

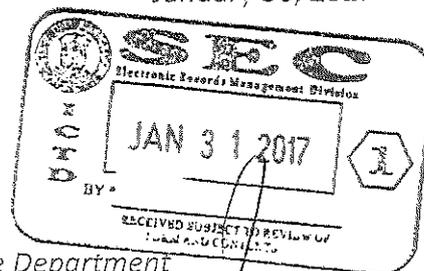




January 30, 2017

Securities and Exchange Commission  
Secretariat Building, PICC Complex,  
Roxas Boulevard, Pasay, 1307

Attention: **Hon. Justina F. Callangan**  
*Director, Corporate Governance & Finance Department*



Philippine Stock Exchange, Inc.  
3/F Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue, Makati City

Attention: **Ms. Janet A. Encarnacion**  
*Head, Disclosure Department*

Gentlemen:

Please be informed that at the meeting of the Board of Directors of PHINMA Energy Corporation ("PHINMA Energy") held on January 30, 2017, it was decided that the annual meeting of shareholders shall be held on Monday, April 10, 2017, at 2:30 in the afternoon at the Manila Peninsula Hotel, Makati City.

The agenda of the meeting is as follows:

1. Call to Order
2. Proof of Notice and Determination of Quorum
3. Minutes of Previous Meeting
4. 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 10, 2017.

A copy of the Notice of Annual Shareholders Meeting is attached hereto for your reference and files.

Very truly yours,

A handwritten signature in black ink, appearing to read "Alan T. Ascalon".

**ALAN T. ASCALON**

*Assistant Corporate Secretary*



## NOTICE OF ANNUAL SHAREHOLDERS MEETING

TO ALL SHAREHOLDERS:

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.

The Agenda of the Meeting is as follows:

### 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 the attached 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.

A handwritten signature in black ink, appearing to read "Alan T. Ascalon", is positioned above the printed name and title.

**ALAN T. ASCALON**  
Assistant Corporate Secretary

Annex "A"

**PHINMA ENERGY CORPORATION**  
**ANNUAL SHAREHOLDERS MEETING**  
*10 April 2017, 2:30 p.m.*

**Explanation of Each Item on the Agenda**

1. Call to Order

The Chairman, Mr. Oscar J. Hilado, will formally begin the annual meeting of the shareholders of PHINMA Energy Corporation (the "Corporation"). He will also state that shareholders will be given an opportunity to ask questions or raise their concerns regarding each item on the agenda.

2. Proof of Notice and Determination of Quorum

The Assistant Corporate Secretary, Atty. Alan T. Ascalon, will certify the date when the notice of meeting and information statement were sent to the shareholders of record as of March 10, 2017 and to the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE).

Atty. Ascalon will likewise certify as to the existence of quorum. The owners of a majority of the shares issued and outstanding either in person or by proxy shall constitute a quorum for the transaction of business at this meeting.

3. Minutes of Previous Meeting

Copies of the minutes of the Annual Shareholders Meeting held on April 12, 2016 will be distributed to the shareholders before the meeting and will be presented to the shareholders during the meeting for approval.

4. Annual Report of Management and Confirmation of all acts of the Board of Directors and of Management since the last Annual Shareholders Meeting

The annual report for the preceding fiscal year will be presented to the shareholders for approval. The acts of the Board of Directors and Management of the Corporation since the last Annual Shareholders Meeting will likewise be presented to the shareholders for confirmation.

5. Election of Directors

The members of the Board of Directors shall be elected by plurality vote. The Assistant Corporate Secretary will present the nominees qualified for election to the Board of Directors, including the independent directors. A comprehensive description of the qualifications and business experience of the nominees for election to the Board of Directors will be included in the information statement.

Voting shall be by raising of hands or *viva voce*. In case of any objection to the manner of casting votes, voting shall be done in writing by secret ballot which shall be counted thereafter by the Assistant Corporate Secretary in the presence of SGV to be able to validate the counting. Each shareholder may cast as many votes as he or she has shares of stock, multiplied by eleven (11), or the number of board seats provided in the Articles of Incorporation.

6. Appointment of External Auditors

The shareholders will be requested to confirm the appointment of the external auditors who were appointed for the current fiscal year.

7. Other Matters

The Chairman will open the floor to comments and questions by the shareholders. The Chairman will decide whether matters raised by the shareholders may be properly taken up in the meeting or in another proper forum.

8. Adjournment

The Chairman will adjourn the meeting when the scheduled order of business is completed and no further business or matter is considered or raised.

**PROXY**

The undersigned stockholder of **PHINMA ENERGY CORPORATION** (the "Company") hereby appoints \_\_\_\_\_ or in his absence, the Chairman of the meeting, as *attorney and proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Shareholders Meeting of the Company on April 10, 2017 and at any of the adjournments thereof for the purpose of acting on the following matters:

- 1. Approval of the Minutes of the previous meeting  
 Yes    No    Abstain
- 2. Approval of the Annual Report of Management  
 Yes    No    Abstain
- 3. Confirmation of all acts of the Board of Directors and Management since the last Annual Shareholders Meeting  
 Yes    No    Abstain
- 4. Election of Directors  
 Vote for all nominees listed below:

- Withhold authority for all nominees listed above
- Withhold authority to vote for the nominees listed below:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Oscar J. Hilado  
Ramon R. del Rosario, Jr.  
Francisco L. Viray  
Roberto M. Laviña  
Magdaleno B. Albarracin, Jr.  
Víctor J. del Rosario  
Pythagoras L. Brion, Jr.  
Ricardo V. Camua (Independent)  
David L. Balangue (Independent)  
Guillermo D. Luchangco (Independent)  
Corazon Dela Paz Bernardo (Independent)

- 5. Appointment of Sycip Gorres Velayo & Co. as external auditors.  
 Yes    No    Abstain
- 6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.  
 Yes    No    Abstain

\_\_\_\_\_  
PRINTED NAME OF STOCKHOLDER

\_\_\_\_\_  
SIGNATURE OF STOCKHOLDER/ AUTHORIZED SIGNATORY

\_\_\_\_\_  
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **MARCH 31, 2017**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

**PHINMA ENERGY CORPORATION**

**NOTICE OF ANNUAL SHAREHOLDERS MEETING**

**AND**

**INFORMATION STATEMENT  
(SEC Form 20-IS)**

Pursuant to Section 20 of the Securities Regulation Code

***Annual Shareholders Meeting***

*2:30 P.M.*

*April 10, 2017*

***PENINSULA MANILA HOTEL***

*Ayala Avenue, Makati City*

**Securities and Exchange Commission**

**SEC Form 20-IS**

**Information Statement  
Pursuant to Section 20 of the Securities Regulation Code**

1. Check the appropriate box

\_\_\_\_\_ Preliminary Information Statement

  X   Definitive Information Statement

2. Name of Registrant as specified in its charter:

**PHINMA ENERGY CORPORATION**

3. Country of Incorporation: **PHILIPPINES**

4. SEC Identification Number: **39274**

5. BIR Tax Identification Number **049-000-506-020**

6. Address of Principal Office **Level 11, PHINMA Plaza  
39 Plaza Drive,  
Rockwell Center, Makati City 1200**

7. Telephone Number **(632) 870-0100**

8. Date, time and place of the meeting of security holder:

**April 10, 2017  
2:30 PM  
Peninsula Manila Hotel  
Ayala Avenue, Makati City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders:

**March 20, 2017**

10. Securities registered pursuant to Sections 8 & 12 of the Code or Sections 4 & 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Number of shares of Common  
Stock Outstanding **4,885,897,908 shares**

Amount of debt **Php 7.0 Billion**

11. Are any or all registrant's securities listed on the Philippines Stock Exchange?

Yes   **X**   No           

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**Philippine Stock Exchange – common shares**

## PHINMA ENERGY CORPORATION

### INFORMATION STATEMENT

This Information Statement is dated as of March 17, 2017 and is being furnished to stockholders of record of PHINMA ENERGY CORPORATION (“PHINMA Energy” or the “Company”) as of March 10, 2017 in connection with its Annual Shareholders Meeting.

#### ***WE ARE NOT SOLICITING YOUR PROXY.***

#### **1) Date, Time and Place of Meeting of Security Holders**

Date	:	April 10, 2017
Time	:	2:30 p.m.
Place	:	PENINSULA MANILA HOTEL Ayala Avenue, Makati City
Principal Office	:	Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center Makati City, Philippines

This Information Statement will be first sent or given to security holders on March 20, 2017.

#### **2) Dissenter’s Right of Appraisal**

There are no matters to be taken up at the meeting that will give rise to the right of appraisal pursuant to Title X, Section 81 of the Corporation Code of the Philippines governing the exercise of Appraisal Rights which states that:

Any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in this code; and
3. In case of merger or consolidation.

An appraisal right is also available to dissenting shareholders in case the corporation decides to invest its funds in another corporation or business as provided for in Section 42 of the Corporation Code and in case the corporation sells or disposes of all or substantially all of its properties and assets as provided for in Section 40 of the Corporation Code.

As provided under Section 82 of the Corporation Code, this appraisal right may be exercised by any stockholder who shall have voted against such corporate action by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the

fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

Within ten (10) days after demanding payment for his shares, a dissenting stockholder shall submit the certificate(s) of stock representing his shares to the corporation for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of the corporation, terminate his appraisal rights

If the corporate action is implemented, the corporation shall pay to such dissenting stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger if such be the corporate action involved. If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation, and the third by the two (2) thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment. Upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

### **3) Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

None of PHINMA Energy's directors, officers, nominees or associates has substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than elections to office.

The Board of Directors of PHINMA Energy is not aware of any party who has indicated an intention to oppose the motions set forth in the Agenda.

### **4) Voting Securities and Principal Holders Thereof**

As of February 28, 2017, **4,885,897,908** shares of PHINMA Energy common stock are outstanding and entitled to vote at the Annual Shareholders Meeting. Of the said outstanding voting shares, **4,410,543,992** 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 10, 2017 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).

#### **a) Security Ownership of Certain Record and Beneficial Owners**

The table below shows the persons or groups known to PHINMA Energy to be directly the record or beneficial owners of more than five percent (5%) of the company's voting securities as of February 28, 2017:

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 <sup>1</sup> MSE Bldg., Ayala Avenue, Makati City Stockholder		Filipino 74.01% Foreign 9.60%	4,085,545,122	83.62%
Common	PHINMA Corporation (or PHINMA Corp., formerly Bacnotan Consolidated Industries, Inc.) <sup>2</sup> 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%

<sup>1</sup> **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 February 29, 2016, 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.

<sup>2</sup> **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 February 28, 2017:

Title of Class	Name of Owner	Citizenship	No. of Shares Held	Nature	% of Class
Common	Oscar J. Hilado	Filipino	6,500,000	Direct	0.09
Common	Ramon R. del Rosario, Jr.	Filipino	17,383,812	Direct	0.9
			26,745,698	Indirect	
Common	Francisco L. Viray	Filipino	13,165,500	Direct	0.27
			614,000	Indirect	
Common	Roberto M. Laviña	Filipino	3,048,724	Direct	0.07
Common	Guillermo D. Luchangco	Filipino	1,500,001	Direct	0.03
Common	Magdaleno B. Albarracin, Jr.	Filipino	13,427,926	Direct	0.28
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	1,771,143	Direct	0.03
Common	Rizalino G. Santos	Filipino	3,420,773	Direct	0.07
Common	Virgilio R. Francisco, Jr.	Filipino	2,049,183	Direct	0.04
Common	Pythagoras L. Brion, Jr.	Filipino	786,724	Direct	0.01
Common	Mariejo P. Bautista	Filipino	1,472,581	Direct	0.03
Common	Alan T. Ascalon	Filipino	251,981	Direct	0.00
Common	Cecille B. Arenillo	Filipino	300,000	Direct	0.01
Common	Danilo L. Panes	Filipino	259,583	Direct	0.00
Common	Danielle R. del Rosario	Filipino	370,751	Direct	0.01
Common	Arthur R. Villacorte	Filipino	223,670	Direct	0.00
Common	Ma. Teresa P. Posadas	Filipino	136,987	Direct	0.00
	<b>TOTAL</b>		<b>129,132,099</b>		<b>2.57</b>

**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.

**5) Directors and Executive Officers**

**a) Board of Directors**

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

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

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

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

Directors	Age	Citizenship	Position
Oscar J. Hilado	79	Filipino	Director and Chairman of the Board
Ramon R. del Rosario, Jr.	72	Filipino	Director and Vice Chairman
Francisco L. Viray	68	Filipino	Director, President and CEO
Roberto M. Laviña	66	Filipino	Director and Treasurer
Magdaleno B. Albarracin, Jr.	80	Filipino	Director

Victor J. del Rosario	68	Filipino	Director
Pythagoras L. Brion, Jr.	64	Filipino	Director, SVP and CFO
Ricardo V. Camua	73	Filipino	Independent Director
David L. Balangue	65	Filipino	Independent Director
Guillermo D. Luchangco	77	Filipino	Independent Director
Corazon dela Paz-Bernardo.	76	Filipino	Independent Director

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

**Oscar J. Hilado**, 79, has been the Chairman of the Board of the Company since April 16, 2008. He served as Vice Chairman of the Company's Board of Directors for 13 years and Chairman of the Executive Committee for 17 years. 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., Chairman of Union Galvasteel Corporation and Vice Chairman of Trans Asia Petroleum Corporation and Trans Asia Power Generation Corp. He is a director of One Subic Power Generation Corp., Palawan55 Exploration & Production Corporation, Trans-Asia Renewable Energy Corporation, Trans-Asia Gold and Minerals Development Corporation, Manila Cordage Corp., Seven Seas Resorts & Leisure, Inc., First Philippine Holdings Corporation, 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.

**Ramon R. del Rosario, Jr.**, 72, was elected as Vice Chairman of the Board of Directors and Chairman of the Executive Committee of the Company on April 16, 2008. He has been a director of the Company since 2002. He is the President and CEO of PHINMA Inc. and PHINMA Corp. He is also the Chairman of Trans-Asia Power Generation Corporation, Trans-Asia Renewable Energy Corporation, CIP II Power Corporation, Trans-Asia Petroleum Corporation, Palawan55 Exploration and Production Corporation, One Subic Power Generation Corp., Trans-Asia Wind Power Corporation, Trans-Asia Gold and Minerals Development Corporation, Microtel Inns and Suites (Pilipinas), 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 Boards 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 to 1993. He is Chairman of the National Museum of the Philippines, Ramon Magsaysay Award Foundation and Philippine Business for Education (PBED). He was former Chairman of the Makati Business Club and the Integrity Initiative. 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. Mr. del Rosario obtained his BSC-Accounting and AB-Social Sciences degrees (*Magna cum Laude*) from De La Salle University and Master's degree in Business Administration from the Harvard Business School. He is the brother of Mr. Victor J. del Rosario.

**Francisco L. Viray**, 68, 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 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 is concurrently the President & CEO of Trans-Asia Power Generation Corporation, Trans-Asia Renewable Energy Corporation, Trans-Asia Petroleum Corporation, Trans-Asia Gold and Minerals Development Corporation and Trans-Asia Wind Power Corporation. 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 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**, 66, is the Senior Executive Vice President/Chief Operating Officer (COO) of PHINMA Inc. & PHINMA Corp. and concurrently serves as 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 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.

**Pythagoras L. Brion**, 64, was elected Senior Vice President & CFO of the Company on March 20, 2012. He joined the PHINMA group in 1992. He is concurrently EVP/CFO of PHINMA Inc. and SVP/Treasurer of PHINMA Corp., EVP Treasurer & CFO of Trans-Asia Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., Trans-Asia Petroleum Corporation and Palawan55 Exploration & Production Corporation. Mr. Brion is the Treasurer & CFO of Trans-Asia Gold and Minerals Development Corporation and the Treasurer of Trans-Asia Renewable Energy Corporation and Trans-Asia Wind Power Corporation. Mr. Brion likewise serves various executive posts in the PHINMA-managed companies in steel building systems, education, hospitality and property. Mr. Brion received his Bachelor of Science degree in Management Engineering from Ateneo de Manila University and holds a Master's degree in Business Administration from the University of the Philippines.

**Magdaleno B. Albarracin, Jr.**, 80, 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, Trans-Asia Power Generation Corporation, One Subic Power Generation Corp., Trans-Asia Petroleum Corporation, Trans-Asia 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 the Company (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.

**Victor J. del Rosario**, 68, 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 an Economics and Accounting graduate of De La Salle University and holds a Master's degree in Business Administration from Columbia University. He is the brother of Mr. Ramon R. Del Rosario, Jr.

**Ricardo V. Camua**, 73, has been a director of the Company since 1996. He served as the President and Chief Executive Officer of Manila Cordage Company (2000-2009) and Manco Synthetics, Inc. (2007-2009). 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. Since 2008, he has been the President of Ricardo V. Camua & Co., Inc. (RVCCI). Mr. Camua has a Bachelor of Science degree in Electrical Engineering from Mapua Institute of Technology.

**David L. Balangue**, 65, 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. 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 elected to the Beta Gamma Sigma, an exclusive honors fraternity. He placed second highest in the 1972 Philippine CPA Board Examinations. 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. He was elected as Independent Director of the Company on March 24, 2010.

**Guillermo D. Luchangco**, 77, has been an Independent Director of PHINMA Energy since April 2013. He is 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.. He is also 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. He is also an Independent Director of Fuld & Company. 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**, 76, has been an Independent Director of PHINMA Energy since 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 (2004-2010). She is the first woman President of the Social Security System (2001-2008) and the first woman elected partner of Price Waterhouse International (1973). She was Chairman and Senior Partner of Joaquin Cunanan & Co. (Price Waterhouse Philippines) from 1981-2001, and was in the World Board of Price Waterhouse World Firm from 1992-1995. 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 (PBE), the BDO Foundation, and the Laura Vicuna Foundation for Street Children. 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 board 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 has been a life member of the Cornell University Council since 2010. 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	68	Filipino	President and CEO
Roberto M. Laviña	66	Filipino	Treasurer
Rizalino G. Santos	65	Filipino	Sr. Vice President – Power Business
Virgilio R. Francisco, Jr.	59	Filipino	Sr. Vice President
Pythagoras L. Brion, Jr.	64	Filipino	Sr. Vice President and CFO
Raymundo A. Reyes, Jr.	64	Filipino	Sr. Vice President
Mariejo P. Bautista	52	Filipino	SVP – Finance and Controller
Cecille B. Arenillo	59	Filipino	Vice President and Compliance Officer
Alan T. Ascalon	42	Filipino	VP – Legal and Assistant Corporate Secretary
Danilo L. Panes	60	Filipino	Vice President
Ma. Teresa P. Posadas	49	Filipino	Asst. Vice President – Human Resources
Danielle R. del Rosario	39	Filipino	Asst. Vice President – Head of Sales and Marketing
Arthur R. Villacorte	50	Filipino	Asst. Vice President – Materials Management
Juan J. Diaz	86	Filipino	Corporate Secretary (until November 30, 2016)

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

**Francisco L. Viray**, 68, 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 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 is concurrently the President & CEO of Trans-Asia Power Generation Corporation, Trans-Asia Renewable Energy Corporation, Trans-Asia Petroleum Corporation, Trans-Asia Gold and Minerals Development Corporation and Trans-Asia Wind Power Corporation. 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 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**, 66, is the Senior Executive Vice President/Chief Operating Officer (COO) of PHINMA Inc. & PHINMA Corp. and concurrently serves as 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 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.**, 59, 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.

**Juan J. Diaz** is a member of the Philippine Bar and has a Master of Laws degree from Harvard Law School. He has been Corporate Secretary of the Company since its incorporation and has served as its Legal Counsel until October 2000. He served as Consultant for the PHINMA Group until his death on November 30, 2016.

**Pythagoras L. Brion, Jr.** 64, was elected Senior Vice President & CFO of the Company on March 20, 2012. He joined the PHINMA group in 1992. He is concurrently EVP/CFO of PHINMA Inc. and SVP/Treasurer of PHINMA Corp.; EVP Treasurer & CFO of Trans-Asia Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., Trans-Asia Petroleum Corporation and Palawan55 Exploration & Production Corporation. Mr. Brion is the Treasurer & CFO of Trans-Asia Gold and Minerals Development Corporation and the Treasurer of Trans-Asia Renewable Energy Corporation and Trans-Asia Wind Power Corporation. Mr. Brion likewise serves various executive posts in the PHINMA-managed companies in steel building systems, education, hospitality and property. Mr. Brion received his Bachelor of Science degree in Management Engineering from Ateneo de Manila University and holds a Master's degree in Business Administration from the University of the Philippines.

**Raymundo A. Reyes, Jr.**, 64, 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 Trans-Asia Petroleum Corporation and Vice President of Maibarara Geothermal, Inc., a 25%-owned subsidiary of the Company. He is a Director of Trans-Asia Petroleum Corporation (since February 2013), Palawan55 Exploration and Production Corporation (since February 2013) and Maibarara Geothermal, Inc. (since April 2016).

**Rizalino G. Santos**, 65, 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 Trans-Asia Power Generation Corporation.

**Mariejo P. Bautista**, 52, 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., Trans-Asia Renewable Energy Corporation, Trans-Asia Petroleum Corporation, Trans-Asia Gold and Minerals Development

Corporation, Trans-Asia Wind Power Corporation and Palawan55 Exploration and Production Corporation.

**Cecille B. Arenillo**, 59, 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 Trans-Asia Petroleum Corporation 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**, 42, is the Vice President for Legal and Corporate Affairs of PHINMA Energy and serves as its Assistant Corporate Secretary. He is a director of Trans-Asia Renewable Energy Corporation and Trans-Asia Wind Power Corporation. He is the Corporate Secretary of Trans-Asia Renewable Energy Corporation, Trans-Asia Wind Power Corporation, One Subic Power Generation Corp. and Palawan55 Exploration and Production Corp., and Assistant Corporate Secretary of Trans-Asia Power Generation Corporation, CIP II Power Corporation, Trans-Asia Petroleum Corporation and Trans-Asia Gold and Minerals Development 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**, 60, 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 Trans-Asia Renewable Energy Corporation and Vice President for Renewable Energy in PHINMA Energy Corporation.

**Danielle R. del Rosario**, 39, is the Assistant Vice President and Head of Sales and Marketing for the Company. She is an officer of Trans-Asia Petroleum Corporation, as well as of unlisted companies Trans-Asia Renewable Energy Corporation, Trans-Asia Power Generation Corporation, CIP II Power Corporation, and One Subic Power Generation Corporation from 2015 to the present. 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**, 49, has been appointed the company's Assistant Vice President for Human Resources in April 2015. She is concurrently PHINMA's Assistant Vice President for Human Resources and was elected to this position in July 2008. In addition to her role in Human Resources, Ms. Posadas has been appointed 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**, 50, 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.

**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. Moreover, Ms. Corazon dela Paz-Bernardo and Mr. Ricardo V. Camua are not Directors or Officers of PHINMA Energy's related companies. Mr. David L. Balangue, however, is a member of the Boards of Directors of Trans-Asia Power Generation Corporation and One Subic Power Generation Corp. while Mr. Guillermo D. Luchangco is a member of the Boards of Directors of PHINMA Corporation and Fuld and Company, Inc.

**e) Significant Employee**

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

**f) Involvement in Certain Legal Proceedings**

As of March 10, 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:

***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 from the ERC the 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 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 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.

On July 24, 2015, the Company received from the BIR's Large Taxpayers Collection Enforcement Division a Letter dated July 26, 2015, informing the Company that it is among those taxpayers which should be subjected to the immediate issuance of a Warrant of Dstraint and/or Levy and Warrants of Garnishment in relation to the assessment for donor's tax. Thus, the BIR demanded that the Company immediately settle the alleged tax liability for donor's tax in order to obviate the issuance of a Warrant of Dstraint and/or Levy and Warrants of Garnishment.

The Company filed on July 28, 2015 an Urgent Motion to Suspend Collection of Taxes and for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction ("Motion to Suspend Collection of Taxes"). In its Resolution dated October 12, 2015, the CTA granted the Company's Motion to Suspend Collection of Taxes, and ordered the Company to file either a GSIS bond, or a bond from a reputable surety company duly accredited by the Supreme Court in an amount equivalent to one and one-half (1½) of the disputed assessment. Thus, in compliance with the CTA's requirement, the Company filed on October 29, 2015 Insurance Corporation Appeal Bond No. JCL (2) - 00011 / LIC NO. 35371 dated October 20, 2015 issued by Liberty Insurance.

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 Php129 M plus interests, penalties and surcharges.

**g) Relationships and Related Transactions**

Parties are considered to be related if one (1) 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, PHINMA Energy has not been a party in any transaction in which a Director or Executive Officer of the Company, any nominee for election as a director, any security holder owning more than ten percent (10%) of the Company's issued and outstanding shares and/or any member of his immediate family had a material interest.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. For year ended December 31, 2016 and 2015, the Company has not recorded any impairment of receivables from receivables owed by the related parties.

The assessment is undertaken each financial year through an examination of the financial position of the related party and the market in which the said party operates.

In the ordinary course of business, PHINMA Energy 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 for the year ended December 31, 2016 and 2015 with the related parties are as follows:

*In thousand*

2016					
Company	Amount /Volume	Nature	Outstanding Balance	Terms	Conditions
<b>Ultimate Parent</b> <b>PHINMA Inc.</b>	-				
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
<b>Joint Venture</b> <b>SLTEC</b>	-				
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
<b><u>Associates</u></b>						
<b><i>MGI</i></b>						
	Cost	785,167	Trading cost	(79,263)	30 day terms; noninterest-bearing	Unsecured
	Investment	-	Advances	45,000	Non-interest bearing	Unsecured; no impairment
<b><i>Asia Coal</i></b>						
	Payable	-	Advances	(254)	Noninterest-bearing	Unsecured
<b><u>Other Related Parties</u></b>						
<b><i>Phinma, Corp.</i></b>						
		-				
	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
<b><i>T-O Insurance</i></b>						
	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
<b><i>PPHC</i></b>						
	Payable	-	Advances	(171)	30-60 day terms; noninterest-bearing	Unsecured
<b><i>UGC</i></b>						
	Revenues	2,281	Dividend income	-	30-60 day; noninterest-bearing	Unsecured; no impairment
	Expenses	92	Roofing materials	(67)	30-60 day; noninterest-bearing	Unsecured

<b>Emar Corp.</b>				30–60 day ; noninterest-bearing On demand	Unsecured; no impairment
Revenues	64	Share in expenses	-		
Payable	8,559	Cash dividend	(4,273)		Unsecured
<b>Phinma Education</b>				30–60 day terms; noninterest-bearing	Unsecured
Expenses	2,698	Service fee	(2,698)		
<b>Directors</b>				On Demand	Unsecured
Expenses	72,846	Directors' fee and annual incentives	(51,478)		
<b>Stockholders</b>				On Demand	Unsecured
Payable	179,320	Cash dividend	(91,203)		
Receivable	-	Withholding tax on property dividend	35	On Demand	Unsecured
<b>Due from related parties</b>			<b>4,267</b>		
<b>Receivable from stockholders</b>			<b>35</b>		
<b>Advances to an associate</b>			<b>45,000</b>		
<b>Due to related parties</b>			<b>(1,204,310)</b>		
<b>Due to stockholders</b>			<b>(91,203)</b>		
<b>Accrued directors and annual incentives</b>			<b>(51,478)</b>		

2015					
Company	Amount /Volume	Nature	Outstanding Balance	Terms	Conditions
<b>Ultimate Parent</b>					
<b>PHINMA Inc.</b>					
<b>Revenue</b>	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
<b>Joint Venture</b>					
<b>SLTEC</b>					
<b>Revenue</b>	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
<b>ACTA</b> Investment	7,537	Advances for future subscriptions	7,537	Noninterest-bearing	Unsecured; no impairment
<b><u>Associates</u></b>					
<b>MGI</b> 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
<b>Asia Coal</b> Payable	-	Advances	(254)	Noninterest-bearing	Unsecured
<b><u>Other Related Parties</u></b>					
<b>Phinma, Corp.</b> 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
<b>T-O Insurance</b> 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
<b>PPHC</b> Payable	-	Advances	(171)	30–60 day ; noninterest-bearing	Unsecured
<b>UGC</b> Revenues	3,649	Cash dividend	-	30–60 day ; noninterest-bearing	Unsecured; no impairment
<b>Directors</b> Expenses	29,063	Directors' fee and annual incentives	(18,500)	On Demand	Unsecured
<b>Stockholders</b> Payable	194,606	Cash dividend	(11,570)	On Demand	Unsecured

Receivable	-	Withholding tax on property dividend	35	On Demand	Unsecured; no impairment
<b>Due from related parties</b>			<b>6,640</b>		
<b>Receivable from stockholders</b>			<b>35</b>		
<b>Advances to associates and other related parties</b>			<b>52,537</b>		
<b>Due to related parties</b>			<b>(663,570)</b>		
<b>Due to stockholders</b>			<b>(11,570)</b>		
<b>Accrued directors and annual incentives</b>			<b>(18,500)</b>		

**2014**

<b>Company</b>	<b>Amount/ Volume</b>	<b>Nature</b>	<b>Outstanding Balance</b>	<b>Terms</b>	<b>Conditions</b>
<b><u>Ultimate Parent</u></b>					
<i>Phinma, Inc</i>					
Revenues	<b>₱718</b>	Rent and share in expenses Management fees and share in	<b>₱40</b>	30-60 day, non-interest bearing 30-day, non-interest	Unsecured
Costs and Expenses	<b>47,213</b>	expenses	<b>(19,046)</b>	bearing 30-60 day, non-interest	Unsecured
Receivable	<b>1,988</b>	Advances	-	bearing	Unsecured, no impairment
<b><u>Joint Ventures</u></b>					
<i>SLTEC</i>					
Revenues	<b>28,210</b>	Rent and share in expenses	<b>209</b>	30-day, non-interest bearing 30-day, non-interest	Unsecured
Cost and Expenses	<b>174,867</b>	Trading costs Rental deposit	<b>(192,353)</b>	bearing End of lease term	Unsecured Unsecured, no impairment
Payable	-		<b>(590)</b>		
<b><u>Associate</u></b>					
<i>Asia Coal</i>					
Payable	-	Advances	<b>(254)</b>	non-interest bearing	Unsecured, no impairment
Costs	<b>699,933</b>	Trading cost	<b>(80,683)</b>	30-day, non-interest bearing	Unsecured
<b><u>Other Related Parties</u></b>					
<i>PPHC</i>					
Payable	-	Advances	<b>(171)</b>	30-60 day, non-interest bearing	Unsecured
<b><i>Phinma Corp.</i></b>					
Revenues	<b>5,390</b>	Cash dividend and share in expenses	-	30-day, non-interest bearing	Unsecured; no impairment
Costs and Expenses	<b>2,247</b>	Share in expenses	<b>(159)</b>	30-day, non-interest bearing	Unsecured

Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
Payable	141,400	Advances	-	30 day;,non-Interest bearing	Unsecured
<b>Union Galvasteel Corp.</b>					
Revenue	760	Cash dividend	-	30-60 day, non-interest bearing	Unsecured; no impairment
<b>Asian Plaza Inc.</b>					
Revenue	942	Cash dividend	-	30-60 day, non-interest bearing	Unsecured; no impairment
Payable	94,300	Advances	-	30 day;,non-Interest bearing	Unsecured
<b>T-O Insurance, Inc.</b>					
Costs and Expenses	111,840	Insurance expense	(1,525)	30-60 day, non-interest bearing	Unsecured
Receivable	163	Refund on overpayment	15	30-60 day, non-interest bearing	Unsecured , no impairment
<b>Directors</b>					
Expenses	15,797	Annual incentives	(12,518)	On demand	Unsecured
<b>Stockholders</b>					
Payable	193,562	Cash dividend Withholding tax on property dividend	(9,135)	On demand	Unsecured
Receivable	-	dividend	35	On demand	Unsecured; no impairment
<b>Dues from Related Parties</b>			<b>264</b>		
<b>Receivable from Shareholders</b>			<b>35</b>		
<b>Dues to Related Parties</b>			<b>(294,781)</b>		
<b>Dues to Shareholders</b>			<b>(9,135)</b>		
<b>Accrued Director's and Annual Incentives</b>			<b>(12,518)</b>		

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

As of December 31, 2016, PHINMA, Inc. directly owns 1,223,188,503 shares of PHINMA Energy which represent 25.04% of the Company's total outstanding shares of stock.

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

#### Trans-Asia Power Generation Corporation (TA Power)

On Dec. 27, 2013, TA 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 TA Power for a period of ten (10) years. In addition, PHINMA Energy leases part of PHINMA Energy's office space unto TA 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, TAPGC 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).

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

#### 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 Corporation

As of December 31, 2016, PHINMA Corporation directly owns 1,282,104,198 shares of PHINMA Energy which represent 26.24% 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.

#### Trans-Asia Renewable Energy Corporation (TAREC)

Under the Sponsor Support Agreement which forms Part G of the Omnibus Agreement dated December 18, 2013 which was entered into by and among Trans-Asia Renewable Energy Corporation (TAREC) as Borrower, Security Bank Corporation – Trust Division as Facility Agent for the lenders and Collateral Trustee for the secured parties, and Trans-Asia 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 TAREC 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 TAREC obtains a DOE Certificate of Endorsement for FIT Eligibility and a Renewable Energy Payment Agreement for the entire electricity output of the Project.
- a. 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 TAREC 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 TAREC; or if, notwithstanding the acquisition or issuance of titles in the name of TAREC, 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 TAREC's failure to register and annotate the mortgage on the relevant titles or a claim registered or filed by a claimant.

#### ***h) Elections of Directors***

The Directors of PHINMA Energy are elected at the Annual Shareholders Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

After having conducted the nominations for purposes of the election of Directors and after pre-screening the qualifications of the nominees, the Nomination Committee has submitted the following list of candidates who qualify for election to the Board of PHINMA Energy at the forthcoming Annual Shareholders Meeting on April 10, 2017:

1. Oscar J. Hilado
2. Ramon R. del Rosario, Jr.
3. Francisco L. Viray
4. Roberto M. Laviña
5. Magdaleno B. Albarracin, Jr.
6. Victor J. del Rosario
7. Pythagoras L. Brion, Jr.
8. Ricardo V. Camua (Independent)
9. David L. Balangue (Independent)
10. Guillermo D. Luchangco (Independent)
11. Corazon de la Paz - Bernardo (Independent)

The foregoing persons were nominated by Mr. Oscar J. Hilado. Mr. Hilado is not related to any of the director-nominees, either by consanguinity or affinity.

The securities owned by the nominees as of February 28, 2017 are as follows:

Title of Class	Name of Owner	Citizenship	No. of Shares Held	Nature	% of Class
Common	Oscar J. Hilado	Filipino	6,500,000	Direct	0.09
Common	Ramon R. del Rosario, Jr.	Filipino	17,383,812	Direct	0.9
			26,745,698	Indirect	
Common	Francisco L. Viray	Filipino	13,165,500	Direct	0.27
			614,000	Indirect	
Common	Roberto M. Laviña	Filipino	3,412,724	Direct	0.07
Common	Guillermo D. Luchangco	Filipino	1,500,001	Direct	0.03
Common	Magdaleno B. Albarracin, Jr.	Filipino	13,427,926	Direct	0.28
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	Pythagoras L. Brion, Jr.	Filipino	786,724	Direct	0.01

The Board of Directors has no reason to believe that any of the nominees will be unwilling or unable to serve if re-elected as a director.

The Company's Nomination Committee is composed of the following:

- |    |                               |          |
|----|-------------------------------|----------|
| a. | Mr. Ramon R. del Rosario, Jr. | Chairman |
| b. | Mr. Oscar J. Hilado           | Member   |
| c. | David L. Balague              | Member   |

***j) Independent Directors***

On February 11, 2005, SEC approved the Amended By-Laws of PHINMA Energy to incorporate a provision regarding the nomination and election of the Company's independent directors in accordance with the guidelines laid down by SRC Rule 38.

The incumbent independent directors of the Company are as follows:

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

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

The independent directors were pre-screened and qualified in accordance with the Company's By-Laws and Manual on Good Corporate Governance, the guidelines under SRC Rule 38 and SEC Memorandum Circular No. 16, Series of 2002 on Independent Directors.

The independent directors are not officers or substantial shareholders of PHINMA Energy. Neither are they related by consanguinity or affinity to any of the members of the Company's Nomination Committee.

***j) Parent Company of the Registrant***

The parent company of PHINMA Energy is PHINMA, Inc. The Company has a management contract with PHINMA, Inc. up to August 31, 2018, renewable thereafter upon mutual agreement. Under the contract, PHINMA, Inc. has general management authority with corresponding responsibility over all operations and personnel of PHINMA Energy, including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company.

**6) Compensation of Directors and Executive Officers**

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

Name/Position	Year	Salaries	Bonus	Others
<b>CEO and Top 4 Most Highly Compensated Executive Officers (Total Compensation)</b>				
Francisco L. Viray, <i>President and CEO</i>				
Ramon R. del Rosario, Jr, <i>Vice Chairman</i>				
Roberto M. Laviña, <i>Treasurer</i>				
Pythagoras L. Brion, Jr., <i>SVP &amp; CFO</i>				
Rizalino G. Santos, <i>SVP – Power Business</i>				
Estimated	2017	29,183,375	-	880,000
	2016	28,077,500	89,101,549	755,000
	2015	28,112,500	20,722,847 (a)	500,000
	2014	27,205,843	4,190,657 (b)	408,000

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

Unnamed (Estimated)	2017	16,688,845	-	1,700,000
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2016	15,860,426	67,814,915	1,520,000
2015	10,180,170	22,389,920 (a)	2,015,941
2014	12,449,662	11,347,734 (b)	1,888,000

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

(b) *Includes bonus accrued in 2014 but paid in 2015.*

**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 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. 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 granted on July 22, 2013 which expired on July 21, 2016:

<b>1. CEO &amp; Executive Officers</b>		
Oscar J. Hilado	Chairman	3,000,000
Francisco L. Viray	President & CEO	3,000,000
Ramon R. Del Rosario, Jr.	Vice-Chairman	2,500,000
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
<b>Total</b>		<b>14,500,000</b>
<b>2. All executive officers as a group</b>		
Various		9,225,000
<b>3. All directors as a group who are not executive officers</b>		
Various		10,500,000
<b>4. All other employees as a group</b>		
Various		7,865,303
<b>GRAND TOTAL</b>		<b>42,090,303</b>

#### 7) Appointment of External Auditors

The Audit Committee of PHINMA Energy proposed that the accounting firm of SyCip Gorres Velayo & Co. (SGV) be retained as the Company's external auditor for the year 2017. The members of the Audit Committee are as follows:

- a. Mr. David Balangue Chairman

- |                                  |        |
|----------------------------------|--------|
| b. Mr. Roberto M. Laviña         | Member |
| c. Mr. Victor J. del Rosario     | Member |
| d. Ms. Corazon dela Paz-Bernardo | Member |

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 2016. The services rendered by SGV for the calendar year ended December 31, 2016 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.

