
Current financial liabilities*	**1,562,666**	1,302,207
Noncurrent financial liabilities	**11,653,160**	13,215,876

**Excluding trade and other payables and provision.*

Summarized Statements of Income

	2017	2016	2015
Revenue from sale of electricity	**₱8,248,140**	₱5,982,707	₱2,053,888
Costs of sale of electricity	**5,163,660**	3,526,798	1,276,043
Gross profit	**3,084,479**	2,455,909	777,845
General and administrative expenses	**(155,122)**	(163,838)	(131,714)
Interest expenses - net	**(818,601)**	(847,698)	(323,682)
Other income - net	**16,606**	376,249	283,171
Income before income tax	**2,127,363**	1,820,622	605,620
Provision for income tax	**7,612**	118,061	79,723
Net income	**2,119,751**	1,702,561	525,897
Other comprehensive income (loss) - net	**(2,171)**	98	(715)
Total comprehensive income	**₱2,117,580**	₱1,702,659	₱525,182

Additional Information

	2017	2016	2015
Depreciation and amortization	**₱742,782**	₱689,144	₱288,888
Interest income	**49,953**	45,233	31,513
Interest expense	**868,554**	892,931	355,195

The Parent Company received dividends from SLTEC amounting to ₱1,057 million and ₱644.95 million in 2017 and 2016, respectively. No dividends were received by the Parent Company in 2015.

On October 29, 2011, SLTEC signed the Omnibus Loan and Security Agreement with its local third party creditor banks with the Parent Company and AC Energy as Project Sponsors.

Under the terms of the Agreement, the Parent Company shall:

- enter into supply agreements with end users sufficient to cover such capacity required by SLTEC to break-even for two years, within 18 months from first drawdown. The consequence of failure is a draw-stop, which means SLTEC will not be able to draw on the loan;
- commit to provide advances to SLTEC in proportion to the Parent Company's equity interest in SLTEC to fund the project cost of the SLTEC power plant project;
- guarantee jointly with AC Energy to redeem the loan in the event that SLTEC defaults on the loan, and lenders are not able to consolidate title to the project site because title to the properties have not been issued; and,
- pledge its shares in SLTEC as security, and assign its offtake contracts to the lenders sufficient to cover such capacity required by SLTEC to break-even.

In accordance with the Joint Venture Agreement, AC Energy made an additional investment in SLTEC amounting to ₱61.08 million in 2011. The Company's share in the additional investment made by AC Energy amounting to ₱30.54 million was recorded under "Other equity reserve" account in the 2011 consolidated statement of changes in equity. From 2012 to 2014, SLTEC incurred stock issuance costs totaling ₱22.80 million which were recognized by SLTEC as a reduction from its APIC and Retained earnings. Of this amount, ₱11.40 million which represents the Company's share in the said costs, was recognized equally as a reduction from the Company's other equity reserve account and retained earnings (see Note 19).

On April 24, 2015, Unit 1 of the two 135 MW coal fired units commenced its commercial operations. Unit 2 of the power plant commenced its commercial operations on February 21, 2016.

On December 20, 2016, the Parent Company sold 5% interest in SLTEC to APHPC (see Note 1). As a result of the sale, the Company's interest in SLTEC was reduced from 50% to 45% and recognized a gain amounting to ₱444.21 million (see Note 25). As a result, the other equity reserve was reduced to ₱17.23 million (see Note 19).

12. **Available-for-sale Investments**

	2017	2016
Shares of stock:		
Listed	**₱133,540**	₱160,008
Unlisted	**100,977**	93,885
Golf club shares	**53,270**	49,905
Investment in a UITF	**5,340**	5,272
	₱293,127	₱309,070

No impairment was recognized in 2017 and 2016. In 2015, impairment losses recognized due to the decline in market value of securities amounted to ₱12.42 million (see Note 25).

The movements in this account are as follows:

	2017	2016
Balance at beginning of the year	**₱309,070**	₱295,768
Additions during the year	**7,215**	–
Additions other than cash acquisitions	**–**	5,273
Disposals during the year	**(109)**	(284)
Net changes in the fair market value of AFS investments	**(23,049)**	8,313
Balance at end of the year	**₱293,127**	₱309,070

The movements in net unrealized gain on AFS investments are as follows:

	2017	2016
Balance at beginning of the year - net of tax	**₱109,366**	₱101,478
Net changes in the fair market value of AFS investments	**(23,049)**	8,313
Income tax effect	**(393)**	(425)
Balance at end of the year - net of tax	**₱85,924**	₱109,366

The dividend income earned from AFS investments amounted to ₱8.48 million, ₱7.43 million and ₱8.80 million in 2017, 2016 and 2015, respectively.

13. **Investment Properties**

		2017		
	Land	**Office Unit**	**Property and Equipment**	**Total**
Cost:				
Balance at beginning	**₱13,085**	**₱28,133**	**₱–**	**₱41,218**
Transfer from PPE (see Note 10)	**–**	**–**	**106,902**	**106,902**
Transfer to PPE (see Note 10)	**–**	**(28,133)**	**–**	**(28,133)**
Balance at end of year	**13,085**	**–**	**106,902**	**119,987**
Less accumulated depreciation:				
Balance at beginning of year	**–**	**16,838**	**–**	**16,838**
Transfer from PPE (see Note 10)	**–**	**–**	**65,995**	**65,995**
Transfer to PPE (see Note 10)	**–**	**(16,838)**	**–**	**(16,838)**
Depreciation (see Note 24)	**–**	**–**	**3,077**	**3,077**
Balance at end of year	**–**	**–**	**69,072**	**69,072**
Net book value	**₱13,085**	**₱–**	**₱37,830**	**₱50,915**

		2016		
	Land	Office Unit	Property and Equipment	Total
Cost:				
Balance at beginning and end of year	₱13,085	₱28,133	₱–	₱41,218
Less accumulated depreciation:				
Balance at beginning of year	–	14,877	–	14,877
Depreciation (see Note 24)	–	1,961	–	1,961
Balance at end of year	–	16,838	–	16,838
Net book value	₱13,085	₱11,295	₱–	₱24,380

The Company's investment properties are composed of land, office unit and property and equipment. Depreciation on the Company's office unit and power plant is calculated on a straight-line basis over the estimated useful life of 6 to 20 years.

The fair value of the office unit as at December 31, 2016 amounted to ₱75.68 million based on the valuation by an independent firm of appraisers. The fair market value of the land is ₱53.88 million based on the valuation of independent firm appraisal as at December 31, 2015. Since there are no quoted market prices for identical assets in an active market available, the valuation is based on sound valuation approach and technique. Valuation techniques based on Market Data Approach and Sales Comparison Approach are used for the land and office unit, respectively.

The fair value of the property and equipment in 2017 amounted to ₱81.30 million, also based on the valuation by an independent firm of appraisers. The value of property and equipment was arrived at using the Cost Approach which estimates the current replacement cost of the replaceable property in accordance with current market prices for manufactured equipment. Replacement cost is defined as the estimated cost of constructing a structure of comparable utility, employing the design and materials that are currently used in the market. Adjustments are then made to reflect depreciation resulting from physical deterioration plus any functional and economic obsolescence that may exist to arrive at a reasonable valuation.

Current prices of similar used property in the second hand market and the age, condition, past maintenance, and present and prospective serviceability in comparison with units of like kind were also considered in the appraisal.

No rental income was earned for the office unit in 2017 since the related lease agreement with a third party ended in 2016. Rental income from the office unit in 2016 and 2015 amounted to ₱1.78 million and ₱1.73 million, respectively, were recognized in the consolidated statements of income, while related direct costs and expenses amounted to ₱3.11 million and ₱2.26 million in 2016 and 2015, respectively, were included as part of "General and administrative expenses" account in the consolidated statements of income.

14. Goodwill and Other Intangible Assets

Changes in goodwill and other intangible assets for the years ended December 31, 2017 and 2016 are as follows:

		2017		
	Leasehold Rights	**Deferred Exploration Costs**	**Goodwill**	**Total**
Cost:				
Balance at beginning of year	**₱99,839**	**₱122,222**	**₱234,152**	**₱456,213**
Cash calls	**–**	**10,105**	**–**	**10,105**
Others	**–**	**123**	**–**	**123**
Balance at end of year	**99,839**	**132,450**	**234,152**	**466,441**
Accumulated depreciation:				
Balance at beginning of year	**42,500**	**–**	**–**	**42,500**
Amortization (see Note 24)	**16,190**	**–**	**–**	**16,190**
Balance at end of year	**58,690**	**–**	**–**	**58,690**
Accumulated impairment:				
Balance at beginning of year	**–**	**22,713**	**–**	**22,713**
Provisions (see Note 22)	**–**	**4,892**	**–**	**4,892**
Balance at end of year	**–**	**27,605**	**–**	**27,605**
Net book value	**₱41,149**	**₱104,845**	**₱234,152**	**₱380,146**

	2016			
	Leasehold Rights	Deferred Exploration Costs	Goodwill	Total
Cost:				
Balance at beginning of year	₱99,839	₱126,905	₱234,152	₱460,896
Cash calls	–	14,371	–	14,371
Pre-development costs	–	1,192	–	1,192
Reclassification to receivables	–	(19,443)	–	(19,443)
Write-offs	–	(1,192)	–	(1,192)
Others	–	389	–	389
Balance at end of year	99,839	122,222	234,152	456,213
Accumulated depreciation:				
Balance at beginning of year	26,310	–	–	26,310
Amortization (see Note 24)	16,190	–	–	16,190
Balance at end of year	42,500	–	–	42,500
Accumulated impairment:				
Balance at beginning of year	–	–	–	–
Provisions (see Note 22)	–	22,713	–	22,713
Balance at end of year	–	22,713	–	22,713
Net book value	₱57,339	₱99,509	₱234,152	₱391,000

Leasehold Rights and Goodwill

The leasehold rights and goodwill arose from PHINMA Power's acquisition of the entire outstanding shares of stocks of One Subic in 2014. One Subic and SBMA has an existing Facilities Lease Agreement (FLA) for a period of five (5) years up to July 19, 2020, as amended, with the option to extend subject to mutually acceptable terms and conditions. On December 21, 2017, the SBMA Board approved and ratified the amendment of the Facilities Lease Agreement extending the lease term until July 19, 2030.

As at December 31, 2017 and 2016, the leasehold rights have a remaining useful life of 2.5 years and 3.5 years, respectively (see Note 31).

Impairment Testing of Goodwill

The goodwill acquired through business combination was allocated for impairment testing to One Subic's power plant operations, this being the CGU. The recoverable amount of goodwill in the CGU was determined using the value in use approach calculated using all cash flow projections related to CGU based on the financial budgets and forecasts approved by the BOD, which management believes are reasonable and are management's best estimate of the ranges of economic conditions that will exist over the remaining useful life of the asset. The pre-tax discount rates of 8.15% and 9.44% in 2017 and 2016, respectively, were applied based on the weighted average cost of capital adjusted for the difference in currency and specific risks associated with the business of the CGU.

The recoverable amount exceeded the carrying amount of the CGU and, as a result, no impairment was recognized for the years ended December 31, 2017 and 2016.

Deferred Exploration Costs

The balance of deferred exploration costs as at December 31 consists of expenditures incurred in the following production-sharing petroleum and geothermal projects:

	2017	2016
Petroleum and gas:		
SC 51/Geophysical Survey and Exploration Contract (GSEC) No. 93 (East Visayas)	**₱32,666**	₱32,666
SC 69 (Camotes Sea)	**15,597**	15,474
SC 6 (Northwest Palawan)	**27,022**	26,182
SC 55 (Southwest Palawan)	**5,714**	5,714
SC 52 (Cagayan Province)	**10,994**	10,994
SC 50 (Northwest Palawan)	**11,719**	11,719
Geothermal -		
SC 8 (Mabini, Batangas)	**28,738**	19,473
	132,450	122,222
Allowance for impairment losses	**(27,605)**	(22,713)
Net book value	**₱104,845**	₱99,509

The foregoing deferred exploration costs represent the Company's share in the expenditures incurred under petroleum and geothermal SCs with the DOE. The contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Operating agreements govern the relationship among co-contractors and the conduct of operations under an SC.

In 2017, the Company assessed and fully provided for probable losses for deferred exploration costs pertaining to SC 6-B amounting to ₱4.89 million due to the relinquishment of PHINMA Petroleum's participating interest, but not the carried interest, to its partners. The Company also fully provided for probable losses on the deferred exploration costs of SC 50 and SC 52 amounting to ₱11.72 million and ₱10.99 million, respectively, in 2016 due to the expiration of their terms and subsequent denial of the DOE of the request for Force Majeure.

In 2016, the Company also wrote-off deferred exploration costs related to its hydropower service contracts amounting to ₱1.19 million due to the expiration of the pre-development term of two years and non-appeal on the denial by the DOE of the Company's request for increase in capacity. No impairment was recognized for the other SCs as management believes that extensions and moratoriums requested that are pending approval by the DOE as of February 28, 2018 will be eventually approved based on prior years' experience. No impairment losses were recognized on deferred exploration costs in 2015.

The following summarizes the status of the foregoing projects:

a. SC 51/GSEC 93 (East Visayas)

   In April 2012, the Operator, Otto Energy Investments Ltd. (Otto Energy) [formerly "NorAsian Energy Ltd."] commenced a 100-kilometer (km) 2D seismic program in the town of San Isidro, Leyte primarily to pick the optimum location for the drilling of the Duhat prospect, which reservoir objective was not reached by the Duhat-1 and Duhat-1A wells in 2011.

   In mid-May 2012, the foreign seismic acquisition contractor unilaterally suspended its field operations as instructed by its government.

   In view of said development, the DOE granted on September 30, 2012 the consortium's request for a six-month extension of the current Sub-Phase 4 to January 31, 2013.

The 2D seismic survey resumed after a one-month suspension and was completed on October 1, 2012. Data processing was completed by December 31, 2012.

The consortium elected to enter Sub-Phase 5 (January 31, 2013 to January 31, 2014) with the drilling of Duhat-2 well in Northwest Leyte as work commitment.

Swan Oil and Gas Ltd. (Swan) withdrew from SC 51 in September 2012 after settling disputes over the North Block (Northwest Leyte) and the South Block (Cebu Strait) with Otto Energy and Filipino partners (remaining members of the consortium), respectively. Consequently, the 40% participating interest of Swan in the North Block reverted to Otto Energy, and as between Otto Energy and Filipino partners, the latter retained 100% interest in the South Block.

The Filipino partners signed a Farm-in Option Agreement with Frontier Oil Corporation (Frontier Oil) over the South Block on October 23, 2012. Under the said Agreement, Frontier Oil has the option to acquire 80% participating interest in the area by undertaking to drill the Argao-1 well at its sole cost during Sub-Phase 6 of SC 51 (January 31, 2015 to July 8, 2015). Frontier Oil may exercise its option not later than January 31, 2013, which was extended to February 28, 2013. The Farm-in Option Agreement lapsed since the option was not exercised by Frontier Oil.

On July 24, 2013, Otto Energy spudded the Duhat-2 well in Northwest Leyte but prematurely plugged and abandoned the well on July 26, 2013 at a depth of 201 meters for safety and environmental reasons, after encountering a high-pressure water zone. Otto Energy completed the demobilization for the Duhat-2 well on August 30, 2013 and conducted post-well studies. The new information will be considered in any future decisions on SC 51. The consortium requested the DOE a six-month extension of the current exploration Sub-Phase 5 to July 31, 2014 to be able to conduct post-well geological, geophysical and drilling studies. The DOE approved the foregoing request on November 7, 2013.

On May 5, 2014, Otto Energy notified PHINMA Petroleum and the other partners in the consortium that it has elected to withdraw from SC 51. Otto Energy's withdrawal from SC 51 and the transfer of its participating interest to the remaining parties are subject to the approval of the DOE.

On June 28, 2014, the Filipino partners requested the DOE for suspension of the exploration of Sub-Phase 5 from the date Otto Energy notified the DOE of its withdrawal from SC 51 until the DOE approves the transfer of Otto Energy's participating interest to the Filipino partners.

On May 11, 2015, DOE approved the request for an extension of Sub-Phase 5 to July 8, 2016.

On March 3, 2017 and December 20, 2017, the Filipino partners reiterated their intent to carry on with the exploration of SC 51, following Otto Energy's withdrawal from the block and consequent resignation as Operator. They further signed and executed a Deed of Undertaking to pay the outstanding financial obligation of Otto Energy amounting to US$124,763, subject to the approval of the transfer of interest from Otto Energy to the continuing parties, the extension of the term of the contract, and the revision of work program from drilling of a well to the conduct of pore pressure prediction study and gravity survey. Of this amount, PHINMA Petroleum's share is US$41,596, which is equivalent to the pro-rata amount of liability using its post-adjustment ownership interest. The aforementioned requests are pending with the DOE as of February 28, 2018.

PHINMA Petroleum's 6.67% participating interest in SC 51 would be adjusted to 33.34% upon DOE approval of the withdrawal of Otto Energy.

b. SC 69 (Camotes Sea)

Interpretation of the 229-square kilometers (sq. km.) 3D seismic data acquired in June 2011 generated three drillable prospects.

The DOE granted the consortium's request for a nine-month extension of Sub-Phase 3 to May 7, 2013 to allow completion of technical studies.

On April 4, 2013, the DOE granted the consortium's request for a further six-month extension of Sub-Phase 3 to November 6, 2013 to allow completion of technical studies and initiate farm-out efforts.

On August 23, 2013, the Operator, Otto Energy (Philippines) Inc. (Otto Philippines), confirmed to PHINMA Petroleum that it did not intend to enter Sub-Phase 4 of SC 69 and will reassign 9% participating interest in SC 69 to PHINMA Petroleum pursuant to the Assignment Agreement dated February 3, 2011.

Following an unsuccessful campaign to farm out its participating interest, Otto Philippines notified PHINMA Petroleum and Frontier Gasfields Pty. Ltd. (Frontier Gasfields) of its withdrawal in SC 69 on October 4, 2013. PHINMA Petroleum and Frontier Gasfields subsequently jointly requested the DOE a six-month extension of the October 7, 2013 deadline to elect to enter the next exploration sub-phase, which started on November 7, 2013. An additional extension of the contract term to December 31, 2014 was requested due to the delays in the transfer of participating interests and operatorship to the remaining partners.

Following DOE approval of the assignment of Otto Philippines' interests to PHINMA Petroleum and Frontier Gasfields on October 14, 2014, PHINMA Petroleum's participating interest in SC 69 was adjusted from the current 6% to 50%.

On March 17, 2014, the parent Company and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until December 31, 2014. The DOE extended the term of Sub-Phase 3 to May 7, 2014 to enable the remaining parties to proceed with planned exploration activities and PHINMA Petroleum was designated as Operator of SC 69.

On April 17, 2015, the consortium entered Sub-Phase 4 (May 2015 to May 2016) which entails a commitment to either undertake a 3D seismic program or drill an exploratory well. The DOE approved the consortium's requests that participation in a proposed multi-client 2D seismic survey be credited as fulfillment of its work obligation under the current Sub-Phase and a 6-month extension of the term of SC 69 to November 2016.

On June 30, 2016, PHINMA Petroleum signed a licensing agreement with a seismic contractor for the acquisition of 750 km of seismic data under the multi-client survey. The seismic contractor in a letter dated August 18, 2016 informed PHINMA Petroleum that it could not proceed with the PHINMA Petroleum's leg of the survey due to permitting and weather constraints. The consortium requested an extension of the term of SC 69 due to Force Majeure.

As at December 29, 2017, the DOE approved the request for extension due to Force Majeure with an attendant work program of permitting and information and education campaigns to address impediments to the planned seismic survey.

c. SC 6 (Northwest Palawan)

Block A
Pitkin Petroleum Plc. (Pitkin), the Operator, completed a geophysical review of the block.

The partners for SC 6 Block A approved the conduct of a new 500-sq. km. 3D seismic program over selected prospects and leads in the first half of 2013, subject to issuance of local government permits.

Under the Farm-in Agreement dated July 11, 2011, Pitkin shall carry PHINMA Energy and the other non-operating consortium members in the costs of said seismic program and the drilling of two wells, in exchange for the assigned 70% participating interest.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed bathymetry and 3D seismic survey over the area to the Palawan Council for Sustainable Development (PCSD).

Pitkin completed a 500-sq. km. 3D seismic survey over selected prospects and leads.

Pitkin notified the partners on August 28, 2014 that it shall not exercise its option under the Farm-in Agreement to drill a well in the block and will withdraw from the block by December 31, 2014. By December 31, 2014, Pitkin completed geological and geophysical work programs in fulfillment of its obligations under the first exploration phase. The remaining partners agreed to pursue the geological evaluation of the block.

On August 28, 2015, the consortium completed its work program consisting of geological and geophysical evaluation.

On November 3, 2015, the DOE approved the 2016 work program consisting of specialized geophysical studies. The pertinent geophysical program commenced in November 2015 and was completed by December 31, 2016.

On December 20, 2016, the consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies. On February 13, 2017, the program was approved by the DOE. The work program of advanced seismic data reprocessing and quantitative seismic inversion study was completed in December 2017. The studies yielded significant improvement in the imaging of complex and deeper geological structures.

On January 8, 2018, the consortium submitted to the DOE its proposed 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates.

PHINMA Petroleum's interest reverted to 7.78% from 2.334% following the withdrawal of Pitkin Petroleum, and subsequent approval of the assignment of interest by the DOE on June 24, 2015.

Block B
Pursuant to a Farm-in Agreement dated February 4, 2011, Peak Oil and Gas Philippines Ltd. (Australia), Blade Petroleum Philippines Ltd. (Australia) and Venturoil Philippines, Inc. ("Farminees") exercised their option to acquire 70% participating interest of the SC 6 Block B consortium, which includes PHINMA Energy ("Farmors").

Under the Farm-in Agreement, the Farminees were supposed to shoulder all the Farmors' share of exploration and development expenditures in the Block up to the production of first oil.

The DOE denied the applications for the transfer of participating interests to the Farminees and transfer of operatorship due to failure of the Farminees to comply with DOE requirements. Under the Farm-in Agreement, the Farminees would have been eligible to earn a combined 70% of the participating interest of the farming out parties. On August 7, 2013, the DOE directed the original Operator, The Philodrill Corporation, to submit a new and comprehensive work program and budget of exploration activities over the Block.

On September 13, 2013, the DOE approved the work program and budget for SC 6 Block B for the 5th year of extension period. The pertinent geological and geophysical program commenced in October 2013 and was completed in January 2014.

The consortium formulated a work program for the next five years of the extension period which started on March 1, 2014. Partners submitted, for the DOE's approval, a 3-year work program consisting mainly of geophysical studies with a corresponding budget amounting to US$724,000. The geophysical studies were completed by the third quarter of 2016.

To improve the viability of the primary prospect, the consortium requested the DOE to reconfigure the contract area to include an adjoining block, which hosts an oil field where production had been suspended.

PHINMA Petroleum holds 7.78% and 14.063% participating interests in Block A and Block B, respectively. SC 6 is valid until February 28, 2024 subject to fulfillment of work commitments for each of the three 5-year terms comprising the 15-year extension period of SC 6 in respect of Block A and B and payment of training assistance, development assistance and scholarship funds to the DOE.

On February 20, 2017, PHINMA Petroleum gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include its 2.475% carried Interest. Documentation of the transfer of participating interest from PHINMA Petroleum to SC 6 Block B is in process as of February 28, 2018.

d. SC 50 (Northwest Palawan)

In 2013, PHINMA Petroleum commenced negotiations with Frontier Energy Limited (Frontier Energy), the Operator, regarding a Farm-in Agreement that would provide for PHINMA Petroleum's acquisition of 10% participating interest in SC 50.

Subject to execution of said Farm-in Agreement, PHINMA Petroleum has committed to subscribe to 136,000,000 in Frontier Oil shares through the latter's planned initial public offering.

On September 1, 2014, the parent Company made advances to Frontier Oil amounting to ₱20,000,000 pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil dated August 22, 2014 subject to execution of a Farm-in Agreement and Loan Agreement among the parties not later than 30 days from date of execution of the MOA. The advances are due 24 months after the release of the funds. In the event a Loan Agreement for ₱136,000,000 is signed between PHINMA Petroleum and Frontier Oil, the advances shall be considered as initial drawdown on the Loan.

On October 16, 2014, the parent Company signed the following agreements providing for its acquisition of 10% participating interest in SC 50:

1. Farm-in Agreement with Frontier Energy and Frontier Oil
2. Deed of Assignment with Frontier Energy
3. Loan Agreement with Frontier Oil

Frontier Oil, the Operator, applied for a Force Majeure in view of the unilateral cancellation of its rig contract by the counter party.

On October 5, 2015, the DOE denied the Operator's request and, consequently, ruled that the contract effectively expired in March 2015. On October 20, 2015, Frontier Oil contested DOE's position and engaged the DOE in discussions aimed at a mutually acceptable resolution of the issue.

In 2016, PHINMA Petroleum's advances to Frontier Oil amounting to ₱20 million was fully provided with an allowance for a doubtful account (see Note 7), due to the expiration of the SC's term and denial by the DOE of the request for force majeure.

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. As of February 28, 2018, negotiations between the DOE and Frontier Oil for possible reinstatement of SC 50 continues.

As of February 28, 2018, approval of the assignment of 10% participating interest in SC 50 to the Parent Company remains pending with the DOE.

e. SC 52 (Cagayan Province)

The Parent Company and Frontier Oil executed on January 12, 2012 a Farm-in Option Agreement which granted the Company the option to acquire 10% participating interest from Frontier, which may be exercised after completion of re-entry and testing of the Nassiping-2 well.

The Company desires and Frontier Oil decided to extend the option and expand its coverage to include the untested deeper prospective gas-bearing intervals in the Nassiping-2 well under the following terms:

1) The Company shall pay to Frontier Oil a total of US$400,000 (Supplemental Option Fee) as follows:

   a. US$200,000 shall be paid within 5 working days of signing of this second amendment agreement
   b. US$200,000 shall be paid within 5 working days of Company's receipt of a written notice from Frontier Oil which confirms that Frontier Oil has entered into a binding rig contract that will enable Frontier Oil to comply with the Workover Program
2) Upon payment of the Supplemental Option Fee, the Option Period shall be extended until 90 days from the date of completion of the Workover Program.

The Nassiping-2 well was drilled by Petro-Canada in 1994 but was not tested although gas shows were recorded.

Test operations conducted by Frontier Oil in February 2012 failed to establish a stable gas flow despite high surface pressure and strong initial flow rates. Frontier suspended the well for future re-entry after confirming the presence of movable gas in the target interval.

The Company and Frontier Oil signed an Amendment Agreement extending the former's option to 90 days after completion of programmed re-testing operations on the Nassiping-2 well.

The DOE approved the consortium's entry into Sub-Phase 4 (July 8, 2012 to July 8, 2013) with the Nassiping-2 Stimulation and Testing Program as work commitment.

Frontier Oil suspended the Stimulation and Testing Program in December 2012 after repeated attempts to remove a plug that would have allowed acidization of the upper test zones failed. In view of this suspension of the Stimulation and Testing Program, the Company recognized impairment loss amounting to ₱12.87 million in 2012.

Frontier Oil elected to enter Sub-Phase 5 (ending July 2014) with the deepening of the Nassiping-2 well, including the testing of all prospective gas-bearing intervals in the borehole, as one of two well obligations.

The Company and Frontier Oil signed a Second Amendment to their Farm-in Option. Agreement in July 2013 that extended the option period and expanded the coverage of the Company's option to include the untested deeper prospective gas-bearing intervals identified in the well.

On July 8, 2013, the first tranche of the supplemental option fee amounting to ₱8.7 million or US$200,000 was paid.

In December 2013, Frontier Oil signed a drilling rig contract for the deepening and testing of the Nassiping-2 well. On account of this recent development, the Company reversed in full the impairment loss in 2013. Based on the quantification of an independent expert, the expected monetary value of the contingent resources attributable to the SC 52 portion of the Nassiping Dome is US$128.7 million.

As requested by Frontier Oil, the DOE approved the extension of Sub-Phase 5 to January 8, 2015. On January 3, 2014, the second tranche of ₱8.88 million or US$200,000 was paid.

In letters dated February 10, 2015 and May 28, 2015, Frontier Oil Corporation requested the DOE a two-year moratorium on work obligations under Sub-Phase 5 which ended on July 8, 2015.

On January 13, 2016, Frontier Oil expressed its intent to pursue the company's commitments to the DOE and requested for a two-year Moratorium on SC 52. On February 2, 2016, the DOE denied Frontier Oil's request for moratorium of work commitments on the basis of Force Majeure. During 2016, the Company reclassified to receivables the option fee of ₱19.44 million recoverable upon expiration of the service contract. The option fee was fully provided with an allowance for doubtful account (see Note 7).

In December 2016, Frontier Oil, as instructed by the DOE, submitted certain documents in support of its request for Force Majeure. As at February 28, 2018, the requests for Moratorium and appeal for contract reinstatement are still pending DOE's approval.

f. SC 55 (Southwest Palawan)

On May 2, 2012, the DOE approved a twelve-month extension of exploration Sub-Phase 4 to August 5, 2013 to enable BHP Billiton Petroleum (Philippines) Corporation (BHP Billiton), the Operator, to secure a drilling rig with specialized well control equipment for the committed

Cinco-1 well. The Cinco-1 well will test a large interpreted carbonate structure in 1,400 meters of water.

Palawan55 6.82% participating interest will be carried in the drilling cost of two (2) wells in the block under its Participation Agreement dated March 15, 2005 with the predecessors-in-interest of Otto Energy [formerly “NorAsian Energy Ltd.”] and an Agreement with NorAsian Energy Ltd. dated February 3, 2011.

In May 2013, BHP Billiton filed a Notice of Force Majeure under SC 55 with the DOE in order to preserve the term of the current exploration sub-phase that requires the drilling of one exploratory well. It is deemed that the Force Majeure event commenced on September 7, 2012, at which time the endorsement of the Sangguniang Panlalawigan of the province of Palawan and the Strategic Environmental Plan (SEP) Clearance from the PCSD would have been released in the ordinary course of business.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed Cinco-1 drilling to the PCSD. The PCSD approved the issuance of the SEP clearance for the drilling of Cinco-1 well but BHP Billiton sought amendment and clarification on certain conditions set by PCSD. The SEP was issued by the PCSD and signed by all parties in October 2013.

BHP Billiton requested from the DOE an extension of the current Sub-Phase 4 to October 2014 to account for the Force Majeure period caused by the fourteen-month delay in issuance of the aforementioned PCSD clearance.

In November 2013, BHP Billiton verbally informed the partners of its decision not to drill a well under SC 55 and proposed to reassign its 60% participating interest to Otto Energy. Otto Energy subsequently signed a Letter of Intent with BHP Billiton providing for the termination of their Farm-out Agreement and the reassignment of BHP Billiton’s participating interest, including a cash settlement.

In January 2014, BHP Billiton and Otto Energy signed definitive agreements for the reassignment of the former’s participating interest to the latter. The DOE approved the transfer of the 60% participating interest of BHP Billiton to Otto Energy Philippines, Inc. and the transfer of Operatorship to Otto Energy. The approval formalized the exit of BHP Billiton in SC 55.

Otto Energy submitted a revised work program to the DOE focused on the drilling of an ultra deepwater prospect and commenced a farm-out campaign. The new work program was subsequently approved by the DOE. On April 29, 2014, the DOE extended the term of Sub-Phase 4 to December 23, 2014. Otto Energy commenced preparations for exploratory drilling.

On October 15, 2014, Otto Energy requested the DOE a one-year extension of Sub-Phase 4 to December 23, 2015. The requested extension was approved by the DOE on November 7, 2014.

On July 31, 2015, Otto Energy commenced drilling of the Hawkeye-1 exploratory well and on August 17, 2015 completed the drilling to a total depth of 2,920 meters. The well discovered gas, which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract.

On December 22, 2015, the consortium requested the DOE for a two-year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye-1 on the remaining prospectively of the area.

On June 14, 2016, the DOE extended the term of SC 55 until December 23, 2017.

On November 21, 2016, Otto Energy and Otto Energy Philippines notified the DOE of their withdrawal from SC 55.

On November 22, 2017, Palawan55 notified the DOE of its willingness to assume its pro-rata, post- adjustment share (37.50%) amounting to US$ 64,613 of Otto Energy's outstanding training fund obligation of US$ 172,300 in conjunction with the DOE's approval of the assignment of interests and favorable consideration for a reasonable extension of the moratorium period that would allow execution of the committed technical studies. The transfer of interest from Otto Energy to the continuing parties is being processed by the DOE as of February 28, 2018.

The 6.82% participating interest of Palawan55 in SC 55 would be adjusted to 37.50% upon DOE approval of the withdrawal of Otto Energy.

<u>MPSA 252-2007-V (Camarines Norte)</u>

On July 28, 2007, PHINMA Energy was awarded MPSA No. 252-2007-V by the Philippine Department of Environment and Natural Resources (DENR) covering parcels of land with an aggregate area of more or less 333 hectares, located in the municipality of Camarines Norte, Philippines (the "Property"). On February 14, 2008, One Subic Oil, then TA Gold, and PHINMA Energy entered into an Operating Agreement where PHINMA Energy granted unto and in favor of One Subic Oil the exclusive right to explore, develop and operate for commercial mineral production the Property under the MPSA. In June 2009, PHINMA Energy received a notice of an Order of the Secretary of the DENR excising portions of the MPSA area that are covered by alleged mineral patents of a third party for which PHINMA Energy filed a Motion for Reconsideration for the said Order.

In December 2009, the DENR denied PHINMA Energy's Motion for Reconsideration. PHINMA Energy filed a timely Appeal of the DENR's ruling with the Office of the President, which was also denied. PHINMA Energy then elevated the case to the Court of Appeals.

PHINMA Energy signed an Agreement on October 18, 2011 for the assignment of the MPSA to Investwell Resources, Inc. (Investwell), subject to certain conditions for a total consideration of US$4.00 million payable in four tranches. The receipt of the first nonrefundable tranche amounting to US$0.50 million (₱21.93 million) was recognized as income in 2011. The receipt of the second and third nonrefundable tranches amounting to US$1.00 million (₱42.20 million), net of the related deferred exploration cost of ₱11.47 million, was also recognized as income in the year payments were received.

On October 30, 2012, the Court of Appeals granted PHINMA Energy's petition to reverse and set aside the resolutions of the DENR and the Office of the President that ordered and affirmed, respectively, excision of certain areas covered by alleged mining patents of a third party from the contract area of the MPSA. Subsequently, PHINMA Energy elevated the case to the Supreme Court.

In Agreements dated May 29, 2012, March 19, 2013, June 25, 2013 and December 18, 2013, PHINMA Energy and Investwell amended and restructured the payment of the fourth tranche of the total consideration.

The DENR approved on February 7, 2013 the assignment of the MPSA to Investwell, and PHINMA Energy recognized US$0.87 million (₱37.93 million) income representing a portion of the final tranche.

On January 12, 2015, the Supreme Court ruled that the rights pertaining to mining patents issued pursuant to the Philippine Bill of 1902 and existing prior to November 15, 1935 are vested rights that cannot be impaired by the MPSA granted by the DENR to PHINMA Energy on July 28, 2007.

As at December 31, 2016 and 2015, receivable from Investwell amounted to ₱39.37 million (see Note 7). In 2014, PHINMA Energy provided an allowance for impairment for the full amount of receivable from Investwell since the latter did not comply with the restructured payment schedule.

Mabini Geothermal Service Contract (Batangas)
On December 3, 2013, PHINMA Energy signed a MOA with Basic Energy Corporation (Basic), under which PHINMA Energy shall acquire from Basic a 10% participating interest in the Mabini Geothermal Service Contract, which interest may be increased up to 40%, at the option of PHINMA Energy, after PHINMA Energy completes a gravity program in the contract area at its sole cost.

The DOE approved on September 1, 2015 a one-year extension of Contract Year 8 to July 10, 2016 with a one-well drilling obligation. On September 15, 2015, the DOE approved the transfer of 25% participating interest in subject GSC from Basic to PHINMA Energy.

Preparations for the drilling commenced in the fourth quarter of 2015. The consortium completed the drilling program of MAB-1 well in March 2017.

Other field operations were stopped indefinitely due to Cease-and-Desist Order issued by the Mabini Mayor in light of the series of earthquakes that hit the town in April 2017.

The Consortium invoked the Force Majeure provision in the Contract and requested the DOE for the suspension of work obligation due to Force Majeure. The request is still under DOE evaluation.

On November 29, 2017, the DOE approved the work program consisting of Information and Education Campaigns (IEC) and permitting works.

As at February 28, 2018, the Consortium holds continuing IEC together with the DOE and PHIVOLCS to obtain support from the local government units towards lifting of the Cease-and-Desist Order.

Pililia Hydropower Service Contract (Rizal)
PHINMA Energy requested for the reinstatement of Pililia Hydropower Service Contract and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

PHINMA Energy also requested a three-year extension of the pre-development stage of the service contract and as at February 28, 2018, still waiting for the response from the DOE.

Ilagan Hydropower Service Contract (Isabela)
PHINMA Energy requested for the reinstatement of Ilagan Hydropower Service Contract and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

PHINMA Energy also requested approval for increase in capacity but was denied by the DOE in its letter dated July 8, 2016 due to adverse effect to other service contract applications covering areas upstream of the project site. PHINMA Energy did not appeal the DOE's decision, thus the service contract is deemed terminated.

15. **Other Noncurrent Assets**

	2017	2016
Receivables from third parties	**₱650,627**	₱608,546
Prepaid rent	**55,497**	49,581
Deposit receivables from suppliers	**27,930**	67,236
Balance at end of year	**₱734,054**	₱725,363

Receivables from third parties include interest bearing receivables collectible until April 2021 and non-interest bearing receivables from NGCP arising from the sale of transmission assets as discussed in Note 10, which are collectible annually within 3 years, discounted using the Philippine Dealing System Treasury Reference Rate (PDST-R2) on transaction date ranging from 2.14% - 4.56%.

Prepaid rent pertains to easements and right of way agreements with land owners in Guimaras for the transmission lines connecting its 54 MW wind farm project located in San Lorenzo, Guimaras to the grid.

Deposit receivables include deposits to distribution utilities outstanding as at December 31, 2017 and 2016.

16. **Accounts Payable and Other Current Liabilities**

	2017	2016
Trade (see Notes 7 and 32)	**₱1,639,792**	₱1,877,518
Due to related parties (see Note 28)	**1,187,845**	1,204,310
Deferred revenue - current portion	**402,447**	–
Accrued expenses	**214,339**	254,236
Output VAT	**145,486**	469,130
Accrued interest expenses	**133,983**	114,755
Nontrade (see Note 32)	**114,645**	129,681
Accrued directors' and annual incentives (see Note 28)	**19,757**	51,478
Finance lease obligations - current portion (see Note 31)	**14,328**	12,544
Retention payables	**2,867**	845
Others	**7,004**	4,177
	₱3,882,493	₱4,118,674

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

Trade payables refer to liabilities to suppliers of electricity and fuel purchased by the Company.

Deferred revenue pertains to the upfront payment received from a customer in consideration of the contract amendments and modifications. The deferred revenue shall be amortized over the remaining term of the contract.

Accrued expenses include insurance, sick and vacation leave accruals (see Note 27), station use, One Subic variable rent at SBMA (see Note 31) and accruals for incentive pay.

Nontrade payables include liabilities for various purchases such as additions to property, plant and equipment and spare parts.

Finance lease obligations refer to lease agreements entered into by the Company with individual land owners. These leases have terms of 20 to 25 years (see Note 31).

Retention payables pertain to amounts retained from liabilities to suppliers and contractors.

Others consist of liabilities to employees, statutory payables, deposit payables and a derivative liability (see Notes 32 and 33).