Ms. Marydith C. Miguel was the engagement partner for calendar Year 2016. Ms. Miguel who is an SEC accredited auditing partner of SGV also conducted the audit for Calendar Year 2014, which was the first year of her engagement as the Company's signing partner.

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.

#### **8) 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.

#### **9) Financial and Other Information**

The Management's Discussion and Analysis or Plan of Operations and PHINMA Energy's Audited Financial Statements as of December 31, 2016 are attached hereto as **Annexes "D"** and **"E."** The Annual Report for the said period will be distributed to stockholders of record during the Annual Meeting.

The complete record of the attendance of each Director in meetings of the Board of Directors during the calendar year 2016 is presented in **Annex "A"**.

**THE ANNUAL REPORT ON SEC FORM 17-A FOR THE YEAR ENDED DECEMBER 31, 2016 WILL BE AVAILABLE UPON REQUEST OF STOCKHOLDERS. THE REQUEST MAY BE SENT DIRECTLY TO THE ASSISTANT CORPORATE SECRETARY, ATTY. ALAN T. ASCALON, WITH OFFICE AT LEVEL 3, PHINMA PLAZA, 39 PLAZA DRIVE, ROCKWELL CENTER, MAKATI CITY AND A COPY WILL BE SENT, FREE OF CHARGE.**

#### **10) 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 declare special cash dividends where appropriate.

Dividends declared and paid from 2014 to 2016 are as follows:

Date of Declaration	Type	Dividend		Record Date
		Rate	Amount *	
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, 2016, PHINMA Energy's retained earnings amounted to ₱ 3.86 billion, of which ₱ 1.175 billion were equity in net earnings of investee companies that are not available for dividend declaration.

#### 11) Action with Respect to Minutes of Previous Meeting

At the last Annual Shareholders Meeting held on April 12, 2016, the President and CEO reported the operations of the Company through an audio-visual presentation. The Senior Vice President and Chief Financial Officer reported the financial results for the Calendar Year 2015. The following matters were likewise presented and approved by the stockholders during the said meeting:

- a. Minutes of the previous Annual Shareholders Meeting
- b. Annual Report of Management including the Audited Financial Statements for the year ended December 31, 2015 and Confirmation of all acts of the Board of Directors and of Management since the last Annual Shareholders Meeting
- c. Election of eleven (11) Directors including four (4) independent directors for the ensuing year
- d. Amendment of the Articles of Incorporation and By-Laws to change the name of the Company to "PHINMA Energy Corporation"
- e. Amendment of the By-Laws to state the precise address of the principal office of the Company
- f. Amendment of the Articles of Incorporation to extend the Company's term of existence
- g. Appointment of external auditor

For the Annual Shareholders Meeting on April 10, 2017, the President will report on the performance of the Company in 2016. The following matters will also be presented for the consideration of the stockholders at such meeting:

- a. Minutes of the previous Annual Stockholders Meeting (see **Annex "B"**)
- b. Annual Report of Management including the Audited Financial Statements for the year ended December 31, 2016 and Confirmation of all acts of the Board of Directors and of Management since the last Annual Shareholders Meeting (see **Annexes "C"** and **"E"**)
- c. Election of eleven (11) Directors including four (4) independent directors for the ensuing year
- d. Appointment of external auditor

The approval of the Minutes of the previous Annual Shareholders Meeting, the approval of Annual Report of Management including the Audited Financial Statements for the year ended December 31, 2016, the Confirmation of all acts of the Board of Directors and of Management since the last Annual Shareholders Meeting, the election of Directors, and the approval of the appointment of the Company's external auditor shall require the affirmative vote or written assent of a majority of the stockholders entitled to vote during the Annual Shareholders Meeting.

## **12) Compliance with the Company's Manual on Good Corporate Governance**

A discussion of PHINMA Energy's compliance with its Manual on Good Corporate Governance may be found in "**Annex A.**"

## **13) Voting Procedures**

For the election of Directors, each shareholder is entitled to one (1) vote per share multiplied by the number of board seats provided in the Articles of Incorporation (i.e. eleven (11)). Cumulative voting is allowed for election of members of the Board of Directors. Each stockholder may vote the number of shares of stock outstanding in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one (1) 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 PHINMA Energy multiplied by the whole number of Directors to be elected and provided, however, that no delinquent stock shall be voted.

All matters in the Agenda that require corporate action will require the affirmative vote of a majority of the issued and outstanding shares of the Company's common stock present and represented and entitled to vote at the Meeting. Because abstentions with respect to any matter are treated as shares present and represented and entitled to vote for purposes of determining whether that matter has been approved by the stockholders, abstentions have the same effect as negative votes. Broker non-votes and shares as to which proxy authority has been withheld with respect to any matter are not deemed to be present or represented for purposes of determining whether stockholder approval of that matter has been obtained.

Items requiring the vote of stockholders will be presented for approval of the stockholders at the meeting. Voting shall be by raising of hands or *viva voce*; otherwise, voting shall be done in writing by secret ballot and counted thereafter by the Corporate Secretary in the presence of SGV to be able to validate the counting.

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**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on March 17, 2017.

**PHINMA ENERGY CORPORATION**

Issuer

March 17, 2017

By:



**ALAN T. ASCALON**

Assistant Corporate Secretary

## **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 duties of the Compliance Officer include monitoring the Company's compliance with the provisions and requirements of the Revised Code of Corporate Governance, identifying compliance risks, determining violations by the Company of the Revised Code of Corporate Governance and, if necessary, recommending appropriate disciplinary actions therefor.

### **Annual Corporate Governance Report**

On January 05, 2015, as required by the SEC under SEC MC No. 12, Series of 2014, the Compliance Officer submitted to the SEC the Consolidated Changes in the Annual Corporate Governance Report (the "ACGR") for Calendar Year 2014.

Updates and changes to the ACGR for the Calendar Year 2015 were subsequently submitted to the SEC on April 7, 2015, 27 July 2015, August 25 2015 and October 15, 2015. Consolidated Changes in the ACGR for the Calendar Year 2015 was submitted to the SEC on January 11, 2016.

As of December 31, 2016, PHINMA Energy has 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 of the Company for non-compliance of the Manual.

### **Compliance Report**

As required by the Philippine Stock Exchange ("PSE"), the Compliance Officer submitted last March 26, 2015, a Compliance Report on Corporate Governance for the year 2014. For the said year, PHINMA Energy has complied with all guidelines of the Compliance Report.

For the year 2016, the report is due on March 30, 2017.

## Board of Directors

### Composition

The Board of Directors consists of eleven (11) members who are nominated and elected in accordance with PHINMA Energy's By-Laws.

In compliance with the requirements of the SEC for publicly-listed corporations, the Company's Board of Directors includes four (4) independent directors. The independent directors are not officers or substantial shareholders of PHINMA Energy and have no interests or relationships with the Company that may hinder their independence from the Company or Management which would interfere with their exercise of independent judgment in carrying out their responsibilities as directors.

In order that no Director or small group of Directors can dominate the decision-making process, the members of the PHINMA Energy's Board of Directors is made up of executive and non-executive directors.

The Board of Directors held ten (10) regular meetings, one (1) special meeting and one (1) organizational meeting during the period from February 2016 to December 2016. The details of the matters taken up during the said meetings of the Board of Directors are set forth in **Annex "C"** of this Definitive Information Statement.

The attendance of the Directors in the meetings of the Board of Directors during the period from February 2016 to January 2017 is as follows:

<i>Directors 2015 Board Meeting Attendance</i>	Regular BOD Meeting 2/23/2016	Regular BOD Meeting 4/12/2016	Organizational BOD Meeting 4/12/2016	Regular BOD Meeting 5/16/2016	Regular BOD Meeting 5/27/2016	Regular BOD Meeting 7/25/2016	Regular BOD Meeting 8/22/2016	Regular BOD Meeting 9/26/2016	Regular BOD Meeting 11/3/2016	Regular BOD Meeting 11/28/2016	Regular BOD Meeting 12/16/2016	Special BOD Meeting 12/20/2016	Special BOD Meeting 1/10/2017	Regular BOD Meeting 1/30/2017
Mr. Oscar J. Hilado, Chairman	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Mr. Ramon R. del Rosario, Jr.	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Dr. Francisco L. Viray	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Mr. Victor J. del Rosario	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Dr. Magdalena B. Albarracin, Jr.	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Mr. Raymundo O. Feliciano	P	P												
Mr. Roberto M. Lavifa	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Mr. Ricardo V. Camua	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Mr. David L. Balangue	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Mr. Guillermo D. Luchangco	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Mr. Pythagoras L. Brion, Jr.	P	P	P	P	A	P	P	P	P	P	P	P	P	P
Ms. Corazon dela Paz Bernardo			P	P	P	P	P	P	P	P	P	P	P	P

Legend:  
P- Present  
A- Absent

### Board Committees

To help PHINMA Energy comply with the principles of good corporate governance, the Company's Board of Directors constitutes committees which directly report to the Board of Directors in accordance with duly approved procedures.

For 2016, the board committees and their members are as follows:

DIRECTORS	BOARD COMMITTEES			
	Nomination	Compensation	Audit	ExCom
Oscar J. Hilado	M	C		M
Ramon R. del Rosario, Jr.	C	M		C
Francisco L. Viray				M
Roberto M. Laviña			M	
Magdaleno B. Albarracin, Jr.				M
Victor J. del Rosario			M	
Pythagoras L. Brion, Jr.				
Ricardo V. Camua		M		
David L. Balangue	M		C	
Guillermo D. Luchangco				M
Corazon dela Paz-Bernardo.			M	

### Nomination Committee

The Nomination Committee of PHINMA Energy is composed of three (3) Directors, one (1) of whom is an independent director.

The Nomination Committee pre-screens and shortlists all nominees who are qualified for election to PHINMA Energy's Board of Directors in accordance with the qualification and disqualification guidelines as specified in the Company's Manual on Corporate Governance.

All eleven (11) incumbent directors of the Company have been nominated to the Board of Directors after having been pre-screened by the Nomination Committee. The Board of Directors has no reason to believe that any of the incumbent directors will be unwilling or unable to serve if re-elected as a director.

### Compensation Committee

The Compensation Committee of PHINMA Energy is composed of three (3) Directors, one (1) of whom is an independent director.

The duties and responsibilities of the Compensation Committee include establishing policies on executive remuneration, ensuring that compensation within PHINMA Energy is consistent with the Company's culture, strategy and environment, strengthening policies on conflict of interest, salaries and benefits, and ensuring compliance by the Company with statutory requirements.

There was no Compensation Committee meeting held in 2016 and none was required.

### Audit and Risk Oversight Committee

The Audit and Risk Oversight Committee of PHINMA Energy is composed of two (2) independent directors, one (1) non-executive director and one (1) executive director. An independent director, Mr. David L. Balangue, chairs the Audit Committee. Changes to the committee membership were made in April 2016 with Ms. Corazon de la Paz - Bernardo replacing Mr. Ricardo Camua. The other members are Messrs. Victor del Rosario and Roberto Laviña.

The Audit Committee has accounting expertise and possesses adequate understanding of the Company's business and the industry in which it operates. The roles and responsibilities of the

Committee are defined in the Audit Committee Charter approved by the Board of Directors. The Committee assists the Board of Directors in fulfilling its oversight responsibility to the shareholders in relation to the Company's financial statements and financial reporting process, internal control system, internal and external auditor's performance, risk management, and compliance with legal and regulatory matters.

The Audit Committee had five (5) meetings during the period from January 2016 to March 2017. The attendance of the Committee members in the said meetings is as follows:

	Audit Committee Meeting 2/19/2016	Audit Committee Meeting 4/25/2016	Audit Committee Meeting 7/20/2016	Audit Committee Meeting 10/24/2016	Audit Committee Meeting 2/27/2017
Mr. David L. Balangue	P	P	P	P	P
Ms. Corazon de la Paz-Bernardo		P	A	P	P
Mr. Victor J. del Rosario	P	A	P	P	A
Mr. Roberto M. Laviña	P	P	P	P	P
Mr. Ricardo V. Camua	P				
Legend:					
P - present					
A - Absent					

The meetings were timed to review the quarterly and yearly financial reporting of the Company. The Committee also reviewed the results of the annual audit of the external auditor, the findings and status of the Group Internal Audit's engagements, the status of Business Resiliency activities and the 2015 Audit Committee Report.

The Audit Committee proposed to the Board of Directors that SyCip Gorres Velayo & Co. (SGV) be retained as the Company's external auditor for 2016. The Committee likewise endorsed to the Board of Directors the nomination of SGV as the Company's external auditor for 2017.

#### **External Auditor**

The External Auditor contributes to the enforcement of good corporate governance by conducting an independent examination of the financial records and reports of PHINMA Energy. On April 12, 2016, the stockholders approved the appointment of SGV as the Company's external auditor.

PHINMA Energy complies 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 engagement partner who conducted the audit for the calendar year 2016 is Ms. Marydith C. Miguel, an SEC-accredited auditing partner of SGV. This is Ms. Miguel's fourth year as engagement partner for the Company.

Following are the fees for professional services rendered by SGV for the past 3 years:

<b>Year</b>	<b>Audit Fees (Php)</b>
2016	1,200,000
2015	1,200,000
2014	1,200,000

### **Internal Audit**

PHINMA Energy has an independent Internal Audit organization that reports directly to the Board of Directors, through the Audit Committee, and administratively to Senior Management. The Group Internal Audit ("GIA") team provides PHINMA Energy with professional assurance services that are designed to add value and improve operations. Consistent with its thrust to become better business partners, GIA helps PHINMA Energy accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of PHINMA Energy's risk management, control and governance process.

To ensure the independence of GIA, the Audit Committee reviewed and approved the GIA Charter which outlines internal audit's purpose, reporting relationships, authorities and responsibilities. Through this Charter, the internal auditors are kept free from interference by any element in the organization in matters of audit selection, scope, procedures, frequency, timing, or report content. Likewise, members of GIA do not have any direct operational responsibility or authority over any of the activities audited and, as such, are further prohibited from implementing internal controls or engaging in any other activity that may impair the auditor's judgment.

In 2016, GIA conducted examinations of the following: on site review of One Subic Power Gen. Corp. and Power Barge 101 and 102, process audit of Trading Operations and WESM Compliance, special audit on installation and sale of transmission assets. Based on the results of these reviews, Group Internal Audit reported that overall controls are adequate and effective.

### **Disclosure and Transparency**

In addition to submitting annual and quarterly financial information and other statutory requirements, PHINMA Energy promptly discloses to the SEC and the PSE all material information such as key results of operations, execution of contracts, declaration of dividends and investments, among others. Such disclosures are promptly uploaded to the Company's website for the benefit of the investing public.

### **Code of Conduct**

The Code of Conduct of PHINMA Energy contains policies on professional decorum, conflict of interest and penalties for violations.

Employees are required to always act in the best interest of the Company. As a matter of policy, every employee and officer of PHINMA Energy is directed to avoid any situation that could interfere or appear to interfere with his independent judgment in performing his duties. The policy also prohibits employees from using his official position to secure a contract of employment for a related party, soliciting gifts or any property for personal gain from any individual or organization that deals with the Company and using company information for personal gain. No employee may engage in any business or undertaking that is indirectly or directly in competition with or prejudicial to the interests of the Company.

TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION  
MINUTES OF THE 46<sup>th</sup> ANNUAL MEETING OF THE SHAREHOLDERS

*Held on 12 April 2016  
At the Manila Peninsula Hotel, Makati City*

1. CALL TO ORDER

Prior to the meeting, the President and Chief Executive Officer introduced the members of the Board of Directors. The Chairman acknowledged the presence of the Corporation's external auditor, SyCip Gorres Velayo & Co. (SGV), represented by Mr. Ramon D. Dizon (Partner), Ms. Marydith Miguel (Partner) and Ms. Jonalyne Lansangan (Director - Assurance), who were present to help answer any question that may be raised in the meeting.

The Chairman called the meeting to order at 2:30 p.m. and presided thereat. The Corporate Secretary recorded the minutes of the proceedings.

2. CERTIFICATION OF NOTICE AND QUORUM

The Corporate Secretary certified that notices of the meeting were duly sent to all the shareholders of record.

The owners of 3,327,263,556 shares representing 68.36% of the entire issued and outstanding capital stock of the Corporation were present in person or by proxy as attested by Stock Transfer Service, Inc. (STSI), an independent third party stock transfer agent appointed by the Corporation to count and validate the attendance of shareholders. Thus, the Corporate Secretary certified that a quorum existed for the transaction of business during the meeting.

STSI was represented in the meeting by Mr. Antonio M. Laviña (President), Mr. Michael C. Capoy (Supervisor), Mr. Zaldy A. Adana (Securities Processor) and Ms. Ivy Quevedo (Securities Processor).

Notices having been duly sent to stockholders and there being a quorum for the transaction of business at the meeting, the Chairman announced that the meeting will proceed to consider the items in the Agenda. The Chairman likewise announced that voting during the meeting shall be done by raising of hands or *viva voce*

All members of the Board were in attendance at the meeting as follows:

Oscar J. Hilado	Chairman / Compensation Committee Chairman / Executive/Stock Option Committee Member / Nomination Committee Member
Ramon R. del Rosario, Jr.	Vice Chairman / Executive/Stock Option Committee Chairman / Nomination Committee Chairman / Compensation Committee Member

Magdaleno B. Albarracin, Jr.	Non-executive Director / Executive/Stock Option Committee Member
Francisco L. Viray	Executive Director / Executive/Stock Option Committee Member / President and CEO
Roberto M. Laviña	Executive Director / Audit Committee Member / Treasurer
Victor J. del Rosario	Non-executive Director / Audit Committee Member
Pythagoras L. Brion, Jr.	Executive Director/SVP & CFO
Raymundo O. Feliciano	Independent Director / Nomination Committee Member
Ricardo V. Camua	Independent Director / Audit Committee Vice Chairman
Guillermo D. Luchangco	Independent Director / Executive/Stock Option Committee Member
David L. Balangue	Independent Director / Audit Committee Chairman / Compensation Committee Member

Also present at the meeting were the following officers:

Juan J. Diaz	Corporate Secretary
Virgilio R. Francisco, Jr.	Senior Vice President
Raymundo A. Reyes, Jr.	Senior Vice President
Rizalino G. Santos	Senior Vice President - Power Business
Mariejo P. Bautista	Senior Vice President - Finance and Controller
Cecille B. Arenillo	Vice President and Compliance Officer
Alan T. Ascalon	Vice President - Legal and Asst. Corp. Secretary
Danilo L. Panes	Asst. Vice President - Renewable Energy
Danielle R. del Rosario	Asst. Vice President - Corporate Affairs
Arthur R. Villacorte	Asst. Vice President - Materials Management
Ma. Teresa P. Posadas	Asst. Vice President - Human Resources

### 3. MINUTES OF PREVIOUS MEETING

The Minutes of the Annual Meeting held on 7 April 2015 having been fully disclosed to all shareholders, a motion was made to dispense with the reading of the same and to approve the Minutes as distributed to the shareholders. The motion having been duly seconded and there being no objection to the motion, the approval of the Minutes of the previous Annual Meeting was put to a vote.

A total of 3,327,263,556 shares were voted as follows: 3,327,263,556 shares for the motion; 0 shares against the motion; and 0 shares abstaining. Thus, the motion was carried with respect to the approval of the Minutes of the previous Annual Meeting.

4. ANNUAL REPORT OF MANAGEMENT

The President and Chief Executive Officer introduced the Management Committee of the Corporation. Thereafter, highlights of the Corporation's operations for the year ending December 31, 2015 were reported to the shareholders through an audio-visual presentation. The Senior Vice President and Chief Financial Officer reported the financial results of the Corporation's operations in the year 2015.

Copies of the Annual Report including the audited consolidated financial statements for the year ended 31 December 2015 were distributed to all shareholders prior to the meeting.

No cash dividends were announced during the meeting. However, during the Regular Meeting of the Board of Directors held on 23 February 2016, the Corporation declared cash dividends equivalent to P 0.04 per share to all shareholders of record as of 9 March 2016, payable on 23 March 2016.

Following the report of Management, the Chairman opened the floor to questions from the shareholders. The questions asked and the responses thereto were as follows:

- a. *Question:* How much of the Corporation's generating capacity is geared to coal?

*Answer:* The Corporation's generating capacity from coal-fired sources is about 270 MW.

- b. *Question:* They keep saying in the newspapers and everywhere how dirty coal is. How does the Company's coal-fired plant compare to the standards set for pollution from coal?

*Answer:* The technology used in South Luzon Thermal Energy Corporation (SLTEC) - circulating fluidized bed - is much cleaner than those used by first-generation coal-fired plants. The emissions (including nitrogen oxides, sulfur oxides and solid particulates) are well within the revised limits set by the DENR (i.e. Department of Energy and Natural Resources). Thus, as far as compliance with emission standards is concerned, our plant is doing well.

- c. *Question:* Are the unusual buildings erected by generators using coal-fired plants in order to control coal dust and to make generation using coal a cleaner activity?

*Answer:* SLTEC's coal-fired plant does not emit too much solid particulates because we use electrostatic precipitator.

- d. *Question:* Is it true that the Feed-In Tariff Allowance of the Wind Farm is fixed for twenty (20) years?

*Answer:* Yes, that is correct.

- e. *Question:* Initially, it was stated that the Feed-In Tariff (FIT) Allowance which eligible Wind Power Plants are entitled to is Php8.53/KWh. In the Annual Report, it is stated that the said allowance is Php7.40/KWh. Which is correct?

*Answer:* There were two (2) installation targets for wind technology. The first installation target was 200 MW. The Wind Power Plants which qualified for said installation target are entitled to a FIT Allowance of Php8.53/KWh. The second installation target for wind technology was also 200 MW and Wind Power Plants which qualified for the said installation target are entitled to a FIT Allowance of Php7.40/KWh.

Trans-Asia Renewable Energy Corporation's Wind Power Plant qualified for the second installation target. Hence, we are entitled to a FIT Allowance of Php7.40/KWh.

- f. *Question:* Will there be a third installation target?

*Answer:* DOE plans to put up a third installation target of about 500 MW for wind technology and 500 MW for solar technology. In order to qualify for the installation target, the Corporation is lining up its matured Wind Energy Service Contracts, particularly a 40 MW Wind Farm Project in Sibunag, Guimaras which shall be adjacent to the existing 54 MW San Lorenzo Wind Farm. We also have a prospective 150 MW Wind Power Plant Project in Ballesteros in Cagayan Province, near Tuguegarao.

- g. *Question:* How can the 54 MW San Lorenzo Wind Farm avail of the Php7.40 FIT Allowance?

*Answer:* The 54 MW San Lorenzo Wind Farm is already entitled to the Php7.40 FIT Allowance. We have already been issued a FIT – Certificate of Compliance which states that the 54 MW San Lorenzo Wind Farm is entitled to the FIT Allowance of Php7.40/KWh commencing on the Project's commercial operation in December 2014.

- h. *Question:* So does that mean that the 54 MW San Lorenzo Wind Farm will earn revenues of about Php800 M?

*Answer:* Yes, that is approximately the total amount that the 54 MW San Lorenzo Wind Farm will receive on an annual basis. But take note that the Php800 M is already based on a rate of Php7.40/KWh. Hence, the said amount shall not be in addition to what the 54 MW San Lorenzo Wind Farm is earning but the total annual revenues that it will be receiving as a result of the FIT Allowance.

- i. *Question:* What is the selling price of the Corporation's shares of stock at the Philippine Stock Exchange?

*Answer:* As of yesterday, the stock price closed at Php2.75 per share. About an hour ago, the stock was trading at Php2.80 per share.

- j. *Question:* As per the Corporation's financials, the contribution from joint ventures is roughly, Php372 M, will this figure double next year given that SLTEC 2 is now online?

*Answer:* We cannot say that it will double but the figure will definitely increase because both SLTEC 1 and SLTEC 2 are now running.

- k. *Question:* Do we have future plans to engage in other energy-producing projects?

*Answer:* Yes, we are looking at other technologies. Principally, we are looking at gas-fired power plants supplied from imported LNG. We are looking at storage batteries to complement our Wind Farm. Just recently, we have been approached by some landowners to find out if we can partner with them in putting up solar power plants.

But in terms of other technologies, our priority is the gas-fired power plant using LNG.

- l. *Question:* How about hydro projects?

*Answer:* We are developing a service contract in Ilagan, Isabela. Initial pre-feasibility study shows very promising prospects. Before we completed the record on the water resource, we planned to just satisfy the requirements of the Department of Energy (DOE) in the service contract. But with the encouraging results, we plan to accelerate the development of this power plant.

We also bid during one of the bidding rounds of the DOE for a run-of-river hydro project in Visayas called Ilog. So far, we are just awaiting the DOE's decision when to award it and to whom they will award it.

For sure, we will be interested in the bidding of the CBK should the PSALM decide to bid it out under the new administration. We would also be interested in the bidding out of the IPPA of Casecnan if it will be put up for bidding.

*Chairman:* Let me just add that as you can see from the statements made by the President that Trans-Asia is developing a host of projects in the power sector. As a whole, the Corporation is developing a portfolio of energy projects and that it is trying to develop a power mix that consists of what might be considered as conventional power resources, coal being the dominant one, as well as renewables. We are very much aware of the developing trends towards environment-friendly resources of energy. That is why we are developing our projects in wind, solar, hydro and gas so that there will be a balance in energy resources.

- m. *Question:* Is there a change in the Corporation's way of thinking such that the Sual Plant will be changed to LNG?

*Answer:* No, the 900 MW Coal-Fired Power Plant is still an ongoing project. The LNG Plant is a different from the coal-fired plant.

A motion was then made to approve the Annual Report of Management including the Audited Financial Statements and to confirm all acts of the Board of Directors and of Management since the last Annual Meeting. The motion having been duly seconded and there being no objection to the motion, the matter was put to a vote.

A total of 3,327,263,556 shares were voted as follows: 3,327,263,556 shares for the motion; 0 shares against; and 0 shares abstaining. Thus, the motion was carried with respect to the approval of the Annual Report of Management and the Audited Financial Statements as well as the confirmation of all acts of the Board of Directors and of Management since the last Annual Meeting.

## 5. ELECTION OF DIRECTORS

The Chairman called upon the Corporate Secretary, who announced the following nominees to the Corporation's Board of Directors, who were pre-qualified and shortlisted by the Nomination Committee:

Oscar J. Hilado		
Ramon R. del Rosario, Jr.		
Magdaleno B. Albarracin, Jr.		
Francisco L. Viray		
Victor J. del Rosario		
Roberto M. Laviña		
Pythagoras L. Brion, Jr.		
Ricardo V. Camua	-	Independent
David L. Balangue	-	Independent
Guillermo D. Luchangco	-	Independent
Corazon Dela Paz-Bernardo	-	Independent

Thereafter, the same persons were nominated to serve as directors until the election and qualification of their successors. As there were no other individuals who had been qualified for the position of Director, a motion was made to close the nominations.

The motion having been duly seconded and there being no objection to the motion, 3,327,263,556 votes which represent 68.36% of the entire issued and outstanding capital stock of the Corporation were cast as follows:

Director's Name	Approving	Dissenting	Abstaining
Oscar J. Hilado	3,327,263,556	0	0
Ramon R. del Rosario, Jr.	3,327,263,556	0	0
Magdaleno B. Albarracin, Jr.	3,327,263,556	0	0
Francisco L. Viray	3,327,263,556	0	0

Victor J. del Rosario	3,327,263,556	0	0
Roberto M. Laviña	3,327,263,556	0	0
Pythagoras L. Brion, Jr.	3,327,263,556	0	0
Corazon Dela Paz - Bernardo	3,327,263,556	0	0
Ricardo V. Camua	3,327,263,556	0	0
David L. Balangue	3,327,263,556	0	0
Guillermo D. Luchangco	3,327,263,556	0	0

Whereupon, the Chairman declared all the above-named individuals as duly elected Directors of the Corporation for the ensuing year and until the election and qualification of their successors.

6. AMENDMENT OF THE ARTICLES OF INCORPORATION AND BY-LAWS TO CHANGE THE NAME OF THE CORPORATION TO PHINMA ENERGY CORPORATION

The Chairman announced that the Board of Directors had approved, subject to shareholders' approval, the amendment of the Articles of Incorporation and By-Laws to change the name of the Corporation to PHINMA ENERGY CORPORATION.

The following Resolutions which were approved by the Board of Directors, subject to shareholders' approval, were flashed on the screen for the shareholders' reference:

RESOLVED, that the name of the Corporation be changed from "TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION" to "PHINMA ENERGY CORPORATION," and in furtherance thereof, that Article First of the Corporation's Articles of Incorporation be amended to read as follows:

FIRST: That the name of said corporation shall be

"PHINMA ENERGY CORPORATION"

RESOLVED, FURTHER, that the caption of the Articles of Incorporation be amended to read as follows:

AMENDED ARTICLES OF INCORPORATION  
 OF PHINMA ENERGY CORPORATION

RESOLVED, FINALLY, that the caption of the By-Laws be amended to read as follows:

AMENDED BY-LAWS  
 OF PHINMA ENERGY CORPORATION

The Chairman opened the floor to questions from the shareholders. There being no questions, a motion was made to approve the amendment of the Corporation's Articles of Incorporation and By-Laws to change the name of the Corporation to PHINMA ENERGY CORPORATION. The motion having been duly seconded and there being no objection to the motion, the matter was put to a vote.

A total of 3,327,263,556 shares were voted as follows: 3,327,263,556 shares for the motion; 0 shares against; and 0 shares abstaining. Thus, the motion was carried with respect to the amendment of the Corporation's Articles of Incorporation and By-Laws to change the name of the Corporation to PHINMA ENERGY CORPORATION.

7. AMENDMENT OF THE BY-LAWS TO STATE THE PRECISE ADDRESS OF THE CORPORATION

In 2015, the SEC approved the amendment of the Corporation's Articles of Incorporation to state the precise address of the Corporation's principal office. In line with this, the Chairman announced that the Corporation was seeking shareholders' approval to amend the By-Laws to likewise state the precise address of the Corporation's principal office.

The following Resolution which was approved by the Board of Directors, subject to shareholders' approval, was flashed on the screen for the shareholders' reference:

RESOLVED, that the Corporation be authorized to amend Article I of its By-Laws to state the precise address of its principal office as follows:

ARTICLE I  
OFFICE

The principal office of the Corporation shall be located at Level 11,  
PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The Chairman opened the floor to questions from the shareholders. There being no question, a motion was made to approve the amendment of the Corporation's By-Laws to state the precise address of the Corporation's principal office. The motion having been duly seconded and there being no objection to the motion, the matter was put to a vote.

A total of 3,327,263,556 shares were voted as follows: 3,327,263,556 shares for the motion; 0 shares against the motion; and 0 shares abstaining. Thus, the motion was carried with respect to the approval of the amendment of the By-Laws to state the precise address of the Corporation.

8. AMENDMENT OF THE ARTICLES OF INCORPORATION TO EXTEND THE CORPORATE TERM

As the term of the Corporation's existence is set to expire on September 8, 2019, shareholders' approval was sought for the amendment of the Articles of Incorporation to extend the corporate term for another 50 years from and after September 8, 2019.

The following Resolution which had been approved by the Board of Directors, subject to shareholders' approval, was flashed on the screen for the shareholders' reference:

RESOLVED, that the term during which the Corporation is to exist be extended for a period of fifty (50) years or until September 8, 2069, and in furtherance thereof, that Article Fourth of its Articles of Incorporation be amended to read as follows:

FOURTH: That the term during which the Corporation is to exist is fifty (50) years from and after the date of incorporation. Thereafter, the term shall be extended for another fifty (50) years from and after September 8, 2019.

The Chairman opened the floor to questions from shareholders. Shareholder Philip Turner asked if the proposed amendment gives dissenting shareholders the right to exercise their right of appraisal in accordance with the Corporation Code and Securities Regulation Code.

The Corporation's Vice-President - Legal and Assistant Corporate Secretary, Atty. Alan T. Ascalon confirmed that the right of appraisal is available as advised to shareholders in the Information Statement distributed to them should any shareholder voting against the proposal extending the Corporation's term of existence exercise his right of appraisal by making a written demand on the Company within thirty (30) days after the date on which the vote was taken for the payment of the fair value of his share; failure to make the demand within such period constituting a waiver of the appraisal right.

There being no other question, a motion was made to approve the amendment of the Corporation's Articles of Incorporation to extend the corporate term. The motion was duly seconded. The matter was put to a vote.

A total of 3,327,263,556 shares were voted as follows: 3,327,262,556 shares for the amendment; 1,000 shares against the amendment; and 0 shares abstaining, with Mr. Phillip Turner being the sole dissenting voter. Thus, the motion was carried with respect to the approval of the amendment of the Corporation's Articles of Incorporation to extend the corporate term.

9. APPOINTMENT OF EXTERNAL AUDITOR

The Chairman announced that the next item on the Agenda is the appointment of the external auditor for the year ending December 31, 2016.

No question having been raised, a motion was made to appoint the firm of SyCip Gorres Velayo and Co., CPAs, as external auditor of the Corporation for the calendar year 2016 as recommended by the Audit Committee and endorsed by the Board of Directors. The motion having been duly seconded and there being no objection to the motion, the matter was put to a vote.

A total of 3,327,263,556 shares were voted as follows: 3,326,973,555 shares for the motion; 290,000 shares against the motion; and 1 share abstaining. Thus, the motion was carried with respect to the appointment of SyCip Gorres Velayo and Co. as the Corporation's external auditor for the year ending December 31, 2016.

10. OTHER MATTERS

The Chairman asked if there were any other matters or business that the shareholders wished to present for discussion. None of the shareholders presented any matter to the assembly.

The Chairman recognized outgoing director Mr. Raymundo O. Feliciano, one of the Corporation's founding directors, for his contributions and support to the Corporation. The Chairman explained that Mr. Feliciano requested to be excluded from the list of nominees for pre-qualification.

11. ADJOURNMENT

With no other business to come before the assembly, upon motion duly made, seconded and carried, the Chairman declared the meeting adjourned.

  
JUAN J. DIAZ  
Corporate Secretary

ATTEST:  
  
OSCAR J. HILADO  
Chairman of the Meeting

**RESOLUTIONS APPROVED  
BY THE BOARD OF DIRECTORS  
(February 23, 2016 to January 30, 2017)**

**FOR RATIFICATION BY THE STOCKHOLDERS**

**Regular Meeting of the Board of Directors  
February 23, 2016**

*1. Financial Reports*

- a. Approving the audited financial reports for calendar year 2015 which has been received by the Audit Committee.
- b. Approving the financial statements for the month ended January 31, 2016.
- c. Authorizing the issuance and release of the financial statements in compliance with the disclosure requirements under the Philippine Accounting Standards (PAS) 10.

*2. Cash Dividend Declaration*

- A cash dividend of ₱ 0.04 per share was declared, payable on March 23, 2016 to all shareholders of record as of March 9, 2016.

*3. Authorizing the Corporation to enter into a contract with KEPCO Engineering and Construction Company Inc. (KEPCO E&C) to conduct the feasibility study of the proposed 600 – 1,000 MW Sual Coal-Fired Power Plant Project*

- The President and CEO, Mr. Francisco L. Viray was authorized to negotiate, sign, execute, and deliver the said contract.

*4. Sale to Mr. Raymundo A. Reyes, Jr. of the following vehicle:*

Make/Series : Mitsubishi Montero GLS-V A/T  
 Year Model : 2012  
 Motor /Engine No: 4D56UCDF2784  
 Serial/Chassis No: MMBGYKG40CF014776  
 Plate No : TOK 552

- The President and CEO, Mr. Francisco L. Viray and Ms. Mariejo P. Bautista, Senior Vice President - Finance & Controller were authorized to sign, execute and deliver for and on behalf of the Corporation, such contracts and/or agreements as may be required to put into effect the foregoing authority.

*5. Authorizing the Corporation to enter into a contract with Rockwell Land Corporation for the lease of office space in 8 Rockwell in Rockwell Center, Makati City*

- The President and CEO, Mr. Francisco L. Viray and the Senior Vice President-Finance and Controller, Ms. Mariejo P. Bautista were authorized to sign, execute and deliver for and on behalf of the Corporation any and all documents pursuant to and in accordance with the foregoing authority.

6. *Authorizing the Corporation to file with the Department of Energy an application for a solar energy service contract covering a certain area in the province of Batangas*

- The President and CEO, Mr. Francisco L. Viray and the Senior Vice President, Mr. Raymundo A. Reyes, Jr. were authorized to sign, execute and deliver for and on behalf of the Corporation any and all documents pursuant to and in accordance with the foregoing authority.

7. *Approving the consolidated budget for calendar year 2016.*

**Regular Meeting of the Board of Directors  
April 12, 2016**

1. *Approving the Nomination Committee's report dated March 18, 2016 on the qualification of nominees for election as directors*

2. *Authorizing the filing of application for accreditation as Importer with the Bureau of Customs (BOC)*

- The Assistant Vice President-Materials Management, Mr. Arthur R. Villacorte was designated as the authorized person to file the said application in behalf of the Corporation.

3. *Authorizing the opening of an Escrow Agreement with either Security Bank Corporation-Trust Division or BDO Unibank Inc., Trust and Investments Group as the Escrow Agent for the purpose of administering, managing, and handling the escrow funds and such other escrow assets and/or documents that will be deposited in the Escrow Account in accordance with the terms and conditions of the Memorandum of Agreement dated as of November 20, 2015 that was executed by and between the Municipality of Sual, Province of Pangasinan and Trans-Asia Oil and Energy Development Corporation.*

- Any two (2) of the following officers of the Corporation were authorized to sign, execute and deliver the above mentioned Escrow Agreement:

Francisco L. Viray	President and CEO
Roberto M. Laviña	Treasurer
Pythagoras L. Brion, Jr.	SVP & CFO
Raymundo A. Reyes, Jr.	SVP
Rizalino G. Santos	SVP – Power Business
Virgilio R. Francisco	SVP
Mariejo P. Bautista	SVP-Finance and Controller
Alan T. Ascalon	VP-Legal & Asst. Corporate Secretary

4. *Designating signatories for bank and banking transactions*

- Any two (2) of the signatories below to sign, execute and deliver deposits, withdrawal slips, drafts, authorizations, receipts, check payments and other modes of payment, and other documents for and in behalf of the Corporation which may be required or necessary in connection with the Corporation's transactions with banks:

**Group A**

Francisco L. Viray	President and CEO
Roberto M. Lavina	SEVP & Treasurer
Pythagoras L. Brion, Jr.	SVP & CFO
Raymundo A. Reyes, Jr.	SVP
Rizalino G. Santos	SVP – Power Business
Virgilio R. Francisco	SVP
Mariejo P. Bautista	SVP-Finance and Controller
Alan T. Ascalon	VP-Legal & Asst. Corporate Secretary

- Any two (2) of the signatories below for banking transactions involving amounts equal to Fifty Thousand Pesos (Php 50,000.00) and below, any two (2) of the aforementioned Group A signatories or any one (1) of the Group A or Group B signatories below together with any one (1) of Group C signatories below:

**Group B**

Danilo L. Panes	VP-Renewable Energy
Arthur R. Villacorte	AVP-Materials Management
Danielle R. Del Rosario	AVP-Corporate Affairs

**Group C**

Mariejo P. Bautista	SVP-Finance and Controller
Yolanda D. Anonuevo	Asst. Controller

5. *Authorizing the participation in the Joint Competitive Power Supply Procurement for Short Term Power Supply (2017-2018) of INEC, MOPRECO and KAELCO (IMAK) (the "Transaction")*

- a. Francisco L. Viray, Rizalino G. Santos, Alan T. Ascalon, Herman B. Timoteo, John Henry C. Liqueste and Cheyenne Francis B. Batnag were designated as the authorized representatives of the Corporation in connection with the Transaction, with the following powers and authority:
  - i. to receive the Bidding Documents, Supplemental Bulletins, communications, correspondences, notices and/or legal processes issued by the IMAK Bids and Awards Committee (BAC);
  - ii. to execute and sign all agreements, documents, certifications, affidavits, undertakings, letters, forms, proposals, attachments required to be submitted with the Bid;
  - iii. submit and sign the Proposal or Bid;
  - iv. represent and/or appear on behalf of the Corporation in the Transaction and act for and in behalf of the Corporation during the opening and evaluation of the Bid and on all matters to be taken in the Transaction, including the authority to revise and amend documents; and
  - v. to do all acts in relation to and in furtherance of the foregoing authority.
- b. The Corporation was also authorized to enter into a power supply agreement/contract for the sale of electricity with the electric cooperative/s and file the application for the approval of the power supply agreement/contract with the Energy Regulatory Commission should it be declared as the winning bidder.
- c. The President and CEO, Francisco L. Viray and the Senior Vice President for Power Business, Mr. Rizalino G. Santos were authorized to negotiate and sign the power supply agreement/contract, Verification and Certificate of Non-Forum Shopping and any or all documents they may deem to be in the best interest of the Corporation.

- d. Attys. Alan T. Ascalon, John Henry C. Liqueete, Lianne Ivy P. Medina and/or Martessa E. Nuylan-Rodrigueza were authorized to be the true and lawful attorneys-in-fact of the Corporation, to personally appear for it and in its name, place and stead, be authorized to represent the Corporation, sign and execute such pleadings, attend or appear on all hearings, conference and proceedings and perform such acts in furtherance of the foregoing authority until final resolution of the case.

*6. Authorizing the participation of the Corporation and/or any of its subsidiaries and/or affiliates in the Competitive Selection Process for the supply of energy requirements of Quezon I Electric Cooperative, Inc., (the "Transaction")*

- a. Francisco L. Viray, Rizalino G. Santos, Alan T. Ascalon, Herman B. Timoteo, John Henry C. Liqueete and Cheyenne Francis B. Batnag were designated as the authorized representatives of the Corporation in connection with the Transaction, with the following powers and authority:
  - i. to receive the Bidding Documents, Supplemental Bulletins, communications, correspondences, notices and/or legal processes issued by the QUEZELCO I Bids and Awards Committee (BAC);
  - ii. to execute and sign all agreements, documents, certifications, affidavits, undertakings, letters, forms, proposals, attachments required to be submitted with the Bid;
  - iii. submit and sign the Proposal or Bid;
  - iv. represent and/or appear on behalf of the Corporation in the Transaction and act for and in behalf of the Corporation during the opening and evaluation of the Bid and on all matters to be taken in the Transaction, including the authority to revise and amend documents; and
  - v. to do all acts in relation to and in furtherance of the foregoing authority.
- b. Authority to enter into a power supply agreement/contract for the sale of electricity with the electric cooperative/s and file the application for the approval of the power supply agreement/contract with the Energy Regulatory Commission should the Corporation be declared as the winning bidder.
- c. Authority of President and CEO, Francisco L. Viray, and the Senior Vice President for Power Business, Mr. Rizalino G. Santos to negotiate and sign the power supply agreement/contract, Verification and Certificate of Non-Forum Shopping and any or all documents they may deem to be in the best interest of the Corporation.
- d. Attys. Alan T. Ascalon, John Henry C. Liqueete, Lianne Ivy P. Medina and/or Martessa E. Nuylan-Rodrigueza are authorized to be the true and lawful attorneys-in-fact of the Corporation, to personally appear for it and in its name, place and stead, be authorized to represent the Corporation, sign and execute such pleadings, attend or appear on all hearings, conference and proceedings and perform such acts in furtherance of the foregoing authority until final resolution of the case.

*7. Authorizing the Corporation to enter into a Contract for the Sale of Electricity with Tailin Abrasives Corporation under such terms and conditions as the President and CEO, Mr. Francisco L. Viray, and the Senior Vice President for Power Business, Mr. Rizalino G. Santos may deem to be in the best interest of the Corporation.*

*8. Authorizing the Corporation to participate in the Proposed Negotiated Sale of the 32MW Power Barge (PB) 104 located in Holcim Compound Ilang, Davao City, being conducted by the Power Sector Assets and Liabilities Management Corporation;*

- a. The President and CEO, Francisco L. Viray, Senior Vice President for Power Business, Rizalino G. Santos, and the Vice-President Legal, Alan T. Ascalon were designated as the authorized representatives of the Corporation with the following powers and authority:
  - i. to issue the Expression of Interest, sign the Confidentiality Agreement and Undertaking, Acceptance of Negotiation Procedures, Representations and Warranties;
  - ii. to receive the Final Asset Purchase Agreement, communications, notices and legal processes for the Corporation as a negotiating party;
  - iii. to submit and sign all documentary requirements, agreements, certifications, undertakings, letters, forms, attachments required to be submitted with the Offer;
  - iv. to represent the Corporation in the negotiations including the execution and signing of the Asset Purchase Agreement;
  - v. to act for and in behalf of the Corporation during the opening and evaluation of the Offer, on all matters to be taken, including the authority to represent, revise and amend documents;
  - vi. to do all acts in relation to and in furtherance of the foregoing authority.

**Organizational Meeting of the Board of Directors  
April 12, 2016**

*1. Election of Officers*

- The following officers were elected to the positions set forth after their respective names:

Oscar J. Hilado	- Chairman
Ramon R. del Rosario, Jr.	- Vice Chairman
Francisco L. Viray	- President & CEO
Roberto M. Lavina	- Treasurer
Juan J. Diaz	- Corporate Secretary
Rizalino G. Santos	- SVP - Power Business
Pythagoras L. Brion, Jr.	- SVP & CFO
Raymundo A. Reyes, Jr.	- SVP
Virgilio R. Francisco, Jr.	- SVP
Mariejo P. Bautista	- SVP - Finance & Controller
Alan T. Ascalon	- VP - Legal & Assistant Corp. Secretary
Cecille B. Arenillo	- VP - Compliance Officer
Danilo L. Panes	- VP - Renewable Energy
Arthur R. Villacorte	- AVP – Materials Management
Danielle R. del Rosario	- AVP – Corporate Affairs
Chiqui P. Posadas	- AVP – HR

*2. Composition of Various Board Committees*

- The composition of the various Committees of the Board of Directors for the ensuing year is as follows:

Executive Committee/Stock Option Committee

Ramon R. del Rosario, Jr.	- Chairman
Oscar J. Hilado	- Member
Magdaleno B. Albarracin, Jr.	- Member
Francisco L. Viray	- Member
Guillermo D. Luchangco	- Member

Audit Committee and Risk Management Committee

David L. Balangue	- Chairman
Corazon dela Paz-Bernardo	- Member
Roberto M. Laviña	- Member
Victor J. del Rosario	- Member

Nomination Committee

Ramon R. del Rosario, Jr.	- Chairman
Oscar J. Hilado	- Member
Raymundo O. Feliciano	- Member

Compensation Committee

Oscar J. Hilado	- Chairman
Ramon R. del Rosario, Jr.	- Member
Ricardo V. Camua	- Member

**Regular Meeting of the Board of Directors  
May 16, 2016**

1. *Authorizing the Corporation to act as Project Sponsor for the following Term Loan Facilities of Maibarara Geothermal, Inc. (MGI) with the Rizal Commercial Banking Corporation (RCBC) for the Maibarara Geothermal Power Project:*

- The Project Loan Facility Agreement up to an aggregate principal loan amount not exceeding One Billion Four Hundred Million Pesos (P1,400,000,000.00) for the 12 MW Maibarara Expansion Project (the "Tranche A Facility"); and
  - The refinancing/prepayment of the Omnibus Loan and Security Agreement dated September 26, 2011 up to an aggregate principal loan amount not exceeding Two Billion One Hundred Million Pesos (P2,100,000,000.00) for the 20 MW Maibarara Geothermal Power Project (the "Tranche B Facility")
- a. As Project Sponsor for the Facilities, the Corporation was authorized to:
- i. Assign, mortgage, or pledge (i) all its rights, title, and/or interest in and to its shares of stock in MGI, whether the same be in certificated or uncertificated form, including any and all shares of stock in MGI that are now or may hereafter be owned by or issued in the name of the Corporation; and (ii) its rights and/or interest in the Joint Venture Agreement executed on May 19, 2010 by and among the Corporation, Petrogreen Energy Corporation, and PNOC Renewables Corporation;
  - ii. When reasonably required under and pursuant to the terms of the Facilities, to secure the Debt Service Reserve Account (DSRA) by infusing cash or securing a stand-by letter of credit issued by any bank or such other security acceptable to RCBC RCBC in proportion to its equity ownership in MGI;
  - iii. Guarantee the completion of the 12 MW Maibarara Expansion Project (Maibarara 2 Project), and for this purpose, the Corporation is hereby authorized:

(i) To contribute to MGI the Corporation's share of the funds necessary to enable MGI to complete the construction of the Maibarara 2 Project in proportion to its equity ownership in MGI; and

(ii) In the event that MGI does not have sufficient funds available to cover the full cost of constructing and completing the Project due to cost overruns, to make cash advances or otherwise arrange to provide MGI with funds sufficient to complete construction, in both cases in proportion to its equity ownership in MGI.

- b. The Treasurer, Mr. Roberto M. Laviña and Mr. Raymundo A. Reyes, Jr., Senior Vice President were authorized to sign, execute and deliver for and on behalf of the Corporation any and all documents pursuant to and in accordance with the foregoing authority:

*2. Authorizing the Corporation to participate in the Joint Competitive Power Supply procurement for Short Term Power Supply (2017-2018) of INEC, MOPRECO and KAELCO (the "Transaction")*

- a. Francisco L. Viray, Rizalino G. Santos, Alan T. Ascalon, Herman B. Timoteo, John Henry C. Liqueste and Cheyenne Francis B. Batnag were designated, as the authorized representatives of the Corporation in connection with the Transaction, with the following powers and authority:
- i. to receive the Final Instruction to Bidders, Supplemental Bulletins, communications, correspondences, notices and/or legal processes issued by the Joint Bids and Awards Committee ("JBAC");
  - ii. to execute and sign all agreements, documents, certifications, affidavits, undertakings, letters, forms, proposals, attachments required to be submitted with the bid;
  - iii. to submit and/or sign all Documents Comprising the Bid consisting of the (i) Eligibility Requirements, (b) Technical and Financial Proposal including its electronic version and (c) Bid Security;
  - iv. to represent and/or appear on behalf of the Corporation in the bidding process and act for and in behalf of the Corporation during the opening and evaluation of the Bids and on all matters to be taken in the Transaction, including the authority to revise and amend documents;
  - v. to negotiate, sign and execute the Power Supply Agreement (PSA); and
  - vi. to do all acts in relation to and in furtherance of the foregoing authority."

**Regular Meeting of the Board of Directors  
June 27, 2016**

1. Authorizing the Corporation to avail of the check writing facility of BDO Unibank, Inc. through its Transactional Banking Group (TBG) and be allowed to permit the processing and acceptance of company checks with digitized or printer-generated signatures.

- a. Any two (2) of the following officers were authorized to negotiate and enter into the aforementioned agreement, execute and deliver forms and documents, and approve transactions through the BDO check writing facility.

<u>Name</u>	<u>Position</u>
Pythagoras L. Brion, Jr.	SVP and CFO
Raymundo A. Reyes, Jr.	Senior Vice President
Rizalino G. Santos	SVP-Power Business
Mariejo P. Bautista	SVP-Finance and Controller

Alan T. Ascalon

VP-Legal and Asst. Corp. Sec.

2. *Authorizing the Corporation to enroll in Rizal Commercial Banking Corporation Enterprise Banking Bills Collection Service, where RCBC, on behalf of the Corporation, will collect the payments from the Corporation's customers, subscribers, policyholders or students through the different collection channels available in RCBC ("Bills Collection Service").*

a. Any two (2) of the named officers were authorized to do the following:

<u>Name</u>	<u>Position</u>
Francisco L. Viray	President and CEO
Roberto M. Laviña	Treasurer
Pythagoras L. Brion, Jr.	SVP and CFO
Raymundo A. Reyes, Jr.	Senior Vice President
Rizalino G. Santos	SVP-Power Business
Virgilio R. Francisco, Jr.	Senior Vice President
Mariejo P. Bautista	SVP-Finance and Controller
Alan T. Ascalon	VP-Legal and Asst. Corp. Sec.

- (i) To negotiate and enter into an agreement with RCBC to avail of the Bills Collection Service;
- (ii) To sign and execute the RCBC Enterprise Banking Bills Collection Service Agreement ("Service Agreement") as the recognized Corporate Representative/s responsible for providing the following information to RCBC:
  - a. The Central Depository Account where the payments received will be credited to; and
  - b. List of recipients of Bills Collection Report.
- (iii) To sign, execute and deliver any other forms or documents that may be required by RCBC in connection with the Service Agreement and the implementation of the Bills Collection Service including any subsequent amendments or supplements made thereto; and
- (iv) To communicate with RCBC on behalf of the Corporation in all matters relating to the said Service Agreement and Bills Collection Service.

3. *Authorizing the Corporation to participate as a bidder in the bidding/request for proposal of Philippine National Bank (PNB)'s electricity supply requirements*

- a. Francisco L. Viray, Rizalino G. Santos, Alan T. Ascalon, Herman B. Timoteo, John Henry C. Lique and Cheyenne Francis B. Batnag were designated as the authorized representatives of the Corporation in connection with the bidding/request for proposal, with the following powers and authority:
  - i. to receive the instructions to bidders, bid bulletins, letters, communications, correspondences, notices and/or legal processes issued by the bids and awards committee;
  - ii. to sign and execute all agreements, documents, certifications, affidavits, undertakings, letters, forms, proposals, attachments required to be submitted with the bid;
  - iii. to submit and/or sign all documents and annexes comprising the bid;

- iv. to represent and/or appear on behalf of the Corporation in the bidding process and act for and on behalf of the Corporation during the opening and evaluation of the bids and all matters to be taken in the bidding, including the authority to revise and amend documents;
- v. to negotiate, sign and execute the Contract for the Sale of Electricity; and
- vi. to do all acts in relation to the foregoing authority."

4. *Business Separation and Unbundling Plan*

- a. Approval of the preparation of the following documents and filing with the Energy Regulatory Commission:
  - (a) The Accounting Separation Statements prepared by it for that period;
  - (b) The Management Responsibility Statement;
  - (c) The Auditor's Report on those Accounting Separation Statements prepared;
  - (d) The General Information Sheet;
  - (e) The Compliance Report; and
  - (f) A consolidated copy of the relevant Electric Power Industry Participant's ACAM, where such ACAM has been amended so that it does not correspond with the consolidated copy of the ACAM that has previously been provided to the ERC for the purposes of the Guidelines.
- b. The President & CEO, Francisco L. Viray and/or its Senior Vice President – Finance and Controller, Mariejo P. Bautista were authorized to effect the submission of the same to the Energy Regulatory Commission in compliance with the requirements of the Business Separation Guidelines; to sign and execute any document in relation thereto and to appoint Diccion Law Firm to represent the Corporation for these purposes.

5. *Sale to Mr. Rodolfo C. dela Cruz of the following vehicle:*

Make and Type:	Hyundai Accent CVVT 1.4
Model:	2011
Serial (Chassis) No.:	KMHCT41CBBU035826
Engine No.:	G4FABU210561
Plate No.:	PIN 636

- The President and CEO, Mr. Francisco L. Viray, or Senior Vice President – Finance and Controller, Ms. Mariejo P. Bautista were authorized to sign, execute and deliver for and on behalf of the Corporation the corresponding Deeds, Contracts, Agreements and any and all other documents as may be required to put into effect the foregoing authority.

**Regular Meeting of the Board of Directors**

**July 25, 2016**

1. *Authorizing the Corporation to transact and contract with PLDT, and its and/or affiliates including but not limited to Smart Communications, Inc. to avail of wire-line telephone, wireline data, wireline internet, wireless telephone, wireless data service, SMS, GPRS, wireless value added services, wireless broadband internet, and other present or future product, facilities and services.*

- Mr. Arthur R. Villacorte, AVP-Materials Management was designated as representative of the Corporation for the transactions and contracts with PLDT.

2. Authorizing the Corporation to enter into transactions and contracts with, and/or avail of the services, corporate credit lines and other facilities of the Philippine Airlines for the Corporation's domestic and international air travel requirements, as the Corporation's authorized signatories may deem reasonable, proper and beneficial for the interest of the Corporation.

- Any one (1) of the following Officers of the Corporation were authorized to sign, execute and/or deliver any and all documents, contracts, instruments for and in behalf of the Corporation, as may be appropriate and required by the foregoing transactions authorized above:

<u>Name</u>	<u>Position</u>
Mariejo P. Bautista	SVP – Finance & Controller
Arthur R. Villacorte	AVP – Materials Management

3. Authorizing the Corporation to file with the Department of Energy an application for a solar energy service contract covering a certain area in the province of Bulacan.

- The President and CEO, Mr. Francisco L. Viray, the Senior Vice President, Mr. Raymundo A. Reyes, Jr. were authorized to sign, execute and deliver for and on behalf of the Corporation any and all documents pursuant to and in accordance with the foregoing authority.

#### **Regular Meeting of the Board of Directors August 22, 2016**

1. Sale to Ms. Mariejo P. Bautista of the following vehicle:

Make and Type:	Mitsubishi Montero Sports G
Model:	2011
Serial (Chassis) No.:	MMBGNKG40BF035984
Engine No.:	4D56UCCV7134
Plate No.:	TGQ 343

- The President and CEO, Mr. Francisco L. Viray, or Senior Vice President – Finance and Controller, Ms. Mariejo P. Bautista to sign, were authorized to execute and deliver for and on behalf of the Corporation the corresponding Deeds, Contracts, Agreements and any and all other documents as may be required to put into effect the foregoing authority.

#### **Regular Meeting of the Board of Directors September 26, 2016**

1. Authorizing the Corporation to enrol in the internet banking facility ("We Access") of Land Bank of the Philippines

- Any two (2) of the following signatories were authorized in behalf of the Corporation to sign, execute and deliver deposits, withdrawal slips, drafts, authorizations, receipts, check payments and other modes of payment, and other documents as may be required or necessary in relation to the foregoing:

Francisco L. Viray	President and CEO
Roberto M. Lavina	SEVP & Treasurer
Pythagoras L. Brion, Jr.	SVP & CFO
Raymundo A. Reyes, Jr.	SVP
Rizalino G. Santos	SVP – Power Business
Virgilio R. Francisco, Jr.	SVP
Mariejo P. Bautista	SVP-Finance and Controller
Alan T. Ascalon	VP-Legal & Asst. Corporate Secretary

2. Authorizing the Corporation to participate in the bidding/request for proposal of Manila Water Company Inc., and Cebu Manila Water Development Inc., electricity supply requirements

- a. Francisco L. Viray, Rizalino G. Santos, Alan T. Ascalon, Herman B. Timoteo, John Henry C. Lique and Cheyenne Francis B. Batnag were designated as authorized representatives of the Corporation in connection with the bidding/request for proposal, with the following powers and authority:
- i. to receive the instructions to bidders, bid bulletins, letters, communications, correspondences, notices and/or legal processes issued by the bids and awards committee;
  - ii. to sign and execute all agreements, documents, certifications, affidavits, undertakings, letters, forms, proposals, attachments required to be submitted with the bid;
  - iii. to submit and/or sign all documents and annexes comprising the bid;
  - iv. represent and/or appear on behalf of the Corporation in the bidding process and act for and on behalf of the Corporation during the opening and evaluation of the bids and all matters to be taken in the bidding, including the authority to revise and amend documents;
  - v. to negotiate, sign and execute the Contract for the Sale of Electricity; and
  - vi. to do all acts in relation to the foregoing authority."

**Regular Meeting of the Board of Directors  
November 3, 2016**

1. *Approval of purchase of additional land for SLTEC*

2. *Sale of five percent (5%) interest in South Luzon Thermal Corporation (SLTEC) to Axia Power Holdings Philippines Corporation (APHPC)*

- a. Authority to amend the existing Joint Venture Agreement governing SLTEC between this corporation and AC Energy Holdings Inc. as may be necessary;
- b. The President, Francisco L. Viray was authorized to sign, execute and deliver on behalf of this Corporation, the appropriate stock purchase agreement, and such other documents as may be required or necessary to give effect to the foregoing resolution.

3. *Authorizing the Corporation to secure a Performance Bond from Liberty Insurance Corporation in favor of the Department of Energy in connection with the Corporation's obligation to provide services, technology, equipment and financing necessary for the exploration and development of 21.6 MW Ilog HEP located in the Municipality of Mabinay, province of Negros Occidental.*

- The SVP-Finance and Controller, Ms. Mariejo P. Bautista was authorized to sign, execute and deliver for and on behalf of the Corporation all documents as may be required to put into effect the foregoing authority.

**Regular Meeting of the Board of Directors  
November 28, 2016**

*1. Authority to Participate in Biddings for Supply of Electricity to Contestable Customers*

- a. Authorized the Corporation to file, if needed, the necessary application for accreditation as the electricity supplier, vendor, or service provider with the contestable customers;
- b. Authorized the Corporation to enter into a Contract for the Sale of Electricity with such contestable customers under such terms and conditions as the officers and authorized representatives listed below may deem to be in the best interest of the Corporation;
- c. Authorized the Corporation to enter into a Distribution Wheeling Services Agreement (DWSA) with the Distribution Utility or Electric Cooperative where the contestable customer's building or facility is located under such terms and conditions as the officers and authorized representatives listed below may deem to be in the best interest of the Corporation;
- d. Francisco L. Viray, Rizalino G. Santos, Alan T. Ascalon, Danielle R. Del Rosario, Herman B. Timoteo, John Henry C. Liquete and Cheyenne Francis B. Batnag were designated as the authorized representatives of the Corporation, with the following powers and authority:
  - i. to receive the instructions to bidders, bid bulletins, letters, communications, correspondences, notices and/or legal processes issued by the bids and awards or accreditation committee of the contestable customers;
  - ii. to file, sign, execute, revise or amend on behalf of the Corporation all certifications, affidavits, undertakings, letters, notices, forms, proposals and such other necessary documents in connection with the bidding/request for proposal and/or accreditation of the Corporation as the electricity supplier, vendor or service provider of the contestable customers;
  - iii. to represent and/or appear on behalf of the Corporation in the bidding and/or accreditation process and act for and on behalf of the Corporation during the evaluation of the bids and all matters related to the accreditation proceedings of the Corporation as the electricity supplier;
  - iv. to negotiate, sign and execute the Contract for the Sale of Electricity;
  - v. to negotiate, sign and execute the Distribution Wheeling Services Agreement with the Distribution Utility or Electric Cooperative;
  - vi. to do any and all acts in relation to and in furtherance of the foregoing authority."

**Regular Meeting of the Board of Directors  
December 16, 2016**

*1. Cash Dividend*

- On motion duly seconded and unanimously carried, the Board declared a cash dividend of Four Centavos per share (Php0.04/share) payable on January 16, 2017 to shareholders of record as of January 4, 2017.

*2. Annual Corporate Governance Report (ACGR) for the year 2016*

- Approval of the Consolidated Changes in the Annual Corporate Governance Report for the Year 2016, in compliance with the Securities and Exchange Commission (SEC) Memorandum Circular No. 12, Series of 2014, specifically on the following items of the said report.
  1. Corporate Governance Policy under BOARD MATTERS
  2. Update on the Company's Vision and Mission statements under BOARD MATTERS
  3. Directorships in other companies under BOARD MATTERS
  4. Updated Board Seat Policy under BOARD MATTERS
  5. Changes in the Shareholding in the Company under BOARD MATTERS as of Sept 30, 2016
  6. Succession planning under BOARD MATTERS
  7. Changes in roles and responsibilities of Executive, Non-executive and Independent Directors under BOARD MATTERS
  8. Changes in the Board under BOARD MATTERS
  9. Voting Results of the last Annual Shareholders' Meeting
  10. Orientation and Education Program under BOARD MATTERS
  11. Compliance implementation and monitoring under CODE OF BUSINESS CONDUCT AND ETHICS
  12. Related Party Transactions policy under CODE OF BUSINESS CONDUCT AND ETHICS
  13. Attendance of Directors for the Year under BOARD MEETINGS AND ATTENDANCE
  14. Remuneration of Directors under BOARD MEETINGS AND ATTENDANCE
  15. Committee Members under BOARD COMMITTEES
  16. Profile of Audit Committee Members under BOARD COMMITTEES
  17. Changes in Committee Members under BOARD COMMITTEES
  18. Committee Program under BOARD COMMITTEES
  19. Review of the effectiveness of risk management systems under RISK MANAGEMENT
  20. Risk Policy under RISK MANAGEMENT PROGRAM
  21. Control System Set-Up under RISK MANAGEMENT SYSTEM
  22. Review of Internal Controls under INTERNAL CONTROL AND AUDIT
  23. Resignation, Re-assignment and Reasons under INTERNAL AUDIT AND CONTROL
  24. Audit Program under INTERNAL CONTROL AND AUDIT
  25. Company policies and activities under ROLE OF STAKEHOLDERS
  26. Changes in the company's policy on employee safety, health and welfare under ROLE OF STAKEHOLDERS
  27. Data relating to Health, Safety and Welfare under ROLE OF STAKEHOLDERS
  28. Changes in Ownership Structure under DISCLOSURE AND TRANSPARENCY
  29. External Auditor's Fee under DISCLOSURE AND TRANSPARENCY
  30. Release of Financial Report under DISCLOSURE AND TRANSPARENCY
  31. Disclosure of Related Party Transactions under DISCLOSURE AND TRANSPARENCY
  32. Dividend Disclosure under DISCLOSURE AND TRANSPARENCY
  33. Quorum requirement under RIGHTS OF STOCKHOLDERS
  34. Notice of AGM under RIGHTS OF STOCKHOLDERS
  35. Questions and Answers during the most recent AGM under RIGHTS OF STOCKHOLDERS
  36. Details of the AGM Attendance under RIGHTS OF STOCKHOLDERS
  37. DIS and Management Report under RIGHTS OF STOCKHOLDERS

38. System used to approve corporate acts under RIGHTS OF STOCKHOLDERS
39. Stockholders' Participation under RIGHTS OF STOCKHOLDERS
40. Board, Directors and CEO appraisal under INVESTOR RELATIONS
41. Changes in Initiatives undertaken under CORPORATE SOCIAL RESPONSIBILITY

3. *Atty. Juan J. Diaz*

"WHEREAS, Attorney Juan Joaquin "Johnny" Diaz became the Corporate Secretary and Chief Legal Counsel of PHINMA Energy Corporation (the 'Company') when the Company was incorporated as Trans-Asia Oil and Minerals Development Corporation in the year 1969 until 1978 and resumed the position of Corporate Secretary and Chief Legal Counsel in 1987 until 2016;

WHEREAS, prior to the formation of the Company, Johnny was the Chief Legal Counsel of the Company's predecessor, Filoil Refinery Corporation, and was instrumental in the shaping of the Company and its subsidiaries into what they are today;

WHEREAS, as the Company's Chief Legal Counsel and Corporate Secretary, Johnny dedicated close to 50 years of his life providing valuable legal insight and guidance to the Company and to the PHINMA Group, with his vast knowledge of the law, his firm demeanor that inspired excellence from his subordinates and peers, and the highest levels of dedication and professionalism that ensured that meetings of the Board of Directors and the Shareholders proceeded in an organized and efficient manner and that Minutes of the Meetings and other Corporate Documents were delivered on time and perfectly crafted;

WHEREAS, the PHINMA Energy Family lost a brilliant mind, counsel, friend and ally on November 30, 2016, upon Johnny's passing;

NOW THEREFORE BE IT RESOLVED, that the Board of Directors of PHINMA Energy Corporation express its sincere and heartfelt gratitude for the dedicated service of Johnny Diaz as the Corporate Secretary and Chief Legal Counsel of PHINMA Energy Corporation, and that the sincere condolences of the Board of Directors be extended to his family, especially to his wife Mrs. Elizabeth L. Diaz and to his children Maria Victoria, Juan Jr., Ricardo and Noel.

THEREFORE BE IT FURTHER RESOLVED that a copy of this Resolution be included the minutes of the meeting of the Board of Directors as an expression of its gratitude for Attorney Juan J. Diaz and its appreciation for his years of dedicated service, as well as a copy be delivered to his family.

SO RESOLVED this 16th day of December 2016."

**Special Meeting of the Board of Directors  
December 20, 2016**

*1. Sale of five percent (5%) interest in South Luzon Thermal Corporation (SLTEC) to Axia Power Holdings Philippines Corporation (APHPC)*

- Approval of the sale of 1,791,513 Common Shares, covered by stock certificate No. 026-C, and 1,791,513 Preferred Shares covered by Stock Certificate No. 012-P, of SLTEC to APHPC
- Approval of the execution of the Deed of Absolute Sale of Shares in favor of APHPC to implement the foregoing sale of shares, as well as the execution of such other related

documents necessary to implement the transaction, including the issuance of a Special Power of Attorney in favor of Sycip, Gorres, Velayo & Co., (SGV & Co.) through its designated representatives, to represent the Corporation before the Bureau of Internal Revenue (BIR) in connection with the application for the issuance of the Certification Authorizing Registration ("CAR") and the tax clearance certificate (TCC) pursuant to the abovementioned Deed of Absolute Share of Shares.

2. *13-year loan agreement with Security Bank*

- The Corporation was authorized to enter into, execute, deliver and perform its obligations under a 13-year term loan agreement with Security Bank Corporation for the grant of a loan with a principal amount of up to One Billion Five Hundred Million Pesos (Php 1,500,000,000.00) (the 'SECB Loan'), the proceeds of which shall be used for working capital requirements and to finance project equity investments in and/or acquisition of power plants.
- Any two (2) of the following officers were jointly authorized to negotiate, sign and execute, for and in behalf of the Corporation, the aforementioned agreements with Security Bank Corporation, promissory notes, security agreements, assignment documents and such other papers and instruments necessary for, or in connection with, the SECB Loan, including any and all amendments, renewal or extensions thereof and to perform such further acts and deeds as may be necessary, convenient or appropriate to give force and effect to the foregoing resolutions.

<u>Name</u>	<u>Position</u>
Francisco L. Viray	President & CEO
Pythagoras L. Brion, Jr.	SVP & CFO
Mariejo P. Bautista	SVP - Finance & Controller
Alan T. Ascalon	Vice President-Legal

3. *13-year loan agreement with DBP*

- The Corporation was authorized to enter into, execute, deliver and perform its obligations under a 13-year term loan agreement with Development Bank of the Philippines for the grant of a loan with a principal amount of up to One Billion Five Hundred Million Pesos (Php1,500,000,000.00) (the 'DBP Loan'), the proceeds of which shall be used for working capital requirements and to finance project equity investments in and/or acquisition of power plants.
- Any two (2) of the following officers were jointly authorized to negotiate, sign and execute, for and in behalf of the Corporation, the aforementioned agreements with Development Bank of the Philippines, promissory notes, security agreements, assignment documents and such other papers and instruments necessary for, or in connection with, the DBP Loan, including any and all amendments, renewal or extensions thereof and to perform such further acts and deeds as may be necessary, convenient or appropriate to give force and effect to the foregoing resolutions:

<u>Name</u>	<u>Position</u>
Francisco L. Viray	President & CEO
Pythagoras L. Brion, Jr.	SVP & CFO
Mariejo P. Bautista	SVP - Finance & Controller
Alan T. Ascalon	Vice President-Legal

**Special Meeting of the Board of Directors  
January 10, 2017**

*1. Amended and Restated Omnibus Loan and Security Agreement (AROA)*

Management discussed the proposed amendments to the Omnibus Loan and Security Agreement among Trans-Asia Renewable Energy Corporation as Borrower, Security Bank Corporation and Development Bank of the Philippines as Lenders, PHINMA Energy Corporation as Pledgor/Sponsor, and Security Bank Corporation – Trust Division as Facility Agent and Collateral Trustee. The OLSA was amended, among others, to allow TAREC to pre-pay a portion of the loan without penalty.

- Approval of Part A, Part D and Part G of the Amended and Restated Omnibus Loan and Security Agreement (“AROA”) to be entered into among Trans-Asia Renewable Energy Corporation as Borrower, Security Bank Corporation and Development Bank of the Philippines as Lenders, PHINMA Energy Corporation as Pledgor/Sponsor, and Security Bank Corporation – Trust Division as Facility Agent and Collateral Trustee, and all the transactions contemplated therein.
- Any two (2) of the following officers were authorized to sign and execute, for and in behalf of the Corporation, the AROA and any amendment, modification and to perform such further acts and deeds as may be necessary, convenient or appropriate to give force and effect to the foregoing resolutions:

Name

Francisco L. Viray  
Pythagoras L. Brion, Jr.  
Mariejo P. Bautista  
Alan T. Ascalon

**Regular Meeting of the Board of Directors  
January 30, 2017**

*1. Financial Reports*

The financial statements for the twelve (12) months ended December 31, 2016 was approved. Parent company net income is Php295 M for the month of December, bringing parent company net income to Php 1.2 B. On a consolidated basis, the Energy Group earned consolidated income of PHP363 M for December, and PHP1.4 B for the year.

*2. 2017 Annual Shareholders Meeting*

The Annual Shareholders Meeting for 2017 was set on April 10, 2017 at 2:30 PM at the Peninsula Manila. Record Date for determination of shareholders entitled to notice and to vote in the meeting is fixed at March 10, 2017.

*3. 2017 Budget*

The proposed Budget for 2017 showing a net income of Php200 M was disapproved. The Board directed management to propose measures to increase the net income target. However, the budget for capital expenditures on the SAP Program and Project Development (except for the Mabini Project) was approved.

4. *Authorizing the Corporation to transact with the following counterparties and/or any of its branches*

Banco de Oro Unibank, Inc. and BDO Private Bank  
Security Bank Corporation  
Rizal Commercial Banking Corporation  
China Banking Corporation  
Hong Kong and Shanghai Banking Corp  
Maybank Philippines Inc.  
Bank of the Philippine Islands  
Development Bank of the Philippines  
Land Bank of the Philippines  
Australia and New Zealand Banking Group  
Standard Chartered Bank  
ING Bank  
J.P.Morgan Chase Bank N.A.  
ANZ Bank  
Philippine National Bank  
Metropolitan Bank & Trust Company  
First Metro Investment Corporation

relative to the following transactions and facilities:

(a) to invest in the following instruments with the abovementioned counterparties:

- Unit Investment Trust Funds and Trust Accounts and related products;
- Bonds, Stocks, Short-duration and/or long-duration funds;
- Government Securities such as treasury bills, treasury notes, treasury bonds, retail treasury bonds and other securities that carry the full faith and credit of the Republic of the Philippines;
- Promissory notes, corporate notes, bonds, commercial papers and preferred shares;
- Time deposits, certificate of deposits, special savings and other deposit products.

(b) to open, close and operate deposit accounts, both in local and foreign currency, with the foregoing banks.

(c) to open third party custodian account/s with the foregoing counterparties.

(d) to open, close and operate trust accounts (including escrow, custodianship and/or safekeeping) with the Trust Department of the abovementioned banks.

(e) to register as a Qualified Institutional Buyer (QIB) and to appoint any of foregoing counterparties and/or any of its branches as the Corporation's registrar.

(f) to open and utilize electronic or internet banking services, Transactional Banking and payroll services of the foregoing counterparties.

(g) to allow enrolment in the Bills Collection Service/Auto Debit Arrangement (ADA) of Security Bank Corporation and BDO Unibank Inc., and Rizal Commercial Banking Corporation, to facilitate payment collection from the Corporation's customers;

(h) To avail the Check Writing Facility of BDO Unibank, Inc., and authorize the processing and acceptance of company checks with digitized or printer generated signatures;

(i) to avail of credit facilities with the following counterparties, under terms and conditions as may have been agreed upon.

- Banco de Oro Unibank, Inc. and BDO Private Bank
- Security Bank Corporation
- Rizal Commercial Banking Corporation
- Bank of the Philippine Islands and any of its subsidiaries
- Development Bank of the Philippines

- (j) to allow the use of the existing credit lines with Rizal Commercial Banking Corporation (RCBC) by its subsidiary, One Subic Power Generation Corporation (OSPGC) and Trans-Asia Petroleum Corporation (TAPET), under terms and conditions as may have been agreed upon.
- Designating any two (2) as the authorized signatories for the foregoing and other related documents:
  - a. Without any limit, any two (2) of the Group A signatories below may sign, execute and deliver deposits, withdrawal slips, drafts, authorizations, receipts, check payments and other modes of payment, and other documents as may be required or necessary
  - b. For amounts covering Fifty Thousand Pesos (Php 50,000.00) and below, any two (2) of the Group A signatories or any one (1) of the Group A or Group B signatories below together with any one (1) of Group C signatories below:

Group A :

Francisco L. Viray	President and CEO
Roberto M. Laviña	SEVP & Treasurer
Pythagoras L. Brion, Jr.	SVP & CFO
Raymundo A. Reyes, Jr.	SVP
Rizalino G. Santos	SVP – Power Business
Virgilio R. Francisco	SVP
Mariejo P. Bautista	SVP-Finance and Controller
Alan T. Ascalon	VP-Legal & Asst. Corporate Secretary

Group B :

Danielle R. Del Rosario	AVP-Corporate Affairs
Danilo L. Panes	AVP-Renewable Energy
Arthur R. Villacorte	AVP-Materials Management

Group C :

Mariejo P. Bautista	SVP-Finance and Controller
Yolanda D. Anonuevo	Asst. Controller

5. Authorizing the Corporation to negotiate and/or contract for placement/investment accommodations from or through PHILIPPINE COMMERCIAL CAPITAL, INC. (PCCI), its Subsidiaries and Affiliates and/or PHILIPPINE COMMERCIAL CAPITAL, INC.-TRUST AND INVESTMENTS GROUP (PCCI-TIG) and under such terms and conditions as may be imposed by PCCI, its Subsidiaries and Affiliates and/or PCCI-TIG

- Authorizing any two (2) of the following be authorized (i) to sign, execute and/or deliver applications for placement/investment accommodations/agreements, promissory notes, and all other documents/agreements for the transactions of the Corporation with or through PCCI, its Subsidiaries and Affiliates and/or PCCI-TIG:

Francisco L. Viray	President and CEO
Roberto M. Laviña	SEVP & Treasurer
Pythagoras L. Brion, Jr.	SVP & CFO
Raymundo A. Reyes, Jr.	SVP
Rizalino G. Santos	SVP – Power Business
Virgilio R. Francisco	SVP
Mariejo P. Bautista	SVP-Finance and Controller
Alan T. Ascalon	VP-Legal & Asst. Corporate Secretary

- should any of the aforementioned authorized signatories be replaced or be removed, the Company shall immediately notify PCCI, its Subsidiaries and Affiliates and /or PCCI-TIG and submit a new Board Resolution with regard to the signatories to the aforementioned transactions;
- The authority to negotiate obtain and/or contract for placement/investment accommodations from or through PCCI, its Subsidiaries and Affiliates and/or PCCI-TIG, shall be effective for a period two (2) years from the date of the passage of this resolution, unless earlier terminated by the Board of Directors in a meeting called for this purpose.