17. **Long-term Loans**

As at December 31, this account consists of:

	2017	2016
PHINMA Renewable term loan facility	**₱1,732,558**	₱4,149,500
PHINMA Energy long-term loans	**5,156,291**	2,910,000
	6,888,849	7,059,500
Add premium on long-term loans (embedded derivative)	**6,009**	7,722
Less unamortized debt issue costs	**45,482**	72,871
	6,849,376	6,994,351
Less current portion of long-term loans (net of unamortized debt issue costs)	**226,949**	200,785
Noncurrent portion	**₱6,622,427**	₱6,793,566

Movements in derivatives and debt issue costs related to the long-term loans follow:

	Derivatives	Debt Issue Costs
As at January 1, 2016	₱9,389	₱89,887
Additions	–	–
Amortization for the year (see Note 25)	(1,667)	(17,016)
As at December 31, 2016	7,722	72,871
Additions	–	11,750
Amortization for the year (see Note 25)	(1,713)	(39,139)
As at December 31, 2017	₱6,009	₱45,482

<u>PHINMA Renewable</u>
On December 18, 2013, PHINMA Renewable entered into a ₱4.3 billion Term Loan Facility with Security Bank Corporation (SBC) and Development Bank of the Philippines (DBP). The proceeds were used to partially finance the 54 MW San Lorenzo Wind Farm composed of 27 2 MW wind

turbine generators and related roads, jetty, substations, transmission line facilities and submarine cable to connect to the grid. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of 15 years with semi-annual interest payments starting on the date on which the loan is made. The Tranche A's interest is to be fixed at the higher of 10-year PDS Treasury Fixing (PDST-F) plus a spread of 1.625% or 6.25% for the first 10 years, to be repriced at higher of 5-year PDST-F plus a spread of 1.25% or 6.25% for the last 5 years. The Tranche B will be fixed at higher of interpolated 15-year PDST-F plus a spread of 1.625% or 6.5%. The interest rate floor on the loan is an embedded derivative that is required to be bifurcated. In 2013, the Company did not recognize any derivative liability arising from the bifurcated interest floor rate since the fair value is not significant.

On April 1, 2015, the publication of PDST-F rates ceased pursuant to the memo of the Bankers Association of the Philippines (BAP) dated January 8, 2015. Subsequently, the parties agreed to adopt PDST-R2 as benchmark rate in lieu of PDST-F rates.

The loan facility also contains a prepayment provision which allows PHINMA Renewable to make optional prepayment for both Tranche A and Tranche B in the amount calculated by the facility agent as accrued interest and other charges on the loan up to the prepayment date plus, the higher of a) the principal amount of the loan being prepaid, or b) the amount calculated as the present value of the remaining principal amortizations and interest payments on the loan being prepaid, discounted at the comparable benchmark tenor as shown in the Philippine Dealing and Exchange Corporation (PDEx) Market Page, Reuters and the PDS website (www.pds.com.ph) at approximately 11:16 am on the business day immediately preceding the prepayment date. In addition, PHINMA Renewable is allowed to prepay the Tranche A loan, without penalty or breakfunding cost, on the interest re-pricing date. The prepayment option was assessed as closely related to the loan and, thus, was not bifurcated.

On April 28, 2016, the Company prepaid ₱150.50 million of its long-term debt in accordance with the terms of the Agreement as follows:

- The Company shall effect a mandatory prepayment of the loan, without premium or penalty, within three (3) business days from receipt by the Company of any transmission line proceeds;
- Prepay the loan to the extent of seventy percent (70%) of the transmission line proceeds;
- The remaining thirty percent (30%) shall be transferred directly into the Company controlled distribution account for further distribution to the Project Sponsor.

Under the terms of the Agreement, PHINMA Energy, as the Project Sponsor, shall:

- Provide equity contributions equivalent to 30% of the project cost;
- Fund any cost overruns on the project and the required debt service reserve amount DSRA in the event of delays in obtaining FIT eligibility or Renewable Energy Payment Agreement; and,
- Redeem the loan in the event that PHINMA Renewable defaults on the loan and titles to the project properties have not been issued to PHINMA Renewable or notwithstanding such titles, lenders fail to acquire title to the project properties due to lack of annotation or third party claims.

The loan agreement provides loan disbursement schedule for the drawdown of the loan. PHINMA Renewable made the following drawdowns during the years 2015 and 2014 with the corresponding carrying values as at December 31, 2017:

	Tranche A (DBP)		Tranche B (SBC)	
Drawdown date	Gross Amount [a]	Carrying value [b]	Gross Amount	Carrying value [b]
February 14, 2014	₱124,905	₱124,739	₱124,905	₱123,732
May 27, 2014	221,606	220,587	221,606	219,788
August 5, 2014	221,606	221,739	221,606	219,870
September 2, 2014	201,460	201,022	201,460	199,964
July 30, 2015	96,701	91,955	96,701	91,932
	₱866,278	₱860,042	₱866,278	855,286

[a] *Net of unamortized debt issue costs of ₱22.04 million.*
[b] *Net of unamortized debt issue costs of ₱29.67 million.*

In 2017 and 2016, PHINMA Renewable made the following payments with their corresponding carrying values:

	Tranche A (DBP)		Tranche B (SBC)	
Payment date	Gross Amount	Carrying value	Gross Amount	Carrying value
April 28, 2016	₱75,250	₱63,722	₱75,250	₱69,364
January 11, 2017	1,175,000	1,169,712	1,175,000	1,172,004
February 14, 2017	16,735	16,422	16,735	16,558
August 14, 2017	16,735	15,093	16,735	15,809
	₱1,283,720	₱1,264,949	₱1,283,720	₱1,273,735

The loan's principal repayment is variable amount payable semi-annually; amount of principal repayment to be determined during the due diligence stage based on the required debt service coverage ratio (DSCR) and financial projections using the Financial Model validated by an independent financial model auditor. Any incremental revenue resulting from a subsequent increase in the applicable FIT rate shall be applied to principal repayment of the loan in the inverse order of maturity. Incremental revenue is the difference in the revenue based on existing FIT rate of ₱7.40/kwh and a new base rate as defined by the relevant government agency excluding annual adjustments to account for inflation and foreign exchange movements.

Under the loan facility agreement, PHINMA Renewable must maintain a debt service account into which will be paid the maximum interest forecasted to be due and payable for the next two following payment dates that will fall within the construction period and the amount of debt service after the construction period. The funds in the debt service reserves can be used by the Company provided that 30 days prior to payment, the fund is replenished. Debt service reserves are included in the consolidated statements of financial position under "Cash and cash equivalents" and "Investments held for trading" (see Notes 5 and 6).

Covenants. The Term Loan Facility includes, among others, certain restrictive covenants and requirements with respect to the following, effective upon commercial operations of PHINMA Renewable:

(a) Minimum DSCR post dividend declaration of 1.20x throughout the term of the loan
(b) Limitation on investments (not to enter into joint ventures, partnership; create subsidiary/branch)
(c) Restricted payments (not to distribute dividends, make payments to affiliates)

PHINMA Renewable is in compliance with loan covenants as at December 31, 2017 and 2016.

The loan facility is secured by PHINMA Renewable's wind farm, included in "Machinery and equipment" account under "Property, plant and equipment" with carrying value amounting to ₱4,518.83 million and ₱4,722.98 million as at December 31, 2017 and 2016, respectively (see Note 10). In addition, as a security for the timely payment, discharge, observance and performance of the obligations, PHINMA Energy entered into a Pledge Agreement covering the subscriptions of stocks of PHINMA Energy and its nominees.

PHINMA Energy

The relevant terms of the long-term loans of the Parent Company are as follows:

Description	Interest Rate (per annum)	Terms	**2017**	2016
₱1.50 billion loan with China Banking Corporation (CBC)	The higher of 7-year PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years, the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate.	Availed on April 14, 2014, payable in quarterly installment within 10 years to commence 1 year after the first interest payment date with final repayment in April 10, 2024; contains negative pledge	**₱1,418,673**	₱1,448,489
₱1.00 billion loan with SBC	Fixed at a rate equivalent to the 5-year PDST-F rate one business day prior to drawdown date plus 1.00%, for 5 years	Availed on April 11, 2014, principal repayment equivalent to 2% of the loan per annum, payable in quarterly payment starting at the end of the 5th quarter following drawdown; bullet payment on maturity date; contains negative pledge	**948,656**	967,638
₱0.50 billion loan with Banco De Oro Unibank, Inc. (BDO)	The higher of 7Y PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years), the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate	Availed on April 30, 2014, payable in quarterly installments within 10 years to commence 1 year after the first interest payment date with final repayment in January 30, 2024; contains negative pledge	**470,875**	480,431
₱1.18 billion loan with SBC	Fixed at a rate of 6.50% per annum which shall be payable at the end of the interest period of six months	Availed on January 11, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment in July 11, 2029; contains negative pledge	**1,147,917**	–
₱1.18 billion loan with DBP	Fixed at a rate of 6.00% for the first 7 years; repricing for the last 5.5 years, the higher of 5-year PDST-R2 plus a spread of 1.625% or 6.25%	Availed on January 10, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment in July 10, 2029; contains negative pledge	**1,147,927**	–
Carrying value (net of unamortized debt issue costs and embedded derivatives of ₱22.24 million and ₱13.44 million in 2017 and 2016, respectively)			**₱5,134,048**	₱2,896,558

In 2017 and 2016, principal repayments made relative to PHINMA Energy's loans amounted to ₱103.71 million and ₱60.00 million, respectively.

PHINMA Energy's long-term loans also contain prepayment provisions as follows:

Description	Prepayment provision
₱1.50 billion loan with CBC	Early redemption is at the option of the issuer exercisable anytime at par plus break-funding cost. Break-funding cost on principal repayment shall be based on the difference between the contracted interest rate and the comparable benchmark rate. The negative difference shall be multiplied by the prepaid amount and the remaining tenor to come up with break-funding cost, which in no case is less than zero.
₱1.00 billion loan with SBC	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱0.50 billion loan with BDO	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱1.18 billion loan with SBC	Early redemption is at the option of the issuer exercisable on an interest payment date at par plus break-funding cost. Transaction cost is minimal.
₱1.18 billion loan with DBP	Early redemption is at the option of the issuer exercisable on the interest repricing date (8th anniversary of the drawdown date). Prepayment amount is at par. If redemption is exercised on a date that is not the interest repricing date, prepayment amount is at par plus break-funding cost. Transaction cost is minimal.

The prepayment option on all loans except for the ₱1.00 billion loan with SBC were assessed as closely related and, thus, not required to be bifurcated. For the ₱1.00 billion loan with SBC, the prepayment option was assessed as not closely related but was not bifurcated because the prepayment option has nil or very minimal value since it is deeply out of the money.

Covenants. Under the loan agreements, PHINMA Energy has certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control.

Description	Covenants
₱1.50 billion loan with CBC	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 1.5 times
₱1.00 billion loan with SBC	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 2.0 times Minimum Current ratio of 1.0 times
₱0.50 billion loan with BDO	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 1.5 times
₱1.18 billion loan with SBC	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times
₱1.18 billion loan with DBP	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times

In addition, there is also a restriction on the payment or distribution of dividends to its stockholders other than dividends payable solely in shares of its capital stock if payment of any sum due the lender is in arrears or such declaration, payment or distribution shall result in a violation of the financial ratios prescribed.

As at December 31, 2017 and 2016, PHINMA Energy is in compliance with the terms as required in the loan covenants.

Total interest expense recognized on PHINMA Energy's and PHINMA Renewable's loans amounted to ₱467.07 million, ₱434.45 million and ₱420.29 million for the year ended December 31, 2017, 2016 and 2015, respectively (see Note 25).

18. Other Noncurrent Liabilities

	2017	2016
Deferred revenue - noncurrent portion (see Note 16)	**₱387,146**	₱–
Deposit payables	**218,421**	78,450
Finance lease obligation - noncurrent portion (see Note 31)	**63,839**	57,577
Accrued expenses	**12,594**	12,225
	₱682,000	₱148,252

Deposit payables consist of security deposits from RES Customers refundable at the end of the contract.

Accrued expenses pertains to accrual of asset retirement obligation and various provisions.

19. Equity

Capital Stock

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

	Number of Shares	
	2017	2016
Authorized capital stock - ₱1 par value	**8,400,000,000**	8,400,000,000
Issued shares:		
Balance at beginning of year	**4,885,897,908**	4,865,146,089
Issuance during the year - Exercise of stock options and grants (see Note 20)	**3,877,014**	20,751,819
Balance at end of year	**4,889,774,922**	4,885,897,908

The issued and outstanding shares as at December 31, 2017 and 2016 are held by 3,196 and 3,204 equity holders, respectively.

On November 16, 2009, in a special stockholders' meeting, the Parent Company's stockholders approved the increase in the Parent Company's authorized capital stock from ₱2.0 billion divided into 2 billion shares, to ₱4.2 billion divided into 4.2 billion shares which shall be funded through stock rights offering (SRO). On March 30, 2011, the SEC approved the SRO of 1.165 billion shares of the Parent Company at the rate of seven shares for every 10 shares held as at record date of May 18, 2011, at a price of ₱1 per share. The offer period commenced on May 30, 2011 and ended on June 3, 2011. Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.15 billion. The proceeds were used to partially finance the Company's equity investment in SLTEC and MGI.

On March 20, 2012, the Parent Company's stockholders approved the increase in the authorized capital stock from ₱4.2 billion divided into 4.2 billion shares with par value of ₱1 per share to ₱8.4 billion divided into 8.4 billion shares with a par value of ₱1 per share which shall be funded by a stock rights offering. On September 26, 2012, the Parent Company filed with the SEC Form 10.1 Notice of / Application for Confirmation of Exempt Transaction covering the common shares to be issued relative to the Company's Rights Offer, pursuant to Sections 10.1 (e) and 10.1 (i) of the Securities Regulations Code (SRC) under which the exemption is based. On October 3, 2012, the SEC approved the stock rights offering of 1.42 billion shares of the Parent Company at the rate of one (1) share for every two (2) shares held as at record date of November 7, 2012 at a price of ₱1 per share. The offer period commenced on November 14, 2012 and ended on November 20, 2012. The Parent Company also offered an additional 212.25 million shares to meet additional demand from eligible stockholders ("Overallotment Option"). Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.61 billion. The proceeds were used to finance its equity investments in PHINMA Renewable's 54 MW wind energy project in San Lorenzo, Guimaras and SLTEC's second 135 MW clean coal-fired power plant in Calaca, Batangas, among other power project opportunities.

The following table presents the track record of registration of capital stock:

Date of SEC Approval	No. of Shares Registered	No. of Shares Issued	Par Value	Issue/ Offer Price
08-Feb-69	2,000,000,000	1,000,000,000	₱0.01	₱0.01
22-Jul-75	2,000,000,000	937,760,548	0.01	0.01
16-Jul-79	6,000,000,000	6,058,354,933	0.01	0.01
12-Feb-88	10,000,000,000	7,643,377,695	0.01	0.02
08-Jun-93	10,000,000,000	8,216,141,069	0.01	0.01
15-Jul-94	70,000,000,000	50,170,865,849	0.01	0.01
24-Aug-05	1,000,000,000	264,454,741	1.00	1.00
06-Jun-11	2,200,000,000	1,165,237,923	1.00	1.00
12-Nov-12	4,200,000,000	2,027,395,343	1.00	1.00

Retained Earnings

The Company's retained earnings balance amounted to ₱4.02 billion and ₱3.86 billion, respectively, as at December 31, 2017 and 2016. Retained earnings not available for declaration, computed based on the guidelines provided in SRC Rule 68, As Amended (2011), to the extent of (a) undistributed earnings of subsidiaries, associates and joint venture included in the Company's retained earnings amounted to ₱959.48 million and ₱1,174.14 million as at December 31, 2017 and 2016, respectively; and (b) cost of treasury shares amounted to ₱28.79 million as at December 31, 2017 and 2016.

Treasury Shares

As a result of PHINMA Power becoming a wholly-owned subsidiary of PHINMA Energy effective January 1, 2013, the Parent Company's shares of stock held by PHINMA Power amounting to ₱28.79 million was considered as treasury shares.

Other Equity Reserve

This account consists of:

	2017	2016
Other equity reserves from joint venture [a]	**₱17,231**	₱17,231
Effect of distribution of property dividends - PHINMA Petroleum shares [b]	**1,107**	1,107
	₱18,338	₱18,338

a. This relates to the accumulated share in expenses directly attributable to issuance of stocks of SLTEC, one of the Parent Company's joint ventures (see Note 11).

b. This represents the impact of the property dividend distribution in the form of PHINMA Petroleum's shares on the equity attributable to equity holders of the Parent Company when the Parent Company's ownership interest decreased but did not result in loss of control. The Parent Company's effective ownership in PHINMA Petroleum decreased from 100% to 50.74% in 2014.

Dividends Declared
Cash dividends declared in 2017, 2016, 2015 and after December 31, 2017 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount *	Record Date
February 23, 2015	Cash	0.04 per share	194,602	March 9, 2015
February 23, 2016	Cash	0.04 per share	194,606	March 9, 2016
December 16, 2016	Cash	0.04 per share	195,436	January 4, 2017
March 3, 2017	**Cash**	**0.04 per share**	**195,436**	**March 17, 2017**
February 28, 2018	**Cash**	**0.04 per share**	**195,591**	**March 14, 2018**

**Includes dividends on shares held by PHINMA Power.*

20. Employee Stock Options and Executive Stock Grants

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the then unsubscribed portion of the Company's 2.00 billion authorized shares to be awarded as follows: (a) stock grants for officers and managers of the Company; and (b) stock options for directors, officers and employees of PHINMA Energy and its subsidiaries and affiliates under the terms and conditions as determined by the Executive Committee of the BOD.

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

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

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

On May 7, 2008, the Company's Stock Option Committee suspended the implementation of the Stock Option Plan. The Committee also decided to implement the Company's Stock Grant for its executives which resulted in the grant of 3.88 million shares for 2016 and 1.80 million shares for 2015.

On July 22, 2013, the grant date, the Company lifted the suspension of the Stock Option Plan and awarded additional options under the same plan.

No stock options are outstanding and exercisable as at December 31, 2017 and 2016. In 2016, 20.75 million stock options were exercised while 8.43 million shares were forfeited.

The fair value of options granted in 2013 amounted to ₱23.03 million. The fair value of the options granted is estimated at the date of grant using binomial method, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the Stock Option Plan in 2013:

	33.33% Vesting on July 22, 2013	33.33% Vesting on July 22, 2014	33.33% Vesting on July 22, 2015
Spot price	₱2.40	₱2.40	₱2.40
Exercise price	2.29	2.29	2.29
Risk-free rate	2.162%	2.162%	2.162%
Expected volatility	31.25%	31.25%	31.25%
Term to vesting	3 years	3 years	3 years
Fair value of stock options	₱0.5472 per option	₱0.5472 per option	₱0.5472 per option

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Equity-based compensation expense recognized by the Company under "Salaries and directors' fees" account amounted to nil in 2017 and 2016 and ₱1.86 million 2015.

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.

On August 1, 2017, the Company settled the variable compensation of its executives through the issuance of 3.88 million shares at ₱1.66 per share.

21. Costs of Sale of Electricity

	2017	2016	2015
Costs of power purchased	**₱15,158,639**	₱12,212,120	₱9,870,218
Fuel (see Note 8)	**763,872**	728,467	931,993
Depreciation and amortization (see Notes 10, 13, 14 and 24)	**370,332**	386,716	372,725
Repairs and maintenance	**192,145**	200,729	152,600
Salaries (see Note 23)	**90,380**	104,911	89,527
Transmission costs	**76,541**	169,293	144,715
Taxes and licenses	**76,028**	74,087	29,083
Rent	**75,774**	73,276	69,524
Insurance	**68,631**	94,364	95,030
Pension and employee benefits (see Notes 23 and 27)	**25,983**	23,541	18,171
Stations used	**4,690**	11,317	17,968
Filing fees	**337**	1,098	483
Others	**25,887**	25,955	21,405
	₱16,929,239	₱14,105,874	₱11,813,442

22. General and Administrative Expenses

	2017	2016	2015
Management and professional fees (see Note 28)	**₱187,814**	₱228,706	₱109,028
Salaries and directors' fees (see Notes 20, 23 and 27)	**138,818**	259,460	140,323
Taxes and licenses	**132,493**	159,939	113,700
Depreciation and amortization (see Notes 10, 13, and 24)	**29,052**	26,375	24,391
Pension and employee benefits (see Notes 23 and 27)	**22,838**	22,825	15,094
Insurance, dues and subscriptions	**21,197**	8,898	10,886
Building maintenance and repairs	**18,681**	17,915	15,235
Provision for taxes	**16,720**	–	–
Contractor's fee	**15,158**	11,076	13,527
Transportation and travel	**12,808**	9,138	8,755
Bank charges	**9,493**	7,404	17,121
Corporate social responsibilities	**5,539**	5,545	6,353
Communication	**5,374**	4,779	4,403
Office supplies	**5,278**	3,780	2,886
Provision for probable losses on deferred exploration costs (see Note 14)	**4,892**	22,713	–
Provision for doubtful accounts (see Note 7)	**4,542**	53,195	–
Meeting and conferences	**4,476**	4,673	3,506
Plug and abandonment	**4,384**	–	–
Rent	**2,963**	2,243	3,224
Advertisements	**2,334**	3,262	2,150
Donation and contribution	**870**	19,993	3,392
Entertainment, amusement and recreation	**41**	87	121
Write-off of deferred exploration costs (see Note 14)	**–**	1,192	–
Others	**18,785**	26,437	16,371
	₱664,550	₱899,635	₱510,466

23. Personnel Expenses

	2017	2016	2015
Salaries and directors' fees included under:			
Costs of sale of electricity (see Note 21)	**₱90,380**	₱104,911	₱89,527
General and administrative expenses (see Note 22)	**138,818**	259,460	140,323
Pension and employee benefits included under:			
Costs of sale of electricity (see Notes 21 and 27)	**25,983**	23,541	18,171
General and administrative expenses (see Notes 22 and 27)	**22,838**	22,825	15,094
	₱278,019	₱410,737	₱263,115

24. Depreciation and Amortization

	2017	2016	2015
Property, plant and equipment (see Note 10)	**₱380,117**	₱394,940	₱378,965
Investment property (see Note 13)	**3,077**	1,961	1,961
Leasehold rights (see Note 14)	**16,190**	16,190	16,190
	₱399,384	₱413,091	₱397,116
Costs of sale of electricity (see Note 21)	**₱370,332**	₱386,716	₱372,725
General and administrative expenses (see Note 22)	**29,052**	26,375	24,391
	₱399,384	₱413,091	₱397,116

25. Other Income - Net

	2017	2016	2015
Interest and other financial income	**₱87,185**	₱46,077	₱16,257
Gain on derivatives - net (see Note 33)	**9,399**	8,741	18,048
Foreign exchange loss - net	**(8,373)**	(7,208)	(20,880)
Gain (loss) on sale of:			
AFS investments	**(17)**	7	(18)
Investments (see Note 11)	**–**	444,207	–
Property and equipment	**–**	27,863	(3,071)
Provisions for:			
Unrecoverable input tax	**–**	(2,568)	–
Impairment loss on AFS investments (see Note 12)	**–**	–	(12,424)
Option fee* (see Note 14)	**–**	–	35,159
Others	**17,423**	35,760	12,752
	₱105,617	₱552,879	₱45,823

**Under an agreement between PHINMA Energy and Frontier Gasfields Pty. Ltd. (Frontier) dated June 3, 2010, Frontier shall pay the third and fourth tranches of the option fee within 10 days of the commencement of drilling operations for the first well under SC 55. Drilling operations started on July 31, 2015.*

In 2017, others include reversal of outstanding payables, refund of excess business taxes paid, sale of scrap materials and oil hauling and disposal. In 2016, and 2015, others include reimbursement from a third party amounting to ₱21.06 million and ₱13.06 million, respectively.

Financial Income

The details of interest and other financial income are as follows:

	2017	2016	2015
Interest income on:			
Cash in banks (see Note 5)	**₱252**	₱83	₱234
Short-term deposits (see Note 5)	**32,865**	13,220	2,399
Receivables and others*	**17,093**	12,670	836
Net gains on investments held for trading (see Note 6)	**36,975**	20,104	12,788
	₱87,185	₱46,077	₱16,257

**Includes amortization of security deposit amounting to ₱0.58 million and ₱0.45 million in 2017 and 2016, respectively.*

Interest and Other Finance Charges
The details of interest and other finance charges are as follows:

	2017	2016	2015
Interest expense on:			
Long-term loans* (see Note 17)	**₱467,071**	₱434,452	₱420,289
Contract termination (see Note 31)	**15,032**	–	–
Finance lease obligations (see Note 31)	**14,656**	13,260	10,713
Amortization of debt issue cost (see Note 17)	**4,662**	17,016	12,605
Asset retirement obligation	**371**	372	371
Tax assessment	–	536	4,282
Others	**10,733**	2,642	572
Other finance charges	**1,041**	207	648
	₱513,566	₱468,485	₱449,480

** Net of accretion of interest expense of ₱1.71 million, ₱1.67 million and ₱1.61 million for the years ended December 31, 2017, 2016 and 2015, respectively, as an effect of amortization of embedded derivatives (see Note 17).*

26. **Income Taxes**

a. Current income tax pertains to the following:

	2017	2016	2015
RCIT	**₱63,514**	₱114,272	₱221,416
MCIT	**9,208**	351	20
	₱72,722	₱114,623	₱221,436

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

	2017	2016
Deferred income tax assets:		
Deferred revenue	**₱236,878**	₱–
NOLCO	**138,122**	–
Allowance for doubtful accounts	**29,286**	27,924
Pension and other employee benefits	**15,690**	17,696
Accrued expenses	**7,818**	22,746
Unamortized discount on long-term receivable	**4,705**	1,800
Allowance for probable losses	**3,298**	3,298
Asset retirement obligation	**2,279**	2,168
Unamortized past service cost	**2,209**	2,164
Unrealized foreign exchange loss	**2,121**	–
Derivative liabilities on long-term loans	**1,803**	2,316
Others	**707**	890
	444,916	81,002

(Forward)

Deferred income tax liabilities:		
Unamortized debt issue costs	**(₱5,598)**	(₱3,056)
Unrealized fair value gains on available-for-sale investments	**(4,982)**	(4,589)
Derivative asset on forward contracts	**(2,955)**	–
Unrealized fair value gains on FVPL	**(657)**	–
Others	**(444)**	(1,508)
	(14,636)	(9,153)
Total deferred income tax assets - net	**₱430,280**	₱71,849

Deferred income tax asset:		
Excess of cost over fair value of power plant	**₱2,421**	₱2,421
Deferred income tax liabilities:		
Excess of fair value over cost of power plant	**(98,753)**	(109,678)
Leasehold rights	**(12,345)**	(17,202)
Unamortized capitalized borrowing costs	**(2,068)**	(2,191)
Unrealized fair value gains on FVPL	**(640)**	(239)
Unrealized foreign exchange gain	**(2)**	(1)
Deferred income tax liabilities	**(113,808)**	(129,311)
Total deferred income tax liabilities - net	**(₱111,387)**	(₱126,890)

The Company's deductible temporary differences and unused NOLCO for which no deferred income tax assets were recognized in the consolidated statements of financial position are as follows:

	2017	2016
NOLCO	**₱63,947**	₱102,320
Allowance for impairment loss on property and equipment	**105,009**	105,009
Allowance for doubtful accounts	**20,000**	20,000
Allowance for probable losses	**19,708**	14,816
MCIT	**9,579**	371
Unrealized foreign exchange loss	**–**	2
	₱218,243	₱242,518

Deferred income tax assets have not been recognized on these temporary differences as management believes it is not probable that sufficient future taxable income will be available against which the related deferred income tax assets can be used.

As at December 31, 2017, NOLCO totaling ₱524.35 million can be claimed as deduction from regular taxable income and MCIT amounting to ₱9.58 million can be credited against future RCIT. The movement in NOLCO and MCIT is shown in the tables below:

Year Incurred	NOLCO					Expiry Date
	Beginning	Additions	Application	Expiration	Ending	
2015	145,176	12,050	(21,721)	(6,475)	129,030	2018
2016	129,030	42,193	(17,644)	(51,259)	102,230	2019
2017	102,230	470,200	–	(48,077)	524,353	2020

Year Incurred	MCIT Beginning	Additions	Application	Expiration	Ending	Expiry Date
2015	2,572	20	(2,572)	–	20	2018
2016	20	351	–	–	371	2019
2017	371	9,208	–	–	9,579	2020

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

	2017	2016	2015
Applicable statutory income tax rates	**30.00%**	30.00%	30.00%
Increase (decrease) in tax rate resulting from:			
Dividend income exempt from tax	**(5.85)**	(0.15)	(0.24)
Financial income subject to final tax	**(32.72)**	(9.63)	(0.43)
Equity in net income of associates and joint ventures	**(707.05)**	(18.42)	(10.02)
Net loss (income) under tax holiday	**(37.69)**	0.67	(2.08)
Nondeductible expenses	**21.00**	2.09	1.43
Movement in temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized and others	**34.05**	(0.37)	0.08
Effective income tax rates	**(698.26%)**	4.19%	18.74%

27. Pension and Other Employee Benefits

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

Pension and employee benefits consist of:

	2017	2016
Pension liability	**₱28,394**	₱33,811
Vacation and sick leave accrual	**26,174**	25,174
	54,568	58,985
Less current portion of vacation and sick leave accrual*	**18,458**	11,400
	₱36,110	₱47,585

**Included in "Accrued expenses" under "Accounts payable and other current liabilities".*

Pension and other employee benefits included under "Costs of sale of electricity" and "General and administrative expenses" accounts in the consolidated statements of income, consist of the following:

	2017	2016	2015
Pension expense	**₱18,401**	₱15,944	₱12,850
Vacation and sick leave accrual	**1,343**	3,492	3,762
	₱19,744	₱19,436	₱16,612

A. Net Defined Benefit Liability

The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan.

Changes in net defined benefit liability of funded plan in 2017 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Net Defined Benefit Liability**
At January 1, 2017	**₱156,854**	**₱123,043**	**₱33,811**
Pension expense in consolidated statement of income:			
Current service cost	**16,818**	**–**	**16,818**
Net interest	**6,532**	**4,949**	**1,583**
	23,350	**4,949**	**18,401**
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	**–**	**(7,786)**	**7,786**
Experience adjustments	**(13,454)**	**–**	**(13,454)**
Changes in demographic assumption	**99**	**–**	**99**
Actuarial changes arising from changes in financial assumptions	**(2,191)**	**–**	**(2,191)**
	(15,546)	**(7,786)**	**(7,760)**
Benefits paid	**(9,746)**	**(9,746)**	**–**
Contributions	**–**	**16,058**	**(16,058)**
At December 31, 2017	**₱154,912**	**₱126,518**	**₱28,394**

Changes in net defined benefit liability of funded plan in 2016 are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
At January 1, 2016	₱130,611	₱109,647	₱20,964
Pension expense in consolidated statement of income:			
Current service cost	15,019	–	15,019
Net interest	6,255	5,330	925
	21,274	5,330	15,944
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	(1,880)	1,880
Experience adjustments	11,850	–	11,850
Changes in demographic assumption	(184)	–	(184)
Actuarial changes arising from changes in financial assumptions	(5,285)	–	(5,285)
	6,381	(1,880)	8,261
Benefits paid	(1,412)	(1,412)	–
Contributions	–	11,358	(11,358)
At December 31, 2016	₱156,854	₱123,043	₱33,811

Changes in net defined benefit liability of funded plan in 2015 are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
At January 1, 2015	₱115,801	₱97,006	₱18,795
Pension expense in consolidated statement of income:			
Current service cost	13,715	–	13,715
Net interest	3,408	4,273	(865)
	17,123	4,273	12,850
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	1,201	(1,201)
Experience adjustments	6,728	–	6,728
Actuarial changes arising from changes in financial assumptions	(3,247)	–	(3,247)
	3,481	1,201	2,280
Benefits paid	(5,794)	(5,794)	–
Contributions	–	12,961	(12,961)
At December 31, 2015	₱130,611	₱109,647	₱20,964

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair value of plan assets by each class as at December 31 follows:

	2017	2016	2015
Investments in:			
Equity instruments	**₱79,382**	₱80,655	₱70,509
Government securities	**43,156**	39,457	29,512
Deposit instruments -	**–**		
UITFs	**3,961**	3,905	9,778
Corporate bonds	**–**	–	–
Cash and cash equivalents	**201**	125	17
Liabilities	**(182)**	(1,099)	(169)
	₱126,518	₱123,043	₱109,647

Investments in government securities, mutual funds and UITFs can be readily sold or redeemed. Marketable equity securities, which can be transacted through the PSE, account for less than 10% of plan assets; all other equity securities are transacted over the counter.

The plan assets include shares of stock of the Parent Company with fair value of ₱0.04 million as at December 31, 2017 and ₱0.06 million as at December 31, 2016. The shares were acquired at a cost of ₱0.03 million. There are no restrictions or limitations on the shares and there was no material gain or loss on the shares for the years ended December 31, 2017 and 2016. The voting rights over the shares are exercised through the trustee by the retirement committee, the members of which are directors or officers of the Parent Company.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining pension and post-employment benefit obligations for the defined benefit plans are shown below:

	2017	2016
Discount rate	**4.68%**	5.35%
Salary increase rate	**5.00%**	5.00%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

		Increase (decrease)	Amount
Discount rate	(Actual + 1.00%)	5.68%	(₱7,638)
	(Actual – 1.00%)	3.68%	8,974
Salary increase rate	(Actual + 1.00%)	6.00%	9,873
	(Actual – 1.00%)	4.00%	(8,597)

Management performs an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Company's current strategic investment strategy consists of 64% of equity instruments, 27% fixed income instruments and 9% cash and cash equivalents.

The Company expects to contribute ₱16.34 million to the defined benefit pension plan in 2018.

The following table sets forth the expected future settlements by Plan of maturing defined benefit obligation as at December 31, 2017:

	Amount
Less than one year	₱70,008
More than one year to five years	46,003
More than five years to 10 years	78,908
More than 10 years to 15 years	37,875
More than 15 years to 20 years	77,337
More than 20 years	429,520

The average duration of the expected benefit payments at the end of the reporting period is 14.07 to 23.89 years.

B. Vacation and Sick Leave

The following tables summarize the components of vacation and sick leave expense recognized in the consolidated statements of income and the amounts recognized in the consolidated statements of financial position.

	2017	2016	2015
Current service costs	**₱2,772**	₱4,817	₱7,990
Interest costs	**1,290**	1,037	781
Actuarial loss	**(2,719)**	(2,362)	(5,009)
	₱1,343	₱3,492	₱3,762

Changes in present value of the vacation and sick leave obligation are as follows:

	2017	2016
Balance at the beginning of the year	**₱25,174**	₱21,824
Current service cost	**2,772**	4,817
Net interest	**1,290**	1,037
Actuarial loss	**(2,719)**	(2,362)
Benefits paid	**(343)**	(142)
At December 31, 2017	**₱26,174**	₱25,174

28. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individual or corporate entities.

Outstanding balances at year-end are unsecured and are to be settled in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For years ended December 31, 2017, 2016 and 2015, the Company has not recorded any impairment of receivables from related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In the ordinary course of business, the Company transacts with associates, affiliates, jointly controlled entities and other related parties on advances, loans, reimbursement of expenses, office space rentals, management service agreements and electricity supply. The transactions and balances of accounts as at and for the years ended December 31 with related parties are as follows:

		2017			
Company	**Amount/ Volume**	**Nature**	**Outstanding Balance**	**Terms**	**Conditions**
Ultimate Parent					
PHINMA, Inc.					
Rental and other income	**₱771**	Rent and share in expenses	**₱54**	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	**80,903**	Management fees and share in expenses	**(31,164)**	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	**49,308**	Cash dividend	–	On demand	Unsecured
Joint Ventures					
SLTEC					
Revenue from sale of electricity, rental and other income	**27,213**	Sale of electricity, rent and share in expenses	**20,046**	30-day, non-interest bearing	Unsecured, no impairment
Investments and advances (see Note 11)	**1,056,742**	Dividends received	–	30-day, non-interest bearing	Unsecured, no impairment
Costs of sale of electricity	**8,230,415**	Purchase of electricity	**(1,035,505)**	30-day, non-interest bearing	Unsecured
ACTA					
Investments and advances (see Note 11)	**18,073**	Additional investment	–	Non-interest bearing	Unsecured, no impairment
Associates					
Asia Coal					
Accounts payable and other current liabilities	–	Advances	**(254)**	Non-interest bearing	Unsecured
MGI					
Costs of sale of electricity	**830,802**	Trading cost	**(83,101)**	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 11)	**25,000**	Dividend received	–	Non-interest bearing	Unsecured, no impairment
Investments and advances (see Note 11)	**80,250**	Additional investment	–	Non-interest bearing	Unsecured, no impairment
Entities Under Common Control					
PHINMA Property Holdings Corporation (PPHC)					
Accounts payable and other current liabilities	–	Advances	**(171)**	30-60 day, non-interest bearing	Unsecured

(Forward)

2017					
Company	**Amount/ Volume**	**Nature**	**Outstanding Balance**	**Terms**	**Conditions**
PHINMA Corporation					
Dividend and other income	**₱5,387**	Cash dividend and share in expenses	**₱–**	30-60 day, non-interest bearing	Unsecured, no impairment
Other expenses	**3,763**	Share in expenses	**(1,429)**	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	**51,285**	Cash dividends	**–**	On demand	Unsecured
Accounts payable and other current liabilities	**4,178**	Purchase of dollars	**–**	On demand	Unsecured
Union Galvasteel Corp. (UGC)					
Dividend income	**3,334**	Cash dividend	**–**	30-60 day, non-interest bearing	Unsecured, no impairment
Rental income	**329**	Rent	**214**	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	**–**	Rental deposit	**(159)**		
General and administrative expenses	**108**	Roofing materials	**–**	30-60 day, non-interest bearing	Unsecured
T-O Insurance, Inc.					
General and administrative expenses	**112,000**	Insurance expense and membership fees	**(36,062)**	30-60 day, non-interest bearing	Unsecured
Receivables	**15**	Refund of overpayment	**–**	30-60 day, non-interest bearing	Unsecured, no impairment
Emar Corporation					
Other income	**64**	Share in expenses	**–**	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	**4,279**	Cash dividend	**–**	On demand	Unsecured
PHINMA Education Holdings Inc. (PHINMA Education)					
General and administrative expenses	**2,298**	Service fee	**–**	30-60 day, non-interest bearing	Unsecured
Other Related Parties					
Directors					
General and administrative expenses	**33,546**	Directors' fee and annual incentives	**(19,757)**	On demand	Unsecured
Stockholders					
Due to stockholders	**89,564**	Cash dividends	**(15,300)**	On demand	Unsecured
Due from related parties (see Note 7)			**₱20,314**		
Due to related parties (see Note 16)			**(1,187,845)**		
Accrued directors' and annual incentives (see Note 16)			**(19,757)**		
Due to stockholders			**(15,300)**		

	2016				
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Ultimate Parent					
PHINMA, Inc.					
Rental and other income	₱1,100	Rent and share in expenses	₱63	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	104,055	Management fees and share in expenses	(53,998)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	−	Rental deposit	(186)	Non-interest bearing	Unsecured
Accounts payable and other current liabilities	97,855	Cash dividend	(48,928)	On demand	Unsecured
Joint Venture					
SLTEC					
Revenue from sale of electricity, rental and other income	28,074	Sale of electricity, rent and share in expenses	4,204	30-day, non-interest bearing	Unsecured, no impairment
Investments and advances (see Note 12)	644,945	Dividends received	−	30-day, non-interest bearing	Unsecured, no impairment
Costs of sale of electricity	6,077,461	Purchase of electricity	(931,569)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	−	Rental deposit	(590)	End of lease term	Unsecured
Associates					
Asia Coal					
Accounts payable and other current liabilities	−	Advances	(254)	Non-interest bearing	Unsecured
MGI					
Costs of sale of electricity	785,167	Trading cost	(79,263)	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 11)	−	Advances for future subscriptions	45,000	Non-interest bearing	Unsecured, no impairment
Entities Under Common Control					
PPHC					
Accounts payable and other current liabilities	−	Advances	(171)	30-60 day, non-interest bearing	Unsecured

(Forward)

2016					
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
PHINMA Corporation					
Dividend and other income	₱5,387	Cash dividend and share in expenses	₱–	30-60 day, non-interest bearing	Unsecured, no impairment
Other expenses	2,169	Share in expenses	(397)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	102,394	Cash dividend	(51,285)	On demand	Unsecured
UGC					
Dividend income	2,281	Cash dividend	–	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	92	Roofing materials	(67)	30-60 day, non-interest bearing	Unsecured
T-O Insurance, Inc.					
General and administrative expenses	91,400	Insurance expense and membership fees	(30,631)	30-60 day, non-interest bearing	Unsecured
Receivables	69	Refund of overpayment	–	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	2,335	Purchase of dollar	–	30-60 day, non-interest bearing	Unsecured
Emar Corporation					
Other income	64	Share in expenses	–	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	8,559	Cash dividend	(4,273)	On demand	Unsecured
PHINMA Education					
General and administrative expenses	2,698	Service fee	(2,698)	30-60 day, non-interest bearing	Unsecured
Other Related Parties					
Directors					
General and administrative expenses	72,846	Directors' fee and annual incentives	(51,478)	On demand	Unsecured
Stockholders					
Due to stockholders	179,320	Cash dividend	(91,203)	On demand	Unsecured
Receivables	–	Withholding tax on property dividend	35	On demand	Unsecured, no impairment
Due from related parties (see Note 7)			₱4,267		
Receivable from stockholders (see Note 7)			35		
Advance to an associate (see Note 11)			45,000		
Due to related parties (see Note 16)			(1,204,310)		
Accrued directors' and annual incentives (see Note 16)			(51,478)		
Due to stockholders			(91,203)		

	2015				
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Ultimate Parent					
PHINMA, Inc.					
Rental and other income	₱969	Rent and share in expenses	₱16	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	73,489	Management fees and share in expenses	(31,698)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	−	Rental deposit	(186)	Non-interest bearing	Unsecured
Joint Ventures					
SLTEC					
Revenue from sale of electricity, rental and other income	154,260	Sale of electricity, rent and share in expenses	6,624	30-day, non-interest bearing	Unsecured, no impairment
Costs of sale of electricity	2,338,331	Purchase of electricity	(491,978)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	−	Rental deposit	(590)	End of lease term	Unsecured
ACTA					
Investments and advances (see Note 11)	7,537	Advances for future subscription	7,537	Non-interest bearing	Unsecured, no impairment
Associates					
Asia Coal					
Accounts payable and other current liabilities	−	Advances	(254)	Non-interest bearing	Unsecured
MGI					
Costs of sale of electricity	772,280	Trading cost	(81,618)	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 11)	45,000	Advances for future subscriptions	45,000	Non-interest bearing	Unsecured, no impairment
Receivables	300	Reimbursement	−	30-60 day, non-interest bearing	Unsecured, no impairment
Entities Under Common Control					
PPHC					
Accounts payable and other current liabilities	−	Advances	(171)	30-60 day, non-interest bearing	Unsecured

(Forward)

			2015		
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
PHINMA Corporation					
Dividend and other income	₱5,387	Cash dividend and share in expenses	₱–	30-60 day, non-interest bearing	Unsecured, no impairment
Other expenses	2,268	Share in expenses	(406)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	9,864	Purchase of dollar and euro	–	30-day, non-interest bearing	Unsecured
UGC					
Dividend income	3,649	Cash dividend	–	30-60 day, non-interest bearing	Unsecured, no impairment
T-O Insurance, Inc.					
General and administrative expenses	43,500	Insurance expense	(7,780)	30-60 day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	47,346	Insurance expense	(48,889)	30-60 day, non-interest bearing	Unsecured
Receivables	185	Refund on overpayment	–	30-60 day, non-interest bearing	Unsecured, no impairment
Other Related Parties					
Directors					
General and administrative expenses	29,063	Director's fee and annual incentives	(18,500)	On demand	Unsecured
Stockholders					
Due to stockholders	194,606	Cash dividend	(11,570)	On demand	Unsecured
Receivables	–	Withholding tax on property dividend	35	On demand	Unsecured, no impairment
Due from related parties			₱6,640		
Receivable from stockholders			35		
Advances to associates and joint ventures			52,537		
Due to related parties			(663,570)		
Accrued directors' and annual incentives			(18,500)		
Due to stockholders			(11,570)		

<u>PHINMA, Inc.</u>
The Parent Company and its subsidiaries PHINMA Power, CIPP, PHINMA Renewable and PHINMA Petroleum have management contracts with PHINMA, Inc. up to August 31, 2018 except for PHINMA Power whose contract was renewed in 2016 for another 5 years prior to expiration. Under these contracts, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. Under the existing management agreement, the Parent Company, PHINMA Power, CIPP, PHINMA Renewable and PHINMA Petroleum pay PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of each company's net income. On February 23, 2016, PHINMA Petroleum's BOD approved the suspension of the management contract for 2016. In 2017, the management contract is still suspended. Other expenses billed by PHINMA, Inc. include the Company's share in common expenses. The Company has a dividend payable to PHINMA, Inc. for cash dividends declared. The Company also bills PHINMA, Inc. for rent and the latter's share in common expenses.