6. *Authorizing the Corporation to participate in the Joint Competitive Power Supply Procurement- Power Supply for Baseload and Peaking electricity requirements of Iloilo 1,2 and 3 Electric Cooperative Inc., (ILECO 1, 2 and 3) and Antique Electric Cooperative, Inc., (ANTECO) (the "Transaction").*

- Designating Francisco L. Viray, Rizalino G. Santos, Alan T. Ascalon, Herman B. Timoteo, John Henry C. Liquete and Cheyenne Francis B. Batnag, be designated, as each of them is hereby designated, the authorized representatives of the Corporation in connection with the Transaction, with the following powers and authority:
  - (a) to receive the Final Instruction to Bidders, Supplemental Bulletins, communications, correspondences, notices and/or legal processes issued by the Bids and Awards Committee (BAC);
  - (b) to execute and sign all agreements, documents, certifications, affidavits, undertakings, letters, forms, proposals, attachments required to be submitted with the bid;
  - (c) submit and sign the eligibility requirements, bid security, financial proposal and technical proposal;
  - (d) represent and/or appear on behalf of the Corporation in the bidding and act for and in behalf of the Corporation during the opening and evaluation of the bids and on all matters to be taken in the Transaction, including the authority to revise and amend documents;
  - (e) should the Corporation be declared as the winning bidder, sign the power supply agreement with each electric cooperative, under such terms and conditions as the President and CEO, Francisco L. Viray and/or the Senior Vice President for Power Business, Rizalino G. Santos may deem to be in the best interest of the Corporation;
  - (f) to do all acts in relation to and in furtherance of the foregoing authority."
- Authorizing the President and CEO, Francisco L. Viray, the Senior Vice President for Power Business, Rizalino G. Santos, Vice-President Legal, Alan T. Ascalon, or either of them, to file the Application for approval of the power supply agreement in behalf of the Corporation, to sign the Verification and Certification of Non-forum Shopping and any and all documents and papers in relation to the foregoing, and to do all acts in relation to the foregoing, from the filing thereof until final resolution and termination of the same;
- Authorizing Attys. Alan T. Ascalon, John Henry C. Liquete, Martessa E. Nuylan-Rodrigueza or any of the Corporation's true and lawful attorneys-in-fact, to personally appear for it and in its name, place and stead, be authorized to represent the Corporation, sign and execute such pleadings, and perform such other acts in furtherance of the foregoing authority until final resolution of the case, including the performance of the following acts relative to the application, to wit: simplification of issues; the necessity or desirability of amendment to the pleadings; the possibility of obtaining stipulations or admissions of facts and documents; the limitation of the number of witnesses; the propriety of rendering judgment on the pleadings, or of dismissing the action should a valid ground exist; the advisability or necessity of suspending the proceedings; such other matters that may aid in the disposition of the case.

7. Designating the President and Chief Executive Officer, Francisco L. Viray, Senior Vice-President for Power Business, Rizalino G. Santos, Vice-President-Legal, Alan T. Ascalon, Assistant Legal Counsel, John Henry T. Liqueste, and its Marketing Consultant, Pablo B. Anido, each of them, as the authorized representatives of the Corporation in connection with the Proposed Sale of the 650MW Malaya Thermal Power Plant located in Barangay Malaya, Pililla, Rizal being conducted by the Power Sector Assets & Liabilities Management Corporation (PSALM) with the following powers and authority:

- (i) to issue the Expression of Interest, sign the Confidentiality Agreement and Undertaking, and receive the Bidding Package;
- (ii) to receive all Supplemental Bid Bulletins, the Final Transaction Documents, communications, correspondences, notices and legal process for the Corporation as bidder;
- (iii) to represent the Corporation in the Bidding Process, including the execution and signing of the Final Transaction Documents;
- (iv) to act for and in behalf of the Corporation during the opening and evaluation of Bids, on all matters to be taken, including the authority to represent, revise and amend documents, bid for and bind the Corporation in the event that an auction is called to settle a tie.

## **PHINMA ENERGY CORPORATION**

*(formerly Trans-Asia Oil and Energy Development Corp.)*

### **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 60<sup>th</sup> anniversary.

### **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 the Philippine Wholesale Electricity Spot Market (WESM).

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

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.

In 2016, the total energy sales reached 2,947 GWh a 33% increase from 2,216 GWh in 2015. Our primary customers are: Holcim Philippines’ cement plants in Bulacan and La Union, Philippine Economic Zone Authority’s (PEZA’s) Cavite Economic Zone, Quezon II Electric Cooperative Inc. (QUEZELCO II), Lafarge Republic, Inc., Direct Power Services, 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 SEM-Calaca Power Corporation, Unified Leyte Geothermal Power Plant and KEPCO SPC Power Corporation. In 2016, the Company’s total generation capacity was 639.4 megawatts (MW), a 40% increase from 455.4 MW in 2015. 2016 additional capacity include SLTEC Unit 2 with 135 MW, and Power Barges 101 and 102, which have a nominal capacity of 64 MW.

#### ***Trans-Asia Power Generation Corporation (TAPGC)***

On April 10, 2014, Trans-Asia Power Generation Corporation (“TAPGC”) 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 TAPGC's existing generation portfolio, adding to the 52MW Bunker C-Fired power plant in Bulacan serving Holcim's Cement Plant.

In 2016, TAPGC generated 36 gigawatt hours (GWh) of electricity and posted revenues of ₱414 million under its PAMA with PHINMA Energy.

### ***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 2016, CIPP earned revenues of ₱151.2 million and produced 21GWh of electricity.

### ***Guimaras Power Plant (GPP)***

PHINMA Energy has 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.

The 3.4MW Guimaras Power Plant ("GPP") continues to supply reliable and stable power to GUIMELCO. Aside from supplying peaking power to GUIMELCO, the plant also started selling power to the WESM in April 2011. In August 2011, the amended ESA that was approved by the ERC was also implemented. These developments were aimed at enhancing the economic viability of GPP.

In 2016, a total of 6.1 GWh of electricity was sold both to GUIMELCO and WESM. The plant also renewed its Certificate of Compliance (COC) during the same year.

### ***South Luzon Thermal Energy Corporation (SLTEC)***

South Luzon Thermal Energy Corporation ("SLTEC") is initially a joint venture between the Company and AC Energy Holdings, Inc. (ACEHI). ACEHI is a wholly-owned subsidiary of the Ayala Corporation. The partnership was formed to construct a 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. 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 construction, testing and commissioning of the 1<sup>st</sup> 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. SLTEC Unit 1 recorded an availability rate of 69% during the year, and operated continuously for 80 days prior to its scheduled maintenance shutdown on February 11, 2016.

Construction for SLTEC's 2<sup>nd</sup> unit reached its height in the second half of 2015. The project synchronized to the grid on August 15, 2015 and was in its final commissioning stage by the end of 2015. SLTEC's 2<sup>nd</sup> unit passed its reliability and performance tests, and announced the start of commercial operations on February 21, 2016.

SLTEC also espouses a pro-active and engaging CSR Program, with 16 CSR projects implemented during the year under the MANINGAT (Environment), KASAGPI (Health), HARAYA MANAWARI (Youth Development), and KALINANGAN (Education) programs.

For 2016, SLTEC reported a net income of ₱1.7 billion, with total production of 1,551 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 is already underway, adding another 12 MW to the facility by 2017.

In 2016, MGI produced 152 GWh of power and posted net income P 140.5 million.

#### ***Trans-Asia Renewable Energy Corporation (TAREC)***

Trans-Asia Renewable Energy Corporation ("TAREC"), 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 TAREC is to become a dominant 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, TAREC 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, TAREC 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 TAREC 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.

In 2016, TAREC generated 96.7 GWh of electricity and earned ₱ 715.4 million revenues from sale 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, 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.

In 2016, OSPGC's total energy sale was ₱248.8 million under its PAMA with PHINMA Energy and produced 86 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, declared commercial operations in February 2016. PB 103 is currently located in a Cebu and has not started commercial operations yet.

In 2016, PB 101 and 102 generated revenues of ₱153.6 million.

#### **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**

### **12 MW Phase 2 of Maibarara Geothermal Power Plant**

Construction of the power plant and steamfield facilities under Phase 2 of the Maibarara Geothermal Power Plant project is underway. Upon completion of the project in the last quarter of 2017, the power plant capacity will increase from 20 MW to 32 MW. PHINMA Energy will continue to be the sole offtaker of the plant's output.

#### **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, TAPGC, 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, TAPGC, CIPP and OSPGC operate on diesel 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.

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

## **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 2016, the Company purchased Bunker C fuel for its power generation business from several reliable suppliers 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. TAPGC and PHINMA Energy have an ESA with Holcim where TAPGC and PHINMA Energy guarantee to cover all of Holcim's electricity requirements for both the La Union and Bulacan cement plants from 2013 until 2028. With long-term customers La Farge, DPSI and PEZA, and new customers contracted in 2016,, 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 TAPGC, CIPP, TAREC and Trans-Asia Petroleum Corporation 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**

TAREC's 54MW San Lorenzo Wind Farm ("San Lorenzo Wind Farm") 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 San Lorenzo Wind Farm utilizes digital models to predict wind resource, but ultimately, weather factors will be too complex and impossible to predict with any accuracy.

## **Petroleum Exploration**

PHINMA Energy, by itself and through its subsidiary, Trans-Asia Petroleum Corporation, 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 PNOG 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.

### **Suppliers and Customers**

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

### **Related Party Transactions**

PHINMA Energy exploration business is not dependent on related parties, nor were there any transactions involving related parties.

### **Research and Development**

The Company incurs minimal amounts for research and development activities which do not amount to a significant percentage of its exploration costs.

### **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 are granted certain preferential rights to their ancestral domains and all resources found therein. Ancestral domains are defined as areas generally belonging to IPs, subject to property rights within ancestral domains already existing or vested upon the effectivity of the IPRA, comprising lands, inland waters, coastal areas, and natural resources, held under a claim of ownership, occupied or possessed by IPs by themselves or through their ancestors, communally or individually, since time immemorial, continuously to the present, except when interrupted by war, force majeure or displacement by force, deceit, stealth, or as a consequence of government projects or any voluntary dealings entered into by the Government and private persons, and which are necessary to ensure their economic, social and cultural welfare.

Under the IPRA, no concession, license, lease or agreement shall be issued by any government agency without the certification precondition ("CP") from the National Commission on Indigenous 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:

<b>EPIRA Requirement</b>	<b>Status</b>
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.

#### *DOE Philippine Energy Plan 2009-2030*

The thrusts and objectives of the country's national energy policy are clearly articulated in the 2009-2030 Philippine Energy Plan (PEP) prepared by the DOE. The three-fold policies thrusts of the PEP are (i) ensure energy security, (ii) pursue effective implementation of energy sector reforms, and (iii) implement social mobilization and cross-sector monitoring mechanism. For the Philippines to achieve these objectives, the following policy reform measures have to be implemented effectively:

1. Ensure energy security
  - a. Accelerate the exploration and development of oil, gas, and coal resources
  - b. Intensify development and utilization of renewable and environment-friendly alternative energy resources / technologies
  - c. Enhance energy efficiency and conservation
  - d. Attain nationwide electrification

- e. Put in place long-term reliable power supply
  - f. Improve transmission and distribution systems
  - g. Secure vital energy infrastructure and facilities
  - h. Maintain a competitive energy investment climate
2. Pursue effective implementation of energy sector reforms
- a. Monitor the implementation of, and if, necessary, recommend amendments to existing energy laws
  - b. Promote an efficient, competitive, transparent, and reliable energy sector
  - c. Advocate the passage of new and necessary laws
3. Implement social mobilization and cross-sector monitoring mechanism
- a. Expand reach through information, education, and communication
  - b. Establish cross-sector monitoring mechanism in cooperation with other national government agencies, local government units (LGUs), non-government organizations (NGOs), and other local and international organizations
  - c. Promote good governance

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 5,390MW in 2009 to 12,381MW by 2030 or an average increase of 4.0% per annum. Wind energy is projected to post the largest increase in installed capacity at 17.7% per annum to reach 1,018MW by 2030. 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 88% of total installed capacity of the renewable energy sector by 2030.

Measurable Targets for the Renewable Energy Sector, Philippine Energy Plan, 2009-2030

<b>Cumulative Installed Capacity (MW)</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Hydropower	4,434	6,432	6,615	7,534
Geothermal	2,382	3,037	3,177	3,447
Wind	199	903	953	1,018
Solar	12	36	61	85
Biomass <sup>1</sup>	94	-	-	297
<b>TOTAL</b>	<b>7,121</b>	<b>10,408</b>	<b>10,806</b>	<b>12,381</b>

<sup>1</sup> There is an additional indicative capacity of 240.8MW for biomass. However, no data was provided as to what year the indicative capacities would come in.

*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, Trans-Asia Renewable Energy Corporation (TAREC) 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. The Project will compete with at least three (3) other wind power projects for the 200 MW allocated by the DOE to wind projects.

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, 2016, PHINMA Energy has 292 employees: 84 employees are in its Makati office, 14 in Guimaras Island, 25 in CIPP in La Union, 33 for TAPGC in Bulacan, 69 for Power Barges, 49 for OSPGC and 18 for TAREC in Guimaras. Of the total employees, 26 are managers and officers, 250 are supervisors, and 13 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. The Company 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.

The company encourages and supports work-life balance for its employees. Initiated by its CSR department, the company instituted the S.I.G.L.A. program, which stands for Special Interest Groups for Life-balance Activities. To date, the employees, both in the head office and in the subsidiaries have established more than 10 active special interest groups, ranging from fitness and wellness campaigns to movie club events, among others. This program also employs the same bottom-up approach where the employees themselves are the social enablers in facilitating the SIGLA groups and sustaining the program. In 2016, MaSIGLAng Paligsahan was celebrated as culmination of each SIGLA group and to recognize the efforts of the employee volunteer leaders who made this program a success.

Volunteerism has been a strong pillar for the sustainability of PHINMA Energy's CSR initiatives. In 2016, PHINMA Energy was able to mobilize 96% of its employees to participate and contribute in the implementation of projects.

## **Risk Factors**

### **Risks Related to the Business**

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

The Company's power plants operate machinery with many moving parts. Wear and tear due to operations will inevitably require replacement of parts which require regular maintenance. Even though the Company strictly follows 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 diversely purchased Bunker C fuel for its power generation business from 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.

***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 2017.

*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.

### **Risks Relating to the Company's Growth**

***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 four (4) wind sites; Sibunag and Nueva Valencia both located in

Guimaras and in Ballesteros and Aparri both located in Cagayan continued during the year. These projects will ensure that TAREC has a portfolio of wind projects that can be placed into development stage once the DOE issues another round of installation targets for wind.

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, TAREC 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 TAREC for all generation dispatched at prevailing electricity spot market price cleared during the hourly interval of dispatch for the energy generated by TAREC, while 2.) TRANSCO shall pay TAREC 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 ready funds at present, TransCo can apply for additional FIT-All rate to be billed in the future.

To manage this risk, TAREC actively manages its cash and liquidity position, to ensure that payments to service debt covenants are secure and available. TAREC 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:

<b>Name of Company</b>	<b>Percentage of Ownership</b>
Trans-Asia Renewable Energy Corporation (TAREC)	100.00%
Trans-Asia Petroleum Corporation (TAPET)	50.74%
CIP II Power Corporation (CIPP)	100.00%
Trans-Asia Gold and Minerals Development Corp. (TA Gold)	100.00%

Palawan55 Exploration & Production Corporation	30.65%
Trans-Asia Power Generation Corporation (TAPGC)	100.00%
One Subic Power Generation Corporation (OSPGC)	100.00%
South Luzon Thermal Energy Corporation (SLTEC)	45.00%
ACTA Power Corporation	50.00%
Asia Coal Corporation (Asia Coal)	28.18%
Maibarara Geothermal, Inc. (MGI)	25.00%
Trans-Asia Wind Power Corporation (TAWPC)	100.00%

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

**Trans-Asia Petroleum Corporation (TAPET).** This corporation was incorporated and registered with the SEC on September 28, 1994. TAPET 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.

**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.

**Trans-Asia Gold and Minerals Development Corp. (TA Gold).** TA Gold was incorporated and registered with the SEC on July 2, 2007. TA Gold is primarily engaged in the business of mining and mineral exploration within the Philippines and other countries. TA Gold will develop the mineral projects set forth by the Company. Effective March 2009, TA Gold suspended its

exploration activities.

**Palawan55 Exploration & Production Corporation (Palawan55).** Palawan55 is a subsidiary of TAPET. 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.

**Trans-Asia Power Generation Corporation (TAPGC).** 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. TAPGC 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 TAPGC 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 TAPGC.

In the 2nd quarter of 2014, TAPGC 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.

**One Subic Power Generation Corp. (OSPGC).** On May 12, 2014, TAPGC 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).

**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 1<sup>st</sup> unit of the plant starting its commercial operations in April 2015, and the 2<sup>nd</sup> 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.

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

On April 26, 2005, the SEC approved the reduction of Asia Coal's authorized capital stock from 20 million, consisting of 200,000 shares, with a par value of ₱100 per share, to 5 million, consisting of 50,000 shares, with the same par value. On March 19, 2009, the directors and stockholders of Asia Coal approved the shortening of the corporate life of the Company to October 31, 2009. The Company shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. As of February 21, 2011, Asia Coal has filed with the Bureau of Internal Revenue the request for tax clearance in connection with the filing with the SEC of its application for dissolution.

**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 plant commenced commercial operation on February 8, 2014.

**Trans-Asia Wind Power Corporation (TAWPC).** TAWPC 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, TAREC assigned its 100% equity interest in TAWPC to PHINMA Energy for a total cash consideration of 116 million. As a result of the assignment, TAWPC becomes a wholly owned subsidiary of PHINMA Energy. TAWPC has not started commercial operations.

### **Properties**

PHINMA Energy owns the following fixed assets:

*In thousands*

<b>Properties</b>	<b>Location</b>	<b>Amount</b>
Land and land improvements	Bacnotan, La Union, Norzagaray, Bulacan and Guimaras	251,488
Building and improvements	Makati City, Guimaras and Norzagaray, Bulacan	428,651
Machinery and equipment	Guimaras, Norzagaray, Bulacan, Bacnotan La Union, and Iloilo	6,698,845
Transportation equipment	Makati City, Guimaras Norzagaray Bulacan, Subic and Bacnotan La Union	37,692
Mining and other equipment	Makati City, Guimaras and Bacnotan La Union	37,766
Office furniture, equipment and others	Makati City, Guimaras,	54,674

	Bacnotan La Union and Norzagaray, Bulacan	
<b>Subtotal</b>		<b>7,509,116</b>
Construction in progress	Cebu	228,262
<b>Total</b>		<b>7,737,378</b>
Less: Accumulated depletion, depreciation and amortization		<b>1,322,810</b>
<b>Net</b>		<b>6,414,568</b>

Source: Audited consolidated financial statements as of December 31, 2016

Land and land improvements include lots in Norzagaray, Bulacan, Bacnotan, La Union and Guimaras where the power plants are located. In San Lorenzo Wind Farm, most parcels of land were acquired 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 3.4 MW power station constructed by the Company in the island of Guimaras, the 52MW Bunker C-Fired power plant in Bulacan, the 21MW 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.

Construction in progress is the rehabilitation of Power Barge 103 which is currently located at Muelle Osmeña, Brgy. Poblacion, Lapu-Lapu City.

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.

### **Legal Proceedings**

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:

#### ***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 from the ERC the 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 donatives intent on the part of the Company when it distributed dividends to its shareholders.

On July 24, 2015, the Company received from the BIR's Large Taxpayers Collection Enforcement Division a Letter dated July 26, 2015, informing the Company that it is among those taxpayers which should be subjected to the immediate issuance of a Warrant of Distrainment and/or Levy and Warrants of Garnishment in relation to the assessment for donor's tax. Thus, the BIR demanded that the Company immediately settle the alleged tax liability for donor's tax in order to obviate the issuance of a Warrant of Distrainment and/or Levy and Warrants of Garnishment.

The Company filed on July 28, 2015 an Urgent Motion to Suspend Collection of Taxes and for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction ("Motion to Suspend Collection of Taxes"). In its Resolution dated October 12, 2015, the CTA granted the Company's Motion to Suspend Collection of Taxes, and ordered the Company to file either a GSIS bond, or a bond from a reputable surety company duly accredited by the Supreme Court in an amount equivalent to one and one-half (1½) of the disputed assessment. Thus, in compliance with the CTA's requirement, the Company filed on October 29, 2015 Insurance Corporation Appeal Bond No. JCL (2) - 00011 / LIC NO. 35371 dated October 20, 2015 issued by Liberty Insurance.

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.

**Market for Registrant's Common Equity and Related Stockholders' 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 February 28, 2017 and for the calendar years 2016, 2015 and 2014:

Period	High	High adj	Low	Low adj
Calendar 2017				
February 28	2.39		2.24	
January 31	2.26		2.22	
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
<b>Calendar 2015</b>		
Fourth quarter	2.28	1.87
Third quarter	2.33	1.65
Second quarter	2.58	2.09
First quarter	2.5	2.18
<b>Calendar 2014</b>		
Fourth quarter	2.51	2.2
Third quarter	2.65	2.26
Second quarter	2.68	1.93
First quarter	2.18	1.41

### Stockholders

The Company had 3,202 registered shareholders as of February 28, 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 February 28, 2017.

No.	Name of Stockholders	Citizenship	No. of Shares Held	% of Ownership
1	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Filipino	Filipino	3,616,270,437	74.01%
2	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Non-Filipino	Foreign	469,274,685	9.60%
3	PHINMA Corporation (formerly Bacnotan Consolidated Industries, Inc.)	Filipino	449,331,621	9.20%
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	3,547,889	0.07%
8	Phil. Remnants Co., Inc.	Filipino	2,801,218	0.06%
9	Victor Juan Del Rosario	Filipino	2,625,639	0.05%
10	Rizalino G. Santos	Filipino	2,352,529	0.05%
11	Peter Mar or Annabelle C. Mar	Filipino	2,055,000	0.04%
12	Renato O. Labasan	Filipino	1,520,000	0.03%
13	Teresita A. Dela Cruz	Filipino	1,502,221	0.03%

14	Guillermo D. Luchangco	Filipino	1,500,001	0.03%
15	Belek, Inc.	Filipino	1,484,002	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%

### Security Ownership of Management

The table below shows the securities beneficially owned by all directors' nominees and executive officers of PHINMA Energy as of February 28, 2016.

Title of Class	Name of Owner	Citizenship	No. of Shares Held	Nature	% of Class
Common	Oscar J. Hilado	Filipino	6,500,000	Direct	0.13
Common	Ramon R. del Rosario, Jr.	Filipino	17,383,812	Direct	0.90
			26,745,698	Indirect	
Common	Francisco L. Viray	Filipino	13,165,500	Direct	0.28
			614,000	Indirect	
Common	Roberto M. Laviña	Filipino	3,048,724	Direct	0.06
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	1,771,143	Direct	0.04
Common	Rizalino G. Santos	Filipino	3,420,773	Direct	0.07
Common	Virgilio R. Francisco, Jr.	Filipino	2,049,183	Direct	0.04
Common	Pythagoras L. Brion, Jr.	Filipino	786,724	Direct	0.02
Common	Mariejo P. Bautista	Filipino	1,472,581	Direct	0.03
Common	Alan T. Ascalon	Filipino	251,981	Direct	0.01
Common	Cecille B. Arenillo	Filipino	300,000	Direct	0.01
Common	Danilo L. Panes	Filipino	259,583	Direct	0.01
Common	Danielle R. del Rosario	Filipino	370,751	Direct	0.01
Common	Arthur R. Villacorte	Filipino	223,670	Direct	0.00
Common	Ma. Teresa P. Posadas	Filipino	136,987	Direct	0.00
	<b>TOTAL</b>		<b>129,132,099</b>		<b>2.64</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 2016 are as follows:

Date of Declaration	Dividend			Record Date
	Type	Rate	Amount *	
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, 2016, PHINMA Energy's retained earnings amounted to 3.86 billion, of which 1.175 billion were equity in net earnings of investee companies that are not available for dividend declaration.

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

On April 2, 2007, the Company's Board of Directors and Stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's 2 billion authorized shares as (a) stock grants for officers and managers of the Company; and (b) stock options for directors, officers and employees of 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 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 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.

PHINMA Energy issued 552,528,364 shares at 1.10 per share and 1,165,237,923 shares at 1.00 per share to its stockholders by way of stock rights offering on December 11, 2007 and June 3, 2011, respectively. Both rights offering were classified as an exempt transaction under Section 10.1 (e) of the Securities Regulation Code. PHINMA Energy did not engage an underwriter for the offering,

but PHINMA and PHINMA Corp. committed to subscribe to any shares not taken up by the stockholders.

PHINMA Energy issued 1,627,395,343 shares at 1.00 per share by way of stock rights offering on November 27, 2012. The offering was an exempt transaction under Section 10.1 (e) of the Securities Regulation Code. PHINMA Energy did not engage an underwriter for the offering, but PHINMA and PHINMA Corp. committed to subscribe to any shares not taken up by the stockholders.

PHINMA Energy issued 400,000,000 shares at 1.00 per share by way of private placement on Dec. 3, 2012. The offering was an exempt transaction under Section 10.1 (k) and (l) of the Securities Regulation Code. Maybank ATR KIM ENG Capital Partners, Inc. acted as underwriter.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### PLAN OF OPERATION

#### 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 its 14.063% 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**

<i>In thousands</i>	For the years ended December			
	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**

<i>In thousands</i>	For the years ended December			
	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

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

<i>In thousands</i>	For the year ended December			
	2016	2015	Inc (Dec)	%
<i>*Other income (loss)</i>				
Interest & other financial income	P 46,077	P 16,257	P 29,820	183
Gain (loss) on sale of:				
Property, plant & equipment	27,863	(3,071)	30,934	-
AFS investments	7	(18)	25	-
Investment	444,207	-	444,207	-
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

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

- The decrease in the provision for income tax was due to lower taxable income of the parent company. TAREC 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

<i>In thousand</i>	Years ended December		Increase (Decrease)	
	2016	2015	Amount	%
<b>ASSETS</b>				
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 TAREC 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.

<i>In thousand</i>	Year ended December 31		Increase (decrease)	
	2016	2015	Amount	%
<b>LIABILITIES &amp; EQUITY</b>				
Accounts payable and other current liabilities	P 4,118,674	P 3,104,537	P 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	%
<b>Liquidity Ratios</b> <b>Current ratio</b>	Current assets	1.92	1.89	0.03	2
	Current liabilities				
<b>Acid test ratio</b>	Cash + Short-term investments + Accounts Receivables + Other liquid assets	1.62	1.47	0.15	10
	Current liabilities				
<b>Solvency Ratios</b> <b>Debt/Equity ratio</b>	Total Liabilities	1.29	1.34	(0.05)	(4)
	Total Equity				
<b>Asset to equity ratio</b>	Total Assets	2.29	2.34	(0.05)	(2)
	Total Equity				
<b>Interest coverage ratio</b>	Earnings before interest & tax (EBIT)	4.08	3.48	0.60	17
	Interest expense				
<b>Net Debt to Equity Ratio</b>	Debt - Cash & cash equivalents, short-term investments and investment held for trading	0.91	1.18	(0.27)	(23)
	Total equity				

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

#### **SC 6 (Offshore Northwest Palawan)**

##### ***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.

TAPET'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.

## **SC 51 (Northwest Leyte/Cebu Strait)**

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.

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

## **SC 55 (Offshore West Palawan)**

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**

<i>In thousands</i>	<b>Years ended December 31</b>		<b>Increase (Decrease)</b>	
	<b>2015</b>	<b>2014</b>	<b>Amount</b>	<b>%</b>
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 TAREC, 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).

#### **Cost and expenses**

<i>In thousands</i>	<b>Years ended December 31</b>		<b>Increase (Decrease)</b>	
	<b>2015</b>	<b>2014</b>	<b>Amount</b>	<b>%</b>
Cost of sale of electricity	₱11,813,442	₱9,829,788	₱ 1,983,654	20
General & administrative expenses	510,466	419,499	90,967	22

- 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.

<i>In thousands</i>	Years ended December 31		Increase (Decrease)	
	2015	2014	Amount	%
<b>Others income (loss)</b>				
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	-
Gain (loss) on sale of:				
Property, plant & equipment	(3,071)	505	(3,770)	-
Available-for-sale- investments	(18)	404	422	-
Gain on pre-existing relationship	-	8,724	(8,724)	-
Miscellaneous income	12,752	4,034	8,718	216

- Interest expense doubled with the full year payment of interest from long term loans availed in 2014. In 2014, TAREC 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.
- 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.

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2015	2014	Amount	%
<b>Equity in net losses of associates &amp; JV</b>	<b>₱ 372,214</b>	<b>₱ (2,616)</b>	₱ 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**

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

<i>In thousand</i>	Years ended December 31		Increase (Decrease)	
	2015	2014	Amount	%
<b>ASSETS</b>				
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
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>				
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	<b>118,383</b>	82,268	36,115	44
Capital Stock: ACS - 8.4 B shs, P 1 par value	<b>4,865,146</b>	4,865,146	-	-
Additional paid in capital	<b>40,783</b>	38,258	2,525	6
Other equity reserve	<b>34,913</b>	35,992	(1,078)	(3)
Unrealized FV gains on available-for-sale investments	<b>101,478</b>	74,515	26,963	36
Remeasurement losses on defined benefit plan	<b>(2,735)</b>	(1,454)	(1,281)	88
Accumulated share in other comprehensive income of JV	<b>(357)</b>	215	(572)	-
Retained Earnings	<b>2,845,559</b>	2,128,208	717,351	34
Treasury shares	<b>(28,793)</b>	(28,793)	-	-
Total equity attributable to equity holders of Parent Company	<b>7,855,994</b>	7,112,086	743,908	10
Non-controlling interests	<b>104,403</b>	110,036	(5,633)	(5)
<b>Total Equity</b>	<b>₱ 7,960,397</b>	<b>₱ 7,222,122</b>	<b>₱ 737,335</b>	<b>10</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>₱ 18,626,273</b>	<b>₱ 16,591,359</b>	<b>₱ 2,034,914</b>	<b>12</b>

- **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 TAREC. The Consolidated Statements of Cash Flows show details of material changes in cash and cash equivalents and investments held from trading.
- **Receivables** went up with the additional customers of the Parent Company and the FIT differential receivables recognized by TAREC from the National Transmission Corporation.
- **Other current assets** increased in 2015 brought about by increase in input taxes of TAREC resulting from the wind farm construction, deposit receivable and creditable withholding taxes.
- **Property, plant and equipment** increased due to the capital expenditures of TAREC 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	%
<b>Liquidity Ratios</b>					
<b>Current ratio</b>	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.89	2.16	(0.27)	(12)
<b>Acid test ratio</b>	$\frac{\text{Cash + Short-term investments + Accounts Receivables + Other liquid assets}}{\text{Current liabilities}}$	1.47	1.68	(0.21)	(12)
<b>Solvency Ratios</b>					
<b>Debt/Equity ratio</b>	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	1.34	1.30	0.04	3
<b>Asset to equity ratio</b>	$\frac{\text{Total Assets}}{\text{Total Equity}}$	2.34	2.30	0.04	2
<b>Interest coverage ratio</b>	$\frac{\text{Earnings before interest \& tax (EBIT)}}{\text{Interest expense}}$	3.48	2.83	0.65	23
<b>Net Debt to Equity Ratio</b>	$\frac{\text{Debt - Cash \& cash equivalents, short term investment \& investment held for trading}}{\text{Total equity}}$	1.18	1.17	0.01	1

KPI	Formula	31-Dec-15	31-Dec-14	Increase (Decrease)	
				Difference	%
<b>Profitability Ratios</b>					
<b>Return on equity</b>	$\frac{\text{Net income after tax}}{\text{Average stockholder's equity}}$	11.93%	2.51%	0.09	375
<b>Return on assets</b>	$\frac{\text{Net income after taxes}}{\text{Total assets}}$	5.14%	1.31%	0.04	293
<b>Asset turnover</b>	$\frac{\text{Revenues}}{\text{Total assets}}$	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 cyclicity.
- 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.

### Calendar year 2014

#### Revenues

For the year ended December 31, 2014, consolidated revenues went up by 10% from ₱9.8 billion in 2013 to 10.8 billion. Following are the material changes in revenues in the Consolidated Statements of Income between 2014 and 2013:

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2014	2013	Amount	%
Revenue from sale of electricity	₱ 10,741,307	₱ 9,739,354	₱ 1,001,953	10
Dividend income	6,840	8,097	(1,257)	(16)
Rental income	4,425	5,776	(1,351)	(23)

- **Revenue from sale of electricity** increased brought about by higher energy sales and higher power rates, tempered by the ERC/PEMC adjustments pertaining to November and December 2013 WESM transactions.
- **Dividend income decreased due to** lower dividends received from UGC and Asian Plaza.
- **Rental income** decreased due to increase of office space previously for lease was used by the company for **its operations**.

## Cost and expenses

Consolidated cost and expenses increased by 11% in 2014 as compared with 2013. Following are the materials changes in cost and expenses in the Consolidated Statements of Income between 2014 and 2013.

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2014	2013	Amount	%
Cost of sale of electricity	P 9,829,788	P 8,819,609	P 1,010,179	11
General & administrative expenses	419,499	366,846	52,653	14
	<b>P 10,249,287</b>	<b>P 9,186,455</b>	<b>P 1,062,832</b>	<b>12</b>

- The increase of cost of sale of electricity was driven by the increase in cost of power purchased due to higher cost per kWh.
- General and administrative expenses increased by 11% brought about by higher taxes and licenses.

## Other income (Loss) - net

Following are the materials changes in cost and expenses in the Consolidated Statements of Other Income (loss) between 2014 and 2013.

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2014	2013	Amount	%
Interest & other financial charges	P (170,969)	P (13,936)	P 157,033	1127
Interest & other financial income	6,113	14,541	(8,428)	(58)
Loss (gain) on sale:				
Property and equipment	505	336	169	50
Available-for-sale investments	404	622	(218)	(35)
MTM Gain on derivatives	(35,220)	31,159	(66,379)	(213)
Foreign exchange gain (loss)	(751)	(8,863)	8,112	(92)
Gain on pre-existing relationship	8,724	-	8,724	-
Reversal of (provision for):				
Impairment loss on available-for-sale investments	-	(49,697)	49,697	-
Impairment loss on deferred exploration costs	-	12,874	(12,874)	-
Inventory obsolescence	-	(487)	487	-
Gain on remeasurement of previously held interests	-	168,585	(165,585)	-
Gain on assignment of MPSA	-	37,934	(37,934)	-
Gain on bargain purchase	-	25,926	(25,926)	-
Miscellaneous income	4,034	8,390	(4,356)	(52)

- **Interest expense** rose 12 times due to interest expense incurred on long term loans availed in 2014.
- **Interest and other financial income** dropped due to decrease in level of placements.
- **Gain on sale of property, plant and equipment** increased in 2014 as compared to 2013 due to the disposal of fully depreciated transportation equipment and office equipment.
- **Gain on sale of available-for-sale investments** decreased due to lower market value of investments in 2014.
- **Net loss on embedded derivatives** of 35.22 million was reported in 2014 as compared with 31.16 million gains in 2013. Net loss on embedded derivatives includes 15.33 from

fuel purchases, 12.10 million from long-term loans and 7.80 million from currency forward contracts.

- **Foreign exchange loss** decreased brought about by the lower level of foreign currency holdings.
- **Gain on settlement of pre-existing relationship** was reported due to the acquisition of OSPGC in 2014.
- **Provision for impairment loss of available-for-sale investments** of 49.70 million and provision for inventory obsolescence of 0.49 million were set up in 2013. No additional setup was made for 2014.
- Additional **provision of doubtful accounts** was set up in 2014.
- **Miscellaneous income** dropped as 2013 included an insurance recovery of Trans-Asia Power Generation Corp.

### Equity in net losses of Associates and Joint Venture

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2014	2013	Amount	%
<b>Equity in net losses of associates &amp; JV</b>	<b>P (2,616)</b>	<b>P (61,699)</b>	<b>P 59,083</b>	<b>(96)</b>

Due to net income reported by MGI, equity in net losses of associates and joint ventures dropped by 96% from 61.70 million in 2013 to 2.62 million in 2014. The Company has 25% interest in MGI. MGI started its commercial operation on February 2014. Losses in 2013 were accounted by expenses for projects under construction.

### Provision for (benefit from) income tax

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2014	2013	Amount	%
Current	P 131,945	P 195,423	(P 63,479)	(32)
Deferred income tax	1,174	(35,761)	36,936	-
	<b>P 133,119</b>	<b>P 159,662</b>	<b>(P 26,543)</b>	<b>(16)</b>

As a result of the lower taxable income in 2014, provision for income tax decreased by 16%.

### Net Income

Consolidated net income for the year ended December 31, 2014 amounted to 180.39 million which was 69% lower than 2013 net income due to as a consequence of the above cited factors.

Following are the material changes in the accounts in the Consolidated Balance Sheets between December 31, 2014 and December 31, 2013.

## Financial Highlights

### ASSETS

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2014	2013	Amount	%
Cash and cash equivalents	₱ 541,571	₱ 687,992	(₱ 146,421)	(21)
Short-term investments	-	51,354	(51,354)	-
Investments held for trading	377,793	475,352	(97,559)	(21)
Receivables	3,055,292	2,672,775	382,247	14
Fuel & spare parts - at cost	307,097	243,763	63,333	26
Available-for-sale investments	-	292,136	(292,136)	-
Other current assets	840,315	447,430	392,349	88
<b>Total Current Assets</b>	<b>₱ 5,121,798</b>	<b>₱ 4,870,801</b>	<b>₱ 250,997</b>	<b>5</b>
Plant, property and equipment	6,863,059	2,390,616	4,472,442	187
Investments in associates and interest in joint ventures	3,747,462	3,248,944	498,517	15
Available-for-sale investments	268,598	286,498	(17,900)	(6)
Investment properties	28,302	30,263	(1,961)	(6)
Goodwill and other Intangible assets	440,276	96,291	343,986	357
Deferred income tax assets	35,199	47,027	(11,828)	(25)
Other noncurrent assets	86,665	15,827	70,838	448
<b>Total Noncurrent Assets</b>	<b>₱ 11,469,561</b>	<b>₱ 6,115,466</b>	<b>₱ 5,354,095</b>	<b>88</b>
<b>TOTAL ASSETS</b>	<b>₱ 16,591,359</b>	<b>₱ 10,986,268</b>	<b>₱ 5,605,092</b>	

- **Cash and cash equivalents** decreased due to redemption of all short-term investment in 2014 and decrease of investment held for trading was due to capital expenditures of TAREC and the Company's investments in SLTEC's second unit of CFB power plant.
- **Receivables** went up mainly due to the issue on ERC/PEMC adjustments pertaining to Nov and Dec 2013 WESM prices whose resolution is still pending with the Supreme Court. Collections under the Multilateral Agreement were recognized as payable to PEMC instead of reduction to receivables (see Note 9 of the Consolidated Financial Statements).
- The increase in **fuel and spare parts** from 243.76 million to 307.10 million was brought about by the increase in bunker fuel purchased and fuel price.
- **Current Available-for-sale investments** of were terminated and used to fund the Company's wind project.
- **Other current assets** increased due to increase in input taxes of TAREC and creditable withholding taxes of the power plants.
- **Property, plant and equipment** tripled due to construction of the wind farm of TAREC.
- **Investments in associates and interests in joint venture** increased due to additional investments in SLTEC and MGI.
- The decrease of 6% in **available-for-sale investments** was due to lower market value of the investments.

- **Investment properties** also decreased due to depreciation in 2014.
- **Intangible assets** increased due to goodwill and leasehold rights recognized in the acquisition of OSPGC.
- **Deferred income tax asset** decreased due to the tax application of NOLCO of CIP.
- **Other noncurrent assets** went up brought about by the advance payment of rent on lease contracts for the wind farm of TAREC.

## LIABILITIES AND EQUITY

<i>In thousands</i>	Years Ended December 31		Increase ( Decrease)	
	2014	2013	Amount	%
Accounts payable and other current liabilities	P 2,285,438	P 2,508,909	(P 173,659)	(7)
Due to stockholders	9,135	190,448	(181,313)	(95)
Current portion of long-term loans	29,254	-	30,000	-
Short-term loans	-	910,000	(910,000)	(100)
Long-term loans	6,729,592	-	6,729,592	100
Pension & other postemployment benefits	28,652	33,625	(4,973)	(15)
Deferred tax liabilities net	158,459	142,456	16,003	11
Other noncurrent liabilities	82,268	24,860	57,409	230
Capital Stock	4,865,146	4,863,863	1,283	-
Additional paid in capital	38,258	35,573	2,685	8
Other equity reserve	35,991	32,025	3,966	12
Unrealized FV gains on AFS investments	74,515	91,823	(17,308)	(9)
Re-measurement gains on defined benefit plan	(1,454)	(4,225)	2,771	(66)
Accumulated share in OCI of Joint Venture	215	4,688	(4,473)	(95)
Retained Earnings	2,128,208	2,132,405	4,197	0
Treasury shares	(28,793)	(28,793)	-	-
Non-controlling Interests	7,112,086	7,127,359	(15,273)	0
<b>Total Equity</b>	<b>P 7,222,122</b>	<b>P 7,127,359</b>	<b>P 94,763</b>	<b>1</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>P 16,591,359</b>	<b>P 10,986,268</b>	<b>P 5,605,091</b>	<b>51</b>

- **Accounts payable** and other current liabilities increased due to pending resolution of the issue on ERC adjustments as discussed above.
- **Property and cash dividends** were paid in 2014 which reduced the Due to stockholders account by 95%.
- The Company settled its **short-term loans** in the first semester of 2014.
- The Company availed of a 6.82 billion long-term loan in 2014 to fund its projects and settle its short-term loans.
- **Deferred income tax liabilities** increased due to the tax effect of goodwill and leasehold rights from acquisition of OSPGC.
- **Pension and other post-employment benefits** increased due to additional pension expense accrued in 2014.
- **Other noncurrent liabilities** include 49.81 million finance lease obligation of TAREC with various land owners.
- **Additional paid-in capital** increased due to exercise of stock options of employees.
- **Other equity reserve** increased due to accrual of equity-based compensation expense.
- **Unrealized fair value gains on available-for-sale investments** went down due to lower

market value of investments.

- **Re-measurement gains on defined benefit** plan decreased due to actuarial losses.
- **Accumulated share in other comprehensive income of a joint venture** due to settlement of forward contracts of SLTEC.
- **Non-controlling interests** was reported in 2014 in Trans-Asia Petroleum Corporation and Palawan55 Exploration and Production Corporation

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

Key Performance Indicators	Formula	Years Ended December 31		Increase ( Decrease)	
		2014	2013	Amount	%
<b>Liquidity Ratios</b>					
<b>Current ratio</b>	Current assets	2.16	1.33	0.83	62
	Current liabilities				
<b>Acid test ratio</b>	Cash + Short-term investments + Accounts Receivables + Other liquid assets	1.68	1.14	0.53	47
	Current liabilities				
<b>Solvency Ratios</b>					
<b>Debt/Equity ratio</b>	Total Liabilities	1.30	0.54	0.76	140
	Total Equity				
<b>Asset to equity ratio</b>	Total Assets	2.30	1.54	0.76	49
	Total Equity				
<b>Interest coverage ratio</b>	Earnings before interest & tax (EBIT)	2.83	N.A	N.A	N.A
	Interest expense				
<b>Net Debt to Equity Ratio</b>	Debt Cash & cash equivalents, short-term investments and investments held for trading	1.17	0.33	0.84	255
	Total equity				

Key Performance Indicators	Formula	Years Ended December 31		Increase ( Decrease)	
		2014	2013	Amount	%
<b>Profitability Ratios</b>					
Return on equity	Net income after tax	2.51%	8.15%	(0.06)	(69)
	Average stockholders' equity				
Return on assets	Net income after taxes	1.31%	6.18%	(0.05)	(79)
	Total assets				
Asset turnover	Revenues	77.98%	105.15%	(0.27)	(26)
	Total assets				

#### **Current ratio & Acid test ratio**

Current ratio & acid test ratio increased due to 34% decrease in current liabilities brought about by settlement of trade payables and short-term loans.

#### **Debt to equity ratio**

Debt to equity ratio slightly increased from 0.54 to 1.29 due to long-term loans availed in the second and third quarter of 2014.

#### **Asset to equity ratio**

Asset to equity ratio went up by 49% as total assets increased by 51% due to the Company's various projects and debt financing as compared to a minimal 1.3% increase in total equity.

#### **Interest coverage ratio and Net debt to equity ratio**

Interest coverage ratio was 2.83 times. Net debt to equity ratio increased from 0.33 to 1.17 due to long-term loans availed in 2014.

#### **Net debt to equity ratio**

Net debt ratio rose from .33 to 1.2 due to long-term loan availed in 2014.

#### **Return on equity**

Return on equity went down from 8.15% to 2.51% due to lower income in 2014.

#### **Return on assets**

Return on asset dropped from 6.18% to 1.31% as average total assets increase by 49% and net income decreased by 69% in 2014.

#### **Asset turnover**

Asset turnover went down by 26% as revenues decreased by 19% and average total assets increased by 49%.

**During the Calendar Year 2014:**

- 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.
- The Company acquired the entire outstanding shares of OSPGC on May 12, 2014.
- 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 cyclicity.
- 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 above and 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 above and 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 for those mentioned above and the Consolidated Financial Statements.



**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, 2016 and December 31, 2015 and for each of the three years in the period ended 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 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, 2016 and 2015, 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.

  
**OSCAR J. HILADO**  
Chairman of the Board

  
**FRANCISCO L. VIRAY**  
President & Chief Executive Officer

  
**PYTHAGORAS L. BRION, JR.**  
SVP and Chief Financial Officer

Signed this 3<sup>rd</sup> day of March 2017

(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 10 MAR 2017 affiant(s) exhibiting  
to me their Passport and Driver's License, as follows:

Name	Passport No.	Date of Issue	Place of Issue
Oscar J. Hilado	EC0407396	25 February 2014	Manila
Francisco L. Viray	EC3546900	25 February 2015	Manila
Pythagoras L. Brion, Jr.	EB6637129	24 October 2012	Manila

Doc. No. 232  
Page No. 48  
Book No. 485  
Series of 2017

**ATTY. VIRGIL R. BATALLA**  
NOTARY PUBLIC FOR MAKATI CITY  
APPT. NO. M-88  
UNTIL DEC. 31, 2018  
ROLL OF ATTY. NO. 48348  
MCLE COMPLIANCE NO. IV-0016333-4/10/13  
I.B.P. O.R. No. 706762, LIFETIME MEMBER JAN. 29, 2007  
PTR No. 590-90-82 JAN. 3 2017  
EXECUTIVE BLDG. CENTER  
MAKATI AVE. COR., JUPITER ST. MAKATI CITY

**PHINMA ENERGY CORPORATION**  
**Financial Highlights**

	<b>31-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Current Assets	8,672,504	6,127,490	5,121,798
Total Assets	20,627,895	18,626,273	16,591,359
Current Liabilities	4,510,058	3,240,078	2,370,267
Total Liabilities	11,626,351	10,665,876	9,369,237
Total Equity	9,001,544	7,960,397	7,222,122
Paid-in Capital	4,967,107	4,905,929	4,903,404
Total Revenues	15,477,873	13,470,170	10,752,572
Net Income	1,382,531	905,852	180,390
Earnings Per Share	0.29	0.19	0.04
Current Ratio	1.92:1	1.89:1	2.16:1
Acid Test Ratio	1.62:1	1.47:1	1.68:1
Deb/Equity Ratio	1.29:1	1.34:1	1.30:1
Asset-to-Equity Ratio	2.29:1	2.34:1	2.30:1
Interest Rate Coverage Ratio	4.08:1	3.48:1	2.83:1
Net Debt to Equity Ratio	0.91:1	1.18:1	1.17:1
Return on Equity	16.30%	11.93%	2.51%
Return on Assets	7.04%	5.14%	1.31%
Asset Turnover	78.86%	76.50%	77.98%

*(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
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**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	(	F	o	r
m	e	r	l	y	T	r	a	n	s	-	A	s	i	a	O	i	l	a	n	d	E	n	e	r	g	
y	D	e	v	e	l	o	p	m	e	n	t	C	o	r	p	o	r	a	t	i	o	n	)	A	N	D
S	U	B	S	I	D	I	A	R	I	E	S															

**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

L	e	v	e	l	1	1	,	P	H	I	N	M	A	P	l	a	z	a	,	3	9	P	l	a	
z	a	D	r	i	v	e	,	R	o	c	k	w	e	l	l	C	e	n	t	e	r	,	M	a	k
a	t	i	C	i	t	y																			

Form Type

A	C	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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**COMPANY INFORMATION**

Company's Email Address

-
---

Company's Telephone Number

870-0100
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Mobile Number

-
---

No. of Stockholders

3,204
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Annual Meeting (Month / Day)

04/12
-------

Fiscal Year (Month / Day)

12/31
-------

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

<b>Yolanda D. Añonuevo</b>
----------------------------

Email Address

<b>ydanonuevo@phinma.com.ph</b>
---------------------------------

Telephone Number/s

<b>870-0100</b>
-----------------

Mobile Number

-
---

**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.



## **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 (formerly Trans-Asia Oil and Energy Development Corporation) and its Subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 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, 2016 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 15 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, 2016, 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, 2016 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

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. 08-001998-55-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908731, January 3, 2017, Makati City

March 3, 2017



**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Energy Development Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Amounts in Thousands)**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 6 and 32)	<b>₱395,582</b>	₱355,743
Short-term investment (Notes 32 and 33)	<b>2,498</b>	–
Investments held for trading (Notes 7, 32 and 33)	<b>3,061,270</b>	942,142
Receivables (Notes 8, 28, and 32)	<b>3,846,003</b>	3,466,310
Fuel and spare parts - at cost (Note 9)	<b>231,146</b>	310,929
Other current assets (Note 10)	<b>1,136,005</b>	1,052,366
<b>Total Current Assets</b>	<b>8,672,504</b>	6,127,490
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 11)	<b>6,414,568</b>	7,381,816
Investments and advances (Note 12)	<b>4,019,161</b>	4,171,641
Available-for-sale investments (Notes 13 and 32)	<b>309,070</b>	295,768
Investment properties (Note 14)	<b>24,380</b>	26,341
Goodwill and other intangible assets (Note 15)	<b>391,000</b>	434,586
Deferred income tax assets - net (Note 26)	<b>71,849</b>	31,303
Other noncurrent assets (Note 16)	<b>725,363</b>	157,328
<b>Total Noncurrent Assets</b>	<b>11,955,391</b>	12,498,783
<b>TOTAL ASSETS</b>	<b>₱20,627,895</b>	₱18,626,273
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 17, 27, 28, and 32)	<b>₱4,118,674</b>	₱3,104,537
Income and withholding taxes payable	<b>99,396</b>	65,517
Due to stockholders (Notes 19, 28, and 32)	<b>91,203</b>	11,570
Current portion of long-term loans (Notes 18, 32 and 33)	<b>200,785</b>	58,454
<b>Total Current Liabilities</b>	<b>4,510,058</b>	3,240,078
<b>Noncurrent Liabilities</b>		
Long-term loans - net of current portion (Notes 18, 32 and 33)	<b>6,793,566</b>	7,131,048
Pension and other employee benefits (Note 27)	<b>47,585</b>	33,813
Deferred income tax liabilities - net (Note 26)	<b>126,890</b>	142,554
Other noncurrent liabilities	<b>148,252</b>	118,383
<b>Total Noncurrent Liabilities</b>	<b>7,116,293</b>	7,425,798
<b>Total Liabilities</b>	<b>11,626,351</b>	10,665,876

*(Forward)*



	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>Equity</b>		
Capital stock (Note 19)	<b>₱4,885,898</b>	₱4,865,146
Additional paid-in capital	<b>81,209</b>	40,783
Other equity reserve (Note 19)	<b>18,338</b>	34,913
Unrealized fair value gains on available-for-sale investments (Note 13)	<b>109,366</b>	101,478
Remeasurement losses on defined benefit plan (Note 27)	<b>(8,562)</b>	(2,735)
Accumulated share in other comprehensive income of a joint venture (Note 12)	<b>(277)</b>	(357)
Retained earnings (Note 19)	<b>3,859,659</b>	2,845,559
Treasury shares (Note 19)	<b>(28,793)</b>	(28,793)
Total equity attributable to equity holders of Parent Company	<b>8,916,838</b>	7,855,994
Non-controlling interests (Note 30)	<b>84,706</b>	104,403
<b>Total Equity</b>	<b>9,001,544</b>	7,960,397
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱20,627,895</b>	₱18,626,273

*See accompanying Notes to Consolidated Financial Statements.*



**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Energy Development Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands, Except Per Share Figures)

	Years Ended December 31		
	2016	2015	2014
<b>REVENUES</b>			
Revenue from sale of electricity (Note 31)	₱15,465,866	₱13,456,926	₱10,741,307
Dividend income (Note 13)	7,433	8,797	6,840
Rental income	4,574	4,447	4,425
	<b>15,477,873</b>	<b>13,470,170</b>	<b>10,752,572</b>
<b>COSTS AND EXPENSES</b>			
Costs of sale of electricity (Notes 21, 23, and 24)	14,105,874	11,813,442	9,829,788
General and administrative expenses (Notes 22, 23 and 24)	899,635	510,466	419,499
	<b>15,005,509</b>	<b>12,323,908</b>	<b>10,249,287</b>
<b>INTEREST AND OTHER FINANCE CHARGES</b> (Note 25)	<b>(468,485)</b>	<b>(449,480)</b>	<b>(170,969)</b>
<b>EQUITY IN NET INCOME (LOSSES) OF ASSOCIATES AND JOINT VENTURES</b> (Note 12)	<b>886,224</b>	<b>372,214</b>	<b>(2,616)</b>
<b>OTHER INCOME (LOSS) - NET</b> (Note 25)	<b>552,879</b>	<b>45,823</b>	<b>(16,191)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,442,982</b>	<b>1,114,819</b>	<b>313,509</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 26)			
Current	114,623	221,436	131,945
Deferred	(54,172)	(12,469)	1,174
	<b>60,451</b>	<b>208,967</b>	<b>133,119</b>
<b>NET INCOME</b>	<b>₱1,382,531</b>	<b>₱905,852</b>	<b>₱180,390</b>
<b>Net Income (Loss) Attributable To:</b>			
Equity holders of the Parent Company	₱1,402,228	₱911,016	₱182,591
Non-controlling interests (Note 30)	(19,697)	(5,164)	(2,201)
	<b>₱1,382,531</b>	<b>₱905,852</b>	<b>₱180,390</b>
<b>Basic/Diluted Earnings Per Share</b> (Note 29)	<b>₱0.29</b>	<b>₱0.19</b>	<b>₱0.04</b>

See accompanying Notes to Consolidated Financial Statements.



**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Energy Development Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Amounts in Thousands)**

	<b>Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>NET INCOME FOR THE YEAR</b>	<b>₱1,382,531</b>	<b>₱905,852</b>	<b>₱180,390</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods</i>			
Net changes in the fair market value of AFS investments (Note 13)	<b>8,313</b>	14,773	(16,586)
Recycling of fair value change of certain quoted available-for-sale due to impairment (Note 13)	–	12,424	–
Income tax effect	<b>(425)</b>	(234)	(722)
	<b>7,888</b>	26,963	(17,308)
<i>Other comprehensive income (loss) not to be reclassified directly to profit or loss in subsequent periods</i>			
Remeasurement gains (losses) on defined benefit plan (Note 27)	<b>(8,261)</b>	(1,829)	2,395
Income tax effect	<b>2,434</b>	548	376
	<b>(5,827)</b>	(1,281)	2,771
<i>Share in other comprehensive income (loss) of a joint venture - net of deferred income tax (Note 12)</i>			
Remeasurement gains (losses) on defined benefit plan	<b>49</b>	(572)	(4,473)
Disposal during the year	<b>31</b>	–	–
	<b>80</b>	(572)	(4,473)
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX</b>	<b>2,141</b>	25,110	(19,010)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,384,672</b>	<b>₱930,962</b>	<b>₱161,380</b>
<b>Total Comprehensive Income (Loss) Attributable To:</b>			
Equity holders of the Parent Company	<b>₱1,404,369</b>	₱936,126	₱163,581
Non-controlling interests (Note 30)	<b>(19,697)</b>	(5,164)	(2,201)
	<b>₱1,384,672</b>	<b>₱930,962</b>	<b>₱161,380</b>

See accompanying Notes to Consolidated Financial Statements.



**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Energy Development Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
**(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 13)	Remeasurement Losses on Defined Benefit Plan (Note 27)	Accumulated Share in Other Comprehensive Income of a Joint Venture (Note 12)	Retained Earnings (Note 19)	Treasury Shares (Note 19)	Total	Non-controlling Interests (Note 30)	Total Equity
<b>BALANCES AT DECEMBER 31, 2015</b>	<b>₱4,865,146</b>	<b>₱40,783</b>	<b>₱34,913</b>	<b>₱101,478</b>	<b>(₱2,735)</b>	<b>(₱357)</b>	<b>₱2,845,559</b>	<b>(₱28,793)</b>	<b>₱7,855,994</b>	<b>₱104,403</b>	<b>₱7,960,397</b>
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)
<b>BALANCES AT DECEMBER 31, 2016</b>	<b>₱4,885,898</b>	<b>₱81,209</b>	<b>₱18,338</b>	<b>₱109,366</b>	<b>(₱8,562)</b>	<b>(₱277)</b>	<b>₱3,859,659</b>	<b>(₱28,793)</b>	<b>₱8,916,838</b>	<b>₱84,706</b>	<b>₱9,001,544</b>
<b>BALANCES AT DECEMBER 31, 2014</b>	<b>₱4,865,146</b>	<b>₱38,258</b>	<b>₱35,991</b>	<b>₱74,515</b>	<b>(₱1,454)</b>	<b>₱215</b>	<b>₱2,128,208</b>	<b>(₱28,793)</b>	<b>₱7,112,086</b>	<b>₱110,036</b>	<b>₱7,222,122</b>
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)
<b>BALANCES AT DECEMBER 31, 2015</b>	<b>₱4,865,146</b>	<b>₱40,783</b>	<b>₱34,913</b>	<b>₱101,478</b>	<b>(₱2,735)</b>	<b>(₱357)</b>	<b>₱2,845,559</b>	<b>(₱28,793)</b>	<b>₱7,855,994</b>	<b>₱104,403</b>	<b>₱7,960,397</b>



	Attributable to the Equity Holders of the Parent Company									Non-controlling Interests (Note 30)	Total Equity
	Capital Stock (Note 19)	Additional Paid-in Capital	Other Equity Reserve (Note 19)	Unrealized Fair Value Gains on Available-for-Sale Investments (Note 13)	Remeasurement Losses on Defined Benefit Plan (Note 27)	Accumulated Share in Other Comprehensive Income of a Joint Venture	Retained Earnings (Note 19)	Treasury Shares (Note 19)	Total		
BALANCES AT DECEMBER 31, 2013	₱4,863,863	₱35,573	₱32,025	₱91,823	(₱4,225)	₱4,688	₱2,132,405	(₱28,793)	₱7,127,359	₱-	₱7,127,359
Effect of property dividends payout (Note 19)	-	-	1,523	-	-	-	6,774	-	8,297	112,237	120,534
Net income	-	-	-	-	-	-	182,591	-	182,591	(2,201)	180,390
Other comprehensive income (loss)	-	-	-	(17,308)	2,771	(4,473)	-	-	(19,010)	-	(19,010)
Total comprehensive income (loss)	-	-	-	(17,308)	2,771	(4,473)	182,591	-	163,581	(2,201)	161,380
Dividends declared (Note 19)	-	-	-	-	-	-	(193,562)	-	(193,562)	-	(193,562)
Equity-based compensation expense (Note 20)	-	-	7,588	-	-	-	-	-	7,588	-	7,588
Issuance of stocks - stock option (Note 20)	1,283	2,358	(702)	-	-	-	-	-	2,939	-	2,939
Forfeiture of stock options (Note 20)	-	327	(327)	-	-	-	-	-	-	-	-
Share in expenses directly attributable to issuance of stocks of a joint venture (Note 12)	-	-	(4,116)	-	-	-	-	-	(4,116)	-	(4,116)
	1,283	2,685	2,443	-	-	-	(193,562)	-	(187,151)	-	(187,151)
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

See accompanying Notes to Consolidated Financial Statements.



**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Energy Development Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Amounts in Thousands)**

	<b>Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱1,442,982</b>	₱1,114,819	₱313,509
Adjustments for:			
Equity in net losses (earnings) of associates and joint ventures (Note 12)	<b>(886,224)</b>	(372,214)	2,616
Interest and other finance charges (Note 25)	<b>468,485</b>	449,480	170,969
Depreciation and amortization (Note 24)	<b>413,091</b>	397,116	161,410
Interest and other financial income (Note 25)	<b>(46,077)</b>	(16,257)	(6,113)
Loss (gain) on derivatives - net (Notes 25 and 33)	<b>(8,741)</b>	(18,048)	35,220
Dividend income (Notes 13 and 28)	<b>(7,433)</b>	(8,797)	(6,840)
Deferred exploration costs written-off (Note 15)	<b>1,192</b>	-	-
Equity-based compensation expense (Note 20)	-	1,862	7,588
Gain on option fee (Note 25)	-	(35,159)	-
Gain on pre-existing relationship (Notes 5 and 25)	-	-	(8,724)
Provisions for (reversals of):			
Probable losses on deferred exploration costs (Note 15)	<b>22,713</b>	-	-
Accrued liabilities	<b>(5,800)</b>	-	-
Impairment loss on available-for-sale investments (Notes 13 and 25)	-	12,424	-
Loss on write-off of property, plant and equipment	-	2,089	-
Foreign exchange loss (gain) - net	<b>(151)</b>	20,880	1,135
Movement of pension and other employee benefits (Note 27)	<b>5,816</b>	12,850	-
Loss (gain) on sale of:			
Investment in joint venture (Note 25)	<b>(444,207)</b>	-	-
Property, plant and equipment (Note 25)	<b>(27,863)</b>	3,071	(505)
Available-for-sale investments (Note 25)	<b>(7)</b>	18	(404)
Operating income before working capital changes	<b>927,776</b>	1,564,134	669,861
Decrease (increase) in:			
Receivables	<b>(406,796)</b>	(411,220)	(289,921)
Fuel and spare parts - at cost	<b>79,783</b>	(3,832)	(64,462)
Other current assets	<b>(181,498)</b>	(223,122)	(438,775)
Increase (decrease) in accounts payable and other current liabilities	<b>1,069,746</b>	789,410	(816,035)
Provisions for doubtful accounts (Note 8)	<b>53,195</b>	-	33,365
Provisions for unrecoverable input tax (Notes 10 and 25)	<b>2,568</b>	-	-
Net cash generated from (used in) operations	<b>1,544,774</b>	1,715,370	(905,967)
Income and withholding taxes paid	<b>(113,077)</b>	(201,583)	(127,940)
Net cash flows from (used in) operating activities	<b>1,431,697</b>	1,513,787	(1,033,907)

(Forward)



	<b>Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Property, plant and equipment (Note 11)	<b>(P229,617)</b>	(P835,406)	(P3,831,856)
Investments held for trading	<b>(2,106,124)</b>	(551,561)	-
Deferred exploration costs (Note 15)	<b>(15,888)</b>	(10,500)	(21,001)
Investments in a joint venture (Note 12)	<b>(5,639)</b>	-	(491,000)
Short-term investment (Note 33)	<b>(2,498)</b>	-	339,640
Available-for-sale investments	-	(10,718)	(759)
Advances in joint ventures (Note 12)	-	(7,537)	-
Advances to associates (Note 12)	-	(45,000)	-
Acquisition of a subsidiary (Note 5)	-	-	(465,640)
Investments in associates (Note 12)	-	-	(18,722)
Proceeds from:			
Sale and redemption of investments held for trading	-	-	100,664
Sale of investment in joint venture (Note 12)	<b>841,771</b>	-	-
Sale of property, plant and equipment	<b>411,923</b>	1,203	1,241
Sale of available-for-sale investments	<b>291</b>	11,491	6,547
Receipt of option fee (Note 13)	-	11,433	-
Increase in other noncurrent assets	<b>(124,541)</b>	(77,736)	(116,217)
Settlement of derivatives from fuel purchases (Note 33)	<b>8,767</b>	17,867	(17,672)
Cash dividends received (Notes 12 and 13)	<b>651,384</b>	8,797	6,840
Interest received	<b>13,953</b>	3,401	6,074
<b>Net cash flows used in investing activities</b>	<b>(556,218)</b>	(1,484,266)	(4,501,861)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Issuance of capital stock (Note 19)	<b>46,516</b>	-	2,939
Long-term loans (Note 18)	-	480,000	6,820,000
Short-term loans (Note 16)	-	-	1,670,000
Payments of:			
Interest on long-term loans	<b>(504,147)</b>	(450,587)	(155,465)
Long-term loans (Note 18)	<b>(210,500)</b>	(30,000)	-
Cash dividends	<b>(182,491)</b>	(191,174)	(254,557)
Finance leases	<b>(3,134)</b>	(1,475)	(62,281)
Mortgage loan	<b>(461)</b>	(1,411)	-
Debt issuance costs (Note 18)	-	(22,395)	(59,199)
Short-term loans (Note 17)	-	-	(2,580,000)
Acquisition of non-controlling interest	-	(940)	-
Increase in other noncurrent liabilities	<b>18,517</b>	24,064	8,239
<b>Net cash flows from (used in) financing activities</b>	<b>(835,700)</b>	(193,918)	5,389,676
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	<b>60</b>	(21,431)	(329)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	<b>39,839</b>	(185,828)	(146,421)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)</b>			
	<b>355,743</b>	541,571	687,992
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 6 and 32)</b>			
	<b>P395,582</b>	P355,743	P541,571

See accompanying Notes to Consolidated Financial Statements.



**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Energy Development Corporation)**  
**AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in Thousands, Except When Otherwise Indicated)**

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

PHINMA Energy Corporation (“PHINMA Energy or the Parent Company”), formerly Trans-Asia Oil and Energy Development Corporation, incorporated on September 8, 1969, and its subsidiaries, Trans-Asia Power Generation Corporation (TA Power), CIP II Power Corporation (CIPP), Trans-Asia Renewable Energy Corporation (TAREC), Trans-Asia Gold and Minerals Development Corporation (TA Gold), Trans-Asia Wind Power Corporation (TAWPC), One Subic Power Generation Corporation (One Subic), Trans-Asia Petroleum Corporation (TA Petroleum) 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 and is a licensed Retail Electricity Supplier (RES). The Wholesale Aggregator 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 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 Wholesale Aggregator 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. The other activities of the Parent Company consist of 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 name of the Parent Company.

TA Power was incorporated and registered with the SEC on March 18, 1996. TA Power is engaged in power generation. Previously, the Parent Company had a 50% interest in TA Power, a joint venture with Holcim Philippines, Inc. (Holcim). On January 1, 2013, the Parent Company entered into a Share Purchase Agreement with Holcim for the purchase of Holcim’s 50% stake in TA Power. In October 2006, the Philippine Electricity Market Corporation (PEMC) approved TA Power’s application for registration as trading participant for both generation and customer categories in the Wholesale Electricity Spot Market (WESM). Both the Parent Company and TA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM. Effective December 26, 2013, TA 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 TA Power starting 2014. In addition to



the fixed capacity, PHINMA Energy is billed by TA Power for transmission and fuel costs. On January 23, 2017, TA Power's Board of Directors (BOD) approved the amendment of the Articles of Incorporation to change TA Power's corporate name to PHINMA Power Generation Corporation. As at March 3, 2017, TA Power has not filed its application with the SEC.

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 to Manila Electric Company (MERALCO) resulting in the cessation of CIPP's operations. Substantially all of its employees were separated 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 March 3, 2017, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

TAREC 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) has confirmed the Declaration of Commerciality of TAREC's 54 MW Wind Power project in San Lorenzo, Guimaras under Wind Energy Service Contract (WESC) No. 2009-10-009. During 2013, the DOE confirmation affirmed the conversion of said WESC from Pre-development to Development/Commercial Stage. On October 7, 2014, the 54 MW Wind Power project started delivering power to the grid from the commissioning operations of the first three (3) units of wind turbine generators. On February 16, 2015, TAREC received from the DOE the confirmation of start of Commercial Operations of its 54 MW San Lorenzo Wind Project declared on December 27, 2014. On June 10, 2015, TAREC received its Certificate of Endorsement for Feed-In Tariff (FIT) from the DOE certifying that its 54 MW San Lorenzo Wind Project has fully qualified under the FIT System.

On December 8, 2015, the TAREC'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. On January 30, 2017, TAREC's BOD approved the amendment of the Articles of Incorporation to change TAREC's corporate name to PHINMA Renewable Energy Corporation. As at March 3, 2017, TAREC has not filed its application with the SEC.

TA Petroleum was incorporated and registered with the SEC on September 28, 1994. TA Petroleum is engaged in oil exploration and well development. On November 28, 2012, the SEC approved the increase in authorized capital stock of TA 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 and primary purpose of TA Petroleum from power generation to oil and gas exploration and production. TA Petroleum was registered with the Philippine Stock Exchange (PSE) on August 28, 2014. As at March 3, 2017, TA Petroleum has not started commercial operations. On March 3, 2017, TA Petroleum's BOD approved the amendment of its Articles of Incorporation to change TA Petroleum's corporate name to PHINMA Oil and Geothermal, Inc. and to include in its Primary



and Secondary Purposes the exploration and development of geothermal resources. The registered office address of TA Petroleum is Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

TA Gold was incorporated and registered with the SEC on July 2, 2007 to primarily engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD approved the suspension of exploration activities of TA Gold effective March 31, 2009. As at March 3, 2017, TA Gold's exploration activities remain suspended.

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 March 3, 2017, Palawan55 has not started commercial operations. The registered office address of Palawan55 is 11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

TAWPC 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, TAWPC's BOD approved the amendment of the Articles of Incorporation to change TAWPC's 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. As at March 3, 2017, TAWPC has not started commercial operations and has not filed its application for the change in corporate name with the SEC.

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 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. As at March 3, 2017, the two 135 MW coal fired units are fully operational. 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 March 3, 2017.

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, TA 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.

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 March 3, 2017.

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## 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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016.

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 statements 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:

	Principal Activities	Percentage of Ownership (%)			
		2016		2015	
		Direct	Indirect	Direct	Indirect
TA Power	Power generation	100.00	–	100.00	–
CIPP	Power generation	100.00	–	100.00	–
TAREC	Renewable energy generation	100.00	–	100.00	–
TA Gold	Mineral exploration	100.00	–	100.00	–
TAWPC	Renewable energy generation	100.00	–	100.00	–
One Subic	Power generation	–	100.00	–	100.00
TA Petroleum	Oil and gas exploration	50.74	0.40	50.74	0.40
Palawan55	Oil and gas exploration	30.65	35.46	30.65	35.46

### 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, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standards (PAS) 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*



- Amendment to PFRS 7, *Financial Instruments, Servicing Contracts*
- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### 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 they become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of the amendments will result in additional disclosure in the 2017 consolidated financial statements of the Company.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.



*Effective beginning on or after 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.

- *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 Company is currently assessing the impact of adopting PFRS 15.



- 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 is currently assessing the impact of adopting this standard.

- 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 financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after 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, unless otherwise indicated.

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 statements 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 costs, 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 statements 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 interest method. The assets and liabilities of the combining entities are combined and reflected at their carrying amounts reported in the Company's consolidated statements of financial position. The consolidated statements 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 they were previously recorded at the Company's consolidated financial statements as if they 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 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 statements 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:

- Disclosures for significant estimates and assumptions, see Note 4
- Quantitative disclosures of fair value measurement hierarchy, see Note 33
- Investment properties, see Note 14
- 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 as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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 as explained above.



#### “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 statements 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 statements 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 statements 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 (loss) - 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, 2016 and 2015, the Company’s investments in unit investment trust funds (UITFs) are classified as financial assets held for trading (see Notes 7 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 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 the fair value through profit or loss.

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 statements 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, 2016 and 2015, the Company's derivative asset, included under "Other current assets" account in the consolidated statement of financial position, is classified as financial asset at FVPL (see Notes 10 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 (loss) - net" in the consolidated statements of income.

As at December 31, 2016 and 2015, the Company's cash and cash equivalents, short-term investments, receivables and refundable deposits are classified as loans and receivables (see Notes 6, 8, 10, 16 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, 2016 and 2015, the Company has no financial assets classified as HTM investments.



*d. AFS financial assets*

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently 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 statements of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statements 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 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 statements 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 statements of income.

As at December 31, 2016 and 2015, the Company's investments in listed and unlisted equity securities and golf club shares are classified as noncurrent AFS financial assets (see Notes 13 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 assumptions, see Note 4
- Trade receivables, see Notes 8 and 32
- AFS investments, see Notes 13 and 32
- Other financial assets, see Note 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 statements of income. Interest income, recorded under "Other income (loss) - net" account in the consolidated statements 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 (loss) - net" account in the consolidated statements 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 statements of income, is removed from OCI and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements 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 statements 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 (loss) - net" account in the consolidated statements 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 statements of income, the impairment loss is reversed through the consolidated statements 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 and long-term loans and other noncurrent liabilities including derivative liabilities.



*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 as 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 consolidated statements 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, 2016 and 2015, 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 consolidated statements 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 (loss) - net" account in the consolidated statements of income.

As at December 31, 2016 and 2015, the Company's accounts payable and other current liabilities (excluding statutory payables), due to stockholders and long-term loans and other noncurrent liabilities are classified as other financial liabilities (see Notes 17, 18, 28 and 33).

*Debt Issue Costs*

Debt issue costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derecognition

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 statements of income.



Offsetting of Financial Instruments

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.

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, 2016 and 2015.

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 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 consolidated statements of income as incurred.

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 11.

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 statements 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.



### 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 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 (loss) - net" account in the consolidated statements 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 statements 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 they 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 gain (loss) - net" under "Other income (loss) - net" in the consolidated statements 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 consolidated statement of income are also recognized in OCI or in the consolidated statements 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.

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. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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 associate and joint venture 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 of 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 statements 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 of profit or loss of an associate and a joint venture is shown on the face of the consolidated statements 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 of 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 statements 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 statements 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 statements 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 the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at 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 statements 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 statements 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 statements 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 statements 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 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 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.

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 statements 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 (loss) - net" account in the consolidated statements 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 statements of income.

### Pensions and Other Post-employment Benefits

#### *Defined Benefit Plan*

The Company operates separate and distinct retirement plans for PHINMA Energy, TA Power and CIPP, which requires contributions to be made to a separately administered fund. 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 statements 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 consolidated statements of income in subsequent periods.

Past service costs are recognized in the consolidated statements 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 statements 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

Stock option 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 statements 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.

The dilutive effect of outstanding options 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 statements 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 statements 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. Sale of electricity using bunker fuel plants is composed of generation fees from spot sales to the WESM and ESAs with third parties and is recognized monthly based on the actual energy delivered.

Starting on December 27, 2014, sales of electricity using wind is based on the FIT rate under FIT System to the WESM and is recognized monthly based on the actual energy delivered. Prior to this date, this was based on the spot rate.

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, 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 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 statements 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 statements 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 profit nor taxable profit 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 profits 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 profit 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 profit 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 profits 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 statements 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 statements 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.

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 has 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 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 consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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## **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*

Under PHINMA Energy's ESA with Guimaras Electric Cooperative, Inc. (GUIMELCO), PHINMA Energy sells all of its output to GUIMELCO. Similarly, under PHINMA Energy's ESA with Holcim, PHINMA Energy supplies all the electricity requirements of Holcim (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 GUIMELCO and Holcim 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 agreement does not qualify as a lease. Accordingly, fees paid to SLTEC and MGI are recognized as "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 TAREC 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, 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 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 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 has various lease agreements for the lease of its investment property. The Company has determined that the risks and rewards of ownership of the underlying property are retained by the Company. Accordingly, the leases are classified as operating leases.

*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
- 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, 2016 and 2015, 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 investee are classified as joint ventures.

As at December 31, 2016 and 2015, the Company holds 45% and 50% of the voting rights of SLTEC, respectively (see Notes 1 and 12). The Company holds 50% of the voting rights of ACTA as at December 31, 2016 and 2015. 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 and those subsidiaries which type of activities they engage in is important to the group as at 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 12). Management determined material associates as those associates where the Company's carrying amount of investment is greater than 5% of the total investments in associates and joint ventures as at end of the year.