<u>PHINMA Corporation</u>
PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Company for its share in expenses. The Company also receives cash dividends from PHINMA Corporation. The Company has a dividend payable to PHINMA Corporation for cash dividends declared. In 2015, PHINMA Energy purchased foreign currencies from PHINMA Corporation used to pay suppliers for foreign-currency denominated liabilities.

SLTEC
SLTEC leased and occupied part of the office space owned by the Parent Company. Monthly rent is based on a pre-agreed amount subject to 5% escalation rate per annum. The lease agreement is for a period of five years commencing on October 10, 2011. The contract ended on October 15, 2016 and it was not renewed. The transactions with SLTEC also include the sale and purchase of electricity (see Note 31), reimbursements of expenses and receipt of dividends.

MGI
The Company purchases the entire net electricity output of MGI (see Note 31). Other transactions with MGI include reimbursements of expenses and advances for future subscriptions. In 2017, the Parent Company invested additional capital amounting to ₱80.25 million to MGI (see Note 11).

PPHC/ UGC/Asian Plaza, Inc./Asia Coal/ACTA
PPHC, UGC, Asian Plaza, Inc., Asia Coal and ACTA are entities under common control. The transactions with these companies include cash dividends and/or advances.

In 2017, the Parent Company made additional investment in ACTA's capital stock amounting to ₱18.07 million (see Note 11).

T-O Insurance, Inc.
T-O Insurance, Inc. is likewise controlled by PHINMA, Inc. through a management agreement. The Company insures its properties through T-O Insurance, Inc. The Company's transaction with T-O insurance, Inc. includes payment of insurance and membership fees, the receipt of refund for overpayment and purchase of dollars.

Emar Corporation
The Company bills Emar Corporation for its share in expenses which is collected within the year.

PHINMA Education
The Company has payable to PHINMA Education for services rendered.

Directors
The Company recognizes bonus to directors computed based on net income before the effect of the application of the equity method of accounting.

Retirement Fund
The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan (see Note 27).

Compensation of Key Management Personnel
Compensation of key management personnel of the Company are as follows:

	2017	2016	2015
Short-term employee benefits	**₱74,447**	₱165,214	₱72,715
Post-employment benefits	**4,810**	3,891	2,717
	₱79,257	₱169,105	₱75,432

29. **Earnings Per Share**

Basic and diluted EPS are computed as follows:

	2017	2016	2015
	(In Thousands, Except for Number of Shares and Per Share Amounts)		
(a) Net income attributable to equity holders of Parent Company	**₱353,764**	₱1,402,228	₱911,016
Common shares outstanding at beginning of year (see Note 19)	**4,885,897,908**	4,865,146,089	4,865,146,089
Weighted average number of shares issued during the year	**1,614,537**	12,259,975	–
(b) Weighted average common shares outstanding	**4,887,512,445**	4,877,406,064	4,865,146,089
Basic/Diluted EPS (a/b)	**₱0.07**	₱0.29	₱0.19

In 2017, the Company does not have any potential common shares or other instruments that may entitle the holder to common shares. In 2016 and 2015, the Company's stock options have no dilutive effect. Consequently, diluted EPS is the same as basic EPS in 2017, 2016 and 2015.

30. **Material Partly-Owned Subsidiaries**

Financial information of subsidiaries that have material NCI are provided below:

Equity interest held by NCI in 2017 and 2016 are as follows:

Name	Percentage of Ownership (%)
PHINMA Petroleum	48.86
Palawan55	33.89

Accumulated balances of NCI as at December 31 are as follows:

Name	**2017**	2016
PHINMA Petroleum	**₱75,458**	₱82,041
Palawan55	**2,652**	2,665
	₱78,110	₱84,706

Net loss allocated to NCI for the years ended December 31 are as follows:

Name	**2017**	2016	2015
PHINMA Petroleum	**₱6,583**	₱19,691	₱5,024
Palawan55	**13**	6	140
	₱6,596	₱19,697	₱5,164

Summarized statements of financial position as at December 31, 2017 and 2016 are as follows:

2017

	PHINMA Petroleum	Palawan55
Current assets	**₱78,723**	**₱2,151**
Noncurrent assets	**77,327**	**5,713**
Current liabilities	**1,497**	**39**
Noncurrent liability	**111**	**–**
Total equity	**₱154,442**	**₱7,825**
Attributable to:		
Equity holders of the Parent Company	**₱78,984**	**₱5,173**
NCI	**75,458**	**2,652**

2016

	PHINMA Petroleum	Palawan55
Current assets	₱87,528	₱2,189
Noncurrent assets	81,360	5,713
Current liabilities	734	39
Noncurrent liability	239	–
Total equity	₱167,915	₱7,863
Attributable to:		
Equity holders of the Parent Company	₱85,874	₱5,198
NCI	82,041	2,665

Summarized statements of income and statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015 are as follows:

2017

	PHINMA Petroleum	Palawan55
Interest income	**₱2**	**₱13**
Expenses	**(9,958)**	**(50)**
Other expense - net	**(3,645)**	**–**
Benefit from (provision for) deferred income tax	**128**	**–**
Net loss	**13,473**	**₱37**
Total comprehensive loss	**₱13,473**	**₱37**
Net loss/total comprehensive loss attributable to:		
Equity holders of the Parent Company	**₱6,890**	**₱24**
NCI	**6,583**	**13**

2016

	PHINMA Petroleum	Palawan55
Interest income	₱2	₱10
Expenses	(9,823)	(28)
Other expense - net	(30,232)	–
Provision for deferred income tax	(247)	–
Net loss	₱40,300	₱18
Total comprehensive loss	₱40,300	₱18
Net loss/total comprehensive loss attributable to:		
Equity holders of the Parent Company	₱20,609	₱12
NCI	19,691	6

2015

	PHINMA Petroleum	Palawan55
Interest income	₱59	₱10
Expenses	(11,554)	(354)
Other income - net	1,210	–
Benefit from (provision for) deferred income tax	2	(68)
Net loss	₱10,283	₱412
Total comprehensive loss	₱10,283	₱412
Net loss/total comprehensive loss attributable to:		
Equity holders of the Parent Company	₱5,259	₱272
NCI	5,024	140

Summarized statements of cash flows for the years ended December 31, 2017, 2016 and 2015 are as follows:

2017

	PHINMA Petroleum	**Palawan55**
Operating	**(₱8,903)**	**(₱39)**
Investing	**8,454**	**–**
Net decrease in cash and cash equivalents	**(₱449)**	**(₱39)**

2016

	PHINMA Petroleum	Palawan55
Operating	(₱9,566)	(₱39)
Investing	8,904	–
Net decrease in cash and cash equivalents	(₱662)	(₱39)

2015	PHINMA Petroleum	Palawan55
Operating	(₱10,278)	(₱332)
Investing	(27,743)	–
Net decrease in cash and cash equivalents	(₱38,021)	(₱332)

There were no dividends paid to NCI for the years ended December 31, 2017, 2016 and 2015.

31. **Significant Laws, Commitments and Contracts**

Electric Power Industry Reform Act (EPIRA)
R.A. No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include, among others, the following:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;
(2) Creation of a WESM;
(3) Open and non-discriminatory access to transmission and distribution systems;
(4) Public listing of generation and distribution companies; and,
(5) Cross-ownership restrictions and concentrations of ownership.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

Retail Competition and Open Access (RCOA)
Upon meeting all conditions set forth in the EPIRA, the ERC promulgated the Transitory Rules for the RCOA, by virtue of ERC Resolution No. 16 Series of 2012.

Through RCOA, licensed Electricity Suppliers such as the Company are empowered to directly contract with Contestable Customers (bulk electricity users with an average demand of 1 MW). This major development in the Power Industry enabled the Company to grow.

Secondary Price Cap
Significant events in November and December 2013 resulted in a surge of electricity prices that affected the end-consumers, which led the ERC to impose a supplemental regulatory cap, under the ERC Resolution 20, Series of 2014. The said resolution established a preemptive mitigating measure in the WESM meant to limit significant increases in the WESM prices.

This regulatory cap was made permanent and requires all trading participants in the WESM to comply. PHINMA Energy and its subsidiaries that sell to WESM are subject to this cap.

Renewable Energy (RE) Act of 2008
As provided for in R.A. 9513, RE developers shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Company ventured into wind resource development projects through its subsidiary, PHINMA Renewable. The Act significantly affected the operating results of PHINMA Renewable due to a guaranteed FIT rate and reduction in taxes.

Renewable Energy Service Contracts
PHINMA Renewable was awarded 12 wind service contract areas with an aggregate capacity estimated at 400 MW. This includes the 54 MW San Lorenzo Wind Project (SLWP) which started delivering power to the grid on October 7, 2014 and declared commercial operations on December 27, 2014. PHINMA Renewable sells its generated electricity to the WESM under the FIT System.

Feed-in-Tariff (FIT)
On June 10, 2015, the SLWP was issued a Certificate of Endorsement for Feed-In Tariff Eligibility by the DOE. On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the ERC which entitles PHINMA Renewable to recognize its FIT at an approved rate of ₱7.40, with a retroactive period beginning December 27, 2014, for a guaranteed period of 20 years until December 26, 2034. Outstanding receivable under the FIT System amounted to ₱190.89 million and ₱255.31 million as at December 31, 2017 and 2016, respectively.

Power Purchase Agreement / Contract to Purchase Generated Electricity
PHINMA Energy entered into contracts with SLTEC, MGI and third parties where the Company will purchase the entire or a portion of the net electricity output of the power plants for a period ranging from 3 to 20 years at an agreed price, subject to certain adjustments.

Power Administration and Management Agreement (PAMA)
PHINMA Energy entered into PAMAs with its subsidiaries PHINMA Power, CIPP and One Subic. Under the terms of the PAMA, PHINMA Energy will administer and manage the entire generation output of the plants and will pay for all electricity delivered by the power plant based on a formula as set forth in the PAMA and shall be payable monthly. The PAMAs with PHINMA Power and CIPP are valid for 10 years and are subject to regular review, while the PAMA with One Subic is valid throughout the life of the related Facilities Lease Agreement with SBMA.

Ancillary Services Procurement Agreements (ASPA) with NGCP
PHINMA Energy and certain subsidiaries executed ASPAs with NGCP. Under the ASPA, the power plants will provide contingency and dispatchable reserves to NGCP to ensure reliability in the operation of the transmission system and the electricity supply in the Luzon Grid for five (5) years upon the effectivity of the provisional approval or final approval issued by the ERC. ERC's provisional approval is extended every year.

Electricity Supply Agreement (ESA) / Contract for the Sale of Electricity (CSE) with GUIMELCO
On November 12, 2003 PHINMA Energy signed an ESA with GUIMELCO, under which PHINMA Energy agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel generator power station and to supply GUIMELCO with electricity based on the terms and conditions set forth in the ESA. The power plant commenced commercial operations on June 26, 2005.

Upon the expiration of the ESA, the parties entered into a CSE on March 2015. Under the contract, PHINMA Energy shall supply, for a period of 10 years from fulfillment of the conditions precedent indicated in the contract, all of GUIMELCO's electricity requirements that are not covered by GUIMELCO's base load supply. As at February 28, 2018, the ERC's approval of the CSE is pending.

ESA / Power Supply Agreement (PSA) with other electric cooperatives
PHINMA Energy entered into contracts with cooperatives for a period of 1 to 5 years with ERC approval. The agreements ended on December 25, 2016 with the expiry of the Parent Company's WA license.

Other ESAs / CSEs with customers
PHINMA Energy signed contracts to supply the energy requirements of various bilateral and RES contestable customers with a duration ranging from one to 15 years.

Administration Agreement for the 40 MW Strips of the Unified Leyte Geothermal Power Plant (UL GPP)
On February 6, 2014, PHINMA Energy was officially declared a winning bidder of a 40 MW Strip of the UL GPP. Consequently, PSALM and PHINMA Energy, with conformity of the National Power Corporation entered into an Administration Agreement for the Selection and Appointment of the IPPAs for the Strips of Energy of the UL GPP. The agreement will expire on July 25, 2021.

On December 28, 2017, the Parent Company and PSALM have agreed to mutually terminate the Administration Agreement for the 40MW strip of energy of the UL GPP. The Parent Company also withdrew the case it filed earlier and no further claims will be pursued. As at February 28, 2018, the Parent Company has settled all its obligations with PSALM.

Service Contracts with the DOE

SC 14 (North Matinloc)
PHINMA Energy holds a 6.103% participating interest in SC 14 Block B-1 which hosts the North Matinloc-2 (NM-2) production well. The well is produced on cyclical mode with rest period longer than the flow phase, to enable the reservoir to build up enough pressure to push the crude to surface. In 2016, the well produced a total of 9,123 barrels of crude oil for an average 760 barrels monthly production.

SC 664 (Mabinay, Negros Oriental)
On November 10, 2016, the DOE awarded Hydropower Service Contract 2016-06-664 ("Ilog") to the Company covering certain areas in Mabinay, Negros Oriental. The contract provides for a two-year Pre-Development Stage during which the Company shall evaluate the commercial feasibility of the project. Upon Declaration of Commerciality, the project shall proceed to the Development Stage which is valid for 25 years. All costs during 2016 and 2017 with the Ilog Hydro projects were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (SESC) (Bugallon, Pangasinan)
On May 22, 2017, the DOE awarded a SESC to the Parent Company, which grants the Parent Company the exclusive right to explore, develop and utilize the solar energy resource in a 648 hectare area in the Municipality of Bugallon, Province of Pangasinan. Pre-development activities such as yield assessment, environmental impact study and system impact study are underway and are expected to be completed within the year. The Company hopes to construct a 45MW solar plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at February 28, 2018, all costs of the Bugallon Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (Padre Garcia, Batangas)
On July 18, 2017, the DOE awarded a SESC to the Parent Company, which grants the Parent Company the exclusive right to explore, develop and utilize the solar energy resource in a 486 hectare area in the City of Lipa and Municipality of Padre Garcia, Province of Batangas. The Parent Company hopes to construct a 45MW solar plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at February 28, 2018, all costs of the Padre Garcia Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Operating Lease Commitments

PHINMA Energy's Lease Agreement with GUIMELCO
The Parent Company has entered into a lease contract with GUIMELCO for a parcel of land used only as a site for electric generating plant and facilities. The term of the lease is 10 years with a renewal option included in the contract. The Parent Company is given the first option to buy the property if the lessor decides to sell the land. The lease is at a fixed monthly rate of ₱0.04 million for the duration of the lease term. On March 27, 2015, the lease contract was extended for another 10 years.

	2017	2016
Within one year	**₱480**	₱480
After one year but not more than five years	**2,400**	2,400
More than five years	**600**	1,080
	₱3,480	₱3,960

One Subic's Facilities Lease Agreement with SBMA
One Subic has a lease contract with SBMA for a parcel of land and electric generating plant and facilities. The lease was originally entered on July 20, 2010 and was valid for five years. The agreement was amended on October 24, 2012 to extend the term of the lease to July 19, 2020 with an option to renew for another five years. On December 21, 2017, the SBMA Board approved and ratified the amendment of the Facilities Lease Agreement extending the lease term until July 19, 2030. The lease is at a fixed monthly rate with adjustments. Future minimum lease payments under this operating lease agreement follows:

	2017	2016
Within one year	**₱60,326**	₱55,076
After one year but not more than five years	**248,698**	142,280
	₱309,024	₱197,356

PHINMA Renewable's Lease Agreement with Various Land Owners
PHINMA Renewable has entered into various lease agreements with individual land owners where the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased assets, which indicates that the risks and rewards relates to the asset are retained with the land owners. These leases are classified as operating leases and have terms of 20 to 25 years. Future minimum lease payments under these agreements are as follows:

	2017	2016
Within one year	**₱356**	₱356
After one year but not more than five years	**2,003**	1,820
More than five years	**9,467**	10,006
	₱11,826	₱12,182

As at December 31, 2015, minimum lease payments due within one year are covered by advance payments made by PHINMA Renewable to the lessors, which are included in the "Other current assets" account in the consolidated statements of financial position.

PHINMA Renewable recognized rent expense of ₱0.73 million, ₱0.77 and ₱0.67 million in 2017, 2016, and 2015, respectively, included in "Rent" account under "Costs of sale of electricity" (see Note 21).

Details of prepaid rent related to these operating lease agreements are as follows:

	2017	2016
Prepaid rent:		
Current	**₱350**	₱836
Noncurrent	**2,513**	2,780
	₱2,863	₱3,616

Easements and Right of Way Agreements
In 2014, the Company also entered to various easements and right of way agreements with land owners in Guimaras for the erection of transmission lines that will connect the 54 MW wind farm project located in San Lorenzo, Guimaras to the grid. One-off payments made by PHINMA Renewable to various land owners to cover the 25-year easement and right of way agreements were recognized as prepaid rent in the consolidated statements of financial position and amortized over the term of the lease. The amortization of the lease during the construction period was capitalized as part of the cost of the wind farm. Details of prepaid rent related to these easement agreements are as follows:

	2017	2016
Prepaid rent:		
Current	**₱2,010**	₱2,010
Noncurrent	**45,934**	43,976
	₱47,944	₱45,986

PHINMA Renewable recognized rent expense of ₱2.01 million, ₱1.99 million and ₱1.95 million in 2017, 2016 and 2015, respectively, included in “Rent” account under “Costs of sale of electricity” (see Note 21).

Finance Lease

PHINMA Renewable’s Lease Agreement with Various Land Owners
PHINMA Renewable has entered into various lease agreements with individual land owners where the present value of the minimum lease payments amounted to at least substantially all of the fair value of the leased assets, which indicate that the risks and rewards relates to the assets are transferred to PHINMA Renewable. These leases are classified as finance leases and have terms of 20 to 25 years.

Future minimum lease payments under these agreements are as follows:

	2017	2016
Within one year	**₱7,635**	₱6,075
After one year but not more than five years	**58,209**	49,245
More than five years	**268,524**	282,085
Total minimum finance lease payments	**334,368**	337,405
Less amount representing unamortized interest	**256,201**	267,284
Present value of net minimum finance lease payments	**78,167**	70,121
Less finance lease obligation maturing within one year	**14,328**	12,544
Noncurrent portion of finance lease obligation	**₱63,839**	₱57,577

In 2017, 2016 and 2015, the PHINMA Renewable recognized finance charges on finance leases amounting to ₱14.66 million, ₱13.26 million and ₱10.71 million, respectively, included under "Interest and other finance charges" account in the consolidated statements of income (see Note 25).

Details of prepaid rent related to these finance lease agreements are as follows:

	2017	2016
Prepaid rent:		
Current	**₱1,554**	₱1,522
Noncurrent	**1,479**	1,543
	₱3,033	₱3,065

32. **Financial Risk Management Objectives and Policies**

Objectives and Investment Policies

The funds of the entities held directly or indirectly by PHINMA, Inc. are managed by the PHINMA Group Treasury. As such, the PHINMA Treasury Group manages the funds of the Company and invests in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine peso, U.S. dollar and Euro. It is responsible for the sound and prudent management of the Company's financial assets that finance the Company's operations and investments in enterprises.

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

- Foreign currency risk
- Credit or counterparty risk
- Liquidity risk
- Market risk
- Interest rate 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, which comprises some of the Company's BOD, reviews and approves policies, controls and strategies for investments and risk management.

Basic investment policies as approved by the Investment Committee are:

- Safety of principal;
- Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee;
- Exposure limits:
    - For banks or fund managers: maximum 20% of total fund of each company per bank or fund;
    - For Philippine peso investments: minimal corporate exposure except for registered bonds for non-affiliates;
    - Limits on third currencies outside U.S. dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee;
    - For total foreign currencies: maximum 50% of total portfolio;

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

Risk Management Process

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

Foreign currency risk is managed through:

- Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange;
- Regular discussions with banks to get multiple perspectives on currency trends/forecasts;
- Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values;
- Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises;
- Returns being calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's significant foreign currency-denominated financial assets and financial liabilities as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	US Dollar (US$)	**Euro (€)**	US Dollar (US$)	Euro (€)
Financial Assets				
Cash and cash equivalents	**$1,710**	**€–**	$18	€–
Short-term investments	**8,454**	**–**	–	–
Investments held for trading	**–**	**–**	21	–
Derivative asset	**197**	**–**	–	–
Other receivables	**194**	**–**	156	–
	10,555	**–**	195	–
Financial Liabilities				
Accounts payable and other current liabilities	**(497)**	**(77)**	(647)	(73)
Net foreign currency-denominated assets (liabilities)	**$10,058**	**(€77)**	($452)	(€73)
Peso equivalent	**₱502,196**	**(₱4,590)**	(₱22,473)	(₱3,784)

**In 2017, the Company entered into a forward currency contract with a bank (see Note 33).*

In translating foreign currency-denominated financial assets and financial liabilities into Philippine Peso amounts, the exchange rate used were ₱49.93 to US$1.00 and ₱59.61 to €1.00 as at December 31, 2017 and ₱49.72 to US$1.00 and ₱51.84 to €1.00 as at December 31, 2016.

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets and liabilities) for the years ended December 31, 2017 and 2016. The possible change are based on the survey conducted by management among its banks. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives (see Note 33).

Year	Increase (Decrease) in Foreign Exchange Rate	US$	Euro (€)
2017	(₱0.50)	**(₱693)**	**₱77**
	(1.00)	**(1,385)**	**38**
	0.50	**693**	**(77)**
	1.00	**1,385**	**(38)**
2016	(₱0.25)	₱113	₱18
	(0.50)	226	37
	0.25	(113)	(18)
	0.50	(226)	(37)

Credit or Counterparty Risk
Credit or counterparty risk is the risk due to uncertainty in counterparty's ability to meet its obligations.

Credit or counterparty risk is managed through the following:

- Investments are coursed through or transacted with duly accredited domestic and foreign banks and mutual funds up to a maximum of 20% of the Company's investible funds. For UITF and mutual funds, fund placements cannot exceed 10% of the UITF's or mutual funds' total funds. Individual limits are further established for one bank or mutual fund on the basis of their valuation, financial soundness, business performance and reputation or expertise. Banks', UITF's and mutual funds' performance as well as their fund level, investment mix and duration are reviewed at least once a month or as often as required.
- Investments in nonrated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies and updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.
- For temporary investments in related parties, transactions are done on an arms-length basis taking into account the related parties' financial standing and ability to pay. Interest rates are based on a formula that considers the average of the borrowing and lending rates of the parties and maturity dates are strictly complied with.
- Discussions are done on every major investment by Treasury en banc before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a senior Treasury Officer supervises major transaction executions.
- Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.
- A custodian bank for Philippine peso instruments and foreign currency instruments has been appointed based on its track record on such service and the bank's financial competence.
- Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

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

	2017					
	Neither Past Due nor Impaired			**Past Due but not**	**Past Due Individually**	
	Class A	**Class B**	**Class C**	**Impaired**	**Impaired**	**Total**
Trade and other receivables						
Current:						
Trade receivables	**₱1,991,626**	**₱–**	**₱–**	**₱1,715,287**	**₱38,766**	**₱3,745,679**
Due from related parties	**–**	**20,314**	**–**	**–**	**–**	**20,314**
Others	**–**	**131,987**	**–**	**2,584**	**82,103**	**216,674**
Noncurrent						
Receivables from third parties	**–**	**650,627**	**–**	**–**	**–**	**650,627**
	₱1,991,626	**₱802,928**	**₱–**	**₱1,717,871**	**₱120,869**	**₱4,633,294**

	2016					
	Neither Past Due nor Impaired			Past Due but not	Past Due Individually	
	Class A	Class B	Class C	Impaired	Impaired	Total
Trade and other receivables						
Current:						
Trade receivables	₱2,233,632	₱–	₱–	₱1,559,522	₱34,224	₱3,827,378
Due from related parties	–	4,267	–	–	–	4,267
Others	–	45,011	–	3,571	82,103	130,685
Noncurrent-						
Receivables from third parties	–	608,546	–	–	–	608,546
	₱2,233,632	₱657,824	₱–	₱1,563,093	₱116,327	₱4,570,876

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

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

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

The Company's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, short-term investments, derivative assets and investments held for trading were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.
- Listed and unlisted AFS investments were assessed as high grade since these are investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty or collateral.

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

Liquidity Risk
Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:

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

The tables below summarize the maturity profile of the Company's financial liabilities as at December based on contractual undiscounted payments:

	2017					
	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	**₱–**	**₱604,720**	**₱26,211**	**₱1,123,506**	**₱–**	**₱1,754,437**
Retention payable	**–**	**2,867**	**–**	**–**	**–**	**2,867**
Accrued expenses [a]	**19,720**	**166,764**	**9,397**	**–**	**–**	**195,881**
Accrued interest	**–**	**33,496**	**100,487**	**–**	**–**	**133,983**
Accrued directors' and annual incentives	**–**	**19,757**	**–**	**–**	**–**	**19,757**
Due to related parties	**–**	**1,169,560**	**18,285**	**–**	**–**	**1,187,845**
Others [b]	**–**	**450**	**4,603**	**–**	**–**	**5,053**
Due to stockholders	**15,300**	**–**	**–**	**–**	**–**	**15,300**
Finance lease obligation [c]	**–**	**2,810**	**4,825**	**58,209**	**268,524**	**334,368**
Long-term loans [d]	**–**	**229,726**	**264,453**	**3,028,992**	**5,200,731**	**8,723,902**
Other noncurrent liabilities [e]	**–**	**–**	**–**	**618,161**	**–**	**618,161**
	₱35,020	**₱2,230,150**	**₱428,261**	**₱4,828,868**	**₱5,469,255**	**₱12,991,554**

[a] *Excluding current portion of vacation and sick leave accruals amounting to ₱18.46 million (see Note 27).*
[b] *Excluding payable to officers and employees amounting to ₱1.95 million.*
[c] *Gross contractual payments.*
[d] *Including contractual interest payments.*
[e] *Excluding noncurrent portion of finance lease obligation amounting to ₱63.84 million.*

	2016					
	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	₱–	₱2,007,199	₱–	₱–	₱–	₱2,007,199
Retention payable	–	845	–	–	–	845
Accrued expenses [a]	54,224	177,287	11,325	–	–	242,836
Accrued interest	–	114,755	–	–	–	114,755
Accrued directors' and annual incentives	–	51,478	–	–	–	51,478
Due to related parties	–	1,204,310	–	–	–	1,204,310
Others [b]	2,923	163	–	–	–	3,086
Due to stockholders	12,716	78,487	–	–	–	91,203
Finance lease obligation [c]	–	3,086	2,990	49,245	282,084	337,405
Long-term loans [d]	–	269,225	373,121	3,772,947	5,705,414	10,120,707
Other noncurrent liabilities [e]	–	–	–	90,676	–	90,676
	₱69,863	₱3,906,835	₱387,436	₱3,912,868	₱5,987,498	₱14,264,500

[a] *Excluding current portion of vacation and sick leave accruals amounting to ₱11.40 million (see Note 27).*
[b] *Excluding payable to officers and employees amounting to ₱1.09 million.*
[c] *Gross contractual payments.*
[d] *Including contractual interest payments.*
[e] *Excluding noncurrent portion of finance lease obligation amounting to ₱57.58 million.*

As at December 31, 2017 and 2016, the profile of financial assets used to manage the Company's liquidity risk is as follows:

	2017				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Loans and receivables:					
Current:					
Cash and cash equivalents	**₱1,300,999**	**₱–**	**₱–**	**₱–**	**₱1,300,999**
Short-term investments	**478,362**	**–**	**–**	**–**	**478,362**
Receivables:					
Trade	**1,754,053**	**1,991,626**	**–**	**–**	**3,745,679**
Due from related parties	**–**	**20,314**	**–**	**–**	**20,314**
Others	**84,687**	**131,987**	**–**	**–**	**216,674**
Deposit receivables*	**–**	**–**	**164,747**	**–**	**164,747**
Noncurrent:					
Receivable from third parties	**–**	**–**	**–**	**650,627**	**650,627**
Deposit receivables	**–**	**–**	**–**	**27,930**	**27,930**
Financial assets at FVPL - Investments held for trading	**1,483,519**	**–**	**–**	**–**	**1,483,519**
Derivative assets	**–**	**6,520**	**3,328**	**–**	**9,848**
AFS Investments:					
Quoted	**–**	**–**	**–**	**192,150**	**192,150**
Unquoted	**–**	**–**	**–**	**100,977**	**100,977**
	₱5,101,620	**₱2,150,447**	**₱168,075**	**₱971,684**	**₱8,391,826**

	2016				
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Loans and receivables:					
Current:					
Cash and cash equivalents	₱395,582	₱–	₱–	₱–	₱395,582
Short-term investments	–	–	2,498	–	2,498
Receivables:					
Trade	1,479,777	2,347,601	–	–	3,827,378
Due from related parties	–	4,267	–	–	4,267
Others	85,673	45,012	–	–	130,685
Deposit receivables*	–	–	39,725	–	39,725
Noncurrent:					
Receivable from third parties	–	27,584	82,751	498,211	608,546
Deposit receivables	–	–	–	106,961	106,961
Financial assets at FVPL - Investments held for trading	3,061,270	–	–	–	3,061,270
Derivative assets	–	72	–	–	72
AFS Investments:					
Quoted	–	–	–	215,185	215,185
Unquoted	–	–	–	93,885	93,885
	₱5,022,302	₱2,424,536	₱124,974	₱914,242	₱8,486,054

**Excluding nonrefundable deposits amounting to ₱12.24 million and ₱19.74 million as at December 31, 2017 and 2016, respectively .*

Market Risk

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or business and economic changes. Interest rate, foreign exchange rates and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

Market risk is managed through:

- Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists or strategy officers are done to get multiple perspectives on interest rate trends or forecasts.
- Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.
- "Red Lines" are established then reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that the Treasury Group uses as guides whether to buy, hold or sell bonds as approved by the Investment Committee or, in cases of high volatility, by the CFO.
- In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates or prices in relation to strategies.
- Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2017 and 2016, the Company has fixed rate financial instruments measured at fair value.

The Company's exposure to interest rate risk relates primarily to long-term debt obligations that bear floating interest rate. The Company generally mitigates risk of changes in market interest rates by constantly monitoring fluctuations of interest rates and maintaining a mix of fixed and floating interest-bearing loans. Specific interest rate risk policies are as follows:

PHINMA Renewable
PHINMA Renewable entered into a ₱4.30 billion peso-denominated Term Loan Facility that will be used to partially finance the 54MW San Lorenzo Wind Farm. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of 15 years with semi-annual interest payments starting on the date on which the loan is made. The interest of Tranche A bears a fixed rate for the first ten years and is subject to an interest rate repricing on the last five years.

On April 28, 2016, the Company prepaid a portion of its long-term debt in accordance with the terms of the Agreement as follows:

- the Company shall effect a mandatory prepayment of the loan, without premium or penalty, within three (3) business days from receipt by the Company of any transmission line proceeds;
- prepay the loan to the extent of seventy percent (70%) of the transmission line proceeds;
- the remaining thirty percent (30%) shall be transferred directly into the Company controlled distribution account for further distribution to the Project Sponsor.

PHINMA Energy
In 2014, the Parent Company also availed a total of peso-denominated ₱3.00 billion corporate notes and loan agreements from CBC, SBC and BDO to be used to fund its projects and working capital. SBC has a term of 5 years with quarterly payments starting on the 5th quarter drawdown. Both BDO and CBC have a term of 10 years with quarterly payments starting on the 5th quarter drawdown having fixed interest rates to be repriced for the last 3 years.

The following table sets out the carrying amount, by maturity of the Company's financial assets that are exposed to interest rate risk:

				2017			
	Interest Rates	Within 1 Year	1–2 Years	2–3 Years	3-4 Years	Beyond 4 years	Total
Long-term loans							
PHINMA Renewable							
DBP	**6.25 - 8.36%**	**₱40,525**	**₱53,133**	**₱57,391**	**₱61,595**	**₱647,399**	**₱860,043**
SBC	**6.57 - 6.74%**	**42,010**	**54,650**	**57,775**	**61,983**	**638,868**	**855,286**
PHINMA Energy							
BDO	**5.81 - 6.55%**	**9,407**	**9,386**	**9,362**	**442,720**	**–**	**470,875**
CBC	**5.68 - 7.13%**	**29,980**	**29,966**	**29,950**	**1,328,777**	**–**	**1,418,673**
SBC	**4.84 - 4.95%**	**18,950**	**929,706**	**–**	**–**	**–**	**948,656**
DBP	**6.09%**	**43,032**	**70,306**	**75,970**	**81,409**	**877,210**	**1,147,927**
SBC	**6.59%**	**43,038**	**70,310**	**75,972**	**81,409**	**877,188**	**1,147,917**
Special savings account (SSA)	**1.125-4.25%**	**1,179,918**	**–**	**–**	**–**	**–**	**1,179,918**
Special Deposit Accounts (SDA)	**0.45-1.13%**	**184**	**–**	**–**	**–**	**–**	**184**
Short-term investments	**1.81-2.125%**	**478,362**					**478,362**
Treasury bills	**2.50-2.55%**	**153,818**					**153,818**

		2016					
	Interest Rates	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	Beyond 4 years	Total
Long-term loans							
PHINMA Renewable							
DBP	6.25 - 8.36%	₱69,523	₱93,445	₱122,509	₱132,315	₱1,634,918	₱2,052,710
SBC	6.57 - 6.74%	72,863	96,890	126,016	135,879	1,613,435	2,045,083
PHINMA Energy							
BDO	5.81 - 6.55%	9,423	9,403	9,382	9,359	442,864	480,431
CBC	5.68 - 7.13%	29,993	29,980	29,966	29,949	1,328,601	1,448,489
SBC	4.84 - 4.95%	18,983	18,950	929,705	–	–	967,638
SSA	0.125-1.75%	348,459	–	–	–	–	348,459
SDA	0.45-1.13%	134	–	–	–	–	134
Short-term investments	1.88%	2,498	–	–	–	–	2,498

The other financial instruments of the Company that are not included in the preceding table are not subject to interest rate repricing and are therefore not subject to interest rate volatility.

The following tables demonstrate the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Company's profit before tax for the years ended December 31, 2017 and 2016. The possible change are based on the survey conducted by management among its banks. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2017	
	Increase (Decrease) in Basis Points	**Effect on Profit Before Tax Increase (Decrease)**
Long-term loans	50	**(₱33,755)**
	(50)	**33,755**
SDA	50	**1**
	(50)	**(1)**
SSA	50	**4,722**
	(50)	**(4,722)**

	2016	
	Increase (Decrease) in Basis Points	Effect on Profit Before Tax Increase (Decrease)
Long-term loans	25	(₱17,295)
	(25)	17,295
SDA	25	463
	(25)	(463)
SSA	25	688
	(25)	(688)

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Based on the Company's expectation, the Company's assessment of reasonably possible change was determined to be an increase of 8.75% and 10.32% in 2017 and 2016, respectively, resulting in an increase in equity of ₱8.20 million and ₱12.34 million as at December 31, 2017 and 2016, respectively. The expectation is based on historical changes in the market composite index from 2012 to 2017.

Monitoring of Risk Management Process
Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

- Weekly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenged based on current and forecasted developments on the financial and political events.
- Monthly portfolio reports are submitted to the CFO that includes an updated summary of global and domestic events of the past month and the balance of the year.
- Quarterly presentations of the investment portfolio are made to the Investment Committee to discuss and secure approvals on strategy changes.
- Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.
- One on one coaching sessions are scheduled to assist, train and advise personnel.
- Periodic review of Treasury risk profile and control procedures.
- Periodic specialized audit is performed 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, issue new shares or acquire long-term debts.

During 2014, the Company availed ₱3.00 billion loan agreement from CBC, SBC and BDO and a ₱4.30 billion peso-denominated Term Loan Facility with SBC and DBP. During 2017, the Company availed ₱2.35 billion loan agreement with SBC and DBP (see Note 17). In relation to these agreements, the Company closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration.