#### 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 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. In 2016, the Company recognized ₱53.20 million provision for doubtful accounts (see Note 8). As at December 31, 2016 and 2015, the allowance for doubtful accounts amounted to ₱116.33 million and ₱63.13 million, respectively. The carrying value of trade and other receivables amounted to ₱3,846.00 million and ₱3,466.31 million as at December 31, 2016 and 2015, respectively (see Note 8).



*Impairment of AFS Investments*

The Company treats AFS investments in quoted shares of stock as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Company treats “significant” generally as 20% or more of the original cost of investment, and “prolonged”, greater than 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.

The Company also determines whether its AFS investments in debt instruments are impaired if there is a loss event which has an impact on the future cash flows that can be reliably estimated. Examples of these loss events are significant financial difficulty of the issuer, observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets and adverse changes in the payment status of borrowers, among others.

The Company assessed that there is no evidence of impairment as at December 31, 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 (loss) - net” account in the 2015 consolidated statements of income, amounted to ₱12.42 million (see Note 25).

The carrying value of AFS investments amounted to ₱309.07 million and ₱295.77 million as at December 31, 2016 and 2015, respectively (see Note 13).

*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, TAREC 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 statements of financial position (see Note 10).

*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 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, 2016 and 2015, deferred income tax assets recognized by the Company amounted to ₱83.42 million and ₱42.51 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 2016 and 2015, 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 ₱413.09 million, ₱397.12 million and ₱161.41 million for the years ended December 31, 2016, 2015 and 2014, 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:

	<b>2016</b>	2015
Property, plant and equipment (see Note 11)	<b>₱6,414,568</b>	₱7,381,816
Investments and advances (see Note 12)	<b>4,019,161</b>	4,171,641
Investment properties (see Note 14)	<b>24,380</b>	26,341
Leasehold rights (see Note 15)	<b>57,339</b>	73,529

No impairment loss was deemed necessary on these non-financial assets in 2016, 2015 and 2014.

Accumulated impairment losses on investments amounted to ₱1.56 million as at December 31, 2016 and 2015 (see Note 12).

*Impairment of Deferred Exploration Costs*

The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount.



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.

In 2016, the Company recognized impairment losses on deferred exploration costs amounting to ₱22.71 million (see Note 15). No impairment losses were recognized in 2015 and 2014. The carrying value of deferred exploration costs amounted to ₱99.51 million and ₱126.91 million as at December 31, 2016 and 2015, respectively (see Note 15).

#### *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, 2016 and 2015 (see Note 15). No impairment loss has been recognized on goodwill to date.

#### *Purchase Price Allocation - Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities and Pre-existing Relationship and Previously Held Interest; Goodwill and Gain on Bargain Purchase*

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

The fair value of the identifiable net assets acquired from One Subic in 2014 amounted to ₱263.72 million (see Note 5).

The Company accounts for the acquired businesses using the acquisition method which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any difference in the purchase price and the fair values of the net assets acquired is recorded as either goodwill in the consolidated statements of financial position or gain on bargain purchase in the consolidated statements of income. Consequently, the numerous judgments made in estimating the fair value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial position and performance.



The acquisition of One Subic in 2014 has resulted in the recognition of goodwill. The carrying value of goodwill as at December 31, 2016 and 2015 amounted to ₱234.15 million (see Note 15).

#### *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 ₱58.99 million and ₱42.79 million as at December 31, 2016 and 2015, 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.

As at December 31, 2016 and 2015, other equity reserve from stock option plan amounted to nil and ₱14.66 million, respectively (see Notes 19 and 20). Total expense arising from share-based payments recognized by the Company amounted to nil, ₱1.86 million and ₱7.59 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 20).

#### *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. Business Combination**

In line with the Company's objective of increasing its portfolio of power generating assets, TA Power purchased from UDEC the entire outstanding shares of stock of One Subic on May 12, 2014. The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of their fair values as follows at date of acquisition:

	Carrying Values	Fair Values Recognized
Current assets:		
Cash	₱23,504	₱23,504
Receivables	132,955	131,827
Fuel and spare parts	4,381	4,381
Other current assets	3,383	3,383
<b>Total current assets</b>	<b>164,223</b>	<b>163,095</b>
Noncurrent assets:		
Property, plant and equipment	₱109,928	₱104,505
Other noncurrent assets	8,282	5,972
Deferred income tax assets	1,346	-
Leasehold rights (see Note 15)	-	99,839
<b>Total noncurrent assets</b>	<b>119,556</b>	<b>210,316</b>
Current liabilities:		
Accounts payable	68,569	68,569
Income and withholding taxes payable	6,897	6,897
<b>Total current liabilities</b>	<b>75,466</b>	<b>75,466</b>
Noncurrent liabilities:		
Mortgage payable	1,872	1,872
Pension liability	5,617	4,827
Deferred income tax liability	-	27,530
<b>Total noncurrent liabilities</b>	<b>7,489</b>	<b>34,229</b>
<b>Identifiable net assets acquired</b>	<b>₱200,824</b>	<b>₱263,716</b>
Identifiable net assets acquired		₱263,716
Goodwill from the acquisition (see Note 15)		234,152
<b>Purchase consideration transferred</b>		<b>₱497,868</b>
Cash paid		₱489,144
Cash consideration allocated to pre-existing relationship		8,724
<b>Purchase consideration transferred</b>		<b>₱497,868</b>
Cash flows from an investing activity:		
Net cash acquired from subsidiary		₱23,504
Cash payment		(489,144)
<b>Net cash outflow</b>		<b>(₱465,640)</b>



The goodwill of ₱234.15 million reflects the expected synergy in the Company's growing generation portfolio (see Note 15). Also, prior to TA Power's acquisition of One Subic, PHINMA Energy has an existing PAMA with One Subic which is considered as a pre-existing relationship in a business combination. The acquisition of One Subic also resulted in the recognition of gain on settlement of pre-existing relationship amounting to ₱8.72 million, included under "Other income (loss) - net" account in the 2014 consolidated statements of income (see Note 25).

The fair value and gross amount of trade and other receivables amounted to ₱131.83 million and ₱132.96 million, respectively. The difference between the fair value and the gross amount of trade and other receivables represents the portion expected to be uncollectible.

The Company's consolidated revenues and consolidated net income would have been ₱10,865.90 million and ₱195.43 million, respectively, for the year ended December 31, 2014 had the acquisition of One Subic taken place on January 1, 2014. Revenue and net income included in the consolidated statements of income from May to December 2014 amounted to ₱205.35 million and ₱48.48 million, respectively.

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## 6. Cash and Cash Equivalents

	2016	2015
Cash on hand and in banks	<b>₱46,989</b>	₱102,166
Short-term deposits	<b>348,593</b>	253,577
	<b>₱395,582</b>	₱355,743

Cash in banks earn interest at the respective bank deposit rates of 2% and 1.30% 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 2016, 2015 and 2014 amounted to ₱0.08 million, ₱0.23 million and ₱0.09 million, respectively. Interest income earned on short-term deposits in 2016, 2015 and 2014 amounted to ₱13.22 million, ₱2.4 million and ₱2.5 million, respectively (see Note 25).

Short-term deposits account includes debt service reserves amounting to ₱105.90 million and ₱55.50 million as at December 31, 2016 and 2015, respectively for the wind project loan facility (see Note 18).

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## 7. Investments Held for Trading

Investments held for trading consist of investments in UITFs amounting to ₱3,061.27 million and ₱942.14 million as at December 31, 2016 and 2015, respectively.

The net changes in fair value of investments held for trading, included in "Interest and other financial income" account presented under "Other income (loss) - net" in the consolidated statements of income, amounted to ₱20.10 million, ₱12.79 million and ₱3.11 million gains in 2016, 2015 and 2014, respectively (see Note 25).



Investments in UITFs as at December 31, 2016 and 2015 include debt service reserves amounting to ₱109.56 million and ₱86.85 million, respectively, for the wind project loan facility (see Note 18).

## 8. Receivables

	2016	2015
Trade (see Note 32)	<b>₱3,827,378</b>	₱3,454,353
Due from related parties (see Note 28)	<b>4,267</b>	6,640
Receivables from:		
Assignment of Mineral Production Sharing Agreement (MPSA) (see Note 15)	<b>39,365</b>	39,365
Third party	<b>34,755</b>	-
Consortium - SC 50 (see Note 15)	<b>20,000</b>	20,000
Consortium - SC 52 (see Note 15)	<b>19,443</b>	-
Employees	<b>3,581</b>	2,698
Stockholders (see Note 28)	<b>35</b>	35
Others	<b>13,506</b>	6,351
	<b>3,962,330</b>	3,529,442
Less allowance for doubtful accounts	<b>116,327</b>	63,132
	<b>₱3,846,003</b>	₱3,466,310

Trade receivables mainly represent receivables from PEMC, NGCP, FIT from National Transmission Corporation (TransCo) 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.

The receivable from a third party pertains to a receivable arising from the sale of spare parts.

As at December 31, the aging analysis of receivables is as follows:

	2016						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30-60 Days	61-90 Days	91-120 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
	<b>₱3,962,330</b>	<b>₱2,282,911</b>	<b>₱113,969</b>	<b>₱52,423</b>	<b>₱31,018</b>	<b>₱1,365,682</b>	<b>₱116,327</b>

	2015						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30-60 Days	61-90 Days	91-120 Days	
Trade	₱3,454,353	₱1,958,805	₱127,243	₱8,898	₱13,316	₱1,325,618	₱20,473
Due from related parties	6,640	6,640	-	-	-	-	-
Others	68,449	4,616	74	36	46	21,018	42,659
	<b>₱3,529,442</b>	<b>₱1,970,061</b>	<b>₱127,317</b>	<b>₱8,934</b>	<b>₱13,362</b>	<b>₱1,346,636</b>	<b>₱63,132</b>



The movements in the allowance for doubtful accounts on individually impaired receivables during 2016 is as follows:

	2016		Total
	Trade	Others	
Balances at beginning of year	₱20,473	₱42,659	₱63,132
Provision for the year (see Note 15)	13,751	39,444	53,195
Balances at end of year	₱34,224	₱82,103	₱116,327

There were no movements in the allowance for doubtful accounts during 2015. Individually assessed impaired receivables fully provided with allowance for doubtful accounts amounted to ₱63.13 million as at December 31, 2015.

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 Energy Regulatory Commission (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 and 2015, the Company collected ₱205.31 million and ₱508.00 million, respectively, 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.

## 9. Fuel and Spare Parts - at cost

	2016	2015
Fuel	₱159,052	₱240,029
Spare parts	72,094	70,900
	₱231,146	₱310,929



Fuel charged to “Costs of sale of electricity” in the consolidated statements of income amounted to ₱728.47 million, ₱931.99 million and ₱1,714.21 million in 2016, 2015 and 2014, respectively (see Note 21).

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**10. Other Current Assets**

	<b>2016</b>	2015
Creditable withholding taxes	<b>₱385,997</b>	₱282,068
Tax credits receivable	<b>335,759</b>	-
Input VAT	<b>285,577</b>	616,337
Prepaid expenses	<b>88,875</b>	108,369
Deposits receivable	<b>39,725</b>	45,494
Derivative asset (see Notes 32 and 33)	<b>72</b>	98
	<b>₱1,136,005</b>	₱1,052,366

Creditable withholding taxes represent amounts withheld by the Company’s customers and is deducted from the Company’s income tax payable.

On August 15, 2016, TAREC 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.

Deposits receivables pertain to advances to suppliers and land owners.



## 11. Property, Plant and Equipment

The details and movements of this account for the year ended December 31 are shown below:

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
<b>Cost</b>								
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
<b>Accumulated depreciation</b>								
Balance at beginning of year	1,236	187,564	730,369	8,951	21,782	36,108	–	986,010
Depreciation (see Note 24)	–	58,571	320,166	6,682	2,994	6,591	–	395,004
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
<b>Net Book Value</b>	<b>₱250,252</b>	<b>₱182,516</b>	<b>₱5,701,613</b>	<b>₱26,814</b>	<b>₱12,990</b>	<b>₱12,100</b>	<b>₱228,283</b>	<b>₱6,414,568</b>
2015								
	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
<b>Cost</b>								
Balance at beginning of year	₱229,851	₱288,937	₱6,845,102	₱25,136	₱28,159	₱42,891	₱–	₱7,460,076
Additions	18,666	61,639	278,590	11,365	2,327	6,603	524,895	904,085
Disposals	–	–	(6,260)	(5,638)	–	(31)	–	(11,929)
Adjustments	–	16,971	–	(1,122)	–	(255)	–	15,594
Reclassifications	141	21,567	(21,708)	–	–	–	–	–
Balance at end of year	248,658	389,114	7,095,724	29,741	30,486	49,208	524,895	8,367,826
<b>Accumulated depreciation</b>								
Balance at beginning of year	1,236	93,149	443,533	8,843	19,557	30,699	–	597,017
Depreciation (see Note 24)	–	53,096	312,071	5,878	2,225	5,695	–	378,965
Disposals	–	–	(887)	(4,648)	–	(31)	–	(5,566)
Adjustments	–	16,971	–	(1,122)	–	(255)	–	15,594
Reclassifications	–	24,348	(24,348)	–	–	–	–	–
Balance at end of year	1,236	187,564	730,369	8,951	21,782	36,108	–	986,010
<b>Net Book Value</b>	<b>₱247,422</b>	<b>₱201,550</b>	<b>₱6,365,355</b>	<b>₱20,790</b>	<b>₱8,704</b>	<b>₱13,100</b>	<b>₱524,895</b>	<b>₱7,381,816</b>



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*

In 2014, PHINMA Energy entered into a Memorandum of Agreement (MOA) with Power Sector Assets and Liabilities Management Corporation (PSALM) for the sale of Power Barges 101, 102 and 103 to PHINMA Energy at an agreed price of ₱420 million (see Note 31). On July 8, 2015, these power barges were officially transferred to PHINMA Energy. In February 2016, Power Barges 101 and 102 started operations and all related capitalized costs were reclassified from “Construction in Progress” to “Machineries and Equipment”. As at December 31, 2016, the total costs capitalized to Power Barges 101 and 102 included under “Machinery and Equipment” account amounted to ₱348.08 million, while total costs capitalized to Power Barge 103 included under “Construction in Progress” account amounting to ₱226.31 million. These costs include the purchase price and all other dry-docking and repair costs.

#### *Wind Projects*

On May 20, 2013, the DOE confirmed the Declaration of Commerciality of the Company’s 54 MW Wind Power project in San Lorenzo, Guimaras under Wind Energy Service Contract (WESC) No. 2009-10-009. The DOE confirmation affirms the conversion of said WESC from Pre-Development to Commercial Stage.

On October 7, 2014, the 54 MW Wind Power project started delivering power to the grid from the commissioning operations of the first three (3) units of wind turbine generators.

On February 16, 2015, the Company received from the DOE the confirmation of Commercial Operation starting December 27, 2014 for its 54 MW San Lorenzo Wind Project. The carrying amounts of the wind farm included under “Machinery and equipment” account as at December 31, 2016 and 2015 amounted to ₱4,715.66 million and ₱5,613.38 million, respectively, while those under “Land and land improvements” account as at December 31, 2016 and 2015 amounted to ₱196.43 million and ₱193.60 million, respectively.

The Company has commissioned eight wind measuring devices in six sites - San Lorenzo, Nueva Valencia and Sibunag in Guimaras and Ballesteros, Sta. Ana and Aparri in Cagayan. The wind mast in Sta. Ana was decommissioned in June 2011 due to low wind regime. In 2013, the wind mast in Suclaran, San Lorenzo was decommissioned while another wind mast located in Ballesteros was destroyed by a typhoon. Wind masts in Aparri and Ballesteros were decommissioned in January and February 2016, respectively, due to their deteriorated condition, rendering both structures unsafe. Additionally, 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 in San Lorenzo, Guimaras, was installed for wind resource analysis and correlation with the 54 MW San Lorenzo Wind Farm. As at March 3, 2017, the Company's two wind measuring devices continue to gather wind resource measurements at the remaining sites, namely, Nueva Valencia and San Lorenzo, Guimaras.

*Sale of Transmission Assets*

TAREC 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 TAREC's submarine cable pursuant to Section 8 of RA No. 9136 or the EPIRA and the ERC decisions in ERC Case No. 2014-032 and ERC Case No. 2015-013MC. The carrying value of transmission assets and submarine cables sold by TAREC and CIPP amounted to ₱660.15 million and ₱65.17 million, respectively.

*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, 2016 and 2015 amounted to ₱116.06 million and ₱113.44 million, respectively.

*Capitalized Borrowing Costs*

For the year ended December 31, 2014, the following borrowing costs were capitalized:

Interest expense on:	
Specific borrowings* (see Note 18)	₱102,901
General borrowings	8,152
Amortization of debt issue costs	4,096
Accretion of finance charges related to finance leases	8,868
	<hr/>
	₱124,017

*\*Net of interest income amounting to ₱3.17 million.*

The rate used to determine the amount of borrowing costs on general borrowings eligible for capitalization was 5% while the rates used to determine the amount of borrowing costs on finance lease in the form of finance charges eligible for capitalization range from 6% to 100%.

No borrowing costs were capitalized in 2016 and 2015.

*Mortgaged Property and Equipment*

TAREC's wind farm with carrying value of ₱4,715.66 million and ₱5,613.38 million included under "Machinery and Equipment" account is mortgaged as security for the ₱4.3 billion term loan as at December 31, 2016 and 2015 (see Note 18).



## 12. 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	2016	2015
Investments in associates:			
Maibarara Geothermal, Inc. (MGI)	25.00	<b>₱365,071</b>	₱329,945
Asia Coal Corporation (Asia Coal)*	28.18	<b>631</b>	631
Union Aggregates Corporation (UAC)**	31.25	–	–
		<b>365,702</b>	330,576
Interests in joint ventures:			
SLTEC***	45.00	<b>3,595,028</b>	3,788,486
ACTA	50.00	<b>13,431</b>	42
		<b>3,608,459</b>	3,788,528
Advances to associates and joint ventures:			
MGI		<b>45,000</b>	45,000
ACTA		–	7,537
		<b>45,000</b>	52,537
		<b>₱4,019,161</b>	₱4,171,641

\*Shortened corporate life to October 31, 2009.

\*\*Ceased operations.

\*\*\*50% interest as at December 31, 2015.

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:

	2016	2015
Investment in an associate and interests in joint ventures		
Acquisition costs:		
Balance at beginning of year	<b>₱3,877,060</b>	₱3,877,060
Additions	<b>5,639</b>	–
Reclassification from advances*	<b>7,537</b>	–
Disposal	<b>(358,302)</b>	–
Balance at end of year	<b>3,531,934</b>	3,877,060
Accumulated equity in net earnings (losses):		
Balance at beginning of year	<b>224,815</b>	(147,399)
Equity in net earnings for the year	<b>886,224</b>	372,214
Disposal	<b>(39,262)</b>	–
Dividend received	<b>(644,945)</b>	–
Balance at end of year	<b>426,832</b>	224,815
Accumulated share in OCI:		
Balance at beginning of year	<b>(357)</b>	215
Share in OCI (loss)	<b>49</b>	(572)
Disposal	<b>31</b>	–
Balance at end of year	<b>(277)</b>	(357)
Other equity transactions:		
Balance at beginning of year	<b>19,145</b>	19,145
Disposal	<b>(1,914)</b>	–
Balance at end of year	<b>17,231</b>	19,145
Less accumulated impairment losses	<b>1,559</b>	1,559
	<b>3,974,161</b>	4,119,104



	2016	2015
Advances to an associate and a joint venture		
Balance at beginning of the year	P52,537	P-
Advances reclassified to investment*	(7,537)	52,537
Balance at end of year	45,000	52,537
Total investments and advances	P4,019,161	P4,171,641

\* ACTA's application for increase in authorized capital stock was approved on January 25, 2016. Consequently, the advances were reclassified to investments in joint ventures.

### 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 7<sup>th</sup> 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

	2016	2015
Current assets	P646,672	P310,497
Noncurrent assets	3,708,771	3,353,104
Total assets	4,355,443	3,663,601
Current liabilities	(457,812)	(652,961)
Noncurrent liabilities	(2,437,347)	(1,690,860)
Net assets	1,460,284	1,319,780
Proportion of the Company's ownership	25%	25%
Carrying amount of investments	P365,071	P329,945

### Summarized Statements of Income

	2016	2015	2014
Revenue from sale of electricity	P784,609	P772,011	P654,448
Costs of sale of electricity	380,770	324,834	269,248
Gross profit	403,839	447,177	385,200
Interest expense - net	(219,871)	(193,989)	(178,942)
General and administrative expenses	(43,350)	(45,189)	(44,733)
Other income (charges) - net	(104)	(344)	913
Income before income tax	140,514	207,655	162,438
Provision for income tax	11	38	276
Net income	P140,503	P207,617	P162,162
Total comprehensive income	P140,503	P207,617	P162,162

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, 2016 and 2015, 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.

In 2015, the Parent Company granted advances amounting to ₱45.00 million.

#### *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 December 31, 2016, 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 had no activities since it filed 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, 2016 and 2015 and the reconciliation with the carrying amount of the investment in the consolidated financial statements are shown below:



Summarized Statements of Financial Position

	2016	2015
Current assets	<b>₱5,809,486</b>	₱5,561,978
Noncurrent assets	<b>18,176,636</b>	19,512,177
Current liabilities	<b>(2,817,167)</b>	(3,149,447)
Noncurrent liabilities	<b>(13,231,086)</b>	(14,401,006)
Net assets	<b>7,937,869</b>	7,523,702
Proportion of the Company's ownership	<b>45%</b>	50%
Parent Company's share in the net assets	<b>3,572,041</b>	3,761,851
Other adjustments*	<b>22,987</b>	26,635
Carrying amount of investment	<b>₱3,595,028</b>	₱3,788,486

\*Alignment of accounting policies on excess revenue over costs of testing and commissioning.

Additional Information

	2016	2015
Cash and cash equivalents	<b>₱2,536,538</b>	₱4,038,038
Current financial liabilities*	<b>1,302,207</b>	1,099,842
Noncurrent financial liabilities	<b>13,215,876</b>	14,383,504

\*Excluding trade and other payables and provision.

Summarized Statements of Income

	2016	2015	2014
Revenue from sale of electricity	<b>₱5,982,707</b>	₱2,053,888	₱-
Costs of sale of electricity	<b>3,526,798</b>	1,276,043	-
Gross profit	<b>2,455,909</b>	777,845	-
General and administrative expenses	<b>(163,838)</b>	(131,714)	(70,746)
Interest income (expenses) - net	<b>(847,698)</b>	(323,682)	17,259
Other income (expenses) - net	<b>376,249</b>	283,171	(17,445)
Income (loss) before income tax	<b>1,820,622</b>	605,620	(70,932)
Provision for income tax	<b>118,061</b>	79,723	1,894
Net income (loss)	<b>1,702,561</b>	525,897	(72,826)
OCI (loss)	<b>98</b>	(715)	429
Total comprehensive income (loss)	<b>₱1,702,659</b>	₱525,182	(₱72,397)

Additional Information

	2016	2015	2014
Depreciation and amortization	<b>₱689,144</b>	₱288,888	₱7,768
Interest income	<b>45,233</b>	31,513	20,750
Interest expense	<b>892,931</b>	355,195	3,491

In 2016, the Company received dividends from SLTEC amounting to ₱644.95 million. No dividends were received by the Company in 2015 and 2014.

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 statements of changes in equity. In 2012, SLTEC incurred stock issuance costs totaling ₱12.66 million which were recognized by SLTEC as a reduction from its APIC and Retained earnings. Of this amount, ₱6.33 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.

In 2014, the Company invested additional capital amounting to ₱491.00 million in response to several equity calls for the expansion of the coal-fired power plant in Calaca.

On April 24, 2015, Unit 1 of the two 135 MW coal fired units commenced its commercial operations. Unit 2 of the power plant declared 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).

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**13. Available-for-sale Investments**

	2016	2015
Shares of stock:		
Listed	<b>₱160,008</b>	₱156,503
Unlisted	<b>93,885</b>	93,885
Golf club shares	<b>49,905</b>	45,380
Investment in a UITF	<b>5,272</b>	–
	<b>₱309,070</b>	₱295,768

No impairment was recognized in 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:

	2016	2015
Balance at beginning of the year	₱295,768	₱268,597
Additions during the year	–	10,718
Additions other than cash acquisitions	5,273	13,189
Disposals during the year	(284)	(11,509)
Net changes in the fair market value of AFS investments	8,313	14,773
<b>Balance at end of the year</b>	<b>₱309,070</b>	<b>₱295,768</b>

The movements in net unrealized gain on AFS investments are as follows:

	2016	2015
Balance at beginning of the year - net of tax	₱101,478	₱74,515
Net changes in the fair market value of AFS investments	8,313	14,773
Recycling of fair value change of certain quoted AFS due to impairment (see Note 25)	–	12,424
Income tax effect	(425)	(234)
<b>Balance at end of the year - net of tax</b>	<b>₱109,366</b>	<b>₱101,478</b>

The dividend income earned from AFS investments amounted to ₱7.43 million, ₱8.80 million and ₱6.84 million in 2016, 2015 and 2014, respectively.

#### 14. Investment Properties

	2016		
	Land	Office Unit	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
<b>Net book value</b>	<b>₱13,085</b>	<b>₱11,295</b>	<b>₱24,380</b>
	2015		
	Land	Office Unit	Total
Cost:			
Balance at beginning and end of year	₱13,085	₱28,133	₱41,218
Less accumulated depreciation:			
Balance at beginning of year	–	12,916	12,916
Depreciation (see Note 24)	–	1,961	1,961
Balance at end of year	–	14,877	14,877
<b>Net book value</b>	<b>₱13,085</b>	<b>₱13,256</b>	<b>₱26,341</b>



The Company's investment properties are composed of land and office unit. Depreciation on the Company's office unit is calculated on a straight-line basis over the estimated useful life of 20 years.

The fair value of the office unit amounted to ₱75.68 million based on the valuation by an independent firm of appraisers in 2016. The fair market value of the land is ₱53.88 million based on the valuation of independent firm appraisal in 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 key assumptions used to determine the fair value of the investment properties and sensitivity analyses are discussed below.

<u>Investment property</u>	<u>Significant Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
2016		
Office unit	Sales Price (₱/sqm.)	₱120,285 - ₱129,255 (₱123,594)
2015		
Land	Asking price (₱/sqm.)	₱600 - ₱2,000 (₱1,645)

The value of the land was arrived at using the Market Data Approach which estimates the value of the land based on sales and listings of comparable property registered within the vicinity. This technique requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used as bases of comparison are situated within the immediate vicinity of the land. The comparison was premised on the factors of location, size and shape of lot, time element and bargaining allowance.

The value of the office unit was arrived at using the Sales Comparison approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by process involving comparison. The properties used as basis for comparison are situated within the subject building or in other comparable condominium buildings nearby. Comparison would be premised on the factors such as floor level location, interior finishes, parking slot location and facilities offered and the time element.

Rental income from the office unit in 2016, 2015 and 2014 amounted to ₱1.78 million, ₱1.73 million and ₱1.80 million, respectively, recognized in the consolidated statements of income, while related direct costs and expenses amounted to ₱3.11 million, ₱2.26 million and ₱2.30 million in 2016, 2015 and 2014, respectively, included as part of "General and administrative expenses" account in the consolidated statements of income.



## 15. Goodwill and Other Intangible Assets

Changes in goodwill and other intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	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

	2015			
	Leasehold Rights	Deferred Exploration Costs	Goodwill	Total
Cost:				
Balance at beginning of year	₱99,839	₱116,405	₱234,152	₱450,396
Additional cash calls	-	10,500	-	10,500
Balance at end of year	99,839	126,905	234,152	460,896
Accumulated depreciation:				
Balance at beginning of year	10,120	-	-	10,120
Amortization (see Note 24)	16,190	-	-	16,190
Balance at end of year	26,310	-	-	26,310
Net book value	₱73,529	₱126,905	₱234,152	₱434,586

### Leasehold Rights and Goodwill

The leasehold rights and goodwill arose from TA Power's acquisition of the entire outstanding shares of stocks of One Subic (see Note 5). The Facilities Lease Agreement (FLA) between One Subic and SBMA was amended extending the lease term for five (5) years or from July 20, 2010 - July 19, 2015 to July 20, 2010 - July 19, 2020, with the option to extend subject to mutually acceptable terms and conditions. As at December 31, 2016 and 2015, the leasehold rights have a remaining useful life of 3.5 years and 4.5 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 cash generating unit (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 9.44% and 9.50% in 2016 and 2015, 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, 2016 and 2015.

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:

	2016	2015
<i>Petroleum and gas:</i>		
SC 51/Geophysical Survey and Exploration Contract (GSEC) No. 93 (East Visayas)	<b>₱32,666</b>	₱32,666
SC 69 (Camotes Sea)	<b>15,474</b>	15,085
SC 6 (Northwest Palawan)	<b>26,182</b>	23,946
SC 55 (Southwest Palawan)	<b>5,714</b>	5,714
SC 52 (Cagayan Province)	<b>10,994</b>	30,438
SC 50 (Northwest Palawan)	<b>11,719</b>	11,719
<i>Geothermal -</i>		
SC 8 (Mabini, Batangas)	<b>19,473</b>	7,337
<i>Hydropower:</i>		
SC 467 (Pililia, Rizal)	-	-
SC 465 (Ilagan, Isabela)	-	-
	<b>122,222</b>	126,905
Allowance for impairment losses	<b>(22,713)</b>	-
Net book value	<b>₱99,509</b>	₱126,905

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 2016, the Company assessed and fully provided for probable losses for deferred exploration costs pertaining to SC 50 and SC 52 amounting to ₱11.72 million and ₱10.99 million, respectively, 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 its deferred exploration costs related to its hydropower service contracts 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 other SCs as management believes that extensions and moratoriums requested that are pending approval by the DOE as of March 3, 2017 will be eventually approved based on prior years' experience. In 2015 and 2014, no impairment losses were recognized on deferred exploration costs.



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) 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 the Company 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.

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 continue as at March 3, 2017.

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.

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 the Company that it did not intend to enter Sub-Phase 4 of SC 69 and will reassign 9% participating interest in SC 69 to the Company pursuant to the Assignment Agreement dated February 3, 2011.

Following an unsuccessful campaign to farm out its participating interest, Otto Philippines notified the Company and Frontier Gasfields Pty. Ltd. (Frontier Gasfields) of its withdrawal in SC 69 on October 4, 2013. The Company 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 the Company and Frontier Gasfields on October 14, 2014, the Company's participating interest in SC 69 was adjusted from the current 6% to 50%.

On March 17, 2014, TA Petroleum 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 the Company was designated as Operator of SC 69.



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.

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.

As at March 3, 2017, the approval of the aforementioned extension remains pending with the DOE.

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 Company's interest increased 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.

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 its 14.063% Participating Interest in Service Contract 6 Block B and the Operating Agreement, but said relinquishment shall not include its 2.475% Carried Interest.

#### d. SC 50 (Northwest Palawan)

In 2013, the Company commenced negotiations with Frontier Energy Limited (Frontier Energy), the Operator, regarding a Farm-in Agreement that would provide for the Company's acquisition of 10% participating interest in SC 50.

Subject to execution of said Farm-in Agreement, the Company 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 Company made advances to Frontier Oil amounting to ₱20 million 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 million is signed between the Company and Frontier Oil, the advances shall be considered as initial drawdown on the Loan.

On October 16, 2014, TA Petroleum 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, the Company's advances to Frontier Oil amounting to ₱20 million was fully provided with an allowance for a doubtful account (see Note 8).

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. As at March 3, 2017, negotiations between the DOE and Frontier Oil for possible reinstatement of SC 50 continues.

As at March 3, 2017, approval of the assignment of 10% participating interest in SC 50 to TA Petroleum 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 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 8).

In December 2016, Frontier Oil, as instructed by the DOE, submitted certain documents in support of its request for Force Majeure.

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.

The Company's 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 Otto Energy 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. As at March 3, 2017, the transfer of interest from Otto Energy to the continuing parties was under processing by the DOE.

As at December 31, 2016 and 2015, the Company holds 6.82% participating interest in SC 55.

MPSA 252-2007-V (Camarines Norte)

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, TA Gold and PHINMA Energy entered into an Operating Agreement where PHINMA Energy granted unto and in favor of the TA Gold 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 8). 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. As of March 3 2017, the drilling is still on-going.

#### 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 March 3, 2017, 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.



**16. Other Non-current Assets**

	<b>2016</b>	2015
Receivables from third parties	<b>₱608,546</b>	₱71,733
Deposit receivables from suppliers	<b>67,236</b>	36,264
Prepaid rent	<b>49,581</b>	49,331
<b>Balance at end of year</b>	<b>₱725,363</b>	<b>₱157,328</b>

Receivables from third parties include an interest bearing receivable collectible until April 2020 and non-interest bearing receivables from NGCP collectible annually within 4 years, discounted using the PDST-R2 rates on transaction date ranging from 2.14% - 3.67% (see Note 11).

Deposit receivables include deposits to distribution utilities outstanding as at December 31, 2016 and 2015.

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.

**17. Accounts Payable and Other Current Liabilities**

	<b>2016</b>	2015
Trade (see Notes 8 and 32)	<b>₱1,877,518</b>	₱1,814,374
Due to related parties (see Note 28)	<b>1,204,310</b>	663,570
Output VAT	<b>469,130</b>	327,039
Accrued expenses	<b>254,236</b>	74,838
Nontrade (see Note 32)	<b>129,681</b>	69,043
Accrued interest expenses	<b>114,755</b>	118,155
Accrued directors' and annual incentives (see Note 28)	<b>51,478</b>	18,500
Finance lease obligations - current portion (see Note 31)	<b>12,544</b>	10,815
Retention payables	<b>845</b>	3,571
Others	<b>4,177</b>	4,632
	<b>₱4,118,674</b>	<b>₱3,104,537</b>

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.

Accrued expenses include insurance, sick and vacation leave accruals, 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, SSS and deposit payable.

## 18. Long-term Loans

As at December 31, this account consists of:

	2016	2015
TAREC term loan facility	₱4,149,500	₱4,300,000
PHINMA Energy long term loans	2,910,000	2,970,000
	<b>7,059,500</b>	7,270,000
Add premium on long-term loans (embedded derivative)	7,722	9,389
Less unamortized debt issue costs	72,871	89,887
	<b>6,994,351</b>	7,189,502
Less current portion of long-term loans (net of unamortized debt issue costs)	200,785	58,454
<b>Noncurrent portion</b>	<b>₱6,793,566</b>	<b>₱7,131,048</b>

Movements in derivatives and debt issue costs related to the long-term loans follow:

	Derivatives	Debt Issue Costs
As at January 1, 2015	₱10,997	₱72,151
Additions	-	30,341
Amortization for the year (see Note 25)	(1,608)	(12,605)
As at December 31, 2015	9,389	89,887
Amortization for the year (see Note 25)	(1,667)	(17,016)
<b>As at December 31, 2016</b>	<b>₱7,722</b>	<b>₱72,871</b>

### TAREC

On December 18, 2013, TAREC 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 PDS Treasury Reference Rate PM (PDST-R2) as benchmark rate in lieu of PDST-F rates.

The loan facility also contains a prepayment provision which allows TAREC 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 Corp. (PDEX) Market Page, Reuters and the Philippine Dealing System (PDS) website (www.pds.com.ph) at approximately 11:16 am on the business day immediately preceding the prepayment date. In addition, TAREC 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 follow:

- 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 Feed-in-Tariff eligibility or Renewable Energy Payment Agreement; and
- Redeem the loan in the event that TAREC defaults on the loan and titles to the project properties have not been issued to TAREC 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. TAREC made the following drawdowns during the years 2015 and 2014 with the corresponding carrying values as at December 31, 2016:

Drawdown date	Tranche A (DBP)		Tranche B (SBC)	
	Gross Amount	Carrying value <sup>a</sup>	Gross Amount	Carrying value <sup>b</sup>
February 14, 2014	₱299,150	₱297,620	₱299,150	₱295,944
May 27, 2014	530,750	527,048	530,750	525,752
August 5, 2014	530,750	528,927	530,750	525,966
September 2, 2014	482,500	480,028	482,500	478,366
July 30, 2015	231,600	219,087	231,600	219,055
	<b>₱2,074,750</b>	<b>₱2,052,710</b>	<b>₱2,074,750</b>	<b>₱2,045,083</b>

<sup>a</sup>Net of unamortized debt issue costs of ₱22.04 million.

<sup>b</sup>Net of unamortized debt issue costs of ₱29.67million.



During 2016, TAREC made the following payments with their corresponding carrying values:

Payment date	Tranche A (DBP)		Tranche B (SBC)	
	Gross Amount	Carrying value	Gross Amount	Carrying value
April 28, 2016	₱75,250	₱63,722	₱75,250	₱69,364
	₱75,250	₱63,722	₱75,250	₱69,364

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, TAREC 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 6 and 7).

TAREC incurred debt issue costs amounting to nil and ₱22.39 million in 2016 and 2015, respectively, in relation to the loan facility.

Total interest expense recognized from TAREC's loan amounted to ₱290.01 million, ₱273.78 million and ₱133.58 million for the year ended December 31, 2016, 2015 and 2014, respectively. In 2014, interest of ₱102.90 million was capitalized to the wind farm.

*Covenants.* The Term Loan Facility includes, among others, certain restrictive covenants and requirements with respect to the following, effective upon commercial operations of TAREC:

- (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)

TAREC is in compliance with loan covenants as at December 31, 2016 and 2015.

Commercial operations, as defined in said Term Loan Facility, shall mean the date on which the Wind Farm Project is capable of being fully operational and able to generate power and transmit the same to the Visayas Grid and shall require the Commissioning and the Take-Over (as defined in the Construction Contracts) of the Wind Farm Project by TAREC and the issuance of the Certificate of Compliance by the ERC. TAREC's certificate of compliance was issued by ERC on December 1, 2015.



The loan facility is secured by TAREC’s wind farm, included in “Machinery and equipment” account under “Property, plant and equipment” with carrying value amounting to ₱4,715.66 million and ₱5,613.38 million as at December 31, 2016 and 2015, respectively (see Note 11). 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	2016	2015
₱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	<b>₱1,448,667</b>	₱1,478,676
₱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	<b>967,635</b>	986,636
₱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	<b>480,256</b>	489,747
Carrying value (net of unamortized debt issue costs and embedded derivatives of ₱13.44 million and ₱14.94 million in 2016 and 2015, respectively)			<b>₱2,896,558</b>	₱2,955,059

In 2016 and 2015, principal repayments made relative to PHINMA Energy’s loans amounted to ₱60.00 million and ₱30.00 million, respectively.

PHINMA Energy’s loan with CBC has an embedded interest rate floor that is required to be bifurcated. In 2014, the Company recognized a loss on derivatives and derivative liability amounting to ₱12.10 million. The derivative liability was closed out to the balance of the loan in 2014 upon drawdown.