The following debt covenants are being complied with by the Company as part of maintaining a strong credit rating with its creditors:

PHINMA Energy

CBC and BDO
(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(b) Maximum Debt to Equity ratio of 1.5 times

SBC
(c) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(d) Maximum Debt to Equity ratio of 2.0 times
(e) Minimum Current ratio of 1.0 times

PHINMA Renewable
Under the Omnibus Loan Facility Agreement, PHINMA Renewable must maintain a Historical Debt Service Coverage Ratio of at least 1.20:1.00 and a Debt to Equity ratio of not exceeding 70:30. It also requires equity contributions from its shareholders amounting to ₱328.13 million for retention and contingencies.

Additional covenants prevent PHINMA Renewable from entering into any joint ventures, partnerships, or similar business combinations or arrangements. It also prohibits PHINMA Renewable from making payments of dividends or return of capital.

As at December 31, 2017, PHINMA Renewable is in compliance with the terms as required in the loan covenants.

33. Fair Values

The table below presents the carrying values and fair values of the Company's financial assets and financial liabilities, by category and by class, as at December 31, 2017 and 2016:

	2017			
		Fair Value		
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments held for trading	**₱1,483,519**	**₱–**	**₱1,483,519**	**₱–**
AFS investments	**293,127**	**133,540**	**58,610**	**100,977**
Derivative assets*	**9,848**	**–**	**9,848**	**–**
Refundable deposits**	**192,676**	**–**	**–**	**170,191**
Receivables from third parties**	**762,675**	**–**	**–**	**763,138**
	₱2,741,845	**₱133,540**	**₱1,551,977**	**₱1,034,306**
Liabilities				
Derivative liability***	**₱196**	**₱–**	**₱196**	**₱–**
Long-term debt	**6,849,376**	**–**	**6,603,945**	**–**
Deposit payables and other liabilities****	**301,191**	**–**	**–**	**274,681**
	₱7,150,763	**₱–**	**₱6,604,141**	**₱274,681**

	2016			
		Fair Value		
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments held for trading	₱3,061,270	₱–	₱3,061,270	₱–
AFS investments	215,185	160,008	55,177	93,885
Derivative assets*	72	–	72	–
Refundable deposits**	83,023	–	–	74,905
Receivables from third parties**	608,546	–	–	533,936
	₱3,968,096	₱3,278,953	₱3,116,519	₱702,726
Liabilities				
Long-term debt	₱6,994,351	₱–	₱5,564,843	₱–
Deposit payables and other liabilities****	174,302	–	–	173,452
	₱7,168,653	₱–	₱5,564,843	₱173,452

** Included under "Other current assets" account.*
*** Included under "Other current assets" and "Other noncurrent assets" accounts.*
**** Included under "Accounts payable and other current liabilities" account.*
***** Included under "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts.*

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

Cash and Cash Equivalents, Short-term Investments, Receivables, Accounts Payable and Other Current Liabilities and Due to Stockholders
The carrying amounts of cash and cash equivalents, short-term investment, receivables, accounts payable and other current liabilities and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading
Net asset value per unit has been used to determine the fair values of investments held for trading.

AFS Investments
Quoted market prices have been used to determine the fair values of quoted AFS investments. The fair values of unquoted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

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

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial instruments measured at fair value using the level 3 hierarchy. Also, there were no transfers between the levels of fair value measurements.

Refundable Deposits, Deposits Payable and Other Liabilities
Estimated fair value is based on present value of future cash flows discounted using the prevailing PDST-R2 rates that are specific to the tenor of the instruments' cash flows at the end of the reporting period.

Long-Term Loans
Estimated fair value of long-term loans is based on the discounted value of future cash flows using the prevailing PDST-R2 at the reporting period adjusted for credit spread.

Derivative Assets

Foreign Currency Forwards
The Company entered into a forward foreign currency forward contracts with a bank with an aggregate notional amount of US$8.50 million in 2017 and US$1.50 million in 2015. The deliverable forwards were outstanding during the year. The weighted average fixing rate amounted to ₱51.09 to US$1.00 in 2017 and ₱44.72 to US$1.00 in 2015. The net fair value of these currency forwards amounted to ₱9.85 million and ₱1.02 million gains as at December 31, 2017 and December 31, 2015, respectively. The Company did not enter into a foreign currency forward contracts in 2016.

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

The Company's outstanding embedded forwards have an aggregate notional amount of US$0.34 million and US$0.13 million as at December 31, 2017 and 2016, respectively. The weighted average fixing rate amounted to ₱50.31 to US$1.00 and ₱47.51 to US$1.00 as at December 31, 2017 and 2016, respectively. The net fair value of these embedded derivatives amounted to ₱0.20 million gains and ₱0.07 million losses at December 31, 2017 and 2016, respectively.

The net movements in fair value changes of the Company's derivative instruments (both freestanding and embedded derivatives) are as follows:

	2017	2016
Balance at beginning of year	**₱72**	₱98
Net changes in fair value during the year	**9,399**	8,741
Fair value of settled contracts	**181**	(8,767)
Balance at end of year	**₱9,652**	₱72

The net changes in fair value during the year are included in the "Other income - net" account in the consolidated statements of income (see Note 25).

The fair value of derivative assets is presented under "Other current assets" account in the consolidated statements of financial position (see Note 9).

34. Operating Segments

The Company is divided into two reportable operating segments based on the nature of the services provided - Power and Petroleum. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	2017				
	Power	**Petroleum**	**Segment Total**	**Adjustments and Eliminations**	**Consolidated**
Revenue	**₱17,011,044**	**₱–**	**₱17,011,044**	**₱9,189**	**₱17,020,233**
Costs and expenses	**17,238,567**	**23,437**	**17,262,004**	**331,785**	**17,593,789**
Other income (expense) - net					
Interest and other finance charges	**(184,075)**	**–**	**(184,075)**	**(329,491)**	**(513,566)**
Interest and other financial income	**–**	**–**	**–**	**87,185**	**87,185**
Equity in net earnings of associates and joint ventures	**1,024,995**	**–**	**1,024,995**	**–**	**1,024,995**
Gain on derivatives - net	**(449)**	**–**	**(449)**	**9,848**	**9,399**
Loss on sale of AFS investments	**–**	**–**	**–**	**(17)**	**(17)**
Foreign exchange loss - net	**–**	**–**	**–**	**(8,373)**	**(8,373)**
Others	**–**	**–**	**–**	**17,423**	**17,423**
Segment profit	**612,948**	**(23,437)**	**589,511**	**(546,021)**	**43,490**
Operating assets	**₱15,654,072**	**₱77,699**	**₱15,731,771**	**₱5,026,762**	**₱20,758,533**
Operating liabilities	**₱5,913,821**	**₱3,612**	**₱5,917,433**	**₱5,701,541**	**₱11,618,974**
Capital expenditures	**₱114,115**	**₱130**	**₱114,245**	**₱11,647**	**₱125,892**
Capital disposals	**2,018**	**830**	**2,848**	**417**	**3,265**
Investments and advances	**4,056,971**	**–**	**4,056,971**	**631**	**4,057,602**
Depreciation and amortization	**(379,519)**	**(689)**	**(380,208)**	**(19,195)**	**(399,403)**
Benefit from income tax	**–**	**–**	**–**	**303,678**	**303,678**

	2016				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱15,465,866	₱–	₱15,465,866	₱12,007	₱15,477,873
Costs and expenses	14,357,951	81,403	14,439,354	566,155	15,005,509
Other income (expense) - net					
Interest and other finance charges	(303,644)	–	(303,644)	(164,841)	(468,485)
Interest and other financial income	–	–	–	46,077	46,077
Equity in net earnings of associates and joint ventures	886,224	–	886,224	–	886,224
Gain on derivatives	8,741	–	8,741	–	8,741
Gain (loss) on sale of:					
Investments	444,207	–	444,207	–	444,207
Property, plant and equipment	27,731	–	27,731	132	27,863
AFS investments	–	–	–	7	7
Foreign exchange loss - net	–	–	–	(7,208)	(7,208)
Unrecoverable input value-added tax	–	–	–	(2,568)	(2,568)
Others	1,210	–	1,210	34,550	35,760
Segment profit	2,172,384	(81,403)	2,090,981	(647,999)	1,442,982
Operating assets	₱16,049,329	₱103,314	₱16,152,643	₱4,475,252	₱20,627,895
Operating liabilities	₱7,941,587	₱6,143	₱7,947,730	₱3,678,621	₱11,626,351

	2016				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Capital expenditures	₱171,253	₱2,853	₱174,106	₱5,379	₱179,485
Capital disposals	806,963	2,097	809,060	2,419	811,479
Investments and advances	4,018,530	–	4,018,530	631	4,019,161
Depreciation and amortization	(392,410)	(635)	(393,045)	(20,046)	(413,091)
Provision for income tax	–	–	–	(60,451)	(60,451)

	2015				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱13,456,926	₱–	₱13,456,926	₱13,244	₱13,470,170
Costs and expenses	12,067,023	18,820	12,085,843	238,065	12,323,908
Other income (expense) - net					
Interest and other finance charges	(285,481)	–	(285,481)	(163,999)	(449,480)
Interest and other financial income	–	–	–	16,257	16,257
Equity in net earnings of associates and joint ventures	372,214	–	372,214	–	372,214
Option fee	–	35,159	35,159	–	35,159
Gain on derivatives	17,032	–	17,032	1,016	18,048
Write down and loss (gain) on disposal of property, plant and equipment	(3,378)	–	(3,378)	307	(3,071)
Gain (loss) on sale of AFS investments	–	–	–	(18)	(18)
Foreign exchange loss - net	–	–	–	(20,880)	(20,880)
Impairment loss on AFS investments	–	–	–	(12,424)	(12,424)
Others	(1,865)	–	(1,865)	14,617	12,752
Segment profit	1,488,425	16,339	1,504,764	(389,945)	1,114,819
Operating assets	₱16,379,704	₱140,693	₱16,520,397	₱2,105,876	₱18,626,273
Operating liabilities	₱7,338,063	₱6,428	₱7,344,491	₱3,321,385	₱10,665,876
Capital expenditures	₱898,167	₱4	898,171	₱5,914	₱904,085
Capital disposals	9,750	–	9,750	2,179	11,929
Investments and advances	4,171,010	–	4,171,010	631	4,171,641
Depreciation and amortization	(377,245)	(546)	(377,791)	(19,325)	(397,116)
Provision for income tax	–	–	–	(208,967)	(208,967)

Adjustments and Eliminations

Interest and other financial income, including fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Likewise, certain operating expenses and finance-related charges are managed on a group basis and are not allocated to operating segments.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as these are also managed on a group basis.

Capital expenditures consist of additions to property, plant and equipment. Investments and advances are consists of investments and cash advances to the Company's associates and joint ventures.

Reconciliation of profit

	2017	2016	2015
Segment total profit before adjustments and eliminations	**₱589,511**	₱2,090,981	₱1,504,764
Dividend income	**8,483**	7,433	8,797
Rent Income	**706**	4,574	4,447
General and administrative expense	**(331,785)**	(566,156)	(238,065)
Interest and other financial income	**87,185**	46,077	16,257
Interest and other finance charges	**(329,491)**	(164,841)	(163,999)
Other income/(expense) - net	**18,881**	24,914	(17,382)
Income before income tax	**₱43,490**	₱1,442,982	₱1,114,819

Other income (expense) - net include foreign exchange gain (loss), gain (loss) on sale of property, plant and equipment and AFS investments, provision for probable losses, marked-to-market gain (loss) on derivatives and other miscellaneous income (expense) which are managed on a group basis and are not allocated to operating segments.

Reconciliation of assets

	2017	2016
Segment operating assets	**₱15,731,771**	₱16,152,643
Current assets		
Cash and cash equivalents	**1,300,999**	395,582
Short-term investments	**478,362**	2,498
Investments held for trading	**1,483,519**	3,061,270
Receivables and other current assets	**659,056**	385,875
Noncurrent assets		
Property, plant and equipment	**67,258**	64,757
Investments in an associate and AFS investments	**293,758**	309,701
Investment property	**13,085**	24,380
Deferred income tax asset - net	**430,280**	71,849
Other noncurrent assets	**300,445**	159,340
Total assets	**₱20,758,533**	₱20,627,895

Reconciliation of liabilities

	2017	2016
Segment operating liabilities	**₱5,917,433**	₱7,947,730
Current liabilities		
Accounts payable and other current liabilities	**359,195**	415,102
Income and withholding taxes payable	**42,308**	99,396
Due to stockholders	**15,300**	91,203
Current portion of long-term loans	**144,406**	58,399
Noncurrent liabilities		
Long-term loans - net of current portion	**4,989,640**	2,838,158
Pension and other employee benefits	**36,110**	47,585
Deferred income tax liabilities - net	**111,387**	126,890
Other noncurrent liabilities	**3,195**	1,888
Total assets	**₱11,618,974**	₱11,626,351

35. Supplemental Cash Flow Information

The following table shows the Company's non-cash investing and financing activities and corresponding transaction amounts for the years ended December 31, 2017 and 2016:

	2017	2016
Non-cash investing activities:		
Reclassifications to:		
Investment property	**₱40,907**	₱–
Property and equipment	**11,295**	–
Remeasurement of AFS financial assets	**(23,049)**	8,238
Acquisition of property and equipment under finance lease	**754**	2,830
Capitalized depreciation expense (see Note 10)	**19**	64
Disposal of property and equipment on account	**–**	437,859
Reduction in cost of property and equipment acquired on account due to early payment	**–**	26,106
Forfeiture of stock options	**–**	14,661
Dividends receivable	**–**	993

Movement in the Company's liabilities from financing activities are as follows:

	January 1, 2017	Dividend Declaration	Availments	Payments	Others	December 31, 2017
Current portion of:						
Long-term loans	₱200,785	₱–	₱–	₱–	₱26,164	₱226,949
Finance lease obligation	12,544	–	–	–	1,784	14,328
Dividends payable	91,203	195,436	–	(270,347)	–	16,292
Noncurrent portion of:						
Long-term loans	6,793,565	–	2,350,000	(2,520,651)	(486)	6,622,428
Finance lease obligation	57,577	–	–	(7,331)	13,593	63,839
Total liabilities from financing activities	₱7,155,674	₱195,436	₱2,350,000	(2,798,329)	₱41,055	₱6,943,836

36. Other Matters

a. On August 20, 2014, PHINMA Energy distributed cash and property dividends in the form of shares in PHINMA Petroleum (see Note 19) after securing SEC's approval of the registration and receipt of Certificate Authorizing Registration (CAR) from the BIR.

   On October 22, 2014, PHINMA Energy received from the BIR a Formal Letter of Demand (FLD), assessing PHINMA Energy for a total donor's tax due of ₱157.75 million inclusive of penalty and interest up to September 30, 2014.

   On November 21, 2014, PHINMA Energy and its independent legal counsel filed an administrative protest in response to the FLD, on the following grounds:

   1) The dividend distribution is a distribution of profits by PHINMA Energy to its stockholders and not a "disposition" as contemplated under Revenue Regulations Nos. 6-2008 and 6-2013 which would result in the realization of any capital gain of PHINMA Energy;
   2) PHINMA Energy did not realize any gain or increase its wealth as a result of the dividend distribution; and,

3) There was no donative intent on the part of PHINMA Energy.

On May 27, 2015, PHINMA Energy received from the BIR a Final Decision on Disputed Assessment (FDDA) dated May 26, 2015, denying the protest.

On June 25, 2015, PHINMA Energy filed with the CTA a Petition for Review seeking a review of the FDDA and requesting the cancellation of the assessment. Both PHINMA Energy and the BIR have finished presenting evidence. As at February 28, 2018, the case is still pending.

b. On August 15, 2016, PHINMA Renewable filed with the BIR a letter and application for tax credits or refund for the PHINMA Renewable's excess and unutilized input VAT for the period July 1, 2014 to June 30, 2015 amounting to ₱335.76 million attributable to PHINMA Renewable's zero-rated sales. On December 19, 2016, PHINMA Renewable received a letter from the BIR denying the administrative claim for refund of excess and unutilized input VAT for the period July 1, 2014 to December 31, 2014. As at December 31, 2017, BIR has not granted or denied PHINMA Renewable's administrative claim for refund for the period January 1, 2015 to June 30, 2015. On January 11, 2017, PHINMA Renewable filed with the CTA a Petition for Review. As at February 28, 2018, the case is still pending.

c. On September 5, 2017, CIPP received a Final Decision on Disputed Assessment from the BIR demanding the payment of a total amount of ₱341.73 million for various alleged deficiency taxes for taxable year 2013. On October 4, 2017, CIPP filed its request for reconsideration with the Office of the Commissioner. As at February 28, 2018, the case is still pending.

d. On January 4, 2018, PHINMA Power received a formal letter of demand issued by the BIR demanding payment amounting to ₱19.72 million for deficiency income tax, value-added tax, withholding tax and compromise penalties for the taxable year 2013. On January 5, 2018, PHINMA Power paid the amount of ₱19.72 million as full settlement of the assessment.

e. R.A. No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date.

The TRAIN changes the existing tax law and includes several provisions that will generally affect businesses on a prospective basis. In particular, the management assessed that amendment of Section 148 - Excise tax on manufactured oil and other fuels - which increases the excise tax rates of lubricating oil, diesel fuel oil and bunker fuel oil, among others, that are used for the power plants, may have material impact to the operations of the Company. However, the same will not have any significant impact on the financial statements as of the reporting date.

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working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
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39 Plaza Drive, Rockwell Center
Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of PHINMA Energy Corporation and Subsidiaries (collectively, the Company) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in this Form 17-A and have issued our report thereon dated February 28, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621301, January 9, 2018, Makati City

February 28, 2018

PHINMA ENERGY CORPORATION
AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
FORM 17-A, Item 7

**These schedules are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or notes to consolidated financial statements.*

Attachment I

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule A. Financial Assets
December 31, 2017

Name of Issuing Entity and Association of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
Investment in Treasury Bills	₱153,223,775	₱153,818,180	₱153,818,180	₱ -
Investment in Unit Investment Trust Fund and Money Market Fund (UITF & MMF)				
Banco De Oro	413,785,750	413,836,072	413,836,072	-
China Banking Corporation	122,772,000	124,032,636	124,032,636	-
Rizal Commercial Banking Corp.	144,699,000	145,723,412	145,723,412	-
Bank of the Phil. Island	1,036,309	1,098,684	1,098,684	-
Security Bank Corporation	639,574,818	645,010,018	645,010,018	-
		1,329,700,822	1,329,700,822	36,975,299
Available-for-sale financial assets				
Phinma Corporation	14,067,578	116,861,776	116,861,776	5,128,010
Union Galvasteel Corp./Atlas Holdings Corporation	1,462,999	27,579,355	27,579,355	3,334,199
Phinma Property Holdings Corporation	549,670,124	54,965,353	54,965,353	-
Asian Plaza, Inc.	37,684	18,433,158	18,433,158	-
Manila Golf & Country Club	1	43,500,000	43,500,000	-
Tagaytay Midlands Golf Club, Inc.	2	1,100,000	1,100,000	-
Alabang Country Club, Inc.	1	6,000,000	6,000,000	-
Evercrest Golf Club Resorts, Inc.	1	40,000	40,000	-
Puerto Azul Golf & Country Club, Inc.	1	100,000	100,000	-
Capitol Hills Golf & Country Club, Inc.	1	80,000	80,000	-
Metro Club A	2	400,000	400,000	-
Subic Bay Golf & Country Club	1	-	-	-
Tagaytay Highlands Golf Club, Inc.	1	550,000	550,000	-
Rockwell Club	2	1,200,000	1,200,000	-
Philam Tower Club	1	120,000	120,000	-
Camp John Hay	1	180,000	180,000	-
A. Soriano	179	1,074	1,074	-
Aboitiz Power Corporation	1,600	66,480	66,480	-
Atlas Consolidated Mining	9,000	45,000	45,000	-
Ayala Corp.	500	507,500	507,500	-
Banco de Oro	1,179	193,356	193,356	354
D & L Industries, Inc.	8,000	88,480	88,480	1,880
Del Monte Pacific Ltd.	5,972	65,214	65,214	1,860
Dharmala	367,200	-	-	-
Energy Development Corp.	901	5,172	5,172	840
First Generation Corp.	7,200	122,400	122,400	2,520
First Philippine Holdings Corporation	5,260	326,120	326,120	8,920
Metropolitan Bank and Trust Company	1,693	171,670	171,670	1,693
Otto Energy Ltd.	6,556,331	14,345,201	14,345,201	-
Philex Mining Corp "B	4,500	27,270	27,270	180
Philippine Long Distance Telephone Company	-	19,500	19,500	-
PXP Energy	765	6,089	6,089	-
RCBC	3,500	193,725	193,725	-
Security Bank	1,767	444,224	444,224	2,651
SSI Group	15,000	49,500	49,500	-
Vulcan	73,486	-	-	-
BDO MMF Classified as Available for Sale	5,000,000	5,339,685	5,339,685	-
		293,127,302	293,127,302	8,483,107
Loans and Receivables				
Cash and Cash Equivalents		1,300,998,822	1,300,998,822	251,706
Short-term investments		478,361,687	478,361,687	32,864,858
Trade and Other Receivables		3,982,664,685	3,982,664,685	-
Long-term Receivables		650,627,180	650,627,180	8,442,739
Refundable Deposits		176,989,256	176,989,256	
		6,589,641,630	6,589,641,630	41,559,303
Derivative Assets		9,848,494	9,848,494	-
		₱8,376,136,428	₱8,376,136,428	P87,017,709

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2017

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non Current	Balance at End of Period
			Amount Collected	Amount Written-Off			

Not Applicable: The Company has no amounts receivable from directors, officers, employees, related parties and principal stockholders as at December 31, 2017 equal to or above the established threshold of the Rule.

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule C. Accounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
December 31, 2017

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non Current	Balance at End of Period
			Amount Collected	Amount Written-Off			
CIP II Power Corporation	₱ -	₱287,020,002	(₱282,402,244)	₱ -	₱4,617,758	₱ -	₱4,617,758
PHINMA Power Generation Corporation	16,862,101	463,691,804	(458,158,813)	-	22,395,092	-	22,395,092
PHINMA Renewable Energy Corporation	597,889,144	485,125,628	(725,065,628)	-	357,949,144	-	357,949,144
One Subic Oil Distribution Corporation	-	-	-	-	-	-	-
PHINMA Petroleum & Geothermal Inc.	-	2,727,396	(2,727,396)	-	-	-	-
Palawan55 Exploration and Production Corporation	-	-	-	-	-	-	-
PHINMA Solar Energy Corporation	-	5,125,000	(5,125,000)	-	-	-	-
One Subic Power Generation Corporation	-	660	(660)	-	-	-	-
	₱614,751,245	₱1,243,690,490	(₱1,473,479,741)	₱ -	₱384,961,994	₱ -	₱384,961,994

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
December 31, 2017

Description	Beginning Balance	Additions At Cost	Deductions: Charged to Costs and Expenses	Deductions: Charged to Other Accounts	Other Changes-Additions (Deductions)	Ending Balance
Oil exploration and development costs:						
Service Contract (SC) No. 6	₱26,182,151	₱839,418	₱ -	₱ -	₱ -	₱27,021,569
SC 51	32,665,864	-	-	-	-	32,665,864
SC 55	5,713,210	-	-	-	-	5,713,210
SC 69	15,473,702	123,228	-	-	-	15,596,930
SC 52	10,993,823	-	-	-	-	10,993,823
SC 50	11,719,086	-	-	-	-	11,719,086
Geothermal Service Contract (GSC) No. 8 Mabini	19,472,597	9,265,540	-	-	-	28,738,137
Hydropower Service Contracts:						
SC 467	-	-	-	-	-	-
SC 465	-	-	-	-	-	-
	122,220,433	10,228,186	-	-	-	132,448,619
Allowance for probable losses	(22,712,908)	-	(4,892,178)	-	-	(27,605,086)
Total deferred exploration cost	99,507,525	10,228,186	(4,892,178)	-	-	104,843,533
Leasehold rights	57,339,722	-	(16,190,039)	-	-	41,149,683
Goodwill	234,152,394	-	-	-	-	234,152,394
	₱390,999,641	₱10,228,186	(₱21,082,217)	₱ -	₱ -	₱380,145,610

Attachment I

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule E. Long-Term Debt
December 31, 2017

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under Caption "Current Portion of Long-Term Debt" in related Balance Sheet	Amount shown under Caption "Long-Term Debt" in related Balance Sheet	Interest Rate	Periodic Payments	Maturity Date
Development Bank of the Philippines	₱866,279,300	₱43,907,800	₱822,371,500	6.25 - 8.36%	25 semi-annual payments	February 14, 2029
Security Bank Corporation	866,279,300	43,907,800	822,371,500	6.57 - 6.74%	25 semi-annual payments	February 14, 2029
Development Bank of the Philippines	1,153,145,000	43,710,000	1,109,435,000	6.50%	25 semi-annual payments	July 11, 2029
Security Bank Corporation	1,153,145,000	43,710,000	1,109,435,000	6.50%	25 semi-annual payments	July 11, 2029
Security Bank Corporation	950,000,000	20,000,000	930,000,000	5.81 - 6.55%	16 quarterly payments	Ápril 11, 2019
China Bank Corporation	1,425,000,000	30,000,000	1,395,000,000	5.68 - 7.13%	36 quarterly payments	Ápril 10, 2024
Banco De Oro	475,000,000	10,000,000	465,000,000	4.84%	36 quarterly payments	Ápril 30, 2024
Total	6,888,848,600	235,235,600	6,653,613,000			
Derivative on long-term loans	6,009,972	1,763,291	4,246,681			
Unamortized debt issue costs	(45,482,221)	(10,332,677)	(35,149,544)			
	₱6,849,376,351	₱226,666,214	₱6,622,710,137			

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule F. Indebtedbess to Related Parties (Long-Term Loans from Related Companies)
December 31, 2017

Name of Related Party	Balance at Beginning of Period	Balance at End of Period

Not Applicable: The Company has no indebtedness to related parties as at December 31, 2017.

Attachment I

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2017

Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by the Company for which Statement is Filed	Nature of Guarantee

Not Applicable: The Company has no guarantees of securities of other issuers as at December 31, 2017.

Attachment I

PHINMA ENERGY CORPORATION AND SUBSIDIARIES
Schedule H. Capital Stock
December 31, 2017

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common stock	8,400,000,000	4,889,774,922	60,301,331	2,646,545,762	78,403,717	2,164,825,443

ATTACHMENT II

PHINMA ENERGY CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

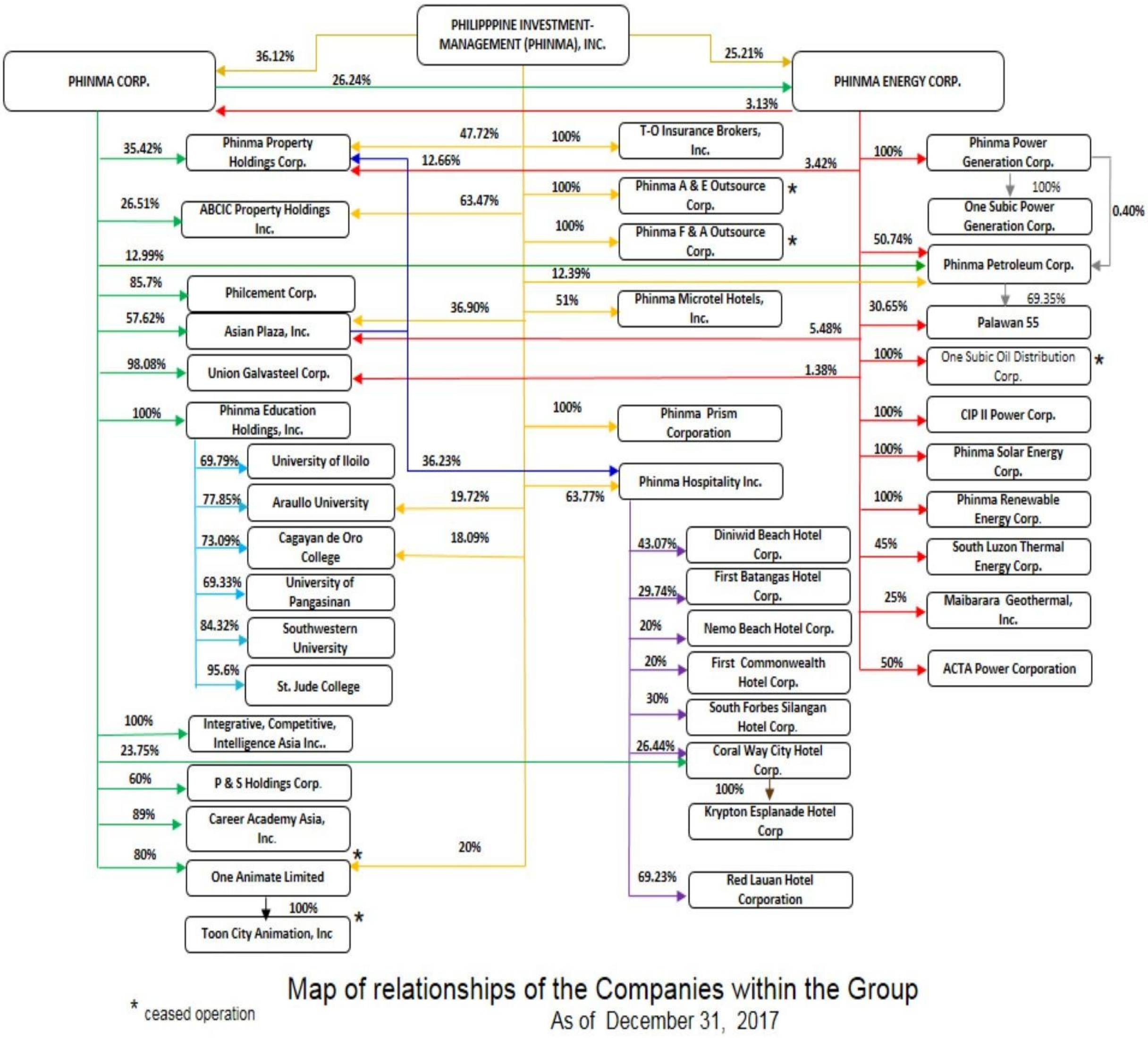
DECEMBER 31, 2017
(Amounts in Thousands)

Retained earnings, beginning	₱2,753,199
Adjustment:	
Deferred income tax asset as at December 31, 2016	(64,171)
Unrealized FV gain of FVPL as at December 31, 2016	(1,263)
Derivative asset as at December 31, 2016	(72)
Retained earnings, beginning, as adjusted to amount available for dividend declaration, beginning	2,687,693
Add: Net income actually realized during the year	
Net income during the year closed to retained earnings	501,735
Add (deduct):	
Unrealized fair value gains on investments held for trading and derivative assets	(9,006)
Movement of recognized deferred income tax assets	(360,495)
Net income actually realized during the year	132,234
Less: Dividends declared during the year	(195,436)
Retained earnings available for dividend declaration, end	₱2,624,491

ATTACHMENT III

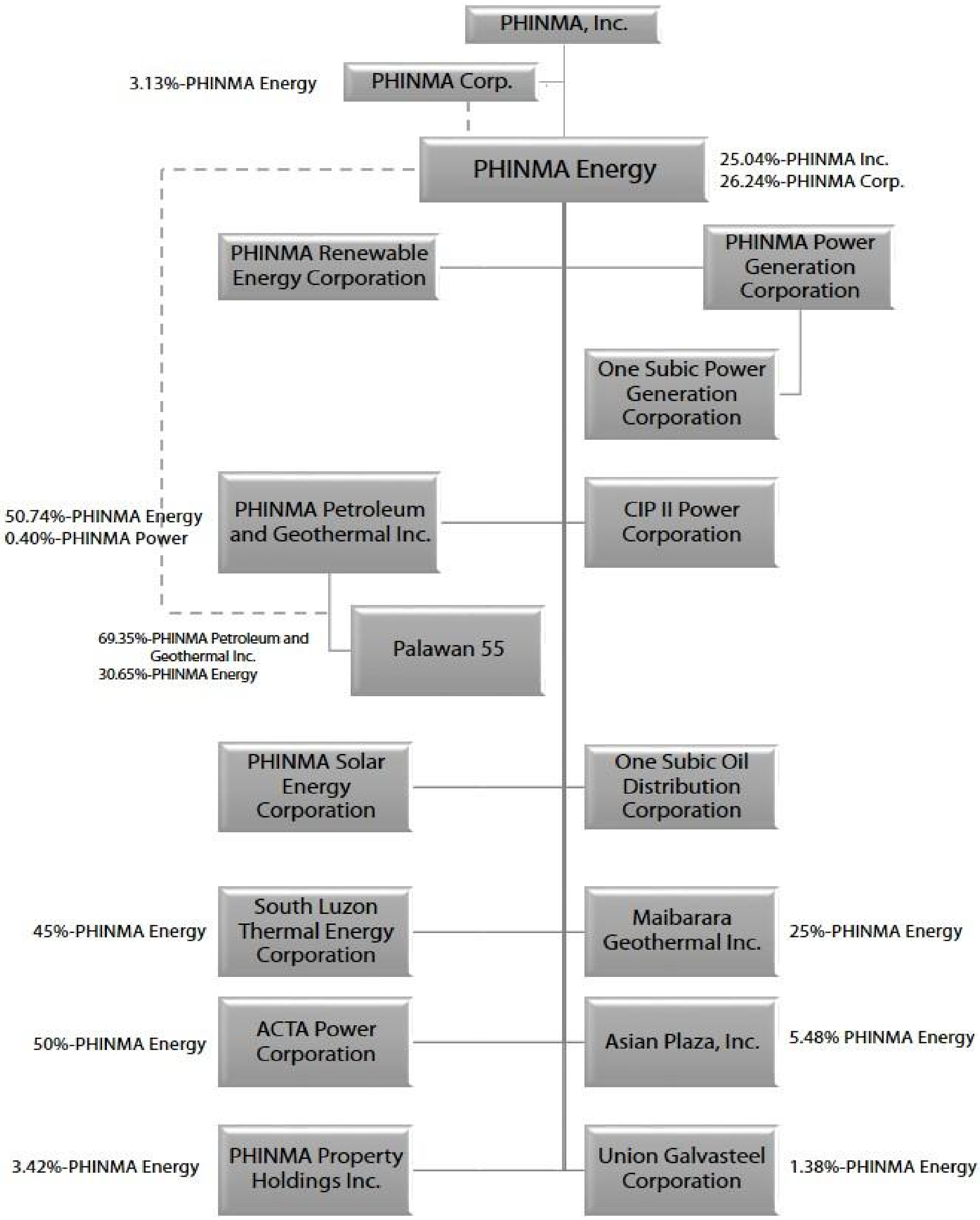
PHINMA ENERGY CORPORATION
SUPPLEMENTARY SCHEDULE REQUIRED
UNDER SRC RULE 68, AS AMENDED (2011)

Conglomerate Map
As of December 31, 2017



Map of relationships of the Companies within the Group
As of December 31, 2017

Map of Relationships of the Companies within the Group
As of December 31, 2017



**PHINMA ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE REQUIRED
UNDER SRC RULE 68, AS AMENDED**

KPI	Formula	31-Dec-17 Audited	31-Dec-16 Audited	31-Dec-15 Audited
Liquidity Ratios				
Current Ratio	Current assets / Current liabilities	2.08	1.92	1.89
Acid test Ratio	Cash + Short-term investments + Accounts Receivables + Other liquid assets / Current liabilities	1.71	1.62	1.47
Solvency Ratios				
Debt/Equity Ratio	Total Liabilities / Total Equity	1.27	1.29	1.34
Asset to Equity Ratio	Total Assets / Total Equity	2.27	2.29	2.34
Interest Coverage Ratio	Earnings before interest & tax (EBIT) / Interest expense	1.08	4.08	3.48
Net Debt to Equity Ratio	Debt – Cash & cash equivalents, short-term investments & investment held for trading / Total equity	0.91	0.91	1.18
Profitability Ratios				
Return on Equity	Net income after tax / Average stockholder's equity	3.83%	16.30%	11.93%

KPI	Formula	31-Dec-17 Audited	31-Dec-16 Audited	31-Dec-15 Audited
Return on Assets	$\frac{\text{Net income after taxes}}{\text{Total assets}}$	1.68%	7.04%	5.14%
Asset Turnover	$\frac{\text{Revenues}}{\text{Total assets}}$	82.25%	78.86%	76.50%

PHINMA ENERGY CORPORATION
AND SUBISIDIARIES
SUPPLEMENTARY SCHEDULE REQUIRED
UNDER SRC RULE 68, AS AMENDED (2011)

A. List of Philippine Financial Reporting Standards (PFRSs) effective as at December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		X		
PFRSs Practice Statement Management Commentary				X
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	X		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	X		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			X
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			X
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			X
	Amendments to PFRS 1: Government Loans			X
	Amendment to PFRS 1: First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'			X
PFRS 2	Share-based Payment	X		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	X		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	X		
	Amendments to PFRS 2: Share-based Payment - Definition of Vesting Condition	X		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*	Not Early Adopted		
PFRS 3 (Revised)	Business Combinations	X		
	Business Combinations - Accounting for Contingent Consideration in a Business Combination	X		
	Business Combinations - Scope Exceptions for Joint Arrangements	X		
PFRS 4	Insurance Contracts	X		X
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	X		X

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4*	Not Early Adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	X		X
	Amendments to PFRS 5: Changes in Methods of Disposal	X		X
PFRS 6	Exploration for and Evaluation of Mineral Resources	X		
PFRS 7	Financial Instruments: Disclosures	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	X		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	X		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	X		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	X		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	X		
	Amendments to PFRS 7: Disclosures - Servicing Contracts	X		X
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	X		
PFRS 8	Operating Segments	X		
	Amendments to PFRS 8: Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	X		
PFRS 9	Financial Instruments*	Not Early Adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	X		
	Amendments to PFRS 10: Investment Entities	X		X
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	X		X
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
PFRS 11	Joint Arrangements	X		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	X		
PFRS 12	Disclosure of Interests in Other Entities	X		
	Amendments to PFRS 12: Investment Entities	X		X

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception	X		X
	Amendment to PFRS 12: Clarification of the Scope of the Standard*	Not Early Adopted		
	Amendments to PFRS 12: Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard	X		X
PFRS 13	Fair Value Measurement	X		
	Amendment to PFRS 13: Short-term Receivables and Payables	X		
	Amendment to PFRS 13: Fair Value Measurement - Portfolio Exception	X		
PFRS 14	Regulatory Deferral Accounts	X		X
PFRS 15	Revenue from Contracts with Customers*	Not Early Adopted		
PFRS 16	Leases*	Not Early Adopted		
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	X		
	Amendment to PAS 1: Capital Disclosures	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	X		X
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	X		
	Amendments to PAS 1: Disclosure Initiative	X		
PAS 2	Inventories	X		
PAS 7	Statement of Cash Flows	X		
	Statement of Cash Flows, Disclosure Initiative*	X		X
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	X		
PAS 10	Events after the Reporting Period	X		
PAS 11	Construction Contracts	X		X
PAS 12	Income Taxes	X		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	X		
	Amendments to PAS 12 - Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses	X		X
PAS 16	Property, Plant and Equipment	X		
	Amendment to PAS 16: Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation	X		X

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as at December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendment to PAS 16: Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation	X		
	Amendment to PAS 16: Agriculture - Bearer Plants	X		X
PAS 17	Leases	X		
PAS 18	Revenue	X		
PAS 19 (Revised)	Employee Benefits	X		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	X		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	X		
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate	X		X
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			X
PAS 21	The Effects of Changes in Foreign Exchange Rates	X		
	Amendment: Net Investment in a Foreign Operation			X
PAS 23 (Revised)	Borrowing Costs	X		
PAS 24 (Revised)	Related Party Disclosures	X		
	Amendments to PAS 24: Key Management Personnel	X		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			X
PAS 27 (Amended)	Separate Financial Statements	X		
	Amendments to PAS 27: Investment Entities	X		X
	Amendments to PAS 27: Equity Method in Separate Financial Statements	X		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	X		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception	X		X
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			X
PAS 32	Financial Instruments: Disclosure and Presentation	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	X		X

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as at December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendment to PAS 32: Classification of Rights Issues	X		X
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	X		
PAS 33	Earnings per Share	X		
PAS 34	Interim Financial Reporting	X		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	X		
PAS 36	Impairment of Assets	X		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	X		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	X		
PAS 38	Intangible Assets	X		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization	X		X
	Amendments to PAS 38: Clarification of Acceptable Methods of Amortization	X		
PAS 39	Financial Instruments: Recognition and Measurement	X		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	X		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	X		X
	Amendments to PAS 39: The Fair Value Option	X		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	X		X
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	X		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	X		
	Amendment to PAS 39: Eligible Hedged Items	X		X
	Amendment to PAS 39: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	X		X
PAS 40	Investment Property	X		
	Amendment to PAS 40	X		
	Amendments to PAS 40: Investment Property, Transfers of Investment Property*	Not Early Adopted		
PAS 41	Agriculture			X

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as at December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendment to PAS 41: Agriculture - Bearer Plants			X
Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	X		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			X
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	X		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	X		
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	X		X
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			X
IFRIC 8	*Scope of PFRS 2*	X		
IFRIC 9	Reassessment of Embedded Derivatives	X		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	X		
IFRIC 10	*Interim Financial Reporting and Impairment*	X		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	X		
IFRIC 12	Service Concession Arrangements	X		X
IFRIC 13	Customer Loyalty Programmes	X		X
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	X		X
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement	X		X
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	X		X
IFRIC 17	Distributions of Non-cash Assets to Owners	X		
IFRIC 18	Transfers of Assets from Customers	X		X
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	X		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	X		
IFRIC 21	Levies	X		
IFRIC 22	Foreign Currency Transactions and Advance Consideration*	Not Early Adopted		
IFRIC 23	Uncertainty Over Tax Treatments*	Not Early Adopted		
SIC-7	Introduction of the Euro			X
SIC-10	Government Assistance - No Specific Relation to Operating Activities			X
SIC-12	Consolidation - Special Purpose Entities	X		X

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as at December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendment to SIC - 12: Scope of SIC 12	X		X
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	X		
SIC-15	Operating Leases - Incentives	X		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	X		X
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	X		
SIC-29	Service Concession Arrangements: Disclosures	X		X
SIC-31	Revenue - Barter Transactions Involving Advertising Services	X		X
SIC-32	Intangible Assets - Web Site Costs	X		X

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

EXHIBIT B

PHINMA ENERGY CORPORATION

Parent Financial Statements

December 31, 2017 and 2016
AND YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

PHINMA
ENERGY

SECURITIES & EXCHANGE COMMISSION
Ground Floor, Secretariat Building,
Philippine International Convention Center,
Pasay City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR PARENT COMPANY FINANCIAL STATEMENTS

The management of **PHINMA Energy Corporation**, formerly Trans-Asia Asia Oil and Energy Development Corporation, (the "Company") is responsible for the preparation and fair presentation of the parent company financial statements including the schedules attached therein, as at December 31, 2017 and December 31, 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the parent company financial statements including the schedules attached therein, and submits the same to the Stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders for the years ended December 31, 2017 and 2016, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

RAMON R. DEL ROSARIO, JR.
Chairman of the Board

FRANCISCO L. VIRAY
President & Chief Executive Officer

PYTHAGORAS L. BRION, JR.
SVP and Chief Financial Officer

Signed this 28th day of February 2018

BUREAU OF INTERNAL REVENUE
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(Page 2 of Statement of Management's
Responsibility for Parent Company Financial Statements)

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

SUBSCRIBED AND SWORN to before me this APR 1 2 2018 affiant(s) exhibiting to me their Passport and Driver's License, as follows:

Name	Passport No.	Date of Issue	Place of Issue
Ramon R. Del Rosario, Jr.	EB9971711	13 January 2014	Manila
Francisco L. Viray	EC3546900	25 February 2015	Manila
Pythagoras L. Brion, Jr.	P3455624A	22 June 2017	Manila

JORDAN MAE T. CHUA
Notary Public for the City of Makati
Until December 31, 2018
Commission No. M-413
Attorney's Roll No. 63561/ 08 May 2014
PTR No. MKT 5919742/12 January 2017/Makati City
IBP Lifetime No. 012851/02 April 2015/Quezon City
MCLE Compliance No. V - 0021825/01 June 2016
3rd Flr, The PHINMA Plaza, 39 Plaza Drive,
Rockwell Center, Makati City

Doc. No. 450
Page No. 90
Book No. V
Series of 2018

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COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number: 0 6 9 - 0 3 9 2 7 4

COMPANY NAME

P H I N M A E N E R G Y C O R P O R A T I O N

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
A P F S		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
www.transasia-energy.com	870-0100	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
3,196	04/11	12/31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Yolanda D. Añonuevo	ydanonuevo@phinma.com.ph	870-0100	–

CONTACT PERSON's ADDRESS

Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City, Philippines 1200

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PHINMA Energy Corporation
Level 11, PHINMA Plaza
39 Plaza Drive, Rockwell Center
Makati City

BUREAU OF INTER...
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Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of PHINMA Energy Corporation (the Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of the parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PHINMA Energy Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Marydith C. Miguel.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621301, January 9, 2018, Makati City

February 28, 2018

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PHINMA ENERGY CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31 2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 31)	**₱1,067,139**	₱253,083
Short-term investments (Note 31)	**478,362**	2,498
Investments held for trading (Notes 6, 31 and 32)	**606,151**	2,025,824
Receivables (Notes 7 and 31)	**3,267,579**	3,523,603
Fuel and spare parts - at cost (Note 8)	**247,866**	169,690
Other current assets (Note 9)	**1,096,741**	487,885
Total Current Assets	**6,763,838**	6,462,583
Noncurrent Assets		
Property, plant and equipment (Note 10)	**665,248**	709,333
Investments and advances (Note 11)	**9,107,808**	6,659,484
Available-for-sale investments (Notes 12, 31 and 32)	**242,338**	246,394
Investment property (Note 13)	**37,830**	11,296
Deferred exploration costs (Note 14)	**28,738**	19,473
Deferred income tax assets - net (Note 26)	**410,825**	55,691
Other noncurrent assets (Note 15)	**328,900**	222,437
Total Noncurrent Assets	**10,821,687**	7,924,108
TOTAL ASSETS	**₱17,585,525**	₱14,386,691
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16 and 31)	**₱3,672,280**	₱3,398,235
Income and withholding taxes payable	**27,827**	84,697
Due to stockholders (Notes 19, 28 and 31)	**15,300**	91,203
Current portion of long-term loans (Notes 17 and 31)	**144,407**	58,399
Total Current Liabilities	**3,859,814**	3,632,534
Noncurrent Liabilities		
Long-term loans - net of current portion (Notes 17 and 31)	**4,989,641**	2,838,158
Pension and other employee benefits - net of current portion (Note 27)	**7,975**	20,485
Other noncurrent liabilities (Note 18)	**613,164**	85,676
Total Noncurrent Liabilities	**5,610,780**	2,944,319
Total Liabilities	**9,470,594**	6,576,853
Equity		
Capital stock (Note 19)	**4,889,775**	4,885,898
Additional paid-in capital	**83,768**	81,209
Other equity reserve - stock option plan (Note 20)	**–**	–
Unrealized fair value gains on available-for-sale investments - net of tax (Note 12)	**81,603**	93,179
Remeasurement losses on defined benefit plan - net of tax (Note 27)	**489**	(3,647)
Retained earnings (Note 19)	**3,059,296**	2,753,199
Total Equity	**8,114,931**	7,809,838
TOTAL LIABILITIES AND EQUITY	**₱17,585,525**	₱14,386,691

See accompanying Notes to Parent Company Financial Statements.

PHINMA ENERGY CORPORATION
PARENT COMPANY STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Figures)

	Years Ended December 31	
	2017	2016
REVENUE		
Revenue from sale of electricity (Note 30)	**₱16,349,060**	₱14,748,358
Dividend income (Notes 11, 12 and 28)	**1,317,365**	750,518
Rental income (Notes 13 and 28)	**885**	4,754
	17,667,310	15,503,630
COSTS AND EXPENSES		
Costs of sale of electricity (Note 21)	**16,722,871**	13,851,403
General and administrative expenses (Note 22)	**518,572**	759,578
	17,241,443	14,610,981
INTEREST AND OTHER FINANCIAL CHARGES (Note 25)	**(328,819)**	(164,397)
OTHER INCOME - NET (Note 25)	**55,512**	525,236
INCOME BEFORE INCOME TAX	**152,560**	1,253,488
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)		
Current	**8,325**	53,338
Deferred	**(357,299)**	(33,189)
	(348,974)	20,149
NET INCOME	**₱501,534**	₱1,233,339
Basic/Diluted Earnings Per Share (Note 29)	**₱0.10**	₱0.25

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
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PHINMA ENERGY CORPORATION

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31	
	2017	2016
NET INCOME FOR THE YEAR	**₱501,534**	₱1,233,339
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		
Unrealized fair value gains (losses) on available-for-sale investments (Note 12)	**(11,183)**	8,238
Income tax effect (Note 12)	**(393)**	(425)
	(11,576)	7,813
Other comprehensive income (loss) not to be reclassified directly to profit or loss in subsequent periods		
Remeasurement gains (losses) on defined benefit plan (Note 27)	**5,908**	(3,780)
Income tax effect	**(1,772)**	1,134
	4,136	(2,646)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(7,440)**	5,167
TOTAL COMPREHENSIVE INCOME	**₱494,094**	₱1,238,506

See accompanying Notes to Parent Company Financial Statements.

PHINMA ENERGY CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Thousands)

APR 13 2018

	Capital Stock (Notes 19 and 20)	Additional Paid-in Capital	Other Equity Reserve - Stock Option Plan (Note 20)	Unrealized Fair Value Gains (Loss) on Available-for-Sale Investments - net of tax (Note 12)	Remeasurement Gains (Loss) on Defined Benefit Obligation - net of tax (Note 27)	Retained Earnings (Note 19)	Total
BALANCES AT JANUARY 1, 2017	**₱4,885,898**	**₱81,209**	**₱–**	**₱93,179**	**(₱3,647)**	**₱2,753,199**	**₱7,809,838**
Net income	–	–	–	–	–	501,534	501,534
Other comprehensive income (loss)	–	–	–	(11,576)	4,136	–	(7,440)
	–	–	–	(11,576)	4,136	501,534	494,094
Dividends declared (Note 19)	–	–	–	–	–	(195,437)	(195,437)
Issuance of stocks - stock grants (Notes 19 and 20)	3,877	2,559	–	–	–	–	6,436
Forfeiture of stock options (Notes 19 and 20)	–	–	–	–	–	–	–
	3,877	2,559	–	–	–	(195,437)	(189,001)
BALANCES AT DECEMBER 31, 2017	**₱4,889,775**	**₱83,768**	**₱–**	**₱81,603**	**₱489**	**₱3,059,296**	**₱8,114,931**
BALANCES AT JANUARY 1, 2016	₱4,865,146	₱40,783	₱14,661	₱85,366	(₱1,001)	₱1,909,973	₱6,914,928
Net income	–	–	–	–	–	1,233,339	1,233,339
Other comprehensive income (loss)	–	–	–	7,813	(2,646)	–	5,167
	–	–	–	7,813	(2,646)	1,233,339	1,238,506
Dividends declared (Note 19)	–	–	–	–	–	(390,113)	(390,113)
Cost of employee stock option plan (Note 20)	20,752	25,765	–	–	–	–	46,517
Forfeiture of stock options (Note 20)	–	14,661	(14,661)	–	–	–	–
	20,752	40,426	(14,661)	–	–	(390,113)	(343,596)
BALANCES AT DECEMBER 31, 2016	₱4,885,898	₱81,209	₱–	₱93,179	(₱3,647)	₱2,753,199	₱7,809,838

See accompanying Notes to Parent Company Financial Statements.

PHINMA ENERGY CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱152,560**	₱1,253,488
Adjustments for:		
Dividend income (Notes 11, 12 and 28)	**(1,317,365)**	(750,518)
Interest and other financial charges (Note 25)	**328,819**	164,397
Depreciation and amortization (Note 24)	**72,622**	65,243
Interest and other financial income (Note 25)	**(43,400)**	(16,122)
Provision for:		
Plug and abandonment (Note 22)	**11,384**	–
Doubtful accounts (Notes 7 and 22)	**4,540**	26,441
Probable losses on deferred exploration costs (Notes 14 and 22)	**–**	10,994
Unrecoverable input tax (Note 25)	**–**	2,568
Gain on derivatives - net (Notes 25 and 32)	**(7,523)**	(8,741)
Gain on reversal of payables (Note 25)	**(7,413)**	–
Unrealized foreign exchange loss	**7,230**	31
Gain on sale of:		
Available-for-sale investments (Note 25)	**(3)**	(7)
Investments in a joint venture (Notes 11 and 25)	**–**	(483,468)
Property, plant and equipment (Note 25)	**–**	(132)
Deferred exploration costs written-off (Notes 14 and 22)	**–**	1,192
Operating income (loss) before working capital changes	**(798,549)**	265,366
Decrease (increase) in:		
Receivables	**251,210**	(228,382)
Fuel and spare parts	**(78,176)**	70,128
Deposit receivables	**(110,869)**	(13,792)
Other current assets	**(455,428)**	(273,779)
Increase in accounts payable and other current liabilities	**150,040**	867,083
Movement in pension and other employee benefits (Note 27)	**(12,394)**	874
Net cash provided by (used in) operations	**(1,054,166)**	687,498
Income taxes paid, including creditable withholding taxes	**(8,325)**	(53,338)
Net cash flows provided by (used in) operating activities	**(1,062,491)**	634,160
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investments held for trading	**(17,589,332)**	(1,563,235)
Investments in and advances to subsidiaries, associates and joint venture (Note 11)	**(2,448,324)**	(5,639)
Short-term investments	**(485,472)**	(2,498)
Receivables from third parties	**(152,000)**	(90,055)
Property and equipment (Note 10)	**(55,583)**	(100,854)
Deferred exploration costs (Note 14)	**(9,265)**	(13,328)
Available-for-sale investments (Note 12)	**(7,215)**	–
Proceeds from:		
Sale of investments held for trading	**19,031,961**	–
Termination of short-term investments	**2,498**	–
Sale of fixed assets	**511**	377
Sale of available-for-sale investments	**91**	291
Sale of interest in a joint venture (Note 11)	**–**	841,771
Derivative asset (Note 32)	**–**	8,767

(Forward)

	Years Ended December 31	
	2017	2016
Cash dividends received (Notes 11, 12 and 28)	**₱1,317,365**	₱750,518
Interest received	**20,716**	1,852
Net cash flows used in investing activities	**(374,049)**	(172,033)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Long-term loans	**2,338,250**	–
Issuance of capital stock (Note 19)	**6,436**	46,517
Payments of:		
Cash dividends	**(271,339)**	(184,476)
Interest on long-term loans	**(246,039)**	(223,825)
Long-term loans (Note 17)	**(103,710)**	(60,000)
Increase in other noncurrent liabilities	**527,117**	10,032
Net cash flows provided by (used in) financing activities	**2,250,715**	(411,752)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(119)**	(29)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**814,056**	50,346
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**253,083**	202,737
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱1,067,139**	₱253,083

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information and Status of Operations

PHINMA Energy Corporation ("PHINMA Energy" or "the Company"), incorporated on September 8, 1969, and its subsidiaries: PHINMA Power Generation Corporation (PHINMA Power), formerly Trans-Asia Power Generation Corporation; CIP II Power Corporation (CIPP); PHINMA Renewable Energy Corporation (PHINMA Renewable), formerly Trans-Asia Renewable Energy Corporation; One Subic Oil Distribution Corporation (One Subic Oil), formerly Trans-Asia Gold and Minerals Development Corporation; PHINMA Solar Energy Corporation (PHINMA Solar), formerly Trans-Asia Wind Power Corporation; PHINMA Petroleum and Geothermal, Inc. (PHINMA Petroleum), formerly Trans-Asia Petroleum Corporation; One Subic Power Generation Corporation (One Subic) and Palawan55 Exploration & Production Corporation (Palawan55) were incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The direct and ultimate parent company of PHINMA Energy is Philippine Investment Management (PHINMA), Inc., also incorporated in the Philippines. PHINMA Energy is managed by PHINMA, Inc. under an existing management agreement (see Note 28). The Company and PHINMA, Inc. are domiciled in the Philippines.

The Company is engaged in power generation and trading, oil and mineral exploration, development and production. The Company was registered as a Wholesale Aggregator (WA) and is a licensed Retail Electricity Supplier (RES). The WA license authorized the Company to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). By virtue of Energy Regulatory Commission (ERC) Resolution No. 12 Series of 2015, also known as Resolution to Discontinue the Wholesale Aggregator Scheme as Embodied in the Rules for the Registration of the Wholesale Aggregators, the ERC resolved to discontinue the wholesale aggregation scheme and that all existing licenses shall be effective only until the end of their respective terms. The license of the Company as a WA effectively expired on December 19, 2016. As a RES, the Company is allowed to supply electricity to the contestable market pursuant to the EPIRA. Other activities of the Company consist of investing in various operating companies and financial instruments.

In 2016, the Company changed its corporate name to PHINMA Energy Corporation and extended its corporate life for another 50 years. The SEC issued the Certificate of Amended Articles of Incorporation, dated August 15, 2016, while the Philippine Bureau of Internal Revenue (BIR) issued an amended Certificate of Registration, dated August 25, 2016 for the change in name of the Company.

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

The parent company financial statements were authorized for issuance by the Board of Directors (BOD) on February 28, 2018.

2. Basis of Preparation and Statement of Compliance

The parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The parent company financial statements were prepared on a historical cost basis, except for investments held for trading, derivative financial instruments and certain available-for-sale (AFS) investments which were measured at fair value. The parent company financial statements are presented in Philippine peso which is the Company's functional and presentation currency. All values are rounded off to the nearest thousands (000), except par values, per share amounts, number of shares and when otherwise indicated.

The accompanying parent company financial statements are the Company's separate financial statements prepared in accordance with Philippine Accounting Standard (PAS) 27, *Separate Financial Statements*, for submission with the BIR and SEC.

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements presented in compliance with PFRS 10, *Consolidated Financial Statements*. The consolidated financial statements are filed with and may be obtained from the SEC.

3. Summary of Significant Accounting Policies and Disclosures

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise stated.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of the changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 34 to the financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PFRS 12, *Disclosure of Interest in Other Entities, Clarification of the Scope of the Standard* (Part of Annual Improvements to PFRS 2014 - 2016 Cycle)

- PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of these pronouncements will have a significant impact on the parent company financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is currently assessing the impact of the adoption of these amendments on the parent company financial statements.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable since the Company has no activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method.

Based on the Company's initial assessment, the requirements of PFRS 15 on the following may have an impact on the parent company financial position, performance and disclosures:

- Recognition of revenue on contracts dependent on ERC - approved rates to be applied retrospectively, which may result in the recognition of contract asset (revenue) or liability (reduction in revenue) depending on the final approved rate and agreed payment arrangement.
- Change in presentation for energy-based contracts with maximum contracted capacity. Reimbursement of energy delivered in excess of maximum contracted capacity is currently recognized as an addition to trading cost but will be recognized as a reduction to revenue under PFRS 15.
- Change in presentation for energy-based contracts with consideration payable to customer for sale of customer's unutilized energy, which is currently recognized as an addition to trading cost but will be recognized as a reduction to revenue under PFRS 15.
- Effect of contract modifications based on new criteria provided under PFRS 15.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Company is currently assessing what needs to be changed in its current systems, internal controls, policies and procedures to enable the Company to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Company is currently performing its initial impact assessment of all three phases of PFRS 9. However, on transition, the effect of these changes is not expected to be material for the Company.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the parent company financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statement of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

<u>Summary of Significant Accounting Policies</u>
The accounting policies set out below have been applied consistently to all periods presented in the Company's parent company financial statements, unless otherwise indicated.

<u>Current versus Noncurrent Classification</u>
The Company presents assets and liabilities in the parent company statement of financial position based on current or noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents
Cash and cash equivalents in the parent company statement of financial position are composed of cash in banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

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

Fair Value Measurement
The Company measures investments held for trading, AFS investments and derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarized in the following notes:

- Quantitative disclosures of fair value measurement hierarchy, see Note 32
- Investment property, see Note 13
- Financial instruments (including those carried at amortized cost), see Note 32

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy described in Note 32.

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

“Day 1” Difference
Where the transaction price in a non-active market is different from the fair value of 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” difference) in the parent company statement of income unless it qualifies for recognition as some other type of asset. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in the parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

Financial Instruments - Initial Recognition and Subsequent Measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial Recognition and Measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement

a. *Financial assets at FVPL*

   Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

   Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39.

   Net changes in fair value relating to the held-for-trading positions are recognized in the parent company statement of income as gain or loss on changes in fair value of investments held for trading under “Interest and other financial income” included in “Other income - net” account. Interest and other financial income or charges are recorded when earned or incurred, respectively, while dividend income is recorded when the right to receive payment has been established.

   The Company has no financial assets designated at FVPL on initial recognition.

As at December 31, 2017 and 2016, the Company's investments in unit investment trust funds (UITFs) and Fixed Treasury Notes (FXTNs) are classified as financial assets held for trading (see Notes 6 and 32).

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in the parent company statement of income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVPL.

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

As at December 31, 2017 and 2016, the Company's derivative asset, included under "Other current assets" account in the parent company statements of financial position, is classified as a financial asset at FVPL (see Notes 9 and 32).

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization and loss arising from impairment are included in "Other income - net" in the parent company statement of income.

As at December 31, 2017 and 2016, the Company's cash and cash equivalents, short-term investments, receivables and refundable deposits are classified as loans and receivables (see Notes 5, 7, 9, 15, 31).

c. HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investments when the Company has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR, less impairment.

As at December 31, 2017 and 2016, the Company has no financial assets classified as HTM investments.

d. *AFS financial assets*

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income (OCI) and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the parent company statement of income. Interest earned while holding AFS financial assets is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to the parent company statement of income over the remaining life of the investment using the EIR method. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

As at December 31, 2017 and 2016, the Company's investments in listed and unlisted equity securities, golf club shares and investment in a UITF that is neither classified as held for trading nor designated at FVPL are classified as noncurrent AFS financial assets (see Notes 12 and 32).

<u>Derecognition</u>
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the parent company statement of financial position) when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Impairment of Financial Assets
Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant judgment and estimates, see Note 4
- Receivables, see Notes 7 and 31
- AFS investments, see Notes 12 and 31

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

Financial Assets Carried at Amortized Cost
For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the parent company statement of income. Interest income, recorded under "Other income - net" account in the parent company statement of income, continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other income - net" account in the parent company statement of income.

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 Financial Assets
For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the parent company statement of income, is removed from OCI and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial Liabilities

Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, as derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable and other current liabilities (excluding statutory payables), due to stockholders and long-term loans and other noncurrent liabilities including derivative liabilities (excluding deferred revenue).

Subsequent Measurement
The measurement of financial liabilities depends on their classification, as described below:

a. Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the parent company statement of income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied. As at December 31, 2017 and 2016, the Company has not designated any financial liability at FVPL.

b. *Other financial liabilities*

After initial recognition, other financial liabilities that are interest-bearing are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in the parent company statement of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in “Other income - net” account in the parent company statement of income.

As at December 31, 2017 and 2016, the Company’s accounts payable and other current liabilities (excluding statutory payables), due to stockholders, deposit payables and long-term loans and other noncurrent liabilities (excluding deferred revenue) are classified as other financial liabilities (see Notes 16, 17, 18, 28 and 31).

Debt Issue Costs
Debt issue costs are deducted against long-term loans and are amortized over the terms of the related borrowings using the EIR method.

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

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

The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

There are no offsetting of financial assets and financial liabilities and any similar arrangements that are required to be disclosed in the parent company financial statements as at December 31, 2017 and 2016.

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

Property, Plant and Equipment
Property, plant and equipment, except land, is stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the parent company statement of income as incurred.

Land is stated at cost less any accumulated impairment in value.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating the Company's property, plant and equipment are disclosed in Note 10.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the periods and methods of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. These are adjusted prospectively, if appropriate.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

An item of property, plant and equipment and any significant part initially recognized 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 asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income when the asset is derecognized.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for their intended use.

Leases
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A reassessment is made after the inception of the lease, if any, if the following applies:

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

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

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

Company as a Lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under "Other income - net" account in the parent company statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as "Rent" included under "Costs of sale of electricity" and "General and administrative expenses" in the parent company statement of income on a straight-line basis over the lease term.

Company as a Lessor
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency Denominated Transactions and Balances
Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized as "Foreign exchange loss - net" under "Other income - net" in the parent company statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or in the parent company statement of income are also recognized in OCI or in the statement of income, respectively).

Interests in Joint Arrangements
PFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint Operations
A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities and share in the revenues and expenses relating to the arrangement. The Company's service contracts (SC) are assessed as joint operations.

Joint Ventures
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Investments in Subsidiaries and Associates and Interests in Joint Ventures
A subsidiary is an entity which the Company has control. An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee. An investor controls the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if, and only if, the investor has all of the following:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of the investors returns

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in subsidiaries and associates and interests in joint ventures are accounted for and presented at cost less any impairment in value. Under the cost method, the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profit of the subsidiary, associate and joint venture. The Company recognizes dividend income from its subsidiaries, associates and joint ventures when its right to receive the dividend is established.

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

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 the investment property.

Investment property is derecognized either when disposed of or when permanently withdrawn from use and no future economic benefit is expected from disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the parent company statement of income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Deferred Exploration Costs

The Company follows the full cost method of accounting for exploration costs determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities, net of any 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 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.

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 indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statements of income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Property, Plant and Equipment and Investment Property
For property, plant and equipment and investment property, the Company assesses for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

Investments in Subsidiaries and Associates and Interests in Joint Ventures
The Company determines at the end of each reporting period whether there is any objective evidence that the investments in subsidiaries and associates and interests in joint ventures are impaired.

If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in subsidiaries and associates and interests in joint ventures, and its carrying amount.

Deferred Exploration Costs
Among the factors considered by management in the impairment assessment of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic.

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*. The amount of impairment loss is recognized in the parent company statement of income.

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. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in the parent company statement of income.

Asset Retirement Obligation
The Company is legally required under a lease agreement to dismantle certain machinery and equipment and restore the leased site at the end of the lease contract term. The Company recognizes the fair value of the liability for this obligation and capitalizes the present value of these costs as part

of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The liability is subsequently carried at amortized cost using the EIR method with the related interest expense recognized in the parent company statement of income.

Pension and Other Post-employment Benefits

Defined Benefit Plan
The Company operates a defined benefit pension plan in the Philippines, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the parent company statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to the parent company statement of income in subsequent periods.

Past service costs are recognized in the parent company statement of income on the earlier of:

- The date of the plan amendment or curtailment; or,
- The date that the Company recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation under “Costs of sale of electricity” and “General and administrative expenses” accounts in the parent company statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

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

Stock Options and Grants
Stock option and grants are accounted for in accordance with PFRS 2, that is, the cost of stock option awards are measured by reference to the fair value at the date on which they are granted. The fair value is determined using the binomial method. The cost of such awards is 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 is recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the parent company statement of income 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.

If the outstanding options are dilutive, its effect is reflected as additional share dilution in the computation of diluted earnings per share (EPS).

Additional Paid-in Capital (APIC)
APIC represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Retained Earnings
Retained earnings include all current and prior period results of operations as reported in the parent company statement of income, net of any dividend declaration.

Cash Dividend to Equity Holders of the Parent Company
The Company recognizes a liability to make cash distributions to equity holders of the Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. A corresponding amount is recognized directly in equity.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of Electricity
Sale of electricity is consummated whenever the electricity generated by the Company is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is based on sales price. Sale of electricity using bunker fuel is composed of generation fees from spot sales to the Wholesale Electricity Spot Market (WESM) and supply agreements with third parties and is recognized monthly based on the actual energy delivered.

Meanwhile, revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided. Revenue from sale of electricity through Retail Supply Contract (RSC) is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Dividend Income
Dividend income is recognized when the Company's right to receive the payment is established, which is generally when shareholders of the investees approve the dividend.

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

Rental Income
Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the parent company statement of income due to its operating nature.

Other Income
Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized when incurred.

Income Taxes

Current Income Tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the parent company statement of income.

Deferred Income Tax
Deferred income tax is provided using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income;
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in the parent company statement of income.

Creditable Withholding Taxes
Creditable withholding taxes represent amounts withheld by the Company's customers and is deducted from the Company's income tax payable.

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as “Output VAT- net” under “Accounts payable and other current liabilities” account in the parent company statement of financial position. When input VAT exceeds output VAT, the excess is recognized as “Input VAT - net” under “Other current assets” account in the parent company statement of financial position to the extent of the recoverable amount.

EPS

Basic EPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to any stock dividends declared during the year. Diluted EPS is computed as if the stock options were exercised as at 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

The Company’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 33 to the parent company financial statements.

Contingencies

Contingent liabilities are not recognized in the parent company financial statements but are disclosed in the notes to the parent company financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. If it is probable that an outflow of resources embodying economic benefits will occur and the liability’s value can be measured reliably, the liability and the related expense are recognized in the parent company financial statements.

Contingent assets are not recognized in the parent company financial statements but disclosed in the notes to the parent company financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it is virtually certain that an inflow of economic benefits or service potential will arise and the asset’s value can be measured reliably, the asset and the related revenue are recognized in the parent company financial statements of the period in which the change occurs.

Events After the Reporting Period

Post year-end events that provide additional information about the Company’s position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the parent company financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

Determination of Whether an Arrangement Contains a Lease
The Company supplies all the electricity requirements or sells all of its output under the Electricity Supply Agreement (ESA) with certain customers (see Notes 28 and 30). The Company has evaluated the arrangements and the terms of the ESA and determined that the agreements do not qualify as leases. Accordingly, fees billed to these customers are recognized under "Revenue from sale of electricity".

Under the Company's Power Purchase Agreement (PPA) with South Luzon Thermal Energy Corporation (SLTEC) and Maibarara Geothermal Inc. (MGI), the Company agreed to purchase all of SLTEC's and MGI's output (see Notes 28 and 30). The Company has evaluated the arrangements and the terms of the PPA and determined that the agreements do not qualify as leases. Accordingly, fees paid to SLTEC and MGI are recognized under "Costs of sale of electricity".

The Power Administration and Management Agreements (PAMAs) with One Subic, CIPP and PHINMA Power qualify as operating leases on the basis that One Subic, CIPP and PHINMA Power sell all their output to the Company and these agreements call for take-or-pay arrangement where payment is made principally on the basis of the availability of the power plant. A significant portion of the risks and benefits of ownership of the assets are retained by One Subic, CIPP and PHINMA Power. Accordingly, the power plants are not recorded as part of the cost of the Company's property, plant and equipment and the fees paid to One Subic, CIPP and PHINMA Power are recorded as "Costs of sale of electricity" based on the applicable terms of the PAMA (see Notes 28 and 30).

Classification of Leases - the Company as Lessee
The Company exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Company. Lease contracts, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased items are classified as finance leases. Otherwise, they are considered as operating leases.

The Company has entered into a lease contract with GUIMELCO for a parcel of land used only as a site for electric generating plant and facilities, where it has determined that the risks and rewards related to the properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The lease is, therefore, accounted for as an operating lease (see Note 30).

Classification of Leases - the Company as Lessor
The Company had a lease agreement for the lease of its investment property until 2016. The Company had determined that the risks and rewards of ownership of the underlying property were retained by the Company. Accordingly, the lease is classified as an operating lease.

Determining and Classifying a Joint Arrangement
Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement. Specifically, the Company considers:

- The structure of the joint arrangement - whether it is structured through a separate vehicle; and,
- When the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:

  a. the legal form of the separate vehicle;
  b. the terms of the contractual arrangement; and,
  c. other facts and circumstances (when relevant).

This assessment often requires significant judgment, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. As at December 31, 2017 and 2016, the Company's SCs are joint arrangements in the form of joint operations.

Classification of Joint Venture
The Company's joint control arrangements in which the Company has rights to the net assets of the investee are classified as joint ventures.

As at December 31, 2017 and 2016, the Company holds 45% of the voting rights of SLTEC (see Note 11). The Company holds 50% of the voting rights of ACTA Power Corporation (ACTA) as at December 31, 2017 and 2016. The Company has joint control over these arrangements as under the contractual agreements, unanimous consent is required from two or more parties to the agreements for all relevant activities.

The Company's joint arrangements are also structured through a separate vehicle and provide the Company and the parties to the agreements with rights to the net assets of the separate vehicle under the arrangements.

Impairment of AFS Investments
The Company treats AFS investments in quoted shares of stock as impaired when there has been a significant and prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of the original cost of investment, and "prolonged", greater than 12 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.

For unquoted shares, the Company determines that unquoted AFS financial assets are impaired when there is information about significant changes with adverse effects that have taken place in the market, economic or legal environment in which the issuer operates and indicate that the carrying amount of the investment in the equity instrument may not be recovered.

There was no impairment of AFS investments in 2017 and 2016. The carrying value of AFS investments amounted to ₱242.34 million and ₱246.39 million as at December 31, 2017 and 2016, respectively (see Note 12).

Estimates

Estimated Allowance for Doubtful Accounts
The Company maintains allowance for doubtful accounts based on the results of the individual and collective assessment. Under the individual assessment, the Company considers the significant financial difficulties of the customer or significant delay in payment of the Company. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of financial asset, as well as historical loss experience. Allowance for doubtful accounts is recorded when management believes that the receivable balance cannot be provided or realized after exhausting all efforts and courses of action. For the collective assessment, the Company groups its receivables based on the credit risk characteristics (customer type, past-due status and terms) of its customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. 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. As at December 31, 2017 and 2016, allowance for doubtful accounts amounted ₱88.95 million and ₱84.41 million, respectively. The carrying value of receivables amounted to ₱3,267.58 million and ₱3,523.60 million as at December 31, 2017 and 2016, respectively (see Note 7).

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

As at December 31, 2017 and 2016, deferred income tax assets recognized by the Company amounted to ₱424.56 million and ₱64.17 million, respectively. Unrecognized deferred income tax assets amounted to ₱8.32 and nil as at December 31, 2017 and 2016, respectively (see Note 26).

Estimated Useful Lives of Property, Plant and Equipment and Investment Property
The Company estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment property are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. In 2017 and 2016, there were no changes in the assessed useful lives of the assets.

The total depreciation of property, plant and equipment and investment property amounted to ₱72.62 million and ₱65.24 million for the years ended December 31, 2017 and 2016, respectively (see Notes 10, 13 and 24).

Impairment of Nonfinancial Assets, Other than Deferred Exploration Costs
The Company assesses whether there are any indicators of impairment for all non-financial assets, other than deferred exploration costs, at each reporting date. These non-financial assets (investments in subsidiaries and associates and interests in joint ventures; property, plant and equipment; and investment property) are tested for impairment whenever events or changes in circumstances indicate that carrying amount of the asset may not be recoverable. This requires an estimation of the value in use of the CGUs. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In cases where the value in use cannot be reliably measured, the recoverable amount is based on fair value less costs to sell.

The carrying amounts of the Company's nonfinancial assets other than deferred exploration costs, as at December 31 are as follows:

	2017	2016
Investments and advances (see Note 11)	**₱9,107,807**	₱6,659,484
Property, plant and equipment (see Note 10)	**665,248**	709,333
Investment property (see Note 13)	**37,830**	11,296

No impairment loss was deemed necessary on the above assets in 2017 and 2016.

Accumulated impairment losses on investments in subsidiaries and associates recognized prior to 2016 amounted to ₱46.74 million as at December 31, 2017 and 2016 (see Note 11).

Impairment of Deferred Exploration Costs
The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount.

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.

The Company considers the status of the SCs and plans in determining the recoverable amount of the deferred exploration costs.

No impairment loss was recognized in 2017. In 2016, the Company recognized impairment losses on deferred exploration costs amounting to ₱10.99 million. The carrying value of deferred exploration costs amounted to ₱28.74 million and ₱19.47 million as at December 31, 2017 and 2016, respectively (see Note 14).

Pension and Other Employee Benefits
The cost of defined benefit pension plans and other employee benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Pension and other employee benefits liability amounted to ₱19.55 million and ₱27.11 million as at December 31, 2017 and 2016, respectively (see Note 27).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 27.

Share-based Payments
The Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the binomial method. The expected life of the stock options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Company.

No equity-based compensation was recognized by the Company in 2017 and 2016 (see Note 20).

Contingencies and Tax Assessments
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the parent company financial statements (see Note 35).

5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	**₱57,767**	₱22,949
Short-term deposits	**1,009,372**	230,134
	₱1,067,139	₱253,083

Cash in banks earn interest at the respective bank deposit rates of 0.25% per annum for its peso and dollar accounts. Short-term deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income earned on cash in banks in 2017 and 2016 amounted to ₱0.10 million and ₱0.05 million, respectively. Interest income earned on short-term deposits in 2017 and 2016 amounted to ₱11.96 million and ₱0.62 million, respectively (see Note 25).

6. Investments Held for Trading

This account consists of:

	2017	2016
UITFs	**₱502,038**	₱2,025,824
FXTNs	**104,113**	−
	₱606,151	₱2,025,824

The net gains in fair value of investments held for trading, included in "Interest and other financial income" account under "Other income - net" in the parent company statements of income amounted to ₱22.96 million and ₱10.51 million for the years ended December 31, 2017 and 2016, respectively (see Note 25).

7. Receivables

This account consists of:

	2017	2016
Trade	**₱2,877,553**	₱2,917,238
Due from related parties (see Note 28)	**405,276**	619,018
Receivables from:		
Assignment of Mineral Production Sharing Agreement (MPSA) (see Note 14)	**39,366**	39,366
Consortium - SC 52 (see Note 14)	**19,443**	19,443
Employees	**2,264**	2,529
Stockholders (see Note 28)	**–**	35
Others	**12,628**	10,385
	3,356,530	3,608,014
Less: Allowance for doubtful accounts	**88,951**	84,411
	₱3,267,579	₱3,523,603

Trade receivables mainly represent receivables from Philippine Electricity Market Corporation (PEMC), NGCP and the Company's bilateral customers. Trade receivables consist of noninterest-bearing receivables. The terms are generally 30 to 60 days.

As at December 31, the aging analysis of the Company's receivables is as follows:

	2017						
		Neither	Past Due but not Impaired				Past Due
	Total	Past Due nor Impaired	<30 Days	30-60 Days	61-90 Days	More than 90 Days	and Impaired
Trade	**₱2,877,553**	**₱1,885,464**	**₱33,052**	**₱45,275**	**₱6,755**	**₱880,135**	**₱26,872**
Due from related parties	**405,276**	**47,327**	**–**	**–**	**–**	**357,949**	**–**
Others	**73,701**	**9,060**	**–**	**–**	**–**	**2,562**	**62,079**
	₱3,356,530	**₱1,941,851**	**₱33,052**	**₱45,275**	**₱6,755**	**₱1,240,646**	**₱88,951**

	2016						
		Neither	Past Due but not Impaired				Past Due
	Total	Past Due nor Impaired	<30 Days	30-60 Days	61-90 Days	More than 90 Days	and Impaired
Trade	₱2,917,238	₱2,128,957	₱37,993	₱27,681	₱12,450	₱687,825	₱22,332
Due from related parties	619,018	21,129	–	–	–	597,889	–
Others	71,758	7,236	–	–	–	2,443	62,079
	₱3,608,014	₱2,157,322	₱37,993	₱27,681	₱12,450	₱1,288,157	₱84,411

The movements in the allowance for doubtful accounts on individually impaired receivables in 2017 and 2016 are as follows:

	2017		
	Trade	Others	Total
Balances at beginning of year	**₱22,332**	**₱62,079**	**₱84,411**
Provisions for the year (see Note 22)	**4,540**	**–**	**4,540**
Balances at end of year	**₱26,872**	**₱62,079**	**₱88,951**

	2016		
	Trade	Others	Total
Balances at beginning of year	₱15,334	₱42,636	₱57,970
Provisions for the year (see Note 22)	6,998	19,443	26,441
Balances at end of year	₱22,332	₱62,079	₱84,411

Due to its interpretation of the WESM Rules, the PEMC allocates its uncollected receivables due from power purchasers in the WESM to the generators who sold power to the WESM. On December 23, 2013, the Supreme Court issued a 60-day Temporary Restraining Order ("TRO") enjoining the Manila Electric Company (MERALCO) and the ERC from implementing the Automatic Generation Rate Adjustment (AGRA) mechanism for the November 2013 billing period. The AGRA allows automatic pass through of the cost of power purchased from WESM. In turn, MERALCO did not pay PEMC a significant portion of its November and December 2013 power bills. PEMC in turn, did not pay the Company the full amount of its electricity sales. On April 22, 2014, the Supreme Court extended indefinitely the TRO it issued over the collection of the November 2013 power rate increase.