PHINMA Energy's long-term loans also contain prepayment provisions as follows:

Description	Prepayment provision
₱1.50 billion loan with CBC	<p>Early redemption is at the option of the issuer exercisable anytime at par plus break-funding cost.</p> <p>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.</p>
₱1.00 billion loan with SBC	<p>Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7<sup>th</sup> year from Issue date. Prepayment amount is at par. Transaction cost is minimal.</p>
₱0.50 billion loan with BDO	<p>Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7<sup>th</sup> year from Issue date. Prepayment amount is at par. Transaction cost is minimal.</p>

The prepayment option on the loans with CBC and BDO were assessed as closely related and, thus, not required to be bifurcated. For the 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	<p>(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity</p> <p>(b) Maximum Debt to Equity ratio of 1.5 times</p>
₱1.00 billion loan with SBC	<p>(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity</p> <p>(b) Maximum Debt to Equity ratio of 2.0 times</p> <p>Minimum Current ratio of 1.0 times</p>
₱0.50 billion loan with BDO	<p>(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity</p> <p>(b) Maximum Debt to Equity ratio of 1.5 times</p>

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, 2016 and 2015, the Company is in compliance with the terms as required in the loan covenants.

Total interest expense recognized on PHEN's and TAREC's loans amounted to ₱434.45 million, ₱420.29 million and ₱136.05 million for the year ended December 31, 2016, 2015 and 2014, respectively (see Note 25).

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## 19. Equity

### Capital Stock

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

	Number of Shares	
	2016	2015
Authorized capital stock - ₱1 par value	<b>8,400,000,000</b>	8,400,000,000
Issued shares:		
Balance at beginning of year	<b>4,865,146,089</b>	4,865,146,089
Issuance during the year -		
Exercise of stock options (see Note 20)	<b>20,751,819</b>	-
Balance at end of year	<b>4,885,897,908</b>	4,865,146,089

The issued and outstanding shares as at December 31, 2016 and 2015 are held by 3,204 and 3,224 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 TAREC'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 ₱3.86 billion and ₱2.85 billion, respectively, as at December 31, 2016 and 2015. 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 ₱1,174.14 million and ₱935.64 million as at December 31, 2016 and 2015, respectively; and (b) cost of treasury shares amounted to ₱28.79 million as at December 31, 2016 and 2015.

#### Treasury Shares

As a result of TA Power becoming a wholly-owned subsidiary of PHINMA Energy effective January 1, 2013, the Parent Company's shares of stock held by TA Power amounting to ₱28.79 million was considered as treasury shares.

#### Other Equity Reserve

This account consists of:

	2016	2015
Other equity reserves from joint venture <sup>a</sup>	₱17,231	₱19,145
Other equity reserve from Stock Option Plan <sup>b</sup>	–	14,661
Effect of distribution of property dividends - TA Petroleum shares <sup>c</sup>	1,107	1,107
	<b>₱18,338</b>	<b>₱34,913</b>

- 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 12).
- 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 to the Stock Option Plan. With the expiry of the Stock Option 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 (see Note 20).



- c. This represents the impact of the property dividend distribution in the form of TA Petroleum 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 TA Petroleum decreased from 100% to 50.74% in 2014.

Dividends Declared

Cash dividends declared in 2016, 2015, 2014 and after December 31, 2016 are as follows:

Date of Declaration	Dividend			Record Date
	Type	Rate	Amount *	
March 24, 2014	Cash	0.04 per share	193,562	April 7, 2014
February 23, 2015	Cash	0.04 per share	194,602	March 9, 2015
<b>February 23, 2016</b>	<b>Cash</b>	<b>0.04 per share</b>	<b>194,606</b>	<b>March 9, 2016</b>
<b>December 16, 2016</b>	<b>Cash</b>	<b>0.04 per share</b>	<b>195,436</b>	<b>January 4, 2017</b>
<b>March 3, 2017</b>	<b>Cash</b>	<b>0.04 per share</b>	<b>195,436</b>	<b>March 17, 2017</b>

\*Includes dividends on shares held by TA 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 Grants

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

Stock Options

Following are the specific terms of the Company's 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	<ul style="list-style-type: none"> <li>• Up to 33% of the allocated shares on the 1st year from the date of grant;</li> <li>• Up to 66% of the allocated shares on the 2nd year from the date of grant; and</li> <li>• Up to 100% of the allocated shares on the 3rd year from the date of grant.</li> </ul>
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.

The following illustrates the number of outstanding stock options:

	2016	2015
Outstanding at January 1	29,170,947	33,785,351
Exercised during the year	(20,751,819)	-
Forfeited during the year	(8,419,128)	(4,614,404)
Outstanding at December 31	-	29,170,947
Exercisable at December 31	-	29,170,947

The remaining contractual life for the stock options as at December 31, 2016 and 2015 is nil and 0.55 years, respectively.

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, ₱1.86 million and ₱7.59 million in 2016, 2015 and 2014, respectively.

Carrying value of the stock option plan recognized under the "Other equity reserve - stock option plan" account in the equity section of the consolidated statements of financial position amounted to nil and ₱14.66 million as at December 31, 2016 and 2015, respectively.



## 21. Costs of Sale of Electricity

	2016	2015	2014
Costs of power purchased	₱12,212,120	₱9,870,218	₱7,557,683
Fuel (see Note 9)	728,467	931,993	1,714,211
Depreciation and amortization (see Notes 11, 15 and 24)	386,716	372,725	140,908
Repairs and maintenance	200,729	152,600	53,146
Transmission costs	169,293	144,715	130,416
Salaries (see Note 23)	104,911	89,527	58,757
Insurance	94,364	95,030	47,240
Taxes and licenses	74,087	29,083	43,910
Rent	73,276	69,524	47,323
Pension and employee benefits (see Notes 23 and 27)	23,541	18,171	6,740
Stations used	11,317	17,968	6,985
Filing fees	1,098	483	9,880
Others	25,955	21,405	12,589
	<b>₱14,105,874</b>	<b>₱11,813,442</b>	<b>₱9,829,788</b>

## 22. General and Administrative Expenses

	2016	2015	2014
Salaries and directors' fees (see Notes 20, 23 and 28)	₱259,460	₱140,323	₱98,070
Management and professional fees (see Note 28)	228,706	109,028	63,762
Taxes and licenses	159,939	113,700	95,655
Provision for doubtful accounts (see Note 8)	53,195	-	33,365
Depreciation and amortization (see Notes 11, 14, and 24)	26,375	24,391	20,502
Pension and employee benefits (see Notes 23 and 27)	22,825	15,094	18,088
Provision for probable losses on deferred exploration costs (see Note 15)	22,713	-	-
Donation and contribution	19,993	3,392	12,317
Building maintenance and repairs	17,915	15,235	14,399
Contractor's fee	11,076	13,527	11,450
Transportation and travel	9,138	8,755	6,801
Insurance, dues and subscriptions	8,898	10,886	12,115
Bank charges	7,404	17,121	2,102
Corporate social responsibilities	5,545	6,353	3,468
Communication	4,779	4,403	2,951
Meeting and conferences	4,673	3,506	3,096
Office supplies	3,780	2,886	3,871
Advertisements	3,262	2,150	1,043
Rent	2,243	3,224	4,834
Write-off of deferred exploration costs (see Note 15)	1,192	-	-
Entertainment, amusement and recreation	87	121	293
Others	26,437	16,371	11,317
	<b>₱899,635</b>	<b>₱510,466</b>	<b>₱419,499</b>



### 23. Personnel Expenses

	2016	2015	2014
Salaries and directors' fees included under:			
Costs of sale of electricity (see Note 21)	<b>₱104,911</b>	₱89,527	₱58,757
General and administrative expenses (see Note 22)	<b>259,460</b>	140,323	98,070
Pension and employee benefits included under:			
Costs of sale of electricity (see Notes 21 and 27)	<b>23,541</b>	18,171	6,740
General and administrative expenses (see Notes 22 and 27)	<b>22,825</b>	15,094	18,088
	<b>₱410,737</b>	₱263,115	₱181,655

### 24. Depreciation and Amortization

	2016	2015	2014
Property, plant and equipment (see Note 11)	<b>₱394,940</b>	₱378,965	₱149,329
Investment property (see Note 14)	<b>1,961</b>	1,961	1,961
Leasehold rights (see Note 15)	<b>16,190</b>	16,190	10,120
	<b>413,091</b>	397,116	161,410
Costs of sale of electricity (see Note 21)	<b>₱386,716</b>	₱372,725	₱140,908
General and administrative expenses (see Note 22)	<b>26,375</b>	24,391	20,502
	<b>₱413,091</b>	₱397,116	₱161,410

### 25. Other Income (Loss) - Net

	2016	2015	2014
Interest and other financial income	<b>₱46,077</b>	₱16,257	₱6,113
Gain (loss) on derivatives - net (see Note 33) <sup>b</sup>	<b>8,741</b>	18,048	(35,220)
Foreign exchange loss – net	<b>(7,208)</b>	(20,880)	(751)
Provisions for:			
Impairment loss on AFS investments (see Note 13)	–	(12,424)	–
Unrecoverable input tax	<b>(2,568)</b>	–	–
Gain (loss) on sale of:			
Property and equipment	<b>27,863</b>	(3,071)	505
AFS investments	<b>7</b>	(18)	404
Investments (see Note 12)	<b>444,207</b>	–	–
Option fee <sup>a</sup> (see Note 15)	–	35,159	–
Gain on pre-existing relationship (see Note 5)	–	–	8,724
Others	<b>35,760</b>	12,752	4,034
	<b>₱552,879</b>	₱45,823	(16,191)

<sup>a</sup> 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.

<sup>b</sup> Includes loss on embedded derivative on long-term loans amounting to ₱12.10 million in 2014 (see Note 18).

In 2016 and 2015, others include the reimbursements amounting to ₱21.06 million and ₱13.06 million, respectively received from a third party in relation to certain expenses paid by the Company. In 2014, this includes sale of scrap materials amounting to ₱1.10 million and proceeds from insurance claims of ₱0.48 million.



Interest and Other Financial Income

The details of interest and other financial income are as follows:

	2016	2015	2014
Interest income on:			
Cash in banks (see Note 6)	₱83	₱234	₱93
Short-term deposits (see Note 6)	13,220	2,399	2,498
Receivables and others*	12,670	836	417
Net gains on investments held for trading (see Note 7)	20,104	12,788	3,105
	<b>₱46,077</b>	<b>₱16,257</b>	<b>₱6,113</b>

\*Includes amortization of security deposit amounting to ₱0.45 million and ₱0.40 million in 2016 and 2015, respectively.

Interest and Other Finance Charges

The details of interest and other finance charges are as follows:

	2016	2015	2014
Interest expense on:			
Long-term loans* (see Note 18)	₱434,452	₱420,289	₱136,054
Amortization of debt issue cost (see Note 18)	17,016	12,605	2,091
Tax assessment	536	4,282	1,003
Asset retirement obligation	372	371	371
Finance lease obligations (see Note 31)	13,260	10,713	-
Short-term loans	-	-	19,426
Security deposit	-	-	1,890
Others	2,642	572	7,298
Other finance charges	207	648	2,836
	<b>₱468,485</b>	<b>₱449,480</b>	<b>₱170,969</b>

\* Net of accretion of interest expense of ₱1.67 million and ₱1.61 million for the years ended December 31, 2016 and 2015 as an effect of amortization of embedded derivatives (see Note 18).

**26. Income Taxes**

a. Current income tax pertains to the following:

	2016	2015	2014
RCIT	₱114,272	₱221,416	₱130,518
MCIT	351	20	1,427
	<b>₱114,623</b>	<b>₱221,436</b>	<b>₱131,945</b>



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

	2016	2015
Deferred income tax assets:		
Allowance for doubtful accounts	₱27,924	₱17,965
Pension and other employee benefits	17,696	12,054
Derivative liabilities on long term loans	2,316	2,817
Unamortized past service cost	2,164	2,534
Asset retirement obligation	2,168	2,056
Accrued expenses	22,746	1,658
Unamortized discount on long-term receivable	1,800	-
Allowance for probable losses	3,298	-
Others	890	1,008
	<b>81,002</b>	40,092
Deferred income tax liabilities:		
Unrealized fair value gains on available-for-sale investments	(4,589)	(4,165)
Unamortized debt issue costs	(3,056)	(3,621)
Others	(1,508)	(1,003)
	<b>(9,153)</b>	(8,789)
Total deferred income tax assets - net	<b>₱71,849</b>	₱31,303
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	(109,678)	(120,604)
Leasehold rights	(17,202)	(22,059)
Unamortized capitalized borrowing costs	(2,191)	(2,312)
Unrealized fair value gains on FVPL	(239)	-
Unrealized forex gain	(1)	-
Deferred income tax liabilities	<b>(129,311)</b>	(144,975)
Total deferred income tax liabilities - net	<b>(₱126,890)</b>	(₱142,554)

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:

	2016	2015
NOLCO	₱102,320	₱129,030
Allowance for impairment loss on property and equipment	105,009	105,009
Allowance for doubtful accounts	20,000	-
Allowance for probable losses	14,816	-
MCIT	371	20
Unrealized forex loss	2	-
	<b>₱242,518</b>	₱234,059



Deferred income tax assets have not been recognized on these temporary differences that relate to the subsidiaries as management believes it is not probable that sufficient future taxable profit will be available against which the related deferred income tax assets can be used. As at December 31, 2016, NOLCO totaling ₱102.32 million can be claimed as deduction from regular taxable income and MCIT amounting to ₱0.37 million can be credited against future RCIT due as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
December 31, 2014	December 31, 2017	₱–	₱48,034
December 31, 2015	December 31, 2018	20	12,026
December 31, 2016	December 31, 2019	351	42,260
		<b>₱371</b>	<b>₱102,320</b>

NOLCO amounting to ₱17.64 million, ₱21.72 million and ₱50.35 million were applied against taxable income in 2016, 2015 and 2014, respectively. NOLCO amounting to ₱33.45 million, ₱7.83 million and ₱7.44 million expired in 2016, 2015 and 2014, respectively.

Excess of MCIT over RCIT incurred in 2013 and 2014 totaling to ₱2.58 million was deducted by the Company against its RCIT due for the year ended December 31, 2015.

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

	2016	2015	2014
Applicable statutory income tax rates	<b>30.00%</b>	30.00%	30.00%
Increase (decrease) in tax rate resulting from:			
Dividend income exempt from tax	<b>(0.15)</b>	(0.24)	(0.65)
Financial income subject to final tax	<b>(9.63)</b>	(0.43)	–
Equity in net losses (income) of associates and joint ventures	<b>(18.42)</b>	(10.02)	0.25
Net loss (income) under tax holiday	<b>0.67</b>	(2.08)	–
Nondeductible expenses	<b>2.09</b>	1.43	–
Movement in temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized and others	<b>(0.37)</b>	0.08	12.86
Effective income tax rates	<b>4.19%</b>	18.74%	42.46%



## 27. Pension and Other Employee Benefits

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

Pension and employee benefits consist of:

	2016	2015
Pension liability	₱33,811	₱20,964
Vacation and sick leave accrual	25,174	21,824
	<b>58,985</b>	42,788
Less current portion of vacation and sick leave accrual*	11,400	8,975
	<b>₱47,585</b>	₱33,813

\*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:

	2016	2015	2014
Pension expense	₱15,944	₱12,850	₱9,834
Vacation and sick leave accrual	3,492	3,762	3,075
	<b>₱19,436</b>	₱16,612	₱12,909

### 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 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
	<b>21,274</b>	<b>5,330</b>	<b>15,944</b>
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)
	<b>6,381</b>	<b>(1,880)</b>	<b>8,261</b>
Benefits paid	(1,412)	(1,412)	-
Contributions	-	11,358	(11,358)
At December 31, 2016	<b>₱156,854</b>	<b>₱123,043</b>	<b>₱33,811</b>



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

Changes in net defined benefit liability of funded plan in 2014 are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
At January 1, 2014, before effect of business combination	₱102,896	₱86,889	₱16,007
Effect of business combination	4,827	–	4,827
At January 1, 2014, as adjusted	107,723	86,889	20,834
Pension expense in consolidated statement of income:			
Current service cost	11,017	–	11,017
Net interest	3,297	4,480	(1,183)
	14,314	4,480	9,834
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	(3,636)	3,636
Actuarial changes arising from changes in financial assumptions	(2,548)	–	(2,548)
	(2,548)	(3,636)	1,088
Benefits paid	(3,688)	(3,688)	–
Contributions	–	12,961	(12,961)
At December 31, 2014	₱115,801	₱97,006	₱18,795

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:

	2016	2015	2014
Investments in:			
Equity instruments	₱80,655	₱70,509	₱65,282
Government securities	39,457	29,512	30,015
Deposit instruments	-	-	-
UITFs	3,905	9,778	1,704
Corporate bonds	-	-	-
Cash and cash equivalents	125	17	5
Liabilities	(1,099)	(169)	-
	<b>₱123,043</b>	<b>₱109,647</b>	<b>₱97,006</b>

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 ₱0.06 million as at December 31, 2016 and 2015. 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, 2016 and 2015. 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:

	2016	2015
Discount rate	5.35%	4.70%
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%)	6.35%	(₱7,676)
	(Actual - 1.00%)	4.35%	9,007
Salary increase rate	(Actual + 1.00%)	6.00%	9,870
	(Actual - 1.00%)	4.00%	(8,608)



The management performed 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 ₱16.06 million to the defined benefit pension plan in 2017.

The following table sets forth the expected future settlements by Plan of maturing defined benefit obligation as at December 31, 2016:

	Amount
Less than one year	₱72,286
More than one year to five years	46,676
More than five years to 10 years	76,521
More than 10 years to 15 years	50,883
More than 15 years to 20 years	59,583
More than 20 years	463,411

The average duration of the expected benefit payments at the end of the reporting period is 16.04 to 25.02 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.

	2016	2015	2014
Current service costs	₱4,817	₱7,990	₱4,172
Interest costs	1,037	781	784
Actuarial gain/(loss)	(2,362)	(5,009)	(1,881)
	<b>₱3,492</b>	<b>₱3,762</b>	<b>₱3,075</b>

Changes in present value of the vacation and sick leave obligation are as follows:

	2016	2015
Balance at the beginning of the year	₱21,824	₱18,353
Current service cost	4,817	7,990
Net interest	1,037	781
Actuarial gains/(loss)	(2,362)	(5,009)
Benefits paid	(142)	(291)
At December 31, 2016	<b>₱25,174</b>	<b>₱21,824</b>



## 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 settlement occurs 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, 2016 and 2015, the Company has not recorded any impairment of receivables on amounts 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. The transactions and balances of accounts as at and for the years ended December 31, 2016, 2015 and 2014 with related parties are as follows:

Company	2016		Outstanding Balance	Terms	Conditions
	Amount/ Volume	Nature			
<i>Ultimate Parent</i>					
<b>PHINMA, Inc.</b>					
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
<i>Joint Venture</i>					
<b>SLTEC</b>					
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
<i>Associates</i>					
<b>Asia Coal</b>					
Accounts payable and other current liabilities	-	Advances	(254)	Non-interest bearing	Unsecured
<b>MGI</b>					
Costs of sale of electricity	785,167	Trading cost	(79,263)	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 12)	-	Advances for future subscriptions	45,000	Non-interest bearing	Unsecured, no impairment
<i>Entities under common control</i>					
<b>PHINMA Property Holdings Corporation (PPHC)</b>					
Accounts payable and other current liabilities	-	Advances	(171)	30-60 day, non-interest bearing	Unsecured



2016					
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
<b>PHINMA Corporation</b>					
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
<b>Union Galvasteel Corp. (UGC)</b>					
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
<b>T-O Insurance, Inc.</b>					
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
<b>Emar Corporation</b>					
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
<b>PHINMA Education Holdings Inc. (PHINMA Education)</b>					
General and administrative expenses	2,698	Service fee	(2,698)	30-60 day, non-interest bearing	Unsecured
<b>Other Related Parties</b>					
<b>Directors</b>					
General and administrative expenses	72,846	Director's fee and annual incentives	(51,478)	On demand	Unsecured
<b>Stockholders</b>					
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 8)			₱4,267		
Receivable from stockholders (see Note 8)			35		
Advance to an associate (Note 12)			45,000		
Due to related parties (see Note 17)			(1,204,310)		
Accrued directors and annual incentives (see Note 17)			(51,478)		
Due to stockholders			(91,203)		

2015					
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
<b>Ultimate Parent</b>					
<b>PHINMA, Inc.</b>					
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
<b>Joint Ventures</b>					
<b>SLTEC</b>					
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



2015					
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
<b>ACTA</b>					
Investments and advances (see Note 12)	₱7,537	Advances for future subscription	₱7,537	Non-interest bearing	Unsecured, no impairment
<i>Associates</i>					
Asia Coal Accounts payable and other current liabilities	-	Advances	(254)	Non-interest bearing	Unsecured
<b>MGI</b>					
Costs of sale of electricity	772,280	Trading cost	(81,618)	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 12)	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
<i>Entities under common control</i>					
<b>PPHC</b>					
Accounts payable and other current liabilities	-	Advances	(171)	30-60 day, non- interest bearing	Unsecured
<b>PHINMA Corporation</b>					
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
<b>UGC</b>					
Dividend income	3,649	Cash dividend	-	30-60 day, non- interest bearing	Unsecured, no impairment
<b>T-O Insurance, Inc.</b>					
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
<i>Other Related Parties</i>					
<b>Directors</b>					
General and administrative expenses	29,063	Director's fee and annual incentives	(18,500)	On demand	Unsecured
<b>Stockholders</b>					
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 (see Note 8)			₱6,640		
Receivable from stockholders (see Note 8)			35		
Advances to associates and joint ventures (see Note 12)			52,537		
Due to related parties (see Note 17)			(663,570)		
Accrued directors and annual incentives (see Note 17)			(18,500)		
Due to stockholders			(11,570)		



2014					
Company	Amount/ Volume	Nature	Outstanding Balance	Terms	Conditions
<i>Ultimate Parent</i>					
PHINMA, Inc.					
Rental and other income	₱718	Rent and share in expenses	₱40	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	47,213	Management fees and share in expenses	(19,046)	30-day, non-interest bearing	Unsecured
Receivables	1,988	Advances	-	30-60 day, non-interest bearing	Unsecured, no impairment
<i>Joint Venture</i>					
SLTEC					
Revenue from sale of electricity, rental and other income	28,210	Sale of electricity, rent and share in expenses	209	30-day, non-interest bearing	Unsecured, no impairment
Costs of sale of electricity	174,867	Purchase of electricity	(192,353)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	-	Rental deposit	(590)	End of lease term	Unsecured
<i>Associates</i>					
Asia Coal					
Accounts payable and other current liabilities	-	Advances	(254)	Non-interest bearing	Unsecured
MGI					
Costs of sale of electricity	699,933	Trading cost	(80,683)	30-day, non-interest bearing	Unsecured
<i>Entities under common control</i>					
PPHC					
Accounts payable and other current liabilities	-	Advances	(171)	30-60 day, non-interest bearing	Unsecured
PHINMA Corporation					
Dividend and other income	5,390	Cash dividend and share in expenses	-	30-60 day, non-interest bearing	Unsecured, no impairment
Other expenses	2,247	Share in expenses	(159)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	141,400	Advances	-	30-day, non-interest bearing	Unsecured
UGC					
Dividend income	760	Cash dividend	-	30-60 day, non-interest bearing	Unsecured, no impairment
Asian Plaza Inc.					
Dividend income	942	Cash dividend	-	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	94,300	Advances	-	30-day, non-interest bearing	Unsecured
T-O Insurance, Inc.					
General and administrative expenses	111,840	Insurance expense	(1,525)	30-60 day, non-interest bearing	Unsecured
Receivables	163	Refund on overpayment	15	30-60 day, non-interest bearing	Unsecured, no impairment
<i>Other Related Parties</i>					
Directors					
General and administrative expenses	15,797	Annual incentives	(12,518)	On demand	Unsecured
Stockholders					
Due to stockholders	193,562	Cash dividend	(9,135)	On demand	Unsecured
Receivables	-	Withholding tax on property dividend	35	On demand	Unsecured, no impairment
Due from related parties			₱264		
Receivable from stockholders			35		
Due to stockholders			(9,135)		
Accrued directors and annual incentives			(12,518)		
Due to related parties			(294,781)		



PHINMA, Inc.

The Parent Company and its subsidiaries TA Power, CIPP, TAREC and TA Petroleum have management contracts with PHINMA, Inc. up to August 31, 2018 except for TA Power whose contract with PHINMA, Inc. is up to 2016, renewable thereafter upon mutual agreement. 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, TA Power, CIPP, TAREC and TA Petroleum pays 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, the TA Petroleum's BOD approved the suspension of the management contract for 2016. Other expenses PHINMA, Inc. bills to the Company includes rent and share in expenses. The Company also has a dividend payable to PHINMA Inc. for the cash dividend declared during 2016.

SLTEC

SLTEC leases and occupies 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. SLTEC reimbursed PHINMA Energy for the cost of the coal power plant under construction and other costs incurred in relation to the coal project in 2011. The transactions with SLTEC also includes the sale and purchase of electricity (see Note 31), reimbursements of expenses and receipt of dividend.

PHINMA Corporation

PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Parent Company for its share in expenses. The Parent Company also receives cash dividends received from PHINMA Corporation. The Parent Company has a dividend payable to PHINMA Corporation for the cash dividend declared during 2016. In 2015, PHINMA Energy purchased foreign currencies from PHINMA Corporation and used to pay suppliers for foreign-currency denominated liabilities. In 2014, PHINMA Corporation granted advances to PHINMA Energy for its working capital requirements.

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.

PHINMA Property Holdings Corporation (PPHC)/Union Galvasteel Corporation (UGC) [formerly Atlas Holding Corporation (AHC)]/Asian Plaza, Inc./Asia Coal/ACTA

PPHC, UGC and Asian Plaza, Inc., Asia Coal and ACTA are entities under common control. The transactions for these companies include cash dividends and/or advances.

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. PHINMA Energy'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

In 2016, the Company billed Emar Corporation for its share on expenses which was collected during the year.



PHINM Education

During 2016, the Company has a 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. The fair value of the retirement fund of the Parent Company amounts to ₱123.04 million and ₱109.65 million as at December 31, 2016 and 2015, respectively (see Note 27).

The plan assets include shares of stock of the Parent Company with fair value of ₱0.06 million as at December 31, 2016 and 2015. 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, 2016 and 2015. 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.

Compensation of Key Management Personnel

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

	2016	2015	2014
Short-term employee benefits	₱165,214	₱72,715	₱46,414
Post-employment benefits	3,891	2,717	2,471
	<b>₱169,105</b>	<b>₱75,432</b>	<b>₱48,885</b>

**29. Earnings Per Share**

Basic and diluted EPS are computed as follows:

	2016	2015	2014
	<i>(In Thousands, Except for Number of Shares and Per Share Amounts)</i>		
(a) Net income attributable to equity holders of Parent Company	<b>₱1,402,228</b>	₱911,016	₱182,591
Common shares outstanding at beginning of year (see Note 19)	<b>4,865,146,089</b>	4,865,146,089	4,863,862,757
Weighted average number of shares issued during the year	<b>12,259,975</b>	-	527,990
(b) Weighted average common shares outstanding	<b>4,877,406,064</b>	4,865,146,089	4,864,390,747
Basic/Diluted EPS (a/b)	<b>₱0.29</b>	₱0.19	₱0.04

In 2016, the Company does not have any potential common shares or other instruments that may entitle the holder to common shares. Consequently, diluted EPS is the same as basic EPS. In 2015 and 2014, the Company's stock options have no dilutive effect.



### 30. Material Partly-Owned Subsidiaries

Financial information of subsidiaries that have material NCI are provided below:

Equity interest held by NCI in 2016 and 2015 follows:

Name	Percentage of ownership (%)
TA Petroleum	48.86
Palawan55	33.89

Accumulated balances of NCI as at December 31, 2016 and 2015 are as follows:

Name	2016	2015
TA Petroleum	<b>₱82,041</b>	₱101,732
Palawan55	<b>2,665</b>	2,671
	<b>₱84,706</b>	₱104,403

Net loss allocated to NCI for the years ended December 31, 2016 and 2015 are as follows:

Name	2016	2015
TA Petroleum	<b>₱19,691</b>	₱5,024
Palawan55	<b>6</b>	140
	<b>₱19,697</b>	₱5,164

Summarized statements of financial position as at December 31, 2016 and 2015 as follows:

2016		
	TA Petroleum	Palawan55
Current assets	<b>₱87,528</b>	<b>₱2,189</b>
Noncurrent assets	<b>81,360</b>	<b>5,713</b>
Current liabilities	<b>734</b>	<b>39</b>
Noncurrent liability	<b>239</b>	<b>-</b>
Total equity	<b>₱167,915</b>	<b>₱7,863</b>
Attributable to:		
Equity holders of the Parent Company	<b>₱85,874</b>	<b>₱5,198</b>
NCI	<b>82,041</b>	<b>2,665</b>
2015		
	TA Petroleum	Palawan55
Current assets	₱118,179	₱2,228
Noncurrent assets	90,572	5,713
Current liabilities	539	59
Total equity	₱208,212	₱7,882
Attributable to:		
Equity holders of the Parent Company	₱106,480	₱5,211
NCI	101,732	2,671



Summarized statements of income and statements of comprehensive income for the years ended December 31, 2016 and 2015 as follows:

<b>2016</b>		
	<b>TA Petroleum</b>	<b>Palawan55</b>
Interest income	₱2	₱10
Expenses	(9,823)	(28)
Other income (expense) - net	(30,232)	-
Benefit from (Provision for) deferred income tax	(247)	-
<b>Net loss</b>	<b>₱40,300</b>	<b>₱18</b>
<b>Total comprehensive loss</b>	<b>₱40,300</b>	<b>₱18</b>
Net loss/ total comprehensive loss attributable to:		
Equity holders of the Parent Company	₱20,609	₱12
NCI	19,691	6
<b>2015</b>		
	<b>TA Petroleum</b>	<b>Palawan55</b>
Interest income	₱59	₱10
Expenses	(11,554)	(354)
Other income (expense) - net	1,210	-
Benefit from (Provision for) deferred income tax	2	(68)
<b>Net loss</b>	<b>₱10,283</b>	<b>₱412</b>
<b>Total comprehensive loss</b>	<b>₱10,283</b>	<b>₱412</b>
Net loss/ total comprehensive loss attributable to:		
Equity holders of the Parent Company	₱5,259	₱272
NCI	5,024	140
<b>2014</b>		
	<b>TA Petroleum</b>	<b>Palawan55</b>
Interest income	₱119	₱11
Expenses	(14,249)	(250)
Other income (expense) - net	729	-
Benefit from (Provision for) deferred income tax	1	67
<b>Net loss</b>	<b>₱13,400</b>	<b>₱172</b>
<b>Total comprehensive loss</b>	<b>₱13,400</b>	<b>₱172</b>
Net loss/ total comprehensive loss attributable to:		
Equity holders of the Parent Company	₱11,208	₱163
NCI	2,192	9



Summarized statements of cash flows for the years ended December 31, 2016, 2015 and 2014 are as follows:

2016		
	TA Petroleum	Palawan55
Operating	(P9,566)	(P39)
Investing	8,904	-
Net decrease in cash and cash equivalents	(P662)	(P39)

2015		
	TA Petroleum	Palawan55
Operating	(P10,278)	(P332)
Investing	(27,743)	-
Net decrease in cash and cash equivalents	(P38,021)	(P332)

2014		
	TA Petroleum	Palawan55
Operating	(P35,832)	(P262)
Investing	57,882	-
Net increase (decrease) in cash and cash equivalents	P22,050	(P262)

There were no dividends paid to NCI for the years ended December 31, 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; and,
- (3) Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within five years from the effectivity of the EPIRA. It provides cross-ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.



Retail Competition and Open Access (RCOA)

Upon meeting all conditions set forth in RA 9136 Section 31, namely,

- a. Establishment of WESM;
- b. Approval of the unbundling of transmission and distribution wheeling charges;
- c. Initial implementation of the cross subsidy scheme;
- d. Privatization of at least (70%) of the total capacity of generating assets of NPC in Luzon and Visayas; and,
- e. Transfer of the management of at least 70% of the total energy output of power plants under contract with NPC to the Independent Power Producer Administrators (IPPAs), the ERC promulgated last December 17, 2012 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.

The Secondary Price Cap imposes a Cumulative Price Threshold (CPT) amounting to ₱1,512,028.00 equivalent to the Generator Weighted Average Prices (GWAP) over a rolling seven-day period, or 168-hour trading interval, equivalent to an average spot price of ₱9,000/megawatt (₱9 per kWh) over the period. A breach of the CPT for the period triggers the imposition of a price cap amounting to ₱6,245/mWh [₱6.245 per kWh]. The market clearing price for the immediate trading interval following the breach will be pegged at the price cap and shall be maintained until after a determination that the succeeding GWAP rolling average is already below the CPT.

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

On December 16, 2008, the President of the Philippines approved R.A. 9513 or the RE Act also known as an Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes. The RE Act aims to:

- (1) Accelerate the exploration and development of RE resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy;
- (2) Increase the utilization of RE by institutionalizing the development of national and local capabilities in the use of RE systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives;
- (3) Encourage the development and utilization of RE resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and



- (4) Establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, RE developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments, 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.

In line with the country's thrust of promoting the growth of renewable energy resources, the Company ventured into wind resource development projects through its subsidiary, TAREC. The TAREC applied for Service Contracts with DOE and was awarded 10 wind energy service contracts with a total potential wind capacity of 227 MW in October 2009

The Act significantly affected the operating results of TAREC, as RE developer, due to a guaranteed FIT rate and reduction in taxes.

#### Renewable Energy Service Contracts

In October 2009, TAREC was awarded 10 wind energy service contracts by the DOE, representing a total potential wind capacity of 227 MW.

In February 2010, another 10 service contracts representing an additional 123 MW of potential wind capacity were again awarded to TAREC by the DOE, thus, bringing its total potential wind capacity to 350 MW as at December 31, 2010.

In 2011, 8 wind energy service contracts which represent 89 MW were applied for relinquishment with the DOE due to poor wind resource and complexity of site topography.

In 2012, TAREC continued the development activities on the 12 wind service contract areas with an aggregate capacity estimated at 400 MW. This includes the 54 MW San Lorenzo Wind Project which was then awaiting notification from the DOE for the project's inclusion in the 200 MW installation target for wind at that time.

On May 20, 2013, the DOE confirmed the Declaration of Commerciality of the 54 MW Wind Power project in San Lorenzo, Guimaras under WESC No. 2009-10-009. The DOE confirmation affirms the conversion of said WESC from Pre-Development to Commercial Stage.

On October 7, 2014, the 54 MW Wind Power project started delivering power to the grid from the commissioning operations of the first three (3) units of wind turbine generators.

On February 16, 2015, TAREC received from the DOE the confirmation of start of Commercial Operations of its 54 MW San Lorenzo Wind Project commencing on December 27, 2014. TAREC sells its generated electricity to the WESM under the FIT System.



Feed-in-Tariff (FIT)

Pursuant to Section 7 of the R.A. No. 9513 which mandates the establishment of the FIT System for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass, the following regulations have been passed:

- (i) Department Circular No. DC2013-05-0009, the Guidelines for the Selection Process of Renewable Energy Projects under Feed-In Tariff System and the Award of Certificate for Eligibility; prescribing the rules for eligibility of RE Developer to avail of the FIT
- (ii) ERC Resolution No. 10, Series of 2012, approved the FIT rates and equivalent degression rates for all RE technologies entitle to FIT.

RE Technology	FIT Rate (PhP/kWh)	Degression Rate	Installation Target
Wind	8.53	0.5% after 2 years from effectivity of FIT	200
Biomass	6.63	0.5% after 2 years from effectivity of FIT	250
Solar	9.68	6% after 1 year from effectivity of FIT	50
Run-of-River Hydropower	5.90	0.5% after 2 years from effectivity of FIT	250

On April 7, 2015, the DOE issued a Certification on the Installation Target of Wind Energy Generation under the FIT System which increased the installation target for wind energy generation under the FIT System from 200 MW to 400 MW.

On June 10, 2015, the 54 MW San Lorenzo Wind Power Project of TAREC was issued a Certificate of Endorsement for Feed-In Tariff Eligibility COE-FIT No. W-2015-05-004 by the DOE. By virtue of the endorsement, the 54 MW San Lorenzo Wind Power Project is qualified to avail of the FIT System, subject to the issuance by the DOE of a new installation target for wind energy generation projects.

On December 1, 2015, TAREC received its Certificate of Compliance from the ERC for its 54 MW San Lorenzo Wind Project. The certificate entitles the TAREC 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. Previously, power delivered to the grid were priced at spot rate. Thus, additional revenues amounting to ₱15.96 million due to the use of FIT rate for the power delivered from December 27 to 31, 2014 was recognized in 2015. Outstanding receivable under the FIT System amounted to ₱280.71 and ₱372.57 million as at December 31, 2016 and 2015, respectively.

Sale of Transmission and Distribution Assets to NGCP

Under Section 8 of R.A. 9136 or EPIRA, no person, company or entity other than TransCo shall own any transmission facilities. On January 15, 2009, by virtue of the congressional franchise under R.A. 9511, NGCP assumed the authority and responsibility to operate, manage and maintain and to engage in the business of conveying or transmitting electricity for the nationwide transmission system of the Philippines.



TAREC 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 TAREC's submarine cable pursuant to Section 8 of RA No. 9136 or the EPIRA and the ERC decisions in ERC Case No. 2014-032 and ERC Case No. 2015-013MC. The carrying value of transmission assets and submarine cables sold by TAREC and CIPP amounted to ₱660.15 million and ₱65.17 million, respectively.

Sale of interest in SLTEC

On December 20, 2016, PHINMA Energy sold 5% interest in SLTEC to APHPC, which also purchased 15% interest in SLTEC from AC Energy. After the sale, the ownership structure of SLTEC is as follows: 45% PHINMA Energy, 35% AC Energy and 20% APHPC. The Company recognized gain amounting to ₱444.21 million as a result of the sale (see Notes 1, 12 and 25).

Electricity Supply Agreement (ESA) with GUIMELCO

On November 12, 2003 PHINMA Energy signed an ESA with GUIMELCO, a nonstock, nonprofit cooperative (see Note 1). This was subsequently amended on July 26, 2004 and March 27, 2015. Under the ESA, 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. Following are the significant provisions of the ESA, among others:

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

The power plant commenced commercial operations on June 26, 2005.

Upon its expiration, the parties entered into a Contract for the Sale of Electricity on March 2015. Under the contract, PHINMA Energy shall supply, for a period of ten 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.

MOA Between Power Sector Assets and Liabilities Management (PSALM) Corporation and PHINMA Energy

On October 30, 2013, PSALM conducted the third round of bidding for the Sale of Power Barges ("PB") 101, 102 and 103 (the "Power Barges"). SPC Island Power Corporation (SIPC) was declared the Highest Bidder, while PHINMA Energy was declared as the Second Highest Bidder. On November 8, 2013, PB 103 was de-moored and ran aground during the onslaught of Typhoon Yolanda resulting in damage to its hull and other equipment, which prompted SIPC to terminate its Asset Purchase Agreement with PSALM.