The ERC issued an Order (ERC Case No. 2014-021 MC) dated March 3, 2014 voiding the WESM prices of November and December 2013 bills. As directed by ERC, PEMC recalculated regulated prices and issued WESM adjustment bills in March 2014 which the Company recorded resulting to an increase in receivables and net trading revenues.

Certain market players filed motions for reconsideration resulting in ERC's issuance of another Order dated March 27, 2014 for PEMC to provide market participants an additional 45 days, or up to May 12, 2014 to settle their WESM bills covering the adjustments for the period October 26 to December 25, 2013. ERC extended the settlement of WESM bills to a non-extendible period of 30 days up to June 11, 2014 which resulted in a Multilateral Agreement where the WESM Trading Participants agreed to be bound to a payment schedule of 6 months or 24 months subject to certain conditions. The Company signed the Agreement on June 23, 2014. In 2016, the Company collected ₱104.48 million under the said Multilateral Agreement and was recognized as payable and included under "Trade payables" in the "Accounts payable and other current liabilities" account in the parent company statements of financial position. In June 2016, the 24-month period of repayment prescribed; hence, the Company provided an allowance for doubtful accounts related to the receivables under the Multilateral Agreement amounting to ₱7.00 million.

8. Fuel and Spare Parts - at Cost

This account consists of:

	2017	2016
Fuel	**₱227,375**	₱144,453
Spare parts	**20,491**	25,237
	₱247,866	₱169,690

Fuel charged to "Costs of sale of electricity" account in the parent company statements of income amounted to ₱717.94 million and ₱687.92 million in 2017 and 2016, respectively (see Note 21).

9. Other Current Assets

This account consists of:

	2017	2016
Creditable withholding taxes	**₱507,261**	₱264,508
Input VAT - net	**409,375**	202,404
Deposit receivables (see Note 31)	**164,528**	18,805
Derivative asset (see Notes 31 and 32)	**7,972**	72
Prepaid expenses	**7,605**	2,096
	₱1,096,741	₱487,885

Creditable withholding taxes represent amounts withheld by the Company's customers and are deducted from the Company's income tax payable.

Input VAT is recognized when the Company purchases goods and services from a VAT-registered supplier.

Deposit receivables pertain to advance payments to suppliers and deposits to distribution utilities.

Prepaid expenses pertain to insurance, taxes, rent and other expenses paid in advance.

10. **Property, Plant and Equipment**

The details and movements of this account for the year ended December 31 are shown below:

2017

	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost							
Balance at beginning of year	**₱178,488**	**₱484,581**	**₱23,095**	**₱15,184**	**₱40,968**	**₱233,381**	**₱975,697**
Additions	**10,651**	**15,691**	**3,194**	**1,110**	**2,301**	**22,636**	**55,583**
Disposals	**–**	**–**	**(799)**	**–**	**(448)**	**–**	**(1,247)**
Reclassifications	**–**	**256,017**	**–**	**–**	**–**	**(256,017)**	**–**
Transfer to investment property (see Note 13)	**(4,306)**	**(102,596)**	**–**	**–**	**–**	**–**	**(106,902)**
Transfer from investment property (see Note 13)	**28,133**	**–**	**–**	**–**	**–**	**–**	**28,133**
Balance at end of year	**212,966**	**653,693**	**25,490**	**16,294**	**42,821**	**–**	**951,264**
Accumulated depreciation							
Balance at beginning of year	**118,798**	**93,779**	**7,144**	**10,650**	**35,993**	**–**	**266,364**
Depreciation and amortization (see Notes 21, 22 and 24)	**16,197**	**43,095**	**4,823**	**2,269**	**3,161**	**–**	**69,545**
Disposals	**–**	**–**	**(293)**	**–**	**(443)**	**–**	**(736)**
Transfer to investment property (see Note 13)	**(3,626)**	**(62,369)**	**–**	**–**	**–**	**–**	**(65,995)**
Transfer from investment property (see Note 13)	**16,838**	**–**	**–**	**–**	**–**	**–**	**16,838**
Balance at end of year	**148,207**	**74,505**	**11,674**	**12,919**	**38,711**	**–**	**286,016**
Net book value	**₱64,759**	**₱579,188**	**₱13,816**	**₱3,375**	**₱4,110**	**₱–**	**₱665,248**

2016

	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Mining and Other Equipment	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost							
Balance at beginning of year	₱174,781	₱102,596	₱18,397	₱13,343	₱38,706	₱531,536	₱879,359
Additions	3,707	33,902	9,119	1,841	2,357	49,928	100,854
Disposals	–	–	(4,421)	–	(95)	–	(4,516)
Reclassifications	–	348,083	–	–	–	(348,083)	–
Balance at end of year	178,488	484,581	23,095	15,184	40,968	233,381	975,697
Accumulated depreciation							
Balance at beginning of year	104,804	55,141	7,214	8,457	31,737	–	207,353
Depreciation and amortization (see Notes 21, 22 and 24)	13,994	38,638	4,104	2,193	4,353	–	63,282
Disposals	–	–	(4,174)	–	(97)	–	(4,271)
Balance at end of year	118,798	93,779	7,144	10,650	35,993	–	266,364
Net book value	₱59,690	₱390,802	₱15,951	₱4,534	₱4,975	₱233,381	₱709,333

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

Category	Years
Buildings and improvements	6-25 years
Machinery and equipment	9-25 years
Transportation equipment	3-5 years
Mining and other equipment	10 years
Office furniture, equipment and others	3-10 years

Purchase of Power Barges
On July 8, 2015, Power Barges 101, 102 and 103 were officially transferred from Power Sector and Liabilities Management Corporation (PSALM) to PHINMA Energy after its sale in 2014. In February 2016, Power Barges 101 and 102 received their respective Certificates of Compliance and started operations and all related capitalized costs were reclassified from "Construction in Progress" to "Machinery and Equipment".

In October 2017, Power Barge 103 received its Certificate of Compliance from the ERC. All related costs capitalized to Power Barge 103 were reclassified from "Construction in Progress" to "Machinery and Equipment".

Capitalized costs to Power Barges 101, 102 and 103 pertain to the purchase price of these barges and all other dry-docking and repair costs.

11. **Investments and Advances**

This account consists of investments in the following investee companies:

		Percentage of Direct Ownership	
Investee	Principal Activity	**2017**	2016
Subsidiaries:			
PHINMA Renewable	Renewable energy generation	**100.00**	100.00
PHINMA Power	Power generation	**100.00**	100.00
PHINMA Petroleum	Oil and gas exploration	**50.74**	50.74
CIPP	Power generation	**100.00**	100.00
One Subic Oil	Distribution of petroleum products [(a)]	**100.00**	100.00
PHINMA Solar	Renewable energy generation	**100.00**	100.00
Palawan55	Oil and gas exploration	**30.65**	30.65
Associates:			
Union Aggregates Corporation (UAC) [(b)]		**31.25**	31.25
Asia Coal Corporation (Asia Coal) [(c)]		**28.18**	28.18
MGI	Power generation	**25.00**	25.00
Joint ventures:			
SLTEC	Power generation	**45.00**	45.00
ACTA	Power generation	**50.00**	50.00

[(a)] *Mineral exploration in 2016.*
[(b)] *Ceased commercial operations.*
[(c)] *Shortened corporate life to October 31, 2009.*

All of the above investee companies were incorporated and are domiciled in the Philippines.

The carrying values of the Company's investments and advances as December 31 are as follows:

	2017	2016
Investments in subsidiaries:		
PHINMA Renewable	**₱4,350,000**	₱2,000,000
PHINMA Power	**701,722**	701,722
PHINMA Petroleum [a]	**123,550**	123,550
CIPP	**151,530**	151,530
PHINMA Solar	**116,137**	116,137
One Subic Oil [b]	**12,661**	12,661
Palawan55	**3,065**	3,065
	5,458,665	3,108,665
Investments in associates:		
MGI	**392,050**	266,800
Asia Coal [c]	**620**	620
UAC [d]	**–**	–
	392,670	267,420
Interests in joint ventures:		
SLTEC	**3,224,723**	3,224,723
ACTA	**31,750**	13,676
	3,256,473	3,238,399
Advances to an associate -		
MGI	**–**	45,000
	–	45,000
	₱9,107,808	₱6,659,484

[a] *Net of accumulated impairment loss amounting to ₱3.29 million.*
[b] *Net of accumulated impairment loss amounting to ₱17.34 million.*
[c] *Net of accumulated impairment loss amounting to ₱13.89 million.*
[d] *Net of accumulated impairment loss amounting to ₱12.22 million.*

Movements in the costs of investments and advances for the years ended December 31 are as follows:

	2017			
	Subsidiaries	**Associates**	**Joint Ventures**	**Total**
Cost:*				
Balance at beginning of year	**₱3,129,293**	**₱293,535**	**₱3,238,399**	**₱6,661,227**
Additions (see Note 28)	**2,350,000**	**80,250**	**18,074**	**2,448,324**
Conversion from advances**	**–**	**45,000**	**–**	**45,000**
	5,479,293	**418,785**	**3,256,473**	**9,154,551**
Advances:				
Balance at beginning of year	**–**	**45,000**	**–**	**45,000**
Conversion from advances**	**–**	**(45,000)**	**–**	**(45,000)**
	–	**–**	**–**	**–**
	₱5,479,293	**₱418,785**	**₱3,256,473**	**₱9,154,551**

**Movement of cost is gross of accumulated impairment losses in investments in subsidiaries and associates amounting to ₱20.63 million and ₱26.11 million, respectively, as at December 31, 2017.*
***Advances to MGI were converted to investment in the associate.*

	2016			
	Subsidiaries	Associates	Joint Ventures	Total
Cost:*				
Balance at beginning of year	₱3,129,293	₱293,535	₱3,583,525	₱7,006,353
Addition	–	–	5,639	5,639
Reclassification from advances**	–	–	7,537	7,537
Disposal	–	–	(358,302)	(358,302)
	3,129,293	293,535	3,238,399	6,661,227
Advances:				
Balance at beginning of year	–	45,000	7,537	52,537
Reclassification from advances**	–	–	(7,537)	(7,537)
	–	45,000	–	45,000
	₱3,129,293	₱338,535	₱3,238,399	₱6,706,227

**Movement of cost is gross of accumulated impairment losses in investments in subsidiaries and associates amounting to ₱20.63 million and ₱26.11 million, respectively, as at December 31, 2016.*
***Advances to ACTA were converted to investment in the joint venture.*

No additional impairment was recognized or reversed for the years ended December 31, 2017 and 2016. As at December 31, 2017 and 2016, allowance for impairment losses amounted to ₱46.74 million.

Dividend income earned from subsidiaries, associates and joint ventures amounted to ₱1,310.74 million and ₱744.95 million in 2017 and 2016, respectively.

<u>Investments in Subsidiaries</u>

PHINMA Renewable
PHINMA Renewable was incorporated and registered with the SEC on September 2, 1994. It was established with the primary purpose of developing and utilizing renewable energy and pursuing clean and energy-efficient projects. On May 20, 2013, the Philippine Department of Energy (DOE) confirmed the Declaration of Commerciality of PHINMA Renewable's 54 MW San Lorenzo Wind Power project (SLWP) in Guimaras. On October 7, 2014, the SLWP started delivering power to the grid and on February 16, 2015, PHINMA Renewable received from the DOE the confirmation of start of Commercial Operations declared on December 27, 2014.

On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the ERC. On December 8, 2015, PHINMA Renewable's BOD approved to increase its authorized capital stock from ₱2,000.00 million divided into 2 billion shares with par value of ₱1.00 per share to ₱5,000.00 million composed of ₱2,000.00 million common shares with par value of ₱1.00 per share and ₱3,000.00 million preferred shares with a par value of ₱1.00 per share. The increase in authorized capital stock was approved by the SEC on March 31, 2017. The Company subscribed 750 million and 1.600 million preferred shares in January 5, 2017 and January 11, 2017, respectively. These subscriptions were paid in full as at January 11, 2017. On January 30, 2017, PHINMA Renewable's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Renewable Energy Corporation. The amended Articles of Incorporation were issued by the SEC on June 13, 2017 while the Certificate of Registration was issued by the BIR on June 21, 2017.

PHINMA Power and its subsidiary One Subic
PHINMA Power was incorporated and registered with the SEC on March 18, 1996. PHINMA Power is engaged in power generation. In October 2006, PEMC approved PHINMA Power's application for registration as trading participant for both generation and customer categories in the WESM. Both the Company and PHINMA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM. Effective December 26, 2013, PHINMA Power entered into a PAMA valid for ten years with the Company for the administration and management by the Company of the entire capacity and net output of PHINMA Power starting 2014. In addition to the capacity fee, the Company is billed by PHINMA Power for transmission and fuel costs. On January 23, 2017, PHINMA Power's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Power Generation Corporation. The amended Articles of Incorporation were issued by the SEC on June 2, 2017 while the Certificate of Registration was issued by the BIR on June 8, 2017.

On May 12, 2014, PHINMA Power purchased from Udenna Energy Corporation (UDEC) the entire outstanding shares of stock of One Subic. Prior to the acquisition, One Subic was a wholly owned subsidiary of UDEC, a company incorporated and domiciled in the Philippines.

One Subic was incorporated and registered with the SEC on August 4, 2010 to engage in the business of owning, constructing, operating, developing and maintaining all types of power generation plants. At the date of acquisition of One Subic by PHIMA Power, the Company and One Subic has an existing PAMA wherein the Company administers and manages the entire generation output of the 116 MW diesel power plant in Subic, Olongapo City. The PAMA became effective on February 17, 2011. On January 23, 2017, One Subic's BOD approved the amendment of the Articles of Incorporation for the change in the primary purpose to include exploration, discovery, development, processing, and disposal of any and all kind of petroleum products. The amended Articles of Incorporation were approved by the SEC on June 19, 2017.

PHINMA Petroleum and its subsidiary Palawan55
PHINMA Petroleum was incorporated and registered with the SEC on September 28, 1994. PHINMA Petroleum is engaged in oil exploration and well development. On November 28, 2012, the SEC approved the increase in authorized capital stock of PHINMA Petroleum from ₱40 million divided into 4 billion shares with a par value of ₱0.01 per share to ₱1 billion divided into 100 billion shares with a par value of ₱0.01 per share. It also approved the change in name to PHINMA Petroleum and the primary purpose from power generation to oil and gas exploration and production.

PHINMA Petroleum listed its shares with the Philippine Stock Exchange (PSE) by way of introduction on August 28, 2014. On April 10, 2017, PHINMA Petroleum's BOD approved the amendment of its Articles of Incorporation to change PHINMA Petroleum's corporate name to PHINMA Petroleum and Geothermal, Inc. and to include in its primary and secondary purposes the exploration and development of geothermal resources. The amended Articles of Incorporation were issued by the SEC on May 31, 2017 while the Certificate of Registration was issued by the BIR on June 14, 2017. As at February 28, 2018, PHINMA Petroleum has not started commercial operations. The registered office address of PHINMA Petroleum is Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

As at December 31, 2017 and 2016, the Company's investment in PHINMA Petroleum has an allowance for impairment loss amounting to ₱3.29 million.

Palawan55 was incorporated and registered with the SEC on November 16, 2012. Palawan55 is engaged in the development and utilization of crude oil, natural gas, natural gas liquids and other forms of petroleum. As at February 28, 2018, Palawan55 has not started commercial operations. The registered office address of Palawan55 is 11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

CIPP
CIPP was incorporated and registered with the SEC on June 2, 1998. CIPP is a utilities enterprise, the primary purpose of which was to develop and operate a power supply and distribution system at Carmelray Industrial Park II Special Economic Zone in Calamba, Laguna. In April 2009, CIPP sold its distribution assets resulting in the cessation of CIPP's operations and separation of substantially all of its employees effective January 31, 2010. On February 22, 2010 and March 24, 2010, the Company's BOD and stockholders, respectively, approved the proposed merger of the Company and CIPP subject to the approval by the SEC. In December 2010, CIPP's BOD approved the transfer of its 21 MW bunker C-fired power plant from Laguna to Bacnotan, La Union which was completed in 2012. In December 2011, CIPP's BOD approved the transfer of the registered principal address from Carmelray Industrial Park II to Brgy. Quirino, Bacnotan, La Union. In 2013, CIPP and the Company entered into a PAMA valid for ten years for the latter's administration and management of the entire capacity and net output of CIPP. As at February 28, 2018, the Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

One Subic Oil
One Subic Oil was incorporated and registered with the SEC on July 2, 2007 to primarily engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD approved the suspension of exploration activities of One Subic Oil effective March 31, 2009. On August 9, 2017, One Subic Oil's BOD approved the amendment of the Articles of Incorporation to change the corporate name to One Subic Oil Distribution Corporation, to change its primary purpose to importation, storage, transportation, distribution and disposal of any and all kinds of fuel and petroleum products, and to change the principal office of the corporation to Causeway Extension, Subic Gateway District, Subic Bay Freeport Zone, Subic. The amended Articles of Incorporation were issued by the SEC on September 20, 2017. As at February 28, 2018, One Subic Oil has not started commercial operations for its fuel and petroleum distribution business.

As at December 31, 2017 and 2016, the Company's investment in One Subic Oil has an allowance for impairment loss amounting to ₱17.34 million.

PHINMA Solar
PHINMA Solar was incorporated and registered with the SEC on July 26, 2013. Its primary purpose is to construct, develop, own, operate, manage, repair and maintain wind power generation plants, to generate electricity from such power plants and to market and sell the electricity produced thereby. On January 30, 2017, PHINMA Solar's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Solar Energy Corporation, to include in its primary and secondary purposes the development, operation and maintenance of solar power generation plants and the development of solar products and to increase the number of directors to nine. The amended Articles of Incorporation were issued by the SEC on June 27, 2017 while the Certificate of Registration was issued by the BIR on June 30, 2017. As at February 28, 2018, PHINMA Solar has not started commercial operations.

Investments in Associates

MGI
The Company subscribed to 25% of the capital stock of MGI which was incorporated and registered with the SEC on August 11, 2010, to implement the integrated development of the Maibarara geothermal field in Calamba, Laguna and Sto. Tomas, Batangas for power generation. MGI's registered business address is 7th F JMT Building, ADB Avenue, Ortigas Center, Pasig City.

On September 16, 2011, the Company entered into an ESA with MGI under which the Company will purchase the entire net electricity output of MGI's power plant for a period of 20 years at an agreed price, subject to certain adjustments (see Note 30). Commercial operations of MGI started in February 2014.

The Company is also a Project Sponsor for MGI's ₱2.40 billion Term Loan Facility for the 20 MW Maibarara Geothermal Power Plant and ₱1.40 billion Project Loan Facility for its 12 MW Maibarara Expansion Project. In the event of a default of MGI, as a Project Sponsor, the Company is obligated to:

- assign, mortgage or pledge all its right, title and/or interest in and its shares of stocks in MGI, including those that may be issued in the name of the Company;
- assign its rights and/or interests in the Joint Venture Agreement executed on May 19, 2010 with PNOC Renewables Corporation;
- secure the debt service reserve account (DSRA) with a standby letter of credit , when reasonably required and pursuant to the terms of the facilities;
- guarantee the completion of the projects and for this purpose, the Company undertakes to:
  i. contribute to MGI its pro-rata share of the funds necessary to enable MGI to complete the construction of its projects; and,
  ii. make cash advances or otherwise arrange to provide MGI with funds sufficient to complete construction, in the event that MGI does not have sufficient funds available to cover the full cost of constructing and completing the project due to costs overrun.

The loan covenants covering the outstanding debt of MGI include, among others, maintenance of debt-to-equity and debt-service ratios. As at December 31, 2017 and 2016, MGI is in compliance with the said loan covenants.

In 2015, the construction of Phase 2 of the project commenced. Upon completion, Phase 2 will add 12 MW to MGI's capacity. As at February 28, 2018, preparations are underway for Unit 2's synchronization to the Luzon grid which will mark its first export of power.

The advances of ₱45.00 million granted by the Company in 2015 were converted to investments in associates in 2017. In 2017, the Company invested additional capital amounting to ₱80.25 million and received dividend of ₱25.00 million from MGI. No dividend was received by the Company in 2016.

UAC
As at December 31, 2017 and 2016, the Company's entire investment in UAC amounting to ₱12.22 million was fully provided with allowance for impairment loss due to cessation of UAC's operations.

Asia Coal
On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of its corporate life to October 31, 2009. Asia Coal shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. As at February 28, 2018, Asia Coal is still in the process of securing a tax clearance with the BIR in connection with the filing with the SEC of its application for dissolution. Asia Coal has not engaged in any activity since filing for the shortening of its corporate life.

As at December 31, 2017 and 2016, allowance for impairment loss on the Company's investment in Asia Coal amounted to ₱13.89 million.

Interests in Joint Ventures

SLTEC
On June 29, 2011, the Company entered into a 50-50 joint venture agreement with AC Energy Holdings, Inc. (AC Energy) to form SLTEC, the primary purpose of which is to generate, supply and sell electricity to the public through the operation of a 2 x 135 MW Circulating Fluidized Bed (CFB) Coal-fired Power Plant in Calaca, Batangas. SLTEC was incorporated and registered on July 29, 2011. The registered office address of SLTEC is KM. 117 National Road, Phoenix Industrial Park Phase II Puting Bato West, Calaca, Batangas.

On October 29, 2011, SLTEC signed the Omnibus Loan and Security Agreement with its local third party creditor banks with the Company and AC Energy as Project Sponsors.

Under the terms of the Agreement, the Company shall:

- enter into supply agreements with end users sufficient to cover such capacity required by SLTEC to break-even for two years, within 18 months from first drawdown. The consequence of failure is a draw-stop, which means SLTEC will not be able to draw on the loan;
- commit to provide advances to SLTEC in proportion to the Company's equity interest in SLTEC to fund the project cost of the SLTEC power plant project;
- guarantee jointly with AC Energy to redeem the loan in the event that SLTEC defaults on the loan, and lenders are not able to consolidate title to the project site because title to the properties have not been issued; and,
- pledge its shares in SLTEC as security, and assign its offtake contracts to the lenders sufficient to cover such capacity required by SLTEC to break-even.

On April 24, 2015, Unit 1 commenced its commercial operations. Unit 2 of the power plant commenced its commercial operations on February 21, 2016.

On December 20, 2016, the Company sold 5% interest in SLTEC to APHPC, reducing the Company's interest in SLTEC from 50% to 45% and recognizing a gain amounting to ₱483.47 million (see Note 25).

ACTA
The Company has 50% interest in ACTA, a joint venture with AC Energy. ACTA is engaged in the business of owning, developing, constructing, operating and maintaining power generation facilities as well as generation and sale of electricity. ACTA was incorporated on February 9, 2012 and has not started commercial operations as at February 28, 2018.

In 2017, the Company made additional investment in ACTA's capital stock amounting to ₱18.07 million.

12. Available-for-Sale Investments

This account consists of:

	2017	2016
Shares of stock:		
Listed (see Note 32)	**₱91,879**	₱106,426
Unlisted	**93,899**	86,806
Quoted golf club shares (see Note 32)	**51,220**	47,890
Investment in a UITF (see Note 32)	**5,340**	5,272
	₱242,338	₱246,394

No impairment was recognized in 2017 and 2016.

The movements in this account are as follows:

	2017	2016
Balance at beginning of year	**₱246,394**	₱233,167
Additions	**7,215**	5,272
Disposals	**(88)**	(283)
Net change in the fair value of AFS investments	**(11,183)**	8,238
	₱242,338	₱246,394

The movements in net unrealized gain on AFS investments are as follows:

	2017	2016
Balance at beginning of year - net of tax	**₱93,179**	₱85,366
Net changes in fair value of AFS investments	**(11,183)**	8,238
Income tax effect	**(393)**	(425)
	₱81,603	₱93,179

The dividend income earned from AFS investments amounted to ₱6.62 million and ₱5.57 million in 2017 and 2016, respectively.

13. Investment Property

Details of movement in this account follow:

		2017	
	Office Unit	**Property and Equipment**	**Total**
Cost			
Balance at beginning	**₱28,133**	**₱–**	**₱28,133**
Transfer from PPE (see Note 10)	**–**	**106,902**	**106,902**
Transfer to PPE (see Note 10)	**(28,133)**	**–**	**(28,133)**
Less accumulated depreciation:			
Balance at beginning of year	**16,838**	**–**	**16,838**
Transfer from PPE (see Note 10)	**–**	**65,995**	**65,995**
Transfer to PPE (see Note 10)	**(16,838)**	**–**	**(16,838)**
Depreciation (see Note 24)	**–**	**3,077**	**3,077**
Balance at end of year	**–**	**69,072**	**69,072**
Net book value	**₱–**	**₱37,830**	**₱37,830**

	2016		
	Office Unit	Property and Equipment	Total
Cost:			
Balance at beginning and end of year	₱28,133	₱–	₱28,133
Less accumulated depreciation:			
Balance at beginning of year	14,876	–	14,876
Depreciation (see Note 24)	1,961	–	1,961
Balance at end of year	16,837	–	16,837
Net book value	₱11,296	₱–	₱11,296

The Company's investment property is composed of property and equipment in 2017 and office unit in 2016. Depreciation on the Company's office unit and property and equipment is calculated on a straight-line basis over the estimated useful lives of 6 to 20 years.

The fair value of the office unit as at December 31, 2016 amounted to ₱75.68 million based on the valuation by an independent firm of appraisers. Since there are no quoted market prices for identical assets in an active market available, the valuation is based on sound valuation approach and technique. Valuation technique based on Sales Comparison Approach is used for the office unit.

The fair value of the property and equipment in 2017 amounted to ₱81.30 million, also based on the valuation by an independent firm of appraisers. The value of property and equipment was arrived at using the Cost Approach which estimates the current replacement cost of the replaceable property in accordance with current market prices for manufactured equipment. Replacement cost is defined as the estimated cost of constructing a structure of comparable utility, employing the design and materials that are currently used in the market. Adjustments are then made to reflect depreciation resulting from physical deterioration plus any functional and economic obsolescence that may exist to arrive at a reasonable valuation.

Current prices of similar used property in the second hand market and the age, condition, past maintenance, and present and prospective serviceability in comparison with units of like kind were also considered in the appraisal.

The level 3 valuation technique was used to determine the fair values above (see Note 32).

In 2017, the property and equipment were transferred from property, plant and equipment to investment property since these are held for undetermined use.

No rental income was earned for the office unit in 2017 since the related lease agreement with a third party ended in 2016 and the Company occupied the office unit in 2017. In 2016, rental income recognized in the parent company statement of income amounted to ₱1.78 million while direct costs and expenses included under "General and administrative expenses" account amounted to ₱3.11 million.

14. **Deferred Exploration Costs**

Changes in the deferred exploration costs for the years ended December 31 are as follows:

	2017	2016
Cost:		
Balance at beginning of year	**₱30,467**	₱37,774
Cash calls	**9,265**	12,136
Pre-development costs	–	1,192
Reclassification to receivables (see Note 7)	–	(19,443)
Write-offs	–	(1,192)
Balance at end of year	**39,732**	30,467
Accumulated impairment:		
Balance at beginning of year	**10,994**	–
Provision (see Note 22)	–	10,994
Balance at end of year	**10,994**	10,994
Net book value	**₱28,738**	₱19,473

The balance of deferred exploration costs as at December 31 consists of expenditures incurred in the following production-sharing petroleum and geothermal projects:

	2017	2016
Petroleum/gas -		
SC 52 (Cagayan Province)	**₱10,994**	₱10,994
Geothermal -		
SC 8 (Mabini, Batangas)	**28,738**	19,473
	39,732	30,467
Allowance for impairment losses	**(10,994)**	(10,994)
Net book value	**₱28,738**	₱19,473

The foregoing deferred exploration costs represent the Company's share in the expenditures incurred under petroleum and geothermal SCs with the DOE. The contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Operating agreements govern the relationship among co-contractors and the conduct of operations under an SC.

In 2017, no impairment losses were recognized on deferred exploration costs. In 2016, the Company assessed and fully provided for probable losses for deferred exploration costs pertaining to SC 52 amounting to ₱10.99 million due to the expiration of its terms and subsequent denial of the DOE of the request for Force Majeure. In 2016, the Company also wrote-off its deferred exploration costs related to its hydropower SCs amounting to ₱1.19 million due to the expiration of the pre-development term of 2 years and non-appeal on the denial of the DOE on the Company's request for increase in capacity. No impairment was recognized for the remaining SC as management believes that extensions and moratoriums requested that are pending approval by the DOE as of February 28, 2018 will be eventually approved based on prior years' experience.

The following summarizes the status of the foregoing projects:

SC 52 (Cagayan Province)
The Company and Frontier Oil executed on January 12, 2012 a Farm-in Option Agreement which granted the Company the option to acquire 10% participating interest from Frontier, which may be exercised after completion of re-entry and testing of the Nassiping-2 well.

The Nassiping-2 well was drilled by Petro-Canada in 1994 but was not tested although gas shows were recorded.

Test operations conducted by Frontier Oil in February 2012 failed to establish a stable gas flow despite high surface pressure and strong initial flow rates. Frontier suspended the well for future re-entry after confirming the presence of movable gas in the target interval.

The Company and Frontier Oil signed an Amendment Agreement extending the former's option to 90 days after completion of programmed re-testing operations on the Nassiping-2 well.

The DOE approved the consortium's entry into Sub-Phase 4 (July 8, 2012 to July 8, 2013) with the Nassiping-2 Stimulation and Testing Program as work commitment.

Frontier Oil suspended the Stimulation and Testing Program in December 2012 after repeated attempts to remove a plug that would have allowed acidization of the upper test zones failed. In view of this suspension of the Stimulation and Testing Program, the Company recognized impairment loss amounting to ₱12.87 million in 2012.

Frontier Oil elected to enter Sub-Phase 5 (ending July 2014) with the deepening of the Nassiping-2 well, including the testing of all prospective gas-bearing intervals in the borehole, as one of two well obligations.

The Company and Frontier Oil signed a Second Amendment to their Farm-in Option Agreement in July 2013 that extended the option period and expanded the coverage of the Company's option to include the untested deeper prospective gas-bearing intervals identified in the well, under the following terms:

1) The Company shall pay to Frontier Oil a total of US$400,000 (Supplemental Option Fee) as follows:

    a. US$200,000 shall be paid within 5 working days of signing of the second amendment agreement
    b. US$200,000 shall be paid within 5 working days of Company's receipt of a written notice from Frontier Oil which confirms that Frontier Oil has entered into a binding rig contract that will enable Frontier Oil to comply with the Workover Program

2) Upon payment of the Supplemental Option Fee, the Option Period shall be extended until 90 days from the date of completion of the Workover Program.

On July 8, 2013, the first tranche of the supplemental option fee amounting to ₱8.7 million or US$200,000 was paid.

In December 2013, Frontier Oil signed a drilling rig contract for the deepening and testing of the Nassiping-2 well. On account of this development, the Company reversed in full the impairment loss in 2013. Based on the quantification of an independent expert, the expected monetary value of the contingent resources attributable to the SC 52 portion of the Nassiping Dome is US$128.7 million.

As requested by Frontier Oil, the DOE approved the extension of Sub-Phase 5 to January 8, 2015. On January 3, 2014, the second tranche of ₱8.88 million or US$200,000 was paid.

In letters dated February 10, 2015 and May 28, 2015, Frontier Oil Corporation requested the DOE a two-year moratorium on work obligations under Sub-Phase 5 which ended on July 8, 2015.

On February 2, 2016, the DOE denied Frontier Oil's request for moratorium of work commitments on the basis of Force Majeure. In 2016, the Company reclassified to receivables the option fee of ₱19.44 million recoverable upon expiration of the SC. The option fee was fully provided with an allowance for doubtful account (see Note 7).

In December 2016, Frontier Oil, as instructed by the DOE, submitted certain documents in support of its request for Force Majeure. As at February 28, 2018, the requests for Moratorium and appeal for contract reinstatement are still pending DOE's approval.

Mineral Production Sharing Agreement (MPSA) 252-2007-V (Camarines Norte)
On July 28, 2007, the Company was awarded MPSA No. 252-2007-V by the Philippine Department of Environment and Natural Resources (DENR) covering parcels of land with an aggregate area of more or less 333 hectares, located in the municipality of Camarines Norte, Philippines (the "Property"). On February 14, 2008, One Subic Oil, then TA Gold, and the Company, entered into an Operating Agreement where the Company granted unto and in favor of One Subic Oil the exclusive right to explore, develop and operate for commercial mineral production the Property under the MPSA. In June 2009, the Company received a notice of an Order of the Secretary of the DENR excising portions of the MPSA area that are covered by alleged mineral patents of a third party for which the Company filed a Motion for Reconsideration.

In December 2009, the DENR denied the Company's Motion for Reconsideration. The Company filed a timely Appeal of the DENR's ruling with the Office of the President, which was also denied. The Company then elevated the case to the Court of Appeals.

The Company signed an Agreement on October 18, 2011 for the assignment of the MPSA to Investwell Resources, Inc. (Investwell), subject to certain conditions for a total consideration of US$4.00 million payable in four tranches. The receipt of the first nonrefundable tranche amounting to US$0.50 million (₱21.93 million) was recognized as income in 2011. The receipt of the second and third nonrefundable tranches amounting to US$1.00 million (₱42.20 million), net of the related deferred exploration cost of ₱11.47 million, was also recognized as income in the year payments were received.

On October 30, 2012, the Court of Appeals granted the Company's petition to reverse and set aside the resolutions of the DENR and the Office of the President that ordered and affirmed, respectively, excision of certain areas covered by alleged mining patents of a third party from the contract area of the MPSA. Subsequently, the third party elevated the case to the Supreme Court.

In Agreements dated May 29, 2012, March 19, 2013, June 25, 2013 and December 18, 2013, the Company and Investwell amended and restructured the payment of the fourth tranche of the total consideration.

The DENR approved on February 7, 2013 the assignment of the MPSA to Investwell, and the Company recognized US$0.87 million (₱37.93 million) income representing a portion of the final tranche.

On January 12, 2015, the Supreme Court ruled that the rights pertaining to mining patents issued pursuant to the Philippine Bill of 1902 and existing prior to November 15, 1935 are vested rights that cannot be impaired by the MPSA granted by the DENR to the Company on July 28, 2007.

As at December 31, 2017 and 2016, receivable from Investwell amounted to ₱39.37 million which was provided with an allowance for impairment for the full amount since Investwell did not comply with the restructured payment schedule (see Note 7).

Mabini Geothermal Service Contract (GSC) (Batangas)
On December 3, 2013, the Company signed a Memorandum of Agreement with Basic Energy Corporation (Basic), under which the Company shall acquire from Basic a 10% participating interest in the Mabini GSC, which interest may be increased up to 40%, at the option of the Company, after the Company completes a gravity program in the contract area at its sole cost.

The DOE approved on September 1, 2015 a one-year extension of Contract Year 8 to July 10, 2016 with a one-well drilling obligation. On September 15, 2015, the DOE approved the transfer of 25% participating interest in subject GSC from Basic to the Company.

Preparations for the drilling commenced in the fourth quarter of 2015. The consortium completed the drilling program of MAB-1 well in March 2017.

Other field operations were stopped indefinitely due to a Cease-and-Desist Order issued by the Mabini Mayor in light of the series of earthquakes that hit the town in April 2017.

The Consortium invoked the Force Majeure provision in the Contract and requested the DOE for the suspension of work obligation due to Force Majeure. The request is still under DOE evaluation.

On November 29, 2017, the DOE approved the work program consisting of Information and Education Campaigns (IEC) and permitting works.

As at February 28, 2018, the Consortium holds continuing IEC together with the DOE and the Philippine Institute of Volcanology and Seismology (PHIVOLCS) to obtain support from the local government units towards lifting of the Cease-and-Desist Order.

Pililia Hydropower Service Contract (HSC) (Rizal)
The Company requested for the reinstatement of Pililia HSC and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

The Company also requested a three-year extension of the pre-development stage of the service contract and as at February 28, 2018, is still waiting for the response from the DOE.

Ilagan Hydropower Service Contract (Isabela)
The Company requested for the reinstatement of Ilagan HSC and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

The Company also requested approval for increase in capacity but was denied by the DOE in its letter dated July 8, 2016 due to adverse effect to other HSC applications covering areas upstream of the project site. The Company did not appeal the DOE's decision, thus the HSC is deemed terminated.

15. Other Noncurrent Assets

This account consists of:

	2017	2016
Receivables from third parties (see Note 31)	**₱304,268**	₱162,951
Deposit receivables from suppliers (see Note 31)	**24,632**	59,486
	₱328,900	₱222,437

Receivables from third parties include interest-bearing receivables collectible until April 2021, discounted using the Philippine Dealing System Treasury Reference Rate (PDST-R2) rates on transaction date ranging from 2.14% - 4.56%.

Deposit receivables include deposits to distribution utilities outstanding as at December 31, 2017 and 2016.

16. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
Due to related parties (see Note 28)	**₱1,334,978**	₱1,367,570
Trade	**1,131,513**	1,293,022
Output VAT	**527,443**	395,938
Current portion of deferred revenues (see Note 18)	**402,447**	–
Accrued interest payable	**99,443**	32,031
Accrued expenses	**83,176**	210,913
Nontrade	**67,956**	46,796
Accrued directors' bonus and annual incentives (see Note 28)	**19,749**	48,633
Others	**5,575**	3,332
	₱3,672,280	₱3,398,235

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

Trade payables refer to liabilities to suppliers of electricity and fuel purchased by the Company.

Deferred revenue pertains to the upfront payment received from a customer in consideration of the contract amendments and modifications. The deferred revenue shall be amortized over the remaining term of the contract.

Accrued expenses include accruals for retirement benefits, sick and vacation leave, incentive pay and professional fees. This account also includes reimbursement to a customer.

Nontrade payables include liabilities for various purchases such as additions to property, plant and equipment and spare parts.

Others consist of liabilities to employees, statutory payables, deferred rent income, deposit payables and a derivative liability (see Notes 31 and 32).

17. **Long-term Loans**

As at December 31, this account consists of:

	2017	2016
Cost	**₱5,156,290**	₱2,910,000
Add premium on long-term loans (embedded derivative)	**6,009**	7,721
Less unamortized debt issue costs	**28,251**	21,164
	5,134,048	2,896,557
Less current portion of long-term loans (net of unamortized debt issue costs)	**144,407**	58,399
Noncurrent portion	**₱4,989,641**	₱2,838,158

Movements in derivatives and debt issue costs related to the long-term loans follow:

	Embedded Derivative	Debt Issue Costs
As at January 1, 2016	₱9,389	₱24,329
Amortization for the year*	(1,667)	(3,165)
As at December 31, 2016	₱7,722	₱21,164
Additions	–	11,750
Amortization for the year*	(1,713)	(4,663)
As at December 31, 2017	**₱6,009**	**₱28,251**

**Included under "Interest and other financial charges" in the "Other income - net" account in the parent company statements of income (see Note 25).*

The relevant terms of the Company's long-term loans follow:

Description	Interest Rate (per annum)	Terms	**2017**	2016
₱1.50 billion loan with China Banking Corporation (CBC)	The higher of 7-year PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years, the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate	Availed on April 14, 2014, payable in quarterly installment within 10 years to commence 1 year after the first interest payment date with final repayment in April 10, 2024; contains negative pledge	**₱1,418,673**	₱1,448,489
₱1.00 billion loan with Security Bank Corporation (SBC)	Fixed at a rate equivalent to the 5-year PDST-F rate one business day prior to drawdown date plus 1.00%, for 5 years	Availed on April 11, 2014, principal repayment equivalent to 2% of the loan per annum, payable in quarterly payment starting at the end of the 5th quarter following drawdown; bullet payment on maturity date; contains negative pledge	**948,656**	967,637
₱0.50 billion loan with Banco De Oro Unibank, Inc. (BDO)	The higher of 7Y PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years), the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate	Availed on April 30, 2014, payable in quarterly installments within 10 years to commence 1 year after the first interest payment date with final repayment in January 30, 2024; contains negative pledge	**470,875**	480,431

(Forward)

Description	Interest Rate (per annum)	Terms	2017	2016
₱1.18 billion loan with DBP	Fixed at a rate of 6.00% for the first 7 years; repricing for the last 5.5 years, the higher of 5-year PDST-R2 plus a spread of 1.625% or 6.25%	Availed on January 10, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment in July 10, 2029; contains negative pledge	**1,147,927**	–
₱1.18 billion loan with SBC	Fixed at a rate of 6.50% per annum which shall be payable at the end of the interest period of six months.	Availed on January 11, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment in July 11, 2029; contains negative pledge	**1,147,917**	–
Carrying value*			**₱5,134,048**	₱2,896,557

**Net of unamortized debt issue costs and embedded derivative of ₱22.24 million and ₱13.44 million in 2017 and 2016, respectively.*

In 2017 and 2016, principal repayments made relative to Company's loans amounted to ₱103.71 million and ₱60.00 million, respectively.

The long-term loans of the Company also contain prepayment provisions as follows:

Description	Prepayment Provision
₱1.00 billion loan with SBC	Early redemption is at the option of the issuer exercisable anytime at par plus break-funding cost. Break-funding cost on principal repayment shall be based on the difference between the contracted interest rate and the comparable benchmark rate. The negative difference shall be multiplied by the prepaid amount and the remaining tenor to come up with break-funding cost, which in no case is less than zero.
₱1.50 billion loan with CBC	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱0.50 billion loan with BDO	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱1.18 billion loan with DBP	Early redemption is at the option of the issuer exercisable on the interest repricing date (8^{th} anniversary of the drawdown date). Prepayment amount is at par. If redemption is exercised on a date that is not the interest repricing date, prepayment amount is at par plus break-funding cost. Transaction cost is minimal.
₱1.18 billion loan with SBC	Early redemption is at the option of the issuer exercisable on an interest payment date at par plus break-funding cost. Transaction cost is minimal.

The prepayment option on all loans except for the ₱1.00 billion loan with SBC were assessed as closely related and, thus, not required to be bifurcated. For the ₱1.00 billion loan with SBC, the prepayment option was assessed as not closely related but was not bifurcated because the prepayment option has nil or very minimal value since it is deeply out of the money.

Covenants
Under the loan agreements, the Company has certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control.

Description	Covenants
₱1.50 billion loan with CBC	(a) Minimum Debt Service Coverage Ratio (DSCR) of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 1.5 times
₱1.00 billion loan with SBC	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 2.0 times (c) Minimum Current ratio of 1.0 times
₱0.50 billion loan with BDO	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 1.5 times
₱1.18 billion loan with DBP	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times
₱1.18 billion loan with SBC	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times

In addition, there is also a restriction on the payment or distribution of dividends to its stockholders other than dividends payable solely in shares of its capital stock if payment of any sum due the lender is in arrears or such declaration, payment or distribution shall result in a violation of the financial ratios prescribed.

As at December 31, 2017 and 2016, Company is in compliance with the terms as required in the loan covenants.

Total interest expense recognized on long-term loans amounted to ₱299.73 million and ₱159.96 million in 2017 and 2016, respectively (see Note 25).

18. **Other Noncurrent liabilities**

This account consists of:

	2017	2016
Deferred revenue - net of current portion (see Note 16)	**₱387,146**	₱–
Deposit payables (see Note 31)	**218,421**	78,450
Accrued expenses	**7,597**	7,226
	₱613,164	₱85,676

Deposit payables consist of security deposits from RES Customers refundable at the end of the contract.

Accrued expenses pertains to accrual of asset retirement obligation and various provisions.

19. **Equity**

Capital Stock

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

	Number of Shares	
	2017	2016
Authorized capital stock - ₱1 par value	**8,400,000,000**	8,400,000,000
Issued and outstanding -		
Balance at beginning of year	**4,885,897,908**	4,865,146,089
Issuance during the year -		
Exercise of stock options and grants		
(see Note 20)	**3,877,014**	20,751,819
Balance at end of year	**4,889,774,922**	4,885,897,908

The issued and outstanding shares as at December 31, 2017 and 2016 are held by 3,196 and 3,204 equity holders, respectively.

On November 16, 2009, in a special stockholders' meeting, the Company's stockholders approved the increase in the Company's authorized capital stock from ₱2.0 billion divided into 2 billion shares, to ₱4.2 billion divided into 4.2 billion shares which shall be funded through stock rights offering (SRO). On March 30, 2011, the SEC approved the SRO of 1.165 billion shares of the Parent Company at the rate of seven shares for every 10 shares held as at record date of May 18, 2011, at a price of ₱1 per share. Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.15 billion. The proceeds were used to partially finance the Company's equity investment in SLTEC and MGI.

On March 20, 2012, the Company's stockholders approved the increase in the authorized capital stock from ₱4.2 billion divided into 4.2 billion shares with par value of ₱1 per share to ₱8.4 billion divided into 8.4 billion shares with a par value of ₱1 per share which shall be funded by a SRO. On October 3, 2012, the SEC approved the SRO of 1.42 billion shares of the Company at the rate of one (1) share for every two (2) shares held as at record date of November 7, 2012 at a price of ₱1 per share. The Company also offered an additional 212.25 million shares to meet additional demand from eligible stockholders ("Overallotment Option"). Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.61 billion. The proceeds were used to finance its equity investments in PHINMA Renewable's 54 MW wind energy project in San Lorenzo, Guimaras and SLTEC's second 135 MW CFB coal-fired power plant in Calaca, Batangas, among other power project opportunities.

The following table presents the track record of registration of capital stock:

Date of SEC Approval	No. of Shares Registered	No. of Shares Issued	Par Value	Issue/ Offer Price
08-Feb-69	2,000,000,000	1,000,000,000	₱0.01	₱0.01
22-Jul-75	2,000,000,000	937,760,548	0.01	0.01
16-Jul-79	6,000,000,000	6,058,354,933	0.01	0.01
12-Feb-88	10,000,000,000	7,643,377,695	0.01	0.02
08-Jun-93	10,000,000,000	8,216,141,069	0.01	0.01
15-Jul-94	70,000,000,000	50,170,865,849	0.01	0.01
24-Aug-05	1,000,000,000	264,454,741	1.00	1.00
06-Jun-11	2,200,000,000	1,165,237,923	1.00	1.00
12-Nov-12	4,200,000,000	2,027,395,343	1.00	1.00

Retained Earnings and Paid-in Capital
The Company's retained earnings balance amounted to ₱3,059.30 million and ₱2,753.20 million as at December 31, 2017 and 2016, respectively, while paid-in capital is ₱4,889.78 million and ₱4,885.90 million as at December 31, 2017 and 2016, respectively.

Other Equity Reserve
The Company's other equity reserve was nil as at December 31, 2017 and 2016, respectively. This reserve is used to recognize the value of equity-settled share based payments provided to employees, including key management personnel, as part of their remuneration in accordance with the Stock Option Plan. With the expiry of the Stock Options granted in 2013 on July 21, 2016 and the forfeiture of unexercised options, the remaining balance of ₱14.66 million was reclassified to Additional Paid-in Capital in 2016 (see Note 20).

Dividends Declared
Information on cash dividends declared is as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount	Record Date
February 23, 2016	Cash	₱0.04 per share	194,677	March 9, 2016
December 16, 2016	Cash	₱0.04 per share	195,436	January 4, 2017
March 3, 2017	**Cash**	**₱0.04 per share**	**195,437**	**March 17, 2017**
February 28, 2018	**Cash**	**₱0.04 per share**	**195,591**	**March 14, 2018**

As at December 31, 2017 and 2016, unpaid cash dividends amounting to ₱15.30 million and ₱91.20 million, respectively, comprise the "Due to stockholders" account in the parent company statements of financial position (see Note 28).

20. Employee Stock Options and Executive Stock Grants

On April 2, 2007, the Company's BOD and stockholders approved a total of 100 million shares to be taken from the then unsubscribed portion of the Company's 2.00 billion authorized shares to be awarded as follows: (a) stock grants for officers and managers of the Company; and (b) stock options for directors, officers and employees of the Company and its subsidiaries and affiliates under the terms and conditions as determined by the Executive Committee of the BOD.

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

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

Coverage	Directors, permanent officers and employees of the Company and its subsidiaries and affiliates
Exercise price	At weighted average closing price for 20 trading days prior to grant date but should not be lower than par value of ₱1.00 per share
Vesting period	• Up to 33% of the allocated shares on the 1st year from the date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.

Right to exercise option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

On May 7, 2008, the Company's Stock Option Committee suspended the implementation of the Stock Option Plan. The Committee also decided to implement the Company's Stock Grant for its executives which resulted in the grant of 3.88 million shares for 2016 and 1.80 million shares for 2015.

On July 22, 2013, the grant date, the Company lifted the suspension of the Stock Option Plan and awarded additional options under the same plan.

No stock options are outstanding and exercisable as at December 31, 2017 and 2016. In 2016, 20.75 million stock options were exercised while 8.43 million shares were forfeited.

The fair value of options granted in 2013 amounted to ₱23.03 million. The fair value of the options granted is estimated at the date of grant using binomial method, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the Stock Option Plan in 2013:

	33.33% vesting on July 22, 2013	33.33% vesting on July 22, 2014	33.33% vesting on July 22, 2015
Spot price	₱2.40	₱2.40	₱2.40
Exercise price	2.29	2.29	2.29
Risk-free rate	2.162%	2.162%	2.162%
Expected volatility	31.25%	31.25%	31.25%
Term to vesting	3 years	3 years	3 years
Fair value of stock options	₱0.5472 per option	₱0.5472 per option	₱0.5472 per option

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

No equity-based compensation expense was recognized by the Company in 2017 and 2016.

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.

On August 1, 2017, the Company settled the variable compensation of its executives through the issuance of 3.88 million shares at ₱1.66 per share.

21. Costs of Sale of Electricity

This account consists of:

	2017	2016
Costs of power purchased (see Note 28)	**₱15,835,590**	₱13,001,537
Fuel (see Note 8)	**717,942**	687,919
Depreciation and amortization (see Note 24)	**48,068**	40,018
Repairs and maintenance	**35,875**	33,749
Contractor's fee	**29,543**	23,168
Market fees	**21,341**	23,208
Salaries (see Note 23)	**7,926**	9,459
Insurance	**7,893**	9,467
Station use	**3,822**	9,013
Taxes and licenses	**2,758**	2,278
Rent	**1,457**	2,134
Pension and other employee benefits (see Notes 23 and 27)	**1,433**	1,616
Others	**9,223**	7,837
	₱16,722,871	₱13,851,403

22. General and Administrative Expenses

This account consists of:

	2017	2016
Management and professional fees (see Note 28)	**₱157,724**	₱192,850
Taxes and licenses	**119,076**	150,478
Salaries and directors' fees (see Notes 23 and 28)	**110,485**	232,153
Depreciation and amortization (see Note 24)	**24,554**	25,225
Pension and other employee benefits (see Notes 23 and 27)	**17,029**	18,929
Building maintenance and repairs	**16,869**	16,386
Provision for plug and abandonment	**11,384**	–
Transportation and travel	**10,523**	7,404
Insurance, dues and subscriptions	**9,807**	7,200
Bank charges	**8,873**	7,366
Provision for doubtful accounts (see Note 7)	**4,540**	26,441
Office supplies	**4,097**	3,258
Communications	**4,061**	3,681
Meetings and conferences	**3,510**	4,404
Rent (see Note 28)	**2,828**	2,168
Advertising	**2,099**	3,259
Donation and contribution	**863**	19,993
Provision for a probable loss on deferred exploration cost (see Note 14)	**–**	10,994
Write-off of deferred exploration costs (see Note 14)	**–**	1,192
Others	**10,250**	26,197
	₱518,572	₱759,578

23. Personnel Expenses

This account consists of:

	2017	2016
Salaries and directors' fees included under:		
Costs of sale of electricity (see Note 21)	**₱7,926**	₱9,459
General and administrative expenses (see Note 22)	**110,485**	232,153
Pension and other employee benefits included under:		
Costs of sale of electricity (see Notes 21 and 27)	**1,433**	1,616
General and administrative expenses (see Notes 22 and 27)	**17,029**	18,929
	₱136,873	₱262,157

24. Depreciation and Amortization

This account consists of:

	2017	2016
Property, plant and equipment included under:		
Costs of sale of electricity (see Notes 10 and 21)	**₱48,068**	₱40,018
General and administrative expenses (see Notes 10 and 22)	**21,477**	23,264
Investment property included under:		
General and administrative expenses (see Notes 13 and 22)	**3,077**	1,961
	₱72,622	₱65,243

25. Other Income - Net

This account consists of:

	2017	2016
Interest and other financial income	**₱43,400**	₱16,122
Gain on derivatives - net (see Note 32)	**7,523**	8,741
Foreign exchange loss - net	**(5,181)**	(5,970)
Gain (loss) on sale of:		
AFS investments	**3**	7
Investment (see Note 11)	–	483,468
Property, plant and equipment	–	132
Provision for unrecoverable input tax	–	(2,568)
Others	**9,767**	25,304
	₱55,512	₱525,236

In 2017 others includes reversal of previously accrued and long-outstanding payables amounting to ₱7.41 million. In 2016, others includes reimbursement amounting to ₱21.41 million received from a third party in relation to certain expenses paid by the Company.

Interest and Other Financial Income
The details of interest and other financial income are as follows:

	2017	2016
Net gains on changes in fair value of investments held for trading (see Note 6)	**₱22,956**	₱10,511
Interest income on:		
Short-term deposits and investments (see Note 5)	**11,955**	623
Receivables from third parties	**7,601**	4,024
Cash in banks (see Note 5)	**101**	54
Interest income not subject to final tax	**787**	910
	₱43,400	₱16,122

Interest and Other Financial Charges
The details of interest and other financial charges are as follows:

	2017	2016
Interest expense on:		
Long-term loans* (see Note 17)	**₱298,023**	₱158,291
Contract termination (see Note 30)	**15,032**	–
Receivables from third parties**	**10,671**	2,569
Asset retirement obligation	**372**	372
Others	**58**	–
Amortization of debt issue cost (see Note 17)	**4,663**	3,165
	₱328,819	₱164,397

Net of ₱1.71 million and ₱1.67 million in 2017 and 2016, respectively, representing the amortization of embedded derivative on long-term loans (see Note 17).
***Refers to the day 1 difference on the receivables from third parties included under "Other noncurrent assets" (see Note 15).*

26. **Income Taxes**

a. The provision for current income tax pertains to regular corporate income tax amounting to ₱8.33 million and ₱53.34 million, in 2017 and 2016, respectively.

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

	2017	2016
Deferred income tax assets on:		
Deferred revenue	**₱236,878**	₱–
NOLCO	**136,759**	–
Allowance for doubtful accounts	**25,704**	24,342
Pension and other employee benefits	**5,864**	8,134
Accrued expenses	**5,282**	22,746
Unamortized discount on long-term receivables	**3,972**	771
Allowance for probable losses on deferred exploration costs	**3,298**	3,298
Asset retirement obligation - liability	**2,279**	2,168
Unrealized forex loss	**2,117**	–
Derivative liability on long-term loans	**1,803**	2,316

(Forward)

	2017	2016
Unamortized past service cost	**₱544**	₱396
Others	**59**	–
	424,559	64,171
Deferred income tax liabilities on:		
Unrealized fair value gains on AFS investments	**(4,982)**	(4,589)
Unamortized debt issue cost	**(5,598)**	(3,056)
Derivative asset	**(2,392)**	–
Asset retirement obligation - asset	**(317)**	(360)
Others	**(445)**	(475)
	(13,734)	(8,480)
Deferred income tax assets - net	**₱410,825**	₱55,691

In 2017, the Company incurred NOLCO and MCIT amounting to ₱455.86 million and ₱8.32 million, respectively, which will expire in 2020. No deferred income tax asset was recognized for the MCIT as at December 31, 2017 since management has assessed it is not probable that future RCIT will be available against which the MCIT can be used before it expires.

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

	2017	2016
Applicable statutory income tax rate	**30.00%**	30.00%
Decrease in tax rate resulting from:		
Dividend income exempt from tax	**(259.05)**	(17.96)
Interest income subjected to final tax	**(6.78)**	(0.24)
Unrecognized deferred income tax asset on MCIT	**5.46**	–
Nondeductible expenses	**1.12**	(10.18)
Others	**0.50**	(0.01)
Effective income tax rate	**(228.75%)**	1.61%

27. Pension and Other Employee Benefits

The Company has a funded, noncontributory defined benefit retirement plan covering all of its regular and full time employees. Pension and other employee benefits consist of:

Pension and other employee benefits consist of:

	2017	2016
Pension liability	**₱7,975**	₱14,692
Vacation and sick leave accrual	**11,571**	12,422
	19,546	27,114
Less current portion of vacation and sick leave accrual*	**11,571**	6,629
	₱7,975	₱20,485

**Included in "Accrued expenses" under "Accounts payable and other current liabilities" account in the parent company statements of financial position (see Note 16).*

Pension and other employee benefits included under "Costs of sale of electricity" and "General and administrative expenses" accounts in the parent company statements of income:

	2017	2016
Pension expense	**₱8,145**	₱6,885
Vacation and sick leave accrual	**(618)**	1,088
	₱7,527	₱7,973

A. Net Defined Benefit liability

The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan.

Changes in net defined benefit liability of funded plan in 2017 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Net Defined Benefit Liability**
At January 1, 2017	**₱71,023**	**₱56,331**	**₱14,692**
Pension expense in parent company statement of income:			
Current service cost	**7,328**	**–**	**7,328**
Net interest	**3,949**	**3,132**	**817**
	11,277	**3,132**	**8,145**
Remeasurement loss (gain) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	**–**	**681**	**(681)**
Experience adjustments	**(4,408)**	**–**	**(4,408)**
Changes in demographic assumptions	**49**	**–**	**49**
Actuarial changes arising from changes in financial assumptions	**(868)**	**–**	**(868)**
	(5,227)	**681**	**(5,908)**
Contributions	**–**	**8,954**	**(8,954)**
Benefits paid	**(9,292)**	**(9,292)**	**–**
At December 31, 2017	**₱67,781**	**₱59,806**	**₱7,975**

Changes in net defined benefit liability of funded plan in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability
At January 1, 2016	₱58,814	₱47,794	₱11,020
Pension expense in parent company statement of income:			
Current service cost	6,341	–	6,341
Net interest	2,905	2,361	544
	9,246	2,361	6,885
Remeasurement loss (gain) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	(817)	817
Experience adjustments	6,038	–	6,038

(Forward)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability
Changes in demographic assumptions	(₱573)	₱–	(₱573)
Actuarial changes arising from changes in financial assumptions	(2,502)	–	(2,502)
	2,963	(817)	3,780
Contributions	–	6,993	(6,993)
Benefits paid	–	–	–
At December 31, 2016	₱71,023	₱56,331	₱14,692

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair value of plan assets by each class as at December 31 is as follows:

	2017	2016
Investments in:		
Equity instruments	**₱37,525**	₱36,925
Government securities	**20,400**	18,064
UITFs	**1,872**	1,788
Cash and cash equivalents	**95**	57
Liabilities	**(86)**	(503)
	₱59,806	₱56,331

Investments in government securities, mutual funds and UITFs can be readily sold or redeemed. Marketable equity securities, which can be transacted through the PSE, account for less than 5% of plan assets; all other equity securities are transacted over the counter.

The plan assets include shares of stock of the Company with fair value of ₱0.04 million and ₱0.06 million as at December 31, 2017 and 2016. The shares were acquired at a cost of ₱0.03 million. There are no restrictions or limitations on the shares and there was no material gain or loss on the shares for the years ended December 31, 2017 and 2016. The voting rights over the shares are exercised through the trustee by the Retirement Committee, the members of which are directors or officers of the Company.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining pension and post-employment benefit obligations for the defined benefit plans are shown below:

	2017	2016
Discount rate	**5.76%**	5.56%
Salary increase rate	**5.00%**	5.00%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2017, assuming all other assumptions were held constant:

			Increase (Decrease) in Pension Liability
Discount rate	(Actual + 1.00%)	6.76%	(₱3,719)
	(Actual – 1.00%)	4.76%	4,486
Salary increase rate	(Actual + 1.00%)	6.00%	4,872
	(Actual – 1.00%)	4.00%	(4,131)

The management performs an Asset-Liability Matching (ALM) Study annually. The overall investment policy and strategy of the Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. The Company's current strategic investment strategy consists of 66% of equity instruments, 35% fixed income instruments and 1% of debt instruments.

The Company expects to contribute ₱8.42 million to the defined benefit pension plan in 2018.

The following table sets forth the expected future settlements by Plan of maturing defined benefit obligation as at December 31, 2017:

	Amount
Less than one year	₱36,713
More than one year to five years	11,694
More than five years to 10 years	27,445
More than 10 years to 15 years	18,127
More than 15 years to 20 years	46,260
More than 20 years	276,914

The average duration of the expected benefit payments at the end of the reporting period is 21.73 years.

B. Vacation and Sick Leave

The following tables summarize the components of vacation and sick leave expense recognized in the parent company statement of income and the amounts recognized in the parent company statement of financial position.

	2017	2016
Current service costs	**₱1,321**	₱1,403
Interest costs	**651**	552
Actuarial loss	**(2,590)**	(867)
	(₱618)	₱1,088

Changes in present value of the vacation and sick leave obligation are as follows:

	2017	2016
Balance at the beginning of the year	**₱12,422**	₱11,440
Current service cost	**1,321**	1,403
Net interest	**651**	552
Actuarial loss	**(2,590)**	(867)
Benefits paid	**(233)**	(106)
At December 31, 2017	**₱11,571**	₱12,422

28. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individual or corporate entities.

Outstanding balances at year-end are unsecured and are expected to be settled in cash. There have been no guarantees provided or received for any related party receivables or payables. There is no provision for uncollectability on receivables from related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In the ordinary course of business, the Company transacts with subsidiaries, associates, affiliates, jointly-controlled entities and other related parties on advances, loans, reimbursement of expenses, office space rentals, management service agreements and electricity supply.

The balances of accounts and transactions pertaining to related parties as at and for the years ended December 31 are as follows:

2017					
Company	**Amount/ Volume**	**Nature**	**Outstanding Balance Receivable (Payable)**	**Terms**	**Conditions**
Ultimate Parent					
PHINMA, Inc.					
Rental and other income	**₱771**	Rent and share in expenses	**₱54**	30-60 day, noninterest-bearing	Unsecured, no impairment
General and administrative expenses	**44,638**	Management fees and share in expenses	**(18,071)**	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	**–**	Rental deposit	**(186)**	End of lease term	Unsecured
Accounts payable and other current liabilities	**49,308**	Cash dividend	**–**	Payable on March 31, 2017; subsequently on demand	Unsecured
Subsidiaries					
PHINMA Power					
Revenue from sale of electricity, dividend, rental and other income	**331,766**	Sale of electricity dividend, rent and share in expenses	**22,395**	30-day, noninterest-bearing	Unsecured, no impairment

(Forward)

2017					
Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
Costs of sale of electricity, capital expenditures and other expenses	**₱330,602**	Purchase of electricity, operations and maintenance (O&M) fees, and share in expenses	**(₱34,750)**	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	**993**	Cash dividend	–	Payable on March 31, 2017; subsequently on demand	Unsecured
Capital expenditures	**10,667**	O&M fee	**(7,780)**	On demand	Unsecured, no impairment
CIPP					
Revenue	**144,943**	Electricity sold & dividend income	**4,618**	30-day, noninterest-bearing	Unsecured, no impairment
Costs of sale of electricity	**151,200**	Purchase of electricity	**(16,543)**	30-day, noninterest-bearing	Unsecured
PHINMA Renewable					
Receivables	**240,307**	Advances and dollars sold	**357,949**	30-day, noninterest-bearing	Unsecured, no impairment
Investments and advances (see Note 12)	**2,350,000**	Additional investments	–	30-day, noninterest-bearing	Unsecured
One Subic					
Costs of sale of electricity	**244,682**	Purchase of electricity	**(27,611)**	30-day, noninterest-bearing	Unsecured
PHINMA Solar					
Accounts payable and other current liabilities	**5,125**	Advances	**(104,741)**	30-day, noninterest-bearing	Unsecured
PHINMA Petroleum					
Receivables	**543**	Dollars sold	–	30-day, noninterest-bearing	Unsecured, no impairment
Accounts payable and other current liabilities	**510**	Advances	–	30-day, noninterest-bearing	Unsecured
Joint Ventures					
SLTEC					
Revenue from sale of electricity, rental and other income	**27,213**	Sale of electricity, rent and share in expenses	**20,046**	30-day, noninterest-bearing	Unsecured, no impairment
Dividend income	**1,056,742**	Dividends received	–	Noninterest-bearing	Unsecured
Costs of sale of electricity	**8,230,415**	Purchase of electricity	**(1,034,915)**	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	–	Rental deposit	**(590)**	End of lease term	Unsecured
ACTA					
Investments	**18,073**	Additional investments	–	Noninterest-bearing	Unsecured, no impairment
Associates					
Asia Coal					
Accounts payable and other current liabilities	–	Advances	**(254)**	Noninterest-bearing	Unsecured
MGI					
Dividend income	**25,000**	Dividend received	–	Noninterest-bearing	Unsecured
Costs of sale of electricity	**830,802**	Purchase of electricity	**(83,101)**	30-day, noninterest-bearing	Unsecured
Investments and advances (see Note 11)	**80,250**	Additional investment	–	Noninterest-bearing	Unsecured, no impairment
Entities Under Common Control					
PHINMA Corporation					
Dividend and other income	**3,527**	Dividends received and share in expenses	–	Noninterest-bearing	Unsecured
General and administrative expenses	**3,686**	Share in expenses	**(1,411)**	30-day, noninterest-bearing	Unsecured

(Forward)

2017					
Company	**Amount/ Volume**	**Nature**	**Outstanding Balance Receivable (Payable)**	**Terms**	**Conditions**
Accounts payable and other current liabilities	**₱4,178**	Purchase of dollar & euro	**₱–**	Payable on March 31, 2017; subsequently on demand	Unsecured
Accounts payable and other current liabilities	**51,285**	Cash dividend	**–**	Payable on March 31, 2017; subsequently on demand	Unsecured
PHINMA Property Holdings Corporation (PPHC)					
Accounts payable and other current liabilities	**–**	Advances	**(171)**	30-60 day, noninterest-bearing	Unsecured
Union Galvasteel Corporation (UGC)					
Dividend income	**3,334**	Dividend received	**–**	Noninterest-bearing	Unsecured
Rent and other income	**430**	Rent and share in expenses	**214**	Noninterest-bearing	Unsecured
Accounts payable and other current liabilities	**–**	Rental deposit	**(158)**	End of lease term	Unsecured
T-O Insurance, Inc. (T-O Insurance)					
General and administrative expenses	**21,288**	Insurance expense	**(4,696)**	30-60 day, noninterest-bearing	Unsecured
Receivables	**15**	Refund of overpayment	**–**	30-60 day, noninterest-bearing	Unsecured, no impairment
Emar Corporation					
Other income	**64**	Share in expenses	**–**	30-60 day, noninterest-bearing	Unsecured, no impairment
Accounts payable and other current liabilities	**4,279**	Cash dividend	**–**	Payable on March 31, 2017; subsequently on demand	Unsecured
PHINMA Education Holdings Inc. (PHINMA Education)					
General and administrative expenses	**2,298**	Service fee	**–**	30-60 day, noninterest-bearing	Unsecured
Other Related Parties					
Directors					
General and administrative expenses	**33,125**	Directors' fees and annual incentives	**(19,749)**	On demand	Unsecured
Stockholders					
Due to stockholders	**89,571**	Cash dividend	**(15,300)**	Payable on March 31, 2017; subsequently on demand	Unsecured
Due from related parties (see Note 7)			**₱405,276**		
Due to related parties (see Note 16)			**(1,334,978)**		
Accrued directors' bonus and annual incentives (see Note 16)			**(19,749)**		
Due to stockholders			**(15,300)**		

2016					
Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
Ultimate Parent					
PHINMA, Inc.					
Rental and other income	₱1,100	Rent and share in expenses	₱63	30-60 day, noninterest-bearing	Unsecured, no impairment
General and administrative expenses	73,165	Management fees and share in expenses	(43,600)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	–	Rental deposit	(186)	End of lease term	Unsecured
Accounts payable and other current liabilities	97,855	Cash dividend	(48,928)	Payable on March 31, 2017; subsequently on demand	Unsecured
Subsidiaries					
PHINMA Power					
Revenue from sale of electricity, dividend, rental and other income	315,799	Sale of electricity dividend, rent, and share in expenses	16,862	30-day, noninterest-bearing	Unsecured, no impairment
Costs of sale of electricity, capital expenditures and other expenses	450,355	Purchase of electricity, O&M fees, and share in expenses	(43,756)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	1,986	Cash dividend	(993)	Payable on March 31, 2017; subsequently on demand	Unsecured
Receivables	10	Advances	–	On demand	Unsecured, no impairment
CIPP					
Costs of sale of electricity	151,200	Purchase of electricity	(16,543)	30-day, noninterest-bearing	Unsecured
Costs of sale of electricity	656	Purchase of goods	(728)	30-day, noninterest-bearing	Unsecured
Receivables	10	Advances	–	On demand	Unsecured, no impairment
PHINMA Renewable					
Receivables	430,347	Advances	597,889	30-day, noninterest-bearing	Unsecured, no impairment
General and administrative expenses	8	Purchases of materials	–	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	–	Advances	(3)	30-day, noninterest-bearing	Unsecured
One Subic					
Costs of sale of electricity	246,689	Purchase of electricity	(32,175)	30-day, noninterest-bearing	Unsecured
Receivables	10	Advances	–	30-day, noninterest-bearing	Unsecured, no impairment
PHINMA Solar					
Accounts payable and other current liabilities	–	Advances	(110,000)	30-day, noninterest-bearing	Unsecured
PHINMA Petroleum					
Accounts payable and other current liabilities	141	Advances	(141)	30-day, noninterest-bearing	Unsecured
Receivables	373	Dollar sold	–	30-day, noninterest-bearing	Unsecured, no impairment
Joint Venture					
SLTEC					
Revenue from sale of electricity, rental and other income	28,074	Sale of electricity, rent and share in expenses	4,204	30-day, noninterest-bearing	Unsecured no impairment
Dividend income	644,945	Dividends received	–	Noninterest- bearing	Unsecured
Costs of sale of electricity	6,077,461	Purchase of electricity	(931,569)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	–	Rental deposit	(590)	End of lease term	Unsecured

(Forward)

2016

Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
Associates					
Asia Coal					
Accounts payable and other current liabilities	–	Advances	(254)	Noninterest-bearing	Unsecured
MGI					
Costs of sale of electricity	785,167	Purchase of electricity	(79,263)	30-day, noninterest-bearing	Unsecured
Investments and advances (see Note 11)	–	Advances for future subscriptions	45,000	Noninterest-bearing	Unsecured, no impairment
Entities Under Common Control					
PHINMA Corporation					
Dividend and other income	3,527	Dividends received and share in expenses	–	Noninterest- bearing	Unsecured
General and administrative expenses	2,076	Share in expenses	(384)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	102,394	Cash dividend	(51,285)	Payable on March 31, 2017; subsequently on demand	Unsecured
PPHC					
Accounts payable and other current liabilities	–	Advances	(171)	30-60 day, noninterest-bearing	Unsecured
UGC					
Dividend income	2,281	Dividends received	–	Noninterest- bearing	Unsecured
T-O Insurance					
General and administrative expenses	19,185	Insurance expense	(30)	30-60 day, noninterest-bearing	Unsecured
Receivables	69	Refund of overpayment	–	30-60 day, noninterest-bearing	Unsecured, no impairment
Accounts payable and other current liabilities	2,335	Purchase of dollar	–	30-60 day, noninterest-bearing	Unsecured
Emar Corporation					
Other income	64	Share in expenses	–	30-60 day, noninterest-bearing	Unsecured, no impairment
Accounts payable and other current liabilities	8,559	Cash dividend	(4,273)	Payable on March 31, 2017; subsequently on demand	Unsecured
PHINMA Education					
General and administrative expenses	2,698	Service fee	(2,698)	30-60 day, noninterest-bearing	Unsecured
Other Related Parties					
Directors					
General and administrative expenses	69,600	Directors' fees and annual incentives	(48,633)	On demand	Unsecured
Stockholders					
Due to stockholders	179,320	Cash dividend	(91,203)	Payable on March 31, 2017; subsequently on demand	Unsecured
Receivables	–	Withholding tax on property dividends	35	On demand	Unsecured, no impairment
Due from related parties (see Note 7)			₱619,018		
Advances to associates and joint ventures (see Note 11)			45,000		
Receivable from stockholders (see Note 7)			35		
Due to related parties (see Note 16)			(1,367,570)		
Accrued directors' bonus and annual incentives (see Note 16)			(48,633)		
Due to stockholders			(91,203)		

PHINMA, Inc.
The Company has a management contract with PHINMA, Inc. up to August 31, 2018, renewable thereafter upon mutual agreement. Under this contract, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. Under the existing management agreement, the Company pays PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of the Company's net income. Other expenses PHINMA, Inc. bills to the Company include rent and share in expenses. The Company also has a dividend payable to PHINMA Inc. for the cash dividends declared. The Company also bills PHINMA, Inc. for rent and the latter's share in common expenses.

PHINMA Power
PHINMA Power leases and occupies part of the office space owned by the Company. On November 3, 2011, PHINMA Power granted the Company the right to utilize its generator node for the purpose of purchasing electricity that will be sold to a customer. Sales of electricity are based on WESM prices. On December 26, 2013, a PAMA valid for (10) ten years was entered into by and between PHINMA Power as generator and the Company as administrator, for the administration and management by the Company of the entire capacity and net output of PHINMA Power. Due to this PAMA, all ancillary services provided by PHINMA Power to NGCP to which it has an Ancillary Services Procurement Agreement (ASPA) are in effect revenues of the Company. The Company bills PHINMA Power for the monthly ancillary services. On October 8, 2015, the Company entered into an O&M Agreement with PHINMA Power whereby in consideration for a fixed fee, PHINMA Power will provide technical services, expertise, management and manpower for the Company's power barges.

PHINMA Power received cash dividend at ₱0.04/share from the Company for its investments in share of the Company's stocks traded in the stock market.

CIPP
Effective January 1, 2013, CIPP granted the Company the right to utilize its generator node for the purpose of purchasing electricity that will be sold to the Company's customers. Sales of electricity are based on WESM prices. On June 26, 2013, a PAMA valid for ten (10) years was entered into by and between CIPP as generator and the Company as administrator, for the administration and management by the Company of the entire capacity and net output of CIPP. Due to this PAMA, all ancillary services provided by CIPP to NGCP to which it has an ASPA are in effect revenues of the Company. The Company bills CIPP for the monthly ancillary services.

PHINMA Renewable
The Company granted advances to PHINMA Renewable for its operating and working capital requirements. The Company sells US Dollars to PHINMA Renewable for payment of the latter's various expenses through the Company's banking facilities and accommodation of expenses.

In 2017, the Company made additional investment in PHINMA Renewable amounting to ₱2.35 billion in preferred shares (see Note 11).

One Subic
On November 18, 2010, the Company and One Subic entered into a PAMA. Under the terms of the PAMA, the Company will administer and manage the entire generation output of the 116 MW diesel power plant in Subic Bay Freeport Zone, Olongapo City.

PHINMA Solar
PHINMA Solar granted advances to the Company for its working capital requirements.

PHINMA Petroleum
The Company sells US Dollars to PHINMA Petroleum for payment of the latter's various expenses through the Company's banking facilities and accommodation of expenses.

SLTEC
SLTEC leased and occupied part of the office space owned by the Company. Monthly rent is based on a pre-agreed amount subject to 5% escalation rate per annum. The lease agreement is for a period of five years commencing on October 10, 2011. The contract ended on October 15, 2016 and it was not renewed. The transactions with SLTEC also include the sale and purchase of electricity (see Note 30), reimbursements of expenses and receipt of dividends (see Note 12).

PPHC/UGC /Asian Plaza, Inc./Asia Coal/ACTA
PPHC, UGC, Asian Plaza, Inc. and Asia Coal are entities under common control while ACTA is a joint venture of the Company. The transactions for these companies include cash dividends and/or advances.

In 2017, the Company made additional investment in ACTA's capital stock amounting to ₱18.07 million (see Note 11).

MGI
The Company purchases the entire net electricity output of MGI (see Note 30). Other transactions with MGI include reimbursements of expenses and advances for future subscriptions. In 2017, the Company invested additional capital amounting to ₱80.25 million to MGI (see Note 11).

PHINMA Corporation
PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Company for its share in expenses. The Company also receives cash dividends from PHINMA Corporation. The Company has a dividend payable to PHINMA Corporation for the cash dividends declared.

T-O Insurance
T-O Insurance, Inc. is likewise controlled by PHINMA, Inc. through a management agreement. The Company insures its properties through T-O Insurance, Inc. The Company's transaction with T-O insurance, Inc. includes payment of insurance and membership fees, the receipt of refund for overpayment and purchase of dollars.

Emar Corporation
The Company bills Emar Corporation for its share on expenses which is collected within the year.

PHINMA Education
The Company has payable to PHINMA Education for services rendered.

Directors
The Company recognized bonus to directors computed based on net income before the effect of the application of the equity method of accounting.

Retirement Fund
The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan (see Note 27).

Stockholders
Dividends payable under "Due to stockholders" account in the statements of financial position amounted to ₱15.30 million and ₱91.20 million as at December 31, 2017 and 2016, respectively (see Note 19).

Compensation of Key Management Personnel
Compensation of key management personnel of the Company are as follows:

	2017	2016
Short-term employee benefits	**₱59,420**	₱156,610
Post-employment benefits	**3,081**	2,483
	₱62,501	₱159,093

29. Earnings Per Share

Basic and diluted EPS are computed as follows:

	2017	2016
	(In Thousands, Except for Number of Shares and Per Share Amounts)	
(a) Net income	**₱501,534**	₱1,233,339
Common shares outstanding at beginning of year (Note 19)	**4,885,897,908**	4,865,146,089
Weighted average number of shares issued during the year	**1,614,537**	12,259,975
(b) Weighted average common shares outstanding	**4,887,512,445**	4,877,406,064
Basic/Diluted EPS (a/b)	**₱0.10**	₱0.25

In 2017, the Company does not have any potential common shares or other instruments that may entitle the holder to common shares. In 2016, the Company's stock option had no dilutive effect. Consequently, diluted EPS is the same as basic EPS in 2017 and 2016.

30. Significant Laws, Contracts and Commitments

Electric Power Industry Reform Act (EPIRA)
R.A. No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include, among others, the following:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;
(2) Creation of a WESM;
(3) Open and non-discriminatory access to transmission and distribution systems;
(4) Public listing of generation and distribution companies; and,
(5) Cross-ownership restrictions and concentrations of ownership.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

Retail Competition and Open Access (RCOA)
Upon meeting all conditions set forth in the EPIRA, the ERC promulgated the Transitory Rules for the RCOA, by virtue of ERC Resolution No. 16 Series of 2012.

Through RCOA, licensed Electricity Suppliers such as the Company are empowered to directly contract with Contestable Customers (bulk electricity users with an average demand of 1 MW). This major development in the Power Industry enabled the Company to grow.

Secondary Price Cap
Significant events in November and December 2013 resulted in a surge of electricity prices that affected the end-consumers, which led the ERC to impose a supplemental regulatory cap, under the ERC Resolution No. 20, Series of 2014. The said resolution established a preemptive mitigating measure in the WESM meant to limit significant increases in the WESM prices.

This regulatory cap was made permanent and requires all trading participants in the WESM to comply. The Company is subject to this cap.

Power Purchase Agreement / Contract to Purchase Generated Electricity
The Company entered into contracts with SLTEC, MGI and third parties where the Company will purchase the entire or a portion of the net electricity output of the power plants for a period ranging from 3 to 20 years at an agreed price, subject to certain adjustments.

Power Administration and Management Agreement (PAMA)
The Company entered into PAMAs with its subsidiaries PHINMA Power, CIPP and One Subic. Under the terms of the PAMA, the Company will administer and manage the entire generation output of the plants and will pay for all electricity delivered by the power plant based on a formula as set forth in the PAMA and shall be payable monthly. The PAMAs with PHINMA Power and CIPP are valid for 10 years and are subject to regular review, while the PAMA with One Subic is valid throughout the life of the related Facilities Lease Agreement with Subic Bay Metropolitan Authority.

Ancillary Services Procurement Agreements (ASPA) with NGCP
On December 10, 2012, the Company executed an ASPA with NGCP. Under the ASPA, the power plants will provide contingency and dispatchable reserves to NGCP to ensure reliability in the operation of the transmission system and the electricity supply in the Luzon Grid for five (5) years upon the effectivity of the provisional approval or final approval issued by the ERC. ERC's provisional approval is extended every year.

Electricity Supply Agreement (ESA) / Contract for the Sale of Electricity (CSE) with GUIMELCO
On November 12, 2003, the Company signed an ESA with GUIMELCO, under which the Company agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel generator power station and to supply GUIMELCO with electricity based on the terms and conditions set forth in the ESA. The power plant commenced commercial operations on June 26, 2005.

Upon the expiration of the ESA, the parties entered into a CSE on March 2015. Under the contract, the Company shall supply, for a period of 10 years from fulfillment of the conditions precedent indicated in the contract, all of GUIMELCO's electricity requirements that are not covered by GUIMELCO's base load supply. As at February 28, 2018, the ERC's approval of the CSE is still pending.

ESA / Power Supply Agreement (PSA) with Other Electric Cooperatives
The Company entered into contracts with cooperatives for a period of one to five years with ERC approval. The agreements ended on December 25, 2016 with the expiry of the Company's WA license.

Other ESAs / CSEs with Customers
The Company signed contracts to supply the energy requirements of various bilateral and RES contestable customers with a duration ranging from one to 15 years.

Administration Agreement for the 40 MW Strips of the Unified Leyte Geothermal Power Plant (UL GPP)
On February 6, 2014, the Company was officially declared a winning bidder of a 40 MW Strip of the UL GPP. Consequently, PSALM and the Company, with conformity of the National Power Corporation entered into an Administration Agreement for the Selection and Appointment of the IPPAs for the Strips of Energy of the UL GPP. The agreement will expire on July 25, 2021.

On December 28, 2017, the Company and PSALM have agreed to mutually terminate the Administration Agreement for the 40MW strip of energy of the UL GPP. The Company also withdrew the case it filed earlier and no further claims will be pursued. As at February 28, 2018, the Company has settled all its obligations with PSALM.

Service Contracts with the DOE

SC 14 (North Matinloc)
The Company holds a 6.103% participating interest in SC 14 Block B-1 which hosts the North Matinloc-2 (NM-2) production well. The well is producing on cyclical mode with rest period longer than the flow phase, to enable the reservoir to build up enough pressure to push the crude to surface. In 2016, the well produced a total of 9,123 barrels of crude oil for an average 760 barrels monthly production.

SC 664 (Mabinay, Negros Oriental)
On November 10, 2016, the DOE awarded Hydropower Service Contract 2016-06-664 ("Ilog") to the Company covering certain areas in Mabinay, Negros Oriental. The contract provides for a two-year Pre-Development Stage during which the Company shall evaluate the commercial feasibility of the project. Upon Declaration of Commerciality, the project shall proceed to the Development Stage which is valid for 25 years. All costs during 2016 and 2017 with the Ilog Hydro projects were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (SESC) (Bugallon, Pangasinan)
On May 22, 2017, the DOE awarded a SESC to the Company, which grants the Company the exclusive right to explore, develop and utilize the solar energy resource in a 648 hectare area in the Municipality of Bugallon, Province of Pangasinan. Pre-development activities such as yield assessment, environmental impact study and system impact study are underway and are expected to be completed within the year. The Company hopes to construct a 45MW solar plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at February 28, 2018, all costs of the Bugallon Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (Lipa City and Padre Garcia, Batangas)
On July 18, 2017, the DOE awarded a SESC to the Company, which grants the Company the exclusive right to explore, develop and utilize the solar energy resource in a 486 hectare area in the City of Lipa and Municipality of Padre Garcia, Province of Batangas. The Company hopes to

construct a 45MW solar plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at February 28, 2018, all costs of the Lipa and Padre Garcia Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Operating Lease Agreement with GUIMELCO
The Company has entered into a lease contract with GUIMELCO for a parcel of land used only as a site for electric generating plant and facilities. The term of the lease is 10 years with a renewal option included in the contract. The Company is given the first option to buy the property if the lessor decides to sell the land. The lease is at a fixed monthly rate of ₱0.04 million for the duration of the lease term. On March 27, 2015, the lease contract was extended for another 10 years.

	2017	2016
Within one year	**₱480**	₱480
After one year but not more than five years	**2,400**	2,400
More than five years	**600**	1,080
	₱3,480	₱3,960

31. Financial Risk Management Objectives and Policies

Objectives and Investment Policies
The funds of the entities held directly or indirectly by PHINMA, Inc. are managed by the PHINMA Group Treasury. As such, the PHINMA Treasury Group manages the funds of the Company and invests in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine peso, U.S. dollar and Euro. It is responsible for the sound and prudent management of the Company’s financial assets that finance the Company’s operations and investments in enterprises.

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

- Foreign currency risk
- Credit or counterparty risk
- Liquidity risk
- Market risk
- Interest rate 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, which comprises some of the Company’s BOD, reviews and approves policies, controls and strategies for investments and risk management.

Basic investment policies as approved by the Investment Committee are:

- Safety of principal
- Duration of investment must be consistent with the respective company’s investment horizon based on needs as approved by the Investment Committee
- Exposure limits:
  - For banks or fund managers: maximum 20% of total fund of each company per bank or fund
  - For Philippine peso investments: minimal corporate exposure except for registered bonds for non-affiliates

- Limits on third currencies outside U.S. dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee
- For total foreign currencies: maximum 50% of total portfolio
- For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review.

Risk Management Process

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

Foreign currency risk is managed through:

- Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange.
- Regular discussions with banks to get multiple perspectives on currency trends/forecasts.
- Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values.
- Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.
- Returns being calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's significant foreign currency-denominated financial assets and financial liabilities as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	US Dollar (US$)	**Euro (€)**	US Dollar (US$)	Euro (€)
Financial Assets				
Cash and cash equivalents	**$685**	**€–**	$6	€–
Short-term investments	**8,454**	**–**	–	–
Investments held for trading	**–**	**–**	21	–
	9,139	**–**	27	–
Financial Liabilities				
Accounts payable and other current liabilities	**–**	**–**	(132)	(73)
Net foreign currency-denominated assets (liabilities)	**$9,139**	**€–**	($105)	(€73)
Philippine peso equivalent	**₱456,310**	**€–**	(₱5,221)	(₱3,784)

In translating foreign currency-denominated financial assets and financial liabilities into Philippine peso amounts, the exchange rate used were ₱49.93 to US$1.00 as at December 31, 2017 and ₱49.72 to US$1.00 and ₱51.84 to €1.00 as at December 31, 2016.

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's income before tax (due to the changes in the fair value of monetary assets and liabilities) for the years ended December 31, 2017 and 2016. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on income before tax already includes the impact of derivatives (see Note 32).

	Increase (Decrease) in Foreign Exchange Rate*	Increase (Decrease) in Income Before Tax (US$)	Increase (Decrease) in Income Before Tax (Euro €)
2017	**(0.50)**	**(₱331.93)**	**₱–**
	0.50	**331.93**	**–**
	(1.00)	**(663.86)**	**–**
	1.00	**663.86**	**–**
2016	(0.25)	₱26.01	₱18.37
	0.25	(26.01)	(18.37)
	(0.50)	52.02	36.74
	0.50	(52.02)	(36.74)

**Foreign exchange rate from Philippine peso to USD or to Euro.*

Credit or Counterparty Risk
Credit or counterparty risk is the risk due to uncertainty in counterparty's ability to meet its obligations.

Credit or counterparty risk is managed through the following:

- 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 UITFs' or mutual funds' total funds. Individual limits are further established for one bank or mutual fund on the basis of their valuation, financial soundness, business performance and reputation or expertise. Banks', 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.
- Investments in nonrated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies and updates from the major rating agencies are used as references [i.e., Standard & Poor's Financial Services LLC (S&P) and Moody's Investors Service (Moody's)] in addition to a comprehensive credit and business review.
- For temporary investments in related parties, transactions are done on an arms-length basis taking into account the related parties' financial standing and ability to pay. Interest rates are based on a formula that considers the average of the borrowing and lending rates of the parties and maturity dates are strictly complied with.
- Discussions are done on every major investment by PHINMA Group Treasury en banc before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a Senior Treasury Officer supervises major transaction executions.
- Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.
- A custodian bank for Philippine peso instruments and foreign currency instruments has been appointed based on its track record on such service and the bank's financial competence.
- Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

Credit risk arising from trade receivables is managed through the following:

- Sales team recommends credit extension (amount and term) based on initial customer background check and assessment done by the Sales and Marketing team;
- Credit assessment team assesses credit worthiness by:
  a. Securing customer's relevant operations and financial documents and references; and,
  b. Use of scorecard to review credit references, track record and financial capability and to recommend appropriate action;
- Security deposit may be required to cover credit exposure;
- Approval of customer credit as recommended by credit assessment team is done by Credit Committee composed of CFO, Controller and Head of Power Business;
- Finance conducts regular review of customer account and performance; and,
- Credit approvals and customer payment performance are presented for review by the Board's Risk Committee in its quarterly meetings.

The Company's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below shows the credit quality of the Company's receivables as at December 31:

	2017					
	Neither Past Due nor Impaired			**Past Due but not Impaired**	**Past Due Individually Impaired**	**Total**
	Class A	**Class B**	**Class C**			
Receivables:						
Current						
Trade	**₱1,885,464**	**₱–**	**₱–**	**₱965,217**	**₱26,872**	**₱2,877,553**
Due from related parties	**–**	**–**	**47,327**	**357,949**	**–**	**405,276**
Others	**–**	**–**	**9,060**	**2,562**	**62,079**	**73,701**
Noncurrent						
Receivables from third parties	**–**	**304,268**	**–**	**–**	**–**	**304,268**
	₱1,885,464	**₱304,268**	**₱56,387**	**₱1,325,728**	**₱88,951**	**₱3,660,798**

	2016					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Receivables:						
Trade	₱2,128,957	₱–	₱–	₱765,949	₱22,332	₱2,917,238
Due from related parties	–	–	21,129	597,889	–	619,018
Others	–	–	7,236	2,443	62,079	71,758
Noncurrent						
Receivables from third parties	–	162,951	–	–	–	162,951
	₱2,128,957	₱162,951	₱28,365	₱1,366,281	₱84,411	₱3,770,965

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

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

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

The Company's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, derivative asset and investments held for trading were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.
- Listed and unlisted AFS investments were assessed as high grade since these are investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty or collateral.

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

Liquidity Risk
Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:

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

The tables below summarize the maturity profile of the Company's financial liabilities as at December 31 based on contractual undiscounted payments:

	2017					
	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[a]:						
Trade and nontrade accounts payable	**₱–**	**₱627,755**	**₱571,714**	**₱–**	**₱–**	**₱1,199,469**
Due to related parties	**–**	**1,334,978**	**–**	**–**	**–**	**1,334,978**
Accrued interest	**–**	**24,861**	**74,582**	**–**	**–**	**99,443**
Accrued expenses[b]	**–**	**57,402**	**14,202**	**–**	**–**	**71,604**
Accrued directors' bonus and annual incentives	**–**	**19,749**	**–**	**–**	**–**	**19,749**
Derivative liabilities	**–**	**196**	**–**	**–**	**–**	**196**
Others[c]	**717**	**262**	**3,624**	**–**	**–**	**4,603**
Due to stockholders	**15,300**	**–**	**–**	**–**	**–**	**15,300**
Long-term loans[d]	**–**	**134,467**	**159,617**	**2,552,285**	**3,365,664**	**6,212,033**
Deposit payables - noncurrent	**–**	**–**	**–**	**218,421**	**–**	**218,421**
	₱16,017	**₱2,199,670**	**₱823,739**	**₱2,770,706**	**₱3,365,664**	**₱9,175,796**

[a] *Excludes output VAT amounting to ₱527.44 million and current portion of deferred revenue amounting to ₱402.45 as at December 31, 2017.*
[b] *Excludes current portion of vacation and sick leave accruals amounting to ₱11.57 million as at December 31, 2017.*
[c] *Excludes payable to employees amounting to ₱0.78 million.*
[d] *Includes future interest payments.*

	2016					
	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[(a)]:						
Trade and nontrade accounts payable	₱–	₱1,339,818	₱–	₱–	₱–	₱1,339,818
Due to related parties	–	1,367,570	–	–	–	1,367,570
Accrued interest	–	32,031	–	–	–	32,031
Accrued expenses[(b)]	54,224	138,735	11,325	–	–	204,284
Accrued directors' bonus and annual incentives	–	48,633	–	–	–	48,633
Others [(c)]	2,924	–	–	–	–	2,924
Due to stockholders	12,716	78,487	–	–	–	91,203
Long-term loans[(d)]	–	55,556	165,005	1,792,116	1,884,290	3,896,967
Deposit payables - noncurrent	–	–	–	78,450	–	78,450
	₱69,864	₱3,060,830	₱176,330	₱1,870,566	₱1,884,290	₱7,061,880

[(a)] *Excludes output VAT amounting to ₱395.94 million as at December 31, 2016.*
[(b)] *Excludes current portion of vacation and sick leave accruals amounting to ₱6.63 million as at December 31, 2016.*
[(c)] *Excludes payable to employees amounting to ₱0.41 million.*
[(d)] *Includes future interest payments.*

As at December 31, the profile of financial assets used to manage the Company's liquidity risk is as follows:

	2017				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Loans and receivables:					
Current					
Cash and cash equivalents	**₱1,067,139**	**₱–**	**₱–**	**₱–**	**₱1,067,139**
Short term investments	**–**	**478,362**	**–**	**–**	**478,362**
Receivables:					
Trade	**875,179**	**1,885,464**	**90,038**	**–**	**2,850,681**
Due from related parties	**357,949**	**47,327**	**–**	**–**	**405,276**
Others	**2,562**	**9,060**	**–**	**–**	**11,622**
Refundable deposits and other receivables*	**–**	**–**	**146,475**	**–**	**146,475**
Noncurrent					
Receivables from third parties	**–**	**–**	**–**	**304,268**	**304,268**
Refundable deposits**	**–**	**–**	**–**	**22,837**	**22,837**
Financial assets at FVPL - Investments held for trading	**606,151**	**–**	**–**	**–**	**606,151**
Derivative asset*	**–**	**6,153**	**1,819**	**–**	**7,972**
AFS investments:					
Quoted	**–**	**–**	**–**	**148,439**	**148,439**
Unquoted	**–**	**–**	**–**	**93,899**	**93,899**
	₱2,908,980	**₱2,426,366**	**₱238,332**	**₱569,443**	**₱6,143,121**

**Included in "Other current assets" account.*
***Included in "Other noncurrent assets" account.*

	2016				
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Loans and receivables:					
Current					
Cash and cash equivalents	₱253,083	₱–	₱–	₱–	₱253,083
Short term investments	–	–	2,498	–	2,498
Receivables:					
Trade	765,949	2,128,957	–	–	2,894,906
Due from related parties	597,889	21,129	–	–	619,018
Others	2,443	7,236	–	–	9,679
Refundable deposits and other receivables*	–	–	2,280	–	2,280

(Forward)

	2016				
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Noncurrent					
Receivable from a third party	₱–	₱–	₱–	₱162,951	₱162,951
Refundable deposits and other receivables*	–	–	–	40,844	40,844
Financial assets at FVPL - Investments held for trading	2,025,824	–	–	–	2,025,824
Derivative asset**	–	72	–	–	72
AFS investments:					
Quoted	–	–	–	159,588	159,588
Unquoted	–	–	–	86,806	86,806
	₱3,645,188	₱2,157,394	₱4,778	₱450,189	₱6,257,549

**Included in "Other current assets" account.*
***Included in "Other noncurrent assets" account.*

Market Risk
Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or business and economic changes. Interest rate, foreign exchange rates and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

Market risk is managed through:

- Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists or strategy officers to get multiple perspectives on interest rate trends or forecasts.
- Updates of the portfolio's local and foreign currency bonds' gains and losses as often as necessary.
- "Red Lines" being 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 PHINMA Treasury Group uses as guides whether to buy, hold or sell bonds as approved by the Investment Committee or, in cases of high volatility, by the CFO.
- In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates or prices in relation to strategies.
- Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

The Company's exposure to market risk is minimal. The underlying financial instruments in the Company's investments in UITFs are Peso fixed-rate bonds and low-risk fixed income securities.

Interest Rate Risk
The following table sets out the carrying amount, by maturity of the Company's financial assets that are exposed to interest rate risk:

		2017					
	Interest Rates	**Within 1 Year**	**1-2 Years**	**2-3 Years**	**3-4 Years**	**Beyond 4 Years**	**Total**
Long-term loans							
BDO	**5.81% - 6.55%**	**₱9,407**	**₱9,386**	**₱9,363**	**₱9,340**	**₱433,379**	**₱470,875**
CBC	**5.68% - 7.13%**	**29,980**	**29,966**	**29,950**	**28,553**	**1,300,224**	**1,418,673**
SBC	**4.84% - 4.95%**	**18,950**	**929,706**	**–**	**–**	**–**	**948,656**
DBP	**6.00% - 6.09%**	**43,032**	**70,306**	**75,970**	**81,409**	**877,210**	**1,147,927**
SBC	**6.50% - 6.59%**	**43,038**	**70,310**	**75,972**	**81,409**	**877,188**	**1,147,917**

				2017			
	Interest Rates	**Within 1 Year**	**1-2 Years**	**2-3 Years**	**3-4 Years**	**Beyond 4 Years**	**Total**
Special savings account (PHP)	**1.125% - 4.25%**	**975,702**	**₱–**	**₱–**	**₱–**	**₱–**	**₱975,702**
Special savings account (USD)	**1.25%**	**33,487**	**–**	**–**	**–**	**–**	**33,487**
Special deposit account	**0.46%**	**183**	**–**	**–**	**–**	**–**	**183**
Investment T-bills	**2.55%**	**104,113**	**–**	**–**	**–**	**–**	**104,113**
Short-term investments	**1.8125% - 2.125%**	**478,362**	**–**	**–**	**–**	**–**	**478,362**

				2016			
	Interest Rates	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	Beyond 4 Years	Total
Long-term loans							
BDO	5.81% - 6.55%	₱9,423	₱9,403	₱9,382	₱9,359	₱442,864	₱480,431
CBC	5.68% - 7.13%	29,993	29,980	29,966	29,949	1,328,601	1,448,489
SBC	4.84% - 4.95%	18,983	18,950	929,704	–	–	967,637
Special savings account (PHP)	1.25% - 2.50%	228,944	–	–	–	–	228,944
Special savings account (USD)	1.25%	1,056	–	–	–	–	1,056
Special deposit account	0.45%	134	–	–	–	–	134
Short-term investments	1.88%	2,498	–	–	–	–	2,498

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 tables demonstrate the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Company's income before tax as at December 31. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2017	
	Increase (Decrease) in Basis Points	**Increase (Decrease) in Income Before Tax**
Long-term loan	**50**	**(₱20,625)**
	(50)	**20,625**
T-Bills	**50**	**416**
	(50)	**(416)**
SDA	**50**	**1**
	(50)	**(1)**
SSA	**50**	**4,058**
	(50)	**(4,058)**

	2016	
	Increase (Decrease) in Basis Points	Increase (Decrease) on Income Before Tax
Long-term loan	25	(₱7,130)
	(25)	7,130
SDA	25	463
	(25)	(463)
SSA	25	463
	(25)	(463)

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine the impact on its financial position.

Based on the Company's expectation, the Company's assessment of reasonably possible change was determined to be an increase of 8.75% and 10.32% in 2017 and 2016, respectively, resulting in an increase in equity of ₱5.92 million and ₱8.41 million as at December 31, 2017 and 2016, respectively. The expectation is based on historical changes in the market composite index from 2012 to 2017

<u>Monitoring of Risk Management Process</u>
Risk management is regarded as a core competency, thus, review of processes and approval processes including periodic audit are practiced and observed as follows:

- Weekly meetings are scheduled by PHINMA Treasury Group where approved strategies, limits, mixes are challenged and re-challenged based on current and forecasted developments on the financial and political events.
- Monthly portfolio reports, that include an updated summary of global and domestic events of the past month and the balance of the year, are submitted to the CFO.
- Quarterly presentations of the investment portfolio to the Investment Committee are held to discuss and secure approvals on strategy changes.
- Annual team-building sessions are organized as a venue for the review of personal goals, corporate goals and professional development.
- One-on-one coaching sessions are scheduled to assist, train and advise personnel.
- Periodic review of treasury risk profile and control procedures.
- Periodic specialized audit to ensure active risk oversight.

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or acquire long-term loans.

In 2014, the Company availed ₱3.00 billion loan from CBC, SBC and BDO. During 2017, the Company availed ₱2.35 billion loan with SBC and DBP (see Note 17). In relation to these agreements, the Company closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration.

The following debt covenants are being complied with by the Company as part of maintaining a strong credit rating with its creditors:

CBC and BDO
(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(b) Maximum Debt to Equity ratio of 1.5 times

SBC
(c) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(d) Maximum Debt to Equity ratio of 2.0 times
(e) Minimum Current ratio of 1.0 times

As at December 31, 2017 and 2016, the Company is compliant with the debt covenants above.

32. Fair Values

The table below presents the carrying values and fair values of the Company's financial assets and financial liabilities, by category and by class, as at December 31, 2017 and 2016.

	2017			
		Fair value		
	Carrying Value	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Input (Level 2)**	**Significant Unobservable Input (Level 3)**
Assets				
Investment held for trading	**₱606,151**	**₱–**	**₱606,151**	**₱–**
AFS investments	**148,439**	**91,879**	**56,560**	–
Derivative assets*	**7,972**	–	**7,972**	–
Refundable deposits**	**169,312**	–	–	**149,187**
Receivables from third parties	**304,268**	–	–	**299,527**
	₱1,236,142	**₱91,879**	**₱670,683**	**₱448,714**
Liabilities				
Long-term loans	**₱5,134,048**	**₱–**	**₱–**	**₱5,465,824**
Derivative liability***	**196**	–	**196**	–
Deposit payable & other liabilities****	**223,024**	–	–	**196,514**
	₱5,357,268	**₱–**	**₱196**	**₱5,662,338**

	2016			
		Fair value		
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets				
Investment held for trading	₱2,025,824	₱–	₱2,025,824	₱–
AFS investments	159,588	106,426	53,162	–
Derivative assets*	72	–	72	–
Refundable deposits**	43,124	–	–	42,397
Receivable from a third party	162,951	–	–	158,743
	₱2,391,559	₱106,426	₱2,079,058	₱201,140
Liabilities				
Long-term loans	₱2,896,557	₱–	₱–	₱2,888,624
Deposit payable & other liabilities****	46,605	–	–	45,747
	₱2,943,162	₱–	₱–	₱2,934,371

* *Included under "Other current assets" account.*
** *Included under "Other current assets" and "Other noncurrent assets" accounts.*
*** *Included under "Accounts payable and other current liabilities" account.*
**** *Included under "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts.*

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

Cash and Cash Equivalents, Short-term Investment, Receivables, Accounts Payable and Other Current Liabilities (excluding Statutory Payables) and Due to Stockholders
The carrying amounts of cash and cash equivalents, short-term investments, receivables, accounts payable and other current liabilities (excluding statutory payables) and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading
Net asset value per unit has been used to determine the fair values of investments held for trading.

AFS Investments
Quoted market prices have been used to determine the fair values of quoted AFS investments. The fair values of unquoted AFS investments are based on cost since the fair values are not readily determinable. The Company does not intend to dispose the unlisted AFS investments in the near future.

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

Refundable Deposits, Receivables from Third Parties, Deposits Payable and Other Liabilities
Estimated fair value is based on present value of future cash flows discounted using the prevailing PDST-R2 rates that are specific to the tenor of the instruments' cash flows at the end of the reporting period.

Long-Term Loans
Estimated fair value of long-term loans is based on the discounted value of future cash flows using the prevailing PDST-R2 at the reporting period adjusted for credit spread.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - Quoted prices in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company has no financial instruments measured at fair value using the level 3 hierarchy. Also, there were no transfers between level 1 and level 2 fair value measurements.

<u>Derivative Asset</u>

Foreign Currency Forwards
The Company entered into a forward foreign currency forward contracts with a bank with an aggregate notional amount of US$8.95 million in 2017. The deliverable forwards were outstanding as of December 31, 2017. The weighted average fixing rate amounted to ₱51.09 to US$1.00 in 2017. The gain on the fair value adjustment pertaining to these forward contracts amounted to ₱7.97 million in 2017. There were no similar arrangements in 2016.

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

The Company's outstanding embedded forwards have an aggregate notional amount of US$0.34 million and US$0.13 million as at December 31, 2017 and 2016, respectively. The weighted average fixing rate amounted to ₱50.31 to US$1.00 and ₱47.51 to US$1.00 as at December 31, 2017 and 2016, respectively. The net fair value of these embedded derivatives amounted to ₱0.40 million loss and ₱0.07 million gain as at December 31, 2017 and 2016, respectively.

The net movements in fair value changes of the Company's derivative instruments (both freestanding and embedded derivatives) are as follows:

	2017	2016
Balance at beginning of year	**₱72**	₱98
Net changes in fair value during the year	**7,523**	8,741
Fair value of settled contracts	**181**	(8,767)
Balance at end of year	**₱7,776**	₱72

The net changes in fair value during the year are included in the "Other income - net" account in the parent company statements of income (see Note 25).

The fair value of derivative assets is presented under "Other current assets" account in the parent company statements of financial position (see Note 9).

33. Operating Segments

The Company is divided into two reportable operating segments based on the nature of the services provided - Power and Petroleum. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the parent company financial statements.

	2017				
	Power	**Petroleum**	**Segment Total**	**Adjustments and Eliminations**	**Consolidated**
Revenue	**₱17,011,044**	**₱–**	**₱17,011,044**	**₱9,189**	**₱17,020,233**
Costs and expenses	**17,238,567**	**23,437**	**17,262,004**	**331,785**	**17,593,789**
Other income (expense) - net					
Interest and other financial charges	**(184,075)**	**–**	**(184,075)**	**(329,491)**	**(513,566)**
Interest and other financial income	**–**	**–**	**–**	**87,185**	**87,185**
Equity in net earnings of associates and joint ventures	**1,024,995**	**–**	**1,024,995**	**–**	**1,024,995**
Gain on derivatives - net	**(449)**	**–**	**(449)**	**9,848**	**9,399**
Loss on sale of AFS investments	**–**	**–**	**–**	**(17)**	**(17)**
Foreign exchange loss - net	**–**	**–**	**–**	**(8,373)**	**(8,373)**
Others	**–**	**–**	**–**	**17,423**	**17,423**
Segment profit	**612,948**	**(23,437)**	**589,511**	**(546,021)**	**43,490**
Operating assets	**₱15,654,072**	**₱77,699**	**₱15,731,771**	**₱5,026,762**	**₱20,758,533**
Operating liabilities	**₱5,913,821**	**₱3,612**	**₱5,917,433**	**₱5,701,541**	**₱11,618,974**

	2017				
	Power	**Petroleum**	**Segment Total**	**Adjustments and Eliminations**	**Consolidated**
Capital expenditures	**₱114,115**	**₱130**	**₱114,245**	**₱11,647**	**₱125,892**
Capital disposals	**2,018**	**830**	**2,848**	**417**	**3,265**
Investments and advances	**4,056,971**	**–**	**4,056,971**	**631**	**4,057,602**
Depreciation and amortization	**(379,519)**	**(689)**	**(380,208)**	**(19,195)**	**(399,403)**
Provision for income tax	**–**	**–**	**–**	**303,678**	**303,678**

	2016				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱15,465,866	₱–	₱15,465,866	₱12,007	₱15,477,873
Costs and expenses	14,357,951	81,403	14,439,354	566,155	15,005,509
Other income (expense) - net					
Interest and other financial charges	(303,644)	–	(303,644)	(164,841)	(468,485)
Interest and other financial income	–	–	–	46,077	46,077
Equity in net earnings of associates and joint ventures	886,224	–	886,224	–	886,224
Gain on derivatives	8,741	–	8,741	–	8,741
Gain (loss) on sale of:					
Investments	444,207	–	444,207	–	444,207
Property, plant and equipment	27,731	–	27,731	132	27,863
AFS investments	–	–	–	7	7
Foreign exchange loss - net	–	–	–	(7,208)	(7,208)
Unrecoverable input value-added tax	–	–	–	(2,568)	(2,568)
Others	1,210	–	1,210	34,550	35,760
Segment profit	₱2,172,384	(₱81,403)	₱2,090,981	(₱647,999)	₱1,442,982
Operating assets	₱16,049,329	₱103,314	₱16,152,643	₱4,475,252	₱20,627,895
Operating liabilities	₱7,941,587	₱6,143	₱7,947,730	₱3,678,621	₱11,626,351
Capital expenditures	₱171,253	₱2,853	₱174,106	₱5,379	₱179,485
Capital disposals	806,963	2,097	809,060	2,419	811,479
Investments and advances	4,018,530	–	4,018,530	631	4,019,161
Depreciation and amortization	(392,410)	(635)	(393,045)	(20,046)	(413,091)
Provision for income tax	–	–	–	(60,451)	(60,451)

Adjustments and Eliminations

Interest and other financial income, including fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Likewise, certain operating expenses and finance-related charges are managed on a group basis and are not allocated to operating segments.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditures consist of additions to property, plant and equipment. Investments and advances consist of investments and cash advances to the Company's associates and joint ventures.

Reconciliation of profit

	2017	2016
Segment total profit before adjustments and eliminations	**₱589,511**	₱2,090,981
Dividend income	**8,483**	7,433
Rent Income	**706**	4,574
General and administrative expense	**(331,785)**	(566,156)
Interest and other financial income	**87,185**	46,077
Interest and other financial charges	**(329,491)**	(164,841)
Other income (loss) - net	**18,881**	24,914
Income before income tax	**₱43,490**	₱1,442,982

Other income (expense) - net include foreign exchange gain (loss), gain (loss) on sale of property, plant and equipment and AFS investments, provision for probable losses, gain (loss) on derivatives and other miscellaneous income (expense) which are managed on a group basis and are not allocated to operating segments.

Reconciliation of assets

	2017	2016
Segment operating assets	**₱15,731,771**	₱16,152,643
Current assets		
Cash and cash equivalents	**1,300,999**	395,582
Short-term investments	**478,362**	2,498
Investments held for trading	**1,483,519**	3,061,270
Receivables and other current assets	**659,056**	385,875
Noncurrent assets		
Property, plant and equipment	**67,258**	64,757
Investments in an associate and AFS investments	**293,758**	309,701
Investment property	**13,085**	24,380
Deferred income tax asset - net	**430,280**	71,849
Other noncurrent assets	**300,445**	159,340
Total assets	**₱20,758,533**	₱20,627,895

Reconciliation of liabilities

	2017	2016
Segment operating liabilities	**₱5,917,433**	₱7,947,730
Current liabilities		
Accounts payable and other current liabilities	**359,195**	415,102
Income and withholding taxes payable	**42,308**	99,396
Due to stockholders	**15,300**	91,203
Current portion of long-term loans	**144,406**	58,399
Noncurrent liabilities		
Long-term loans - net of current portion	**4,989,640**	2,838,158
Pension and other employee benefits	**36,110**	126,890
Deferred income tax liabilities - net	**111,387**	47,585
Other noncurrent liabilities	**3,195**	1,888
Total liabilities	**₱11,618,974**	₱11,626,351

The following table shows the reconciliation of consolidated amounts and the amounts reflected in the parent company financial statements as at and for the years ended December 31, 2017 and 2016.

		2017	
	Consolidated	**Subsidiaries**	**Parent Company**
Segment profit	**₱43,490**	**₱109,070**	**₱152,560**
Net income	**347,168**	**154,366**	**501,534**
Total assets	**20,758,533**	**(3,173,008)**	**17,585,525**
Total liabilities	**11,618,974**	**(2,148,380)**	**9,470,594**
Capital expenditures	**125,892**	**(70,309)**	**55,583**

		2016	
	Consolidated	Subsidiaries	Parent Company
Segment profit	₱1,442,982	(₱189,494)	₱1,253,488
Net income	1,382,531	(149,192)	1,233,339
Total assets	20,627,895	(6,241,204)	14,386,691
Total liabilities	11,626,351	(5,049,498)	6,576,853
Capital expenditures	179,485	(78,631)	100,854

34. Supplemental Cash Flow Information

The following table shows the Company's non-cash investing and financing activities and corresponding transactions' amounts for the years ended December 31:

	2017	2016
Non-cash investing activities:		
Reclassifications to:		
Investment property	**₱40,908**	₱–
Property, plant and equipment	**11,297**	–
Remeasurement of AFS investments	**11,183**	8,238
Forfeiture of stock options	–	14,661

Movement in the Company's liabilities from financing activities are as follows

	January 1, 2017	**Dividend Declaration**	**Availments**	**Payments**	**Others**	**December 31, 2017**
Current portion of long-term loans	**₱58,399**	**₱–**	**₱–**	**₱–**	**₱86,008**	**₱144,407**
Dividends payable	**91,203**	**195,437**	**–**	**(271,340)**	**–**	**15,300**
Noncurrent portion of long-term loans	**2,838,158**	**–**	**2,338,250**	**(103,710)**	**(83,057)**	**4,989,641**
Total liabilities from financing activities	**₱2,987,760**	**₱195,437**	**₱2,338,250**	**(₱375,050)**	**₱2,951**	**₱5,149,348**

Others includes the amortization of debt issue costs, interest expense and the effect of reclassification of non-current portion to current due to passage of time.

35. Other Matters

a. On August 20, 2014, the Company distributed cash and property dividends in the form of shares in PHINMA Petroleum (see Note 19) after securing SEC's approval of the registration and receipt of Certificate Authorizing Registration (CAR) from the BIR.

   On October 22, 2014, the Company received from the BIR a Formal Letter of Demand (FLD), assessing the Company for a total donor's tax due of ₱157.75 million inclusive of penalty and interest up to September 30, 2014.

On November 21, 2014, the Company and its independent legal counsel filed an administrative protest in response to the FLD, on the following grounds:

1) The dividend distribution is a distribution of profits by the Company to its stockholders and not a "disposition" as contemplated under Revenue Regulations Nos. 6-2008 and 6-2013 which would result in the realization of any capital gain of the Company;
2) The Company did not realize any gain or increase its wealth as a result of the dividend distribution; and,
3) There was no donative intent on the part of the Company.

On May 27, 2015, the Company received from the BIR a Final Decision on Disputed Assessment (FDDA) dated May 26, 2015, denying the protest.

On June 25, 2015, the Company filed with the CTA a Petition for Review seeking a review of the FDDA and requesting the cancellation of the assessment. Both the Company and the BIR have finished presenting evidence. As at February 28, 2018, the case is still pending.

b. R.A. No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date.

The TRAIN changes the existing tax law and includes several provisions that will generally affect businesses on a prospective basis. In particular, management assessed that amendment of Section 148 - Excise tax on manufactured oil and other fuels - which increases the excise tax rates of lubricating oil, diesel fuel oil and bunker fuel oil, among others, that are used for the power plants, may have material impact to the operations of the Company. However, the same will not have any significant impact on the parent company financial statements as of the reporting date.

36. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

In compliance with this Bureau of Internal Revenue (BIR) RR No. 15-2010, following are the information on the taxes and licenses fees that the Company reported and/or paid for the year (presented in full amounts):

a. Value-added Taxes (VAT)

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

Output VAT

Net sales/receipts and output VAT declared in the Company's VAT returns filed for the period follows:

	Net Sales/Receipts	Output VAT
Taxable sales:		
Sale of services	₱13,075,577,662	₱1,569,069,319
Sale of goods	870,991	104,519
Rental income	1,086,165	130,340
	13,077,534,818	1,569,304,178
Zero-rated sales -	3,357,566,971	–
Exempt sales	373,647,397	–
	₱16,808,749,186	₱1,569,304,178

Zero-rated sales consist of sale of power to PEZA and sale of power generated from renewable sources of energy under Republic Act (R.A.) No. 9513.

Exempt sales represent collections allocated to universal charges, franchise tax and benefits to host communities and sales under Presidential Decree No. 87 which are not subject to VAT.

The Company's sale of services and rental income which are subjected to VAT are based on actual collections received, hence, may not be the same as amounts accrued in the statement of income.

Input VAT

The amount of VAT Input taxes claimed broken down into:

Beginning of the year	₱62,735,490
Current year's purchases:	
Services under cost of goods sold	1,413,336,295
Goods other than for resale or manufacture	100,297,836
Capital goods not subject to amortization	474,005
Total available input tax	1,576,843,626
Claims for tax credit/refund and other adjustments	(1,463,922,689)
Balance at December 31, 2017	₱112,920,937

b. Landed Costs of Importation

Total landed costs of importation amounted to ₱2,322,189 in 2017, ₱22,931 of which pertain to customs duties, tariff and other fees. These are all paid as at December 31, 2017.

c. Other Taxes and Licenses

This includes all other taxes, local and national, including real property taxes, licenses and permit fees.

Details of other taxes and license fees are as follows:

Local	
Business permits	₱109,934,145
Real property taxes	3,278,526
Mayor's permit fees & other licenses	94,064
Community tax certificates	10,500
Professional tax	2,700
	₱113,319,935

National	
Documentary stamp taxes (DST)	₱1,504,641
Gross receipts taxes on loans	5,285,971
Fringe benefits tax	1,206,378
BIR Annual Registration	500
Other taxes and licenses	516,622
	₱8,514,112

d. DST

The Company's DST for the year ended December 31, 2017 is as follows:

DST on:	
Advances	₱1,119
Issuance of shares	19,391
Purchase of insurance	1,484,131
	₱1,504,641

e. Withholding Taxes

Details of withholding taxes are as follows:

	Paid	Balance as at December 31, 2017
Withholding taxes on compensation and benefits	₱28,977,348	₱1,919,431
Expanded withholding taxes	68,304,202	25,585,335
Final withholding taxes	11,848,500	–
Fringe benefits	891,094	297,589
Withholding VAT	–	18,432
	₱110,021,144	₱27,820,787

f. Tax Assessments and Cases

i. The Company was assessed by the local government of Makati City in the amount of ₱2,436,220 for alleged deficiency taxes, fees and charges for the calendar years 2004 to 2007. The Company filed a complaint for the cancellation of the assessment on December 17, 2009. The Makati City Regional Trial Court (RTC) issued a decision dismissing the Company's complaint, to which the Company timely filed a Motion for Reconsideration on December 12, 2013. In an Order dated May 2, 2014, the Makati City RTC reconsidered its decision and cancelled the assessment. Local government of Makati City filed a Motion for Reconsideration of the said Order, which was denied by the Makati City RTC. Since Makati City has not appealed the Order, it has become final and executory.

ii. In connection with the Company's distribution of cash and property dividends in the form of its investment in PHINMA Petroleum to its shareholders, the Company received from the BIR a Formal Letter of Demand (FLD) and Final Assessment Notice (FAN), assessing the Company for a total donor's tax due of ₱157.75 million inclusive of penalty and interest up to September 30, 2014. On November 21, 2014, the Company and its independent legal counsel filed an administrative protest in response to the FLD, basically requesting for reconsideration and reinvestigation of the assessment. On May 27, 2015, the Company received from the BIR a Final Decision on Disputed Assessment (FDDA) dated May 26, 2015, denying the protest. On June 25, 2015, the Company filed with the Court of Tax Appeals (CTA) a Petition for Review seeking a review of the FDDA and requesting the cancellation of the assessment. On July 24, 2015, the Company received a letter from the BIR informing the Company that it will issue a Warrant of Distraint and/or Levy and Warrants of Garnishment for the assessed amount. On July 29, 2015, the Company filed with the CTA an Urgent Motion to Suspend Collection of Taxes and for the Issuance of Temporary Restraining Order and/or Writ of Preliminary Injunction. On October 20, 2015, the CTA issued a Notice of Resolution dated October 12, 2015 granting the Company's

Motion to Suspend the collection of taxes, provided that it files a surety bond equivalent to one and one-half (1 ½) times the amount to be collected. On October 29, 2015, the Company filed the surety bond. As of December 31, 2017, both PHINMA Energy and the BIR have finished presenting evidence. As of February 28, 2018, the case is still pending.