Subsequently, PSALM and PHINMA Energy entered into negotiations for the sale of the Power Barges and on December 23, 2014, the parties entered into a MOA to provide for the terms and conditions for the sale of the Power Barges at the contract price of ₱420 million. On July 7, 2015 both PSALM and PHINMA Energy have already delivered to each other their respective closing documents and PHINMA Energy paid to PSALM the purchase price in the amount of ₱420 million. The official turnover of the Power Barges to PHINMA Energy was held on



July 8, 2015. On February 2016, PB 101 and 102 located at Barrio Obrero, Iloilo City, started commercial operation. As of March 3, 2017, PB 103 located at Muelle Osmeña, Brgy. Poblacion, Lapu-lapu City, has not started commercial operation.

Ancillary Services Procurement Agreements (ASPA) - National Grid Corporation of the Philippines (NGCP & TA Power)

On December 10, 2012, the NGCP and TA Power executed an ASPA. Under the ASPA, TA Power's Bulacan Power Plant will provide Contingency and Dispatchable Reserves 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.

In an Order dated February 25, 2013, the ERC provisionally approved the application filed by NGCP and TA Power and which approval was extended every year thereafter.

Ancillary Services Procurement Agreements (ASPA) - National Grid Corporation of the Philippines (NGCP & PHINMA Energy)

On December 10, 2012, the NGCP and PHINMA Energy executed an ASPA. Under the ASPA, One Subic's Power Plant will provide Contingency and Dispatchable Reserves 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.

In an Order dated February 25, 2013, the ERC provisionally approved the application filed by NGCP and PHINMA Energy and which approval was extended every year thereafter.

Electricity Supply Agreement with Holcim

In August 2011, PHINMA Energy and Holcim signed an ESA for Holcim's electricity requirements for its La Union and Bulacan plants, valid for 15 years commencing on December 26, 2013.

Power Administration and Management Agreement with One Subic

On November 18, 2010, PHINMA Energy and One Subic Power, a third party, entered into a PAMA. Under the terms of the PAMA, PHINMA Energy will administer and manage the entire generation output of the 116 MW diesel power plant in Subic, Olongapo City. PHINMA Energy will be selling or trading the entire capacity of the power plant, while One Subic Power will operate the plant (the date when the power plant is capable of supplying power to the Grid) for as long as One Subic Power is the lessee of the plant. PHINMA Energy will pay One Subic Power for all electricity actually delivered by the power plant based on a formula (actual fuel consumption and electricity generated) as set forth in the PAMA and shall be payable monthly. The PAMA became effective on February 17, 2011.

Power Administration and Management Agreement with CIPP

On June 26, 2013, a PAMA valid for ten years was entered into by and between CIPP as generator and PHINMA Energy as administrator, for the administration and management by PHINMA Energy of the entire capacity and net output of the CIPP.



The future minimum payments under the PAMA are as follows:

	2016	2015
Within one year	<b>₱151</b>	₱151
After one year but not more than five years	<b>605</b>	605
After five years	<b>227</b>	378
	<b>₱983</b>	₱1,134

Power Administration and Management Agreement with TA Power

A PAMA valid for ten years was entered into by and between TA Power and PHINMA Energy for the administration and management by PHINMA Energy of the entire capacity and net output of TA Power starting December 26, 2013. The PAMA is valid for ten years.

The future minimum payments under the PAMA are as follows:

	2016	2015
Within one year	<b>₱237</b>	₱237
After one year but not more than five years	<b>948</b>	948
After five years	<b>474</b>	711
	<b>₱1,659</b>	₱1,896

Contract to Purchase Generated Electricity with Sem-Calaca Power Corporation (Sem-Calaca)

On March 26, 2011, the Company entered into a Contract to Purchase Generated Electricity with Sem-Calaca for a period of 3 years. Under the Contract, the Company agrees to purchase the 15 MW output of Sem-Calaca Power Plant.

On February 27, 2013, PHINMA Energy amended the existing Contract to Purchase Generated Electricity. Under the new contract, PHINMA Energy can purchase up to 45 MW of electricity from Sem-Calaca's power plant. Moreover, PHINMA Energy renewed the contract for another three years from February 1, 2013 to March 25, 2016. The agreement was not renewed.

Power Purchase Agreement with MGI

On September 16, 2011, the Company entered into an PPA 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.

Power Purchase Agreement with SLTEC

*SLTEC Unit 1*

On October 28, 2011, PHINMA Energy entered into a PPA with SLTEC where the Company will purchase all the power generated by the first generating unit of SLTEC for fifteen years.

*SLTEC Unit 2*

On April 17, 2013, PHINMA Energy entered into a PPA with SLTEC where the Company will purchase all the power generated by second generating unit of SLTEC for thirteen years.

Contract of Sale of Electricity with Quezon I Electric Cooperative, Inc. (QUEZELCO)

On December 8, 2011, PHINMA Energy entered into a Contract of Sale of Electricity with QUEZELCO, for a period of five years from December 26, 2011. The contract with QUEZELCO provides an option to renew the contract for a period mutually agreed by both parties. In accordance with the contract, PHINMA Energy shall supply 90% of QUEZELCO's electricity



requirements on an hourly basis using the market trading node of PHINMA Energy's designated generator. The contract with QUEZELCO expired on December 25, 2016.

Contract of Sale of Electricity with Lafarge Republic, Inc.

On July 9, 2012, PHINMA Energy entered into Contract for the Sale of Electricity with Lafarge Republic, Inc. for a period of five years from December 26, 2012 to December 25, 2017. Under the said agreement, PHINMA Energy shall supply all the electricity requirement of Lafarge Cement Plants (located in Bigte and Minuyan, Norzagaray, Bulacan and Mapulo, Taysan, Batangas) in excess of the Base-Load Supply.

On November 4, 2013, PHINMA Energy entered into Electricity Sale Contract with Lafarge Republic, Inc. for its Teresa Cement Plant. The contract was possible under the RCOA Regime. PHINMA Energy agreed to supply the peaking electricity requirements of the Lafarge Teresa facility until December 25, 2017.

Contract of Sale of Electricity with Lafarge Republic Aggregates Inc. (Lafarge BAAC)

On February 3, 2014 PHINMA Energy entered into Electricity Sale Contract with Lafarge BAAC. PHINMA Energy agreed to supply all the electricity requirements of Lafarge BAAC until December 25, 2017.

Electricity Sale Contract with Direct Power Services, Inc. (DPSI)

On April 17, 2013, PHINMA Energy entered into Electricity Sale Contract with DPSI.

PHINMA Energy agreed to supply all the electricity requirements of facilities supplied by Direct Power. The contract has duration of twelve (12) years.

Contract of Sale of Electricity with Philippine Economic Zone Authority (PEZA)

*PEZA-Lot 1 Base Load*

PHINMA Energy entered into Contract for the Sale of Electricity Lot 1 Base Load with PEZA on December 20, 2012 for a period of 5 years. Under the said agreement, PHINMA Energy shall supply the Base Load electricity requirement of PEZA for its Cavite Economic Zone (CEZ). Delivery of electricity commenced on January 26, 2013.

*PEZA-Lot 2 Shoulder and Peak Load*

PHINMA Energy entered into Contract for the Sale of Electricity Lot 2 Shoulder and Peak Load with PEZA for a period of 5 years. Under this agreement, PHINMA Energy shall supply all of the electricity requirement of PEZA for its CEZ in excess of the base load supply. Delivery of electricity commenced on January 26, 2013.

*Tripartite Agreement with PEZA and MERALCO*

On January 24, 2013, PHINMA Energy entered into a Tripartite Agreement with PEZA and MERALCO to facilitate the implementation of the Contract for the Sale of Electricity with PEZA before RCOA. The agreement is effective from January 24, 2013 to June 25, 2013. The agreement was extended until the expiry of the Contract of Sale of Electricity with CEZ, upon mutual agreement of the parties.

Maibarara Geothermal, Inc. (MGI)

As Project Sponsor of the 20 MW Maibarara power plant project, PHINMA Energy has provided a pledge on its shares in MGI, a guarantee to provide additional equity or advances to the Project in case of cost overruns and an assignment to the lenders of the ESA with MGI.



Electricity Sales Contract with BATELEC I Electric Cooperative, Inc. (BATELEC I)

On June 7, 2013, PHINMA Energy entered into Electricity Sales Contract with BATELEC I for a period of 5 years upon ERC approval. PHINMA Energy shall supply the Load Following Requirements of BATELEC I. The agreement expired on December 25, 2016 with the expiry of the Parent Company's WA license.

Power Sale Contract with KEPCO SPC Power Corporation (KEPCO)

On April 23, 2013, PHINMA Energy entered into Power Sales Contract with KEPCO for a period of five years from May 2013 to April 2018. KEPCO agreed to supply PHINMA Energy the Contract Quantity upon the terms and subject to the condition set out in the Power Service Contract.

Electricity Supply Agreement with Holcim (Mabini Grinding Plant)

On June 17, 2014, PHINMA Energy entered into Electricity Sales Contract with Holcim (Mabini Grinding Plant) for a period of 10 years. PHINMA Energy agreed to supply the electricity requirements of Holcim (Mabini Grinding Plant).

Power Supply Agreement (PSA) with the Region 8 Electric Cooperatives

On December 20, 2014, PHINMA Energy executed a separate PSA with each of the following cooperatives for a period of two (2) years (December 26, 2014 to December 25, 2016): a) Leyte II Electric Co., Inc. (LEYECO II); b) Leyte V Electric Co., Inc. (LEYECO V); c) Southern Leyte Electric Co., Inc. (SOLECO); d) Samar I Electric Co., Inc. (SAMELCO I); e) Samar II Electric Co., Inc. (SAMELCO II); f) Eastern Samar Electric Co., Inc. (ESAMELCO); and g) Northern Samar Electric Co., Inc. (NORSAMELCO); and for a period of one (1) year (December 24, 2014 - December 25, 2015): a) Don Orestes Romualdez Electric Co., Inc. (DORELCO); b) Leyte III Electric Co., Inc. (LEYECO III); c) Leyte IV Electric Co., Inc. (LEYECO IV); d) Biliran Electric Co., Inc. (BILECO). The contracts with a period of two years expired on December 25, 2016 while those with a period of one year expired on December 25, 2015. None of the contracts were renewed.

Electricity Supply Agreement with Universal Robina Corporation

On September 3, 2014, PHINMA Energy entered into Electricity Sales Contract with Universal Robina Corporation. PHINMA Energy agreed to supply the electricity requirements of the URC CMC Plant for a period of 3 years.

Electricity Supply Agreement with Manila Water Company, Inc. (MWCI)

On April 30, 2015, PHINMA Energy entered into a Contract for the Sale of Electricity with Manila MWCI. PHINMA Energy agreed to supply the electricity requirements of MWCI for a period of 2 years starting on June 26, 2015.

Electricity Supply Agreement with American Wire Cables and Co. (AWCC)

On November 9, 2015, PHINMA Energy entered into a Contract for the Sale of Electricity with AWCC. PHINMA Energy agreed to supply the electricity requirements of AWCC for a period of 36 billing periods starting on May 26, 2016.

Electricity Supply Agreement with Mondelez Philippines, Inc.

On January 19, 2016, PHINMA Energy entered into a Contract for the Sale of Electricity with Mondelez Philippines, Inc. PHINMA Energy agreed to supply the electricity requirements of Mondelez Philippines, Inc. for a period of 36 billing periods. Delivery of electricity commenced on February 26, 2016.



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.

Electricity Supply Agreement with (Retail Electricity Supplier) RES Customers

With the issuance by the DOE and ERC of regulations affecting RCOA, customers with an average monthly peak demand of at least one (1) megawatt are mandated to select a RES by February 26, 2017. Customers with an average monthly peak demand of at least 750 kW may already opt to be supplied by a qualified RES. With this development, in 2016, the Company entered into power supply agreements with contestable customers with a total contracted capacity of more than one hundred megawatts (100 MW). The duration of supply of electricity by the Corporation to the commercial facilities generally range from one to two years.

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 with the Ilog Hydro projects were not capitalized as this 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.

	2016	2015
Within one year	₱480	₱480
After one year but not more than five years	2,400	2,400
More than five years	1,080	1,560
	<b>₱3,960</b>	<b>₱4,440</b>



*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. One Subic was 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 \$96,672 for the duration of the remaining lease term of 43 months. Future minimum lease payments under this operating lease agreement follows:

	2016	2015
Within one year	<b>₱55,076</b>	₱52,781
After one year but not more than five years	<b>142,280</b>	237,514
	<b>₱197,356</b>	₱290,295

*TAREC's Lease Agreement with Various Land Owners*

TAREC 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:

	2016	2015
Within one year	<b>₱356</b>	₱-
After one year but not more than five years	<b>1,820</b>	1,636
More than five years	<b>10,006</b>	10,546
	<b>₱12,182</b>	₱12,182

As at December 31, 2015, minimum lease payments due within one year are covered by advance payments made by TAREC to the lessors, which are included in the "Other current assets" account in the consolidated statements of financial position.

TAREC recognized rent expense of ₱0.77 million and ₱0.67 million in 2016 and 2015, respectively, included in "Rental" account under "Costs of sale of electricity" (see Note 21).

Details of prepaid rent related to these operating lease agreements are as follows:

	2016	2015
Prepaid rent		
Current	<b>₱836</b>	₱27
Noncurrent	<b>2,780</b>	3,159
	<b>₱3,616</b>	₱3,186

*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 TAREC 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:

	2016	2015
Prepaid rent		
Current	<b>₱2,010</b>	₱1,911
Noncurrent	<b>43,976</b>	43,930
	<b>₱45,986</b>	₱45,841

TAREC recognized rent expense of ₱1.99 million and ₱1.95 million in 2016 and 2015, respectively, included in “Rental” account under “Costs of sale of electricity” (see Note 21).

#### Finance Lease

##### *TAREC’s Lease Agreement with Various Land Owners*

TAREC 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 TAREC. 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:

	2016	2015
Within one year	<b>₱6,075</b>	₱3,106
After one year but not more than five years	<b>49,245</b>	50,496
More than five years	<b>282,084</b>	338,798
Total minimum finance lease payments	<b>337,404</b>	392,400
Less amount representing unamortized interest	<b>267,284</b>	333,524
Present value of net minimum finance lease payments	<b>70,120</b>	58,876
Less finance lease obligation maturing within one year	<b>12,544</b>	10,815
Noncurrent portion of finance lease obligation	<b>₱57,576</b>	₱48,061

Total interest on finance leases amounting to ₱8.87 million was capitalized to the wind farm in 2014.

In 2016 and 2015, the TAREC recognized finance charges on finance leases amounting to ₱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:

	2016	2015
Prepaid rent		
Current	<b>₱1,522</b>	₱-
Noncurrent	<b>1,543</b>	1,757
	<b>₱3,065</b>	₱1,757



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## 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, 2016 and 2015 are as follows:

	2016		2015	
	US Dollar (US\$)	Euro (€)	US Dollar (US\$)	Euro (€)
<b>Financial Assets</b>				
Cash and cash equivalents	\$18	€-	\$31	€-
Investments held for trading	21	-	194	-
Other receivables	156	-	147	-
	<b>\$195</b>	<b>€-</b>	<b>\$372</b>	<b>€-</b>
<b>Financial Liabilities</b>				
Accounts payable and other current liabilities	647	73	2,294	3
Net foreign currency-denominated assets (liabilities)	<b>(452)</b>	<b>(73)</b>	<b>(1,922)</b>	<b>(3)</b>
Peso equivalent	<b>(₱22,473)</b>	<b>(₱3,784)</b>	<b>(₱90,449)</b>	<b>(₱155)</b>

In translating foreign currency-denominated financial assets and financial liabilities into Philippine Peso amounts, the exchange rate used were ₱49.72 to US\$1.00 and ₱51.84 to €1.00 as at December 31, 2016 and ₱47.06 to US\$1.00 and ₱51.74 to €1.00 as at December 31, 2015.

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, 2016 and 2015. 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 (€)
2016	(₱0.25)	₱113	₱18
	(0.50)	226	37
	0.25	(113)	(18)
	0.50	(226)	(37)
2015	(₱0.25)	₱480	₱1
	(0.50)	961	2
	0.25	(480)	(1)
	0.50	(961)	(2)



*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.

	2016					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade and other receivables						
<i>Current</i>						
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
<i>Noncurrent</i>						
Receivables from third parties	-	608,546	-	-	-	608,546
	<b>₱2,233,632</b>	<b>₱657,824</b>	<b>₱-</b>	<b>₱1,563,093</b>	<b>₱116,327</b>	<b>₱4,570,876</b>



	2015					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Trade and other receivables						
<i>Current</i>						
Trade receivables	₱1,958,805	₱-	₱-	₱1,475,075	₱20,473	₱3,454,353
Due from related parties	-	6,640	-	-	-	6,640
Others	-	4,616	-	21,174	42,659	68,449
<i>Noncurrent</i>						
Receivables from third parties	-	71,733	-	-	-	71,733
	₱1,958,805	₱82,989	₱-	₱1,496,249	₱63,132	₱3,601,175

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

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

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

The Company's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, short-term investments, derivative assets and investments held for trading were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.
- Listed and unlisted AFS investments were assessed as high grade since these are investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty or collateral.

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

#### *Liquidity Risk*

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:

- Restricting investments principally to publicly traded securities with a good track record of marketability and dealing only with large reputable domestic and international institutions.
- Continuous monitoring of the weekly and monthly cash flows as well as frequent updates of the annual plans of the Company.
- Investment maturities 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:

	2016					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable <sup>a</sup>	₱-	₱2,007,199	₱-	₱-	₱-	₱2,007,199
Retention payable	-	845	-	-	-	845
Accrued expenses <sup>b</sup>	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 <sup>c</sup>	2,923	163	-	-	-	3,086
Due to stockholders	12,716	78,487	-	-	-	91,203
Finance lease liability <sup>d</sup>	-	3,086	2,990	49,245	282,084	337,405
Long-term loans <sup>e</sup>	-	269,225	373,121	3,772,947	5,705,414	10,120,707
Other noncurrent liabilities <sup>f</sup>	-	-	-	90,676	-	90,676
	<b>₱69,863</b>	<b>₱3,906,835</b>	<b>₱387,436</b>	<b>₱3,912,868</b>	<b>₱5,987,498</b>	<b>₱14,264,500</b>

<sup>a</sup> Excluding current portion of finance lease liability amounting to ₱12.54 million.

<sup>b</sup> Excluding current portion of vacation and sick leave accruals amounting to ₱11.40 million.

<sup>c</sup> Excluding payable to officers and employees amounting to ₱1.09 million.

<sup>d</sup> Gross contractual payments.

<sup>e</sup> Including contractual interest payments.

<sup>f</sup> Excluding noncurrent portion of finance lease liability amounting to ₱57.58 million.

	2015					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable <sup>a</sup>	₱200,522	₱764,703	₱918,192	₱-	₱-	₱1,883,417
Retention payable	-	3,571	-	-	-	3,571
Accrued expenses <sup>b</sup>	34,916	30,948	-	-	-	65,864
Accrued interest	-	118,155	-	-	-	118,155
Accrued directors' and annual incentives	-	18,500	-	-	-	18,500
Due to related parties	-	663,570	-	-	-	663,570
Others	2,150	759	653	-	-	3,562
Due to stockholders	11,570	-	-	-	-	11,570
Finance lease liability <sup>c</sup>	-	-	3,106	50,496	338,798	392,400
Long-term loans <sup>d</sup>	-	164,180	339,771	3,797,207	6,260,219	10,561,377
Other noncurrent liabilities <sup>e</sup>	-	-	-	70,321	-	70,321
	<b>₱249,158</b>	<b>₱1,764,386</b>	<b>₱1,261,722</b>	<b>₱3,918,024</b>	<b>₱6,599,017</b>	<b>₱13,792,307</b>

<sup>a</sup> Excluding current portion of finance lease liability amounting to ₱10.82 million.

<sup>b</sup> Excluding current portion of vacation and sick leave accruals amounting to ₱8.98 million.

<sup>c</sup> Excluding payable to officers and employees amounting to ₱1.07 million.

<sup>d</sup> Gross contractual payments.

<sup>e</sup> Including contractual interest payments.

<sup>f</sup> Excluding noncurrent portion of finance lease liability amounting to ₱48.06 million.



As at December 31, 2016 and 2015, the profile of financial assets used to manage the Company's liquidity risk is as follows:

	2016				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	
Loans and receivables:					
<i>Current</i>					
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
Refundable deposits and other receivables*	-	-	2,280	48,595	50,875
<i>Noncurrent</i>					
Receivable from third parties	-	27,584	82,751	498,211	608,546
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
	<b>₱5,022,302</b>	<b>₱2,424,536</b>	<b>₱87,529</b>	<b>₱855,876</b>	<b>₱8,390,243</b>

\*Included in "Other noncurrent assets" account

	2015				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	
Loans and receivables:					
<i>Current</i>					
Cash and cash equivalents	₱355,743	₱-	₱-	₱-	₱355,743
Receivables:					
Trade	1,368,305	2,086,048	-	-	3,454,353
Due from related parties	-	6,640	-	-	6,640
Others	63,759	4,690	-	-	68,449
Refundable deposits	-	-	-	29,269	29,269
<i>Noncurrent*</i>					
Receivable from third parties	-	-	-	71,733	71,733
Financial assets at FVPL -					
Investments held for trading	942,142	-	-	-	942,142
Derivative assets:	-	98	-	-	98
AFS Investments:					
Quoted	-	-	-	201,883	201,883
Unquoted	-	-	-	93,885	93,885
	<b>₱2,729,949</b>	<b>₱2,097,476</b>	<b>₱-</b>	<b>₱396,770</b>	<b>₱5,224,195</b>

\*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 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, 2016 and 2015, 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:

#### TAREC

TAREC 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:

		2016					
	Interest Rates	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	Beyond 4 years	Total
<b>Long-term loans</b>							
<u>TAREC</u>							
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
<u>PHINMA Energy</u>							
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
Special savings account (SSA)	0.125-1.75%	348,459	-	-	-	-	348,459
Special Deposit Accounts (SDA)	0.45-1.13%	134	-	-	-	-	134
Short-term investments	1.88%	2,498	-	-	-	-	2,498
		2015					
	Interest Rates	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	Beyond 4 years	Total
<b>Long-term loans</b>							
<u>TAREC</u>							
DBP	6.25 - 8.36%	₱-	₱67,446	₱96,867	₱126,935	₱1,828,267	₱2,119,515
SBC	6.57 - 6.74%	-	72,890	100,402	130,547	1,811,089	2,114,928
<u>PHINMA Energy</u>							
BDO	5.81 - 6.55%	9,445	9,427	9,407	9,385	452,083	489,747
CBC	5.68 - 7.13%	30,010	29,994	29,980	29,965	1,358,727	1,478,676
SBC	4.84 - 4.95%	19,004	18,979	18,951	929,702	-	986,636
Special savings account (SSA)	0.25-1.75%	253,438	-	-	-	-	253,438
Special Deposit Accounts (SDA)	0.45-1.13%	139	-	-	-	-	139

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, 2016 and 2015. There is no impact on the Company's equity other than those already affecting the profit or loss.

		2016	
		Increase (Decrease) in Basis Points	Effect on Profit Before Tax
Long-term loans		25	(₱17,295)
		(25)	17,295
SDA		25	463
		(25)	(463)
SSA		25	688
		(25)	(688)



	2015	
	Increase (Decrease) in Basis Points	Effect on Profit Before Tax
Long-term loans	25	(₱17,812)
	(25)	17,812
SDA	25	365
	(25)	(365)
SSA	25	507
	(25)	(507)

*Equity Price Risk*

Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Based on the Company's expectation, the Company's assessment of reasonably possible change was determined to be an increase of 10.32% and 11.45% in 2016 and 2015, respectively, resulting in an increase in equity of ₱12.34 million and ₱24.21 million as at December 31, 2016 and 2015, respectively.

Monitoring of Risk Management Process

Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

- Weekly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and re-challenged 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 (see Note 18). 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

TAREC

Under the Omnibus Loan Facility Agreement, the Company 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 the Company in entering into any joint ventures, partnerships, or similar business combinations or arrangements. It also prohibits TAREC from making payments of dividends or return of capital.

As at December 31, 2016, the Company 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, 2016 and 2015:

	2016			
	Carrying Value	Fair Value		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset</b>				
Short-term investment	₱2,498	₱2,498	₱-	₱-
Investments held for trading	3,061,270	3,061,270	-	-
AFS investments	215,185	215,185	-	-
Derivative assets*	72	-	72	-
Refundable deposits**	48,595	-	-	44,884
Receivables from third parties**	608,546	-	-	533,936
	<b>₱3,936,166</b>	<b>₱3,278,953</b>	<b>₱72</b>	<b>₱578,820</b>
<b>Liability</b>				
Long-term debt	₱6,994,351	₱-	₱5,564,843	₱-
Deposit payable and other liabilities***	104,182	-	-	103,332
	<b>₱7,098,533</b>	<b>₱-</b>	<b>₱5,564,843</b>	<b>₱103,332</b>
	2015			
	Carrying Value	Fair Value		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset</b>				
Investments held for trading	₱942,142	₱942,142	₱-	₱-
AFS investments	201,883	201,883	-	-
Derivative assets*	98	-	98	-
Refundable deposits**	29,268	-	-	28,643
Receivable from third parties**	71,733	-	-	66,940
	<b>₱1,245,124</b>	<b>₱1,144,025</b>	<b>₱98</b>	<b>₱95,583</b>
<b>Liability</b>				
Long-term debt	₱7,189,502	₱-	₱5,550,767	₱-
Deposit payable and other liabilities***	117,344	-	-	115,987
	<b>₱7,306,846</b>	<b>₱-</b>	<b>₱5,550,767</b>	<b>₱115,987</b>

\* Included in "Other current assets" account

\*\* Included in "Other noncurrent assets" account

\*\*\* Included in "Other noncurrent liabilities" account

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 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 level 1 and level 2 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 and Liabilities

*Currency Forwards*

The Company entered into a forward foreign currency contracts with a bank with an aggregate notional amount of US\$1.50 million in 2015. All deliverable forwards were settled during the year. The weighted average fixing rate amounted to ₱44.72 to US\$1.00 in 2015. The net fair value of these currency forwards amounted to ₱1.02 million gains as at December 31 2015. The Company did not enter into a foreign currency 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\$0.13 million and US\$0.16 million as at December 31, 2016 and 2015, respectively. The weighted average fixing rate amounted to ₱47.51 to US\$1.00 and ₱47.65 to US\$1.00 as at December 31, 2016 and 2015, respectively. The net fair value of these embedded derivatives amounted to ₱0.07 million gains and ₱0.10 million losses at December 31, 2016 and 2015, respectively.

The net movements in fair value changes of the Company's derivative instruments (both freestanding and embedded derivatives) are as follows:

	2016	2015
Balance at beginning of year	₱98	(₱83)
Net changes in fair value during the year	8,741	18,048
Fair value of settled contracts	(8,767)	(17,867)
Balance at end of year	₱72	₱98

The net changes in fair value during the year are included in the "Other income (loss) - 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 statement of financial position (see Note 10).

### 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.

	2016				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
<b>Revenue</b>	₱15,465,866	₱-	₱15,465,866	₱12,007	₱15,477,873
<b>Costs and expenses</b>	14,357,951	81,403	14,439,354	566,155	15,005,509
<b>Other income (expense) - net</b>					
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
Marked-to-market 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
<b>Segment profit</b>	2,172,384	(81,403)	2,090,981	(647,999)	1,442,982
<b>Operating assets</b>	₱16,049,329	₱103,314	₱16,152,643	₱4,475,252	₱20,627,895
<b>Operating liabilities</b>	₱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 financial charges	(285,481)	-	(285,481)	(163,999)	(449,480)
Interest and other financial income	-	-	-	16,257	16,257
Depreciation and amortization					
Equity in net earnings of associates and joint ventures	372,214	-	372,214	-	372,214
Option fee	-	35,159	35,159	-	35,159
Marked-to-market 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)

2014					
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱10,741,307	₱-	₱10,741,307	₱11,265	₱10,752,572
Cost and expenses	9,996,312	62,279	10,058,591	190,696	10,249,287
Other income (expense) - net					
Interest and other financial charges	(27,901)	-	(27,901)	(143,068)	(170,969)
Interest and other financial income	-	-	-	6,113	6,113
Equity in net earnings in associates and joint venture	(2,616)	-	(2,616)	-	(2,616)
Marked-to-market loss on derivatives	(23,124)	-	(23,124)	(12,096)	(35,220)
Foreign exchange loss - net	-	-	-	(751)	(751)
Gain on pre-existing relationship	8,724	-	8,724	-	8,724
Others	(1,962)	411	(1,551)	6,494	4,943
Segment profit	698,116	(61,868)	636,248	(322,739)	313,509
Operating assets	₱14,808,574	₱138,583	₱14,947,157	₱1,644,202	₱16,591,359
Operating liabilities	₱6,043,390	₱6,093	₱6,049,483	₱3,319,754	₱9,369,237
Capital expenditures	₱4,501,660	₱340	₱4,502,000	₱16,002	₱4,518,002
Capital disposals	1,163	27	1,190	4,711	5,901
Investments in associates and joint ventures	3,746,831	-	3,746,831	631	3,747,462
Depreciation and amortization	(143,168)	(506)	(143,674)	(17,734)	(161,408)
Provision for income tax	-	-	-	(133,119)	(133,119)



### 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 expenditure consists of additions to property, plant and equipment and acquisition through business combination. Investments and advances are consists of investments and cash advances to the Company's associates and joint ventures.

### Reconciliation of profit

	2016	2015	2014
Segment total profit before adjustments and eliminations	<b>₱2,090,981</b>	₱1,504,764	₱636,248
Dividend income	7,433	8,797	6,840
Rent Income	4,574	4,447	4,425
General and administrative expense	<b>(566,156)</b>	(238,065)	(190,696)
Interest and other financial income	46,077	16,257	6,113
Interest and other financial charges	<b>(164,841)</b>	(163,999)	(143,068)
Other income/(expense) - net	24,914	(17,382)	(6,353)
Income before income tax	<b>₱1,442,982</b>	₱1,114,819	₱313,509

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

	2016	2015
Segment operating assets	<b>₱16,152,643</b>	₱16,520,397
<i>Current assets</i>		
Cash and cash equivalents	395,582	355,743
Short-term investments	2,498	-
Investments held for trading	3,061,270	942,142
Receivables and other current assets	385,875	302,392
<i>Noncurrent assets</i>		
Property, plant and equipment	64,757	77,933
Investments in an associate and AFS financial assets	309,701	296,399
Investment property	24,380	26,342
Deferred income tax asset - net	71,849	31,303
Other noncurrent assets	159,340	73,622
Total assets	<b>₱20,627,895</b>	₱18,626,273



### Reconciliation of liabilities

	2016	2015
Segment operating liabilities	<b>₱7,947,730</b>	₱7,344,491
<i>Current liabilities</i>		
Accounts payable and other current liabilities	<b>415,102</b>	112,872
Income and withholding taxes payable	<b>99,396</b>	65,517
Due to stockholders	<b>91,203</b>	11,570
Current portion of long-term loans	<b>58,399</b>	58,454
<i>Noncurrent liabilities</i>		
Long term loans - net of current portion	<b>2,838,158</b>	2,896,605
Deferred income tax liabilities - net	<b>126,890</b>	142,554
Pension and other employee benefits	<b>47,585</b>	33,813
Other noncurrent liabilities	<b>1,888</b>	-
<b>Total assets</b>	<b>₱11,626,351</b>	<b>₱10,665,876</b>

### 35. Supplemental Cash Flow Information

The following table shows the Company's non-cash investing and financing activities and corresponding transaction amounts for the year ended December 31, 2016 and 2015:

	2016	2015
Non-cash investing activities:		
Disposal of property and equipment on account	<b>₱437,859</b>	₱-
Reduction in cost of property and equipment acquired on account due to early payment	<b>26,106</b>	-
Remeasurement of AFS financial assets	<b>8,238</b>	-
Acquisition of property and equipment under finance lease	<b>2,830</b>	3,962
Forfeiture of stock options	<b>14,661</b>	-
Dividends receivable	<b>993</b>	-
Acquisition of property and equipment on account	-	52,962
Acquisition of property and equipment with sales contract previously under easements and right of way agreements	-	7,908
Capitalization of:	-	-
Amortization of insurance expense	-	3,224

### 36. Other Matters

On August 20, 2014, PHINMA Energy distributed the cash and property dividends in the form of shares in TA Petroleum (see Note 19) after securing SEC's approval of the registration and receipt of CAR from the BIR.

On October 22, 2014, PHINMA Energy received from the BIR a Formal Letter of Demand (FLD) and Final Assessment Notice (FAN), 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. PHINMA Energy is scheduled to present rebuttal evidence on April 24, 2017.

#### TAREC’s tax assessments and cases

On August 15, 2016, TAREC filed with the BIR a letter and application for tax credits/refund requesting the issuance of tax credit certificate for TAREC’s excess unutilized input VAT for the period July 1, 2014 to June 30, 2015 amounting to ₱335.76 million attributable to zero-rated sales. On October 26, 2016, TAREC received a Letter of Authority (LOA) authorizing the examination of TAREC’s books of accounts and other accounting records pertaining to the period July 1, 2014 to December 31, 2014. On November 10, 2016, TAREC received an LOA pertaining to the period January 1, 2015 to June 30, 2015. On December 19, 2016, TAREC received a letter from the BIR denying TAREC’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, 2016, BIR has not granted or denied TAREC’s administrative claim for refund for the period January 1, 2015 to June 30, 2015. On January 11, 2017, TAREC filed with the CTA a Petition for Review seeking review of TAREC’s application for input VAT refund or issuance of tax credit certificate for its excess unutilized input VAT. On January 24, 2017, the CTA issued summons to the BIR requiring the BIR to file an answer to TAREC’s Petition for Review. As at March 3, 2017, the case is still pending.

#### CIPP’s tax assessments and cases

On December 6, 2016, CIPP received a formal letter of demand issued by the BIR demanding CIPP the payment of a total amount of ₱311.66 million for alleged deficiency income tax, value-added tax, documentary stamp tax, expanded withholding tax and compromise penalties for taxable year 2013. CIPP filed its request for reinvestigation on January 5, 2017 on the following grounds:

1. CIPP was not provided in writing of the law and the facts of which the assessment on the disallowed deduction for repairs and maintenance expense amounting to ₱5.77 million pursuant to Section 228 of the Tax Code, Section 3.1.3 of RR No. 18-2013 and GR No. 193100 dated December 10, 2014.
2. In SC decision (Commissioner of Internal Revenue Vs Tours Specialist, Inc.), CTA and CIR vs Manila Jockey Club, the Court held that gross receipts subject to tax under the Tax Code do not include monies or receipts entrusted to the taxpayer which do not belong to them and do not redound to the taxpayer's benefit.



3. Certification from PEMC correcting errors made with OR no. 12843 (₱215,683,777.61) and 12847 (₱79,214.06) signed by Ma. Carolina Magsambol (Assistant Manager, Corporate Fund Management , Finance Department of PEMC.

As at March 3, 2017, the case is still pending.

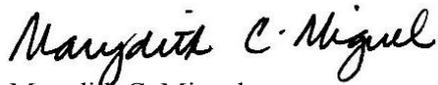


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
PHINMA Energy Corporation  
Level 11, PHINMA Plaza  
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 (formerly Trans-Asia Oil and Energy Development Corporation) and Subsidiaries (collectively, the Company) as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 included in this Form 17-A and have issued our report thereon dated March 3, 2017. 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

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. 08-001998-55-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908731, January 3, 2017, Makati City

March 3, 2017



**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Energy Development Corporation)**  
**AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**FORM 17-A, Item 7**

	Page No.
<b>Consolidated Financial Statements</b>	
Statement of Management’s Responsibility for Consolidated Financial Statements	Exhibit A
Report of Independent Public Accountants	Exhibit A
Consolidated Statements of Financial Position as at December 31, 2016 and 2015	Exhibit A
Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014	Exhibit A
Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014	Exhibit A
Consolidated Statements of Changes in Equity for the years ended December 31, 2016, 2015 and 2014	Exhibit A
Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014	Exhibit A
Notes to Consolidated Financial Statements	Exhibit A
<b>Supplementary Schedules</b>	
Report of Independent Public Accountants on Supplementary Schedules	
A. Financial Assets	Attachment I
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)*	Attachment I
C. Accounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	Attachment I
D. Intangible Assets - Other Assets	Attachment I
E. Long-Term Debt	Attachment I
F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)*	Attachment I
G. Guarantees of Securities of Other Issuers*	Attachment I
H. Capital Stock	Attachment I
Schedule of Retained Earnings Available for Dividend Declaration	Attachment II
Map of Relationships of the Companies within the Group	Attachment III
Financial Soundness Indicators	Attachment IV
Philippine Financial Reporting Standards and Interpretations Effective as at December 31, 2016	Attachment V

*\*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.*

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES**

**Schedule A. Financial Assets**

**December 31, 2016**

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
<b>Investment in Unit Investment Trust Fund and Money</b>				
<b>Market Fund ( UITF &amp; MMF)</b>				
Banco De Oro	₱927,105,816	₱927,587,268	₱927,587,268	₱ -
China Banking Corporation	5,778,000	5,930,015	5,930,015	-
Rizal Commercial Banking Corp.	331,759,552	333,743,111	333,743,111	-
Bank of the Phil. Island	1,036,309	1,083,300	1,083,300	-
Security Bank Corporation	1,789,282,816	1,792,925,741	1,792,925,741	-
		<b>3,061,269,435</b>	<b>3,061,269,435</b>	<b>-</b>
<b>Available-for-sale financial assets</b>				
Phinma Corporation	12,788,708	₱149,621,016	₱149,621,016	₱5,115,482
Union Galvasteel Corp./Atlas Holdings Corporation	1,462,999	27,579,355	27,579,355	2,280,567
Phinma Property Holdings Corporation	478,744,947	47,872,836	47,872,836	-
Asian Plaza, Inc.	37,684	18,433,158	18,433,158	-
Manila Golf & Country Club	1	42,000,000	42,000,000	-
Tagaytay Midlands Golf Club, Inc.	2	1,100,000	1,100,000	-
Alabang Country Club, Inc.	1	4,250,000	4,250,000	-
Evercrest Golf Club Resorts, Inc.	1	40,000	40,000	-
Puerto Azul Golf & Country Club, Inc.	1	40,000	40,000	-
Capitol Hills Golf & Country Club, Inc.	1	60,000	60,000	-
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	130,000	130,000	-
Camp John Hay	1	135,000	135,000	-
A. Soriano	179	1,074	1,074	179
Aboitiz Equity Ventures, Inc.	-	-	-	848
Aboitiz Power Corporation	1,600	66,720	66,720	-
Atlas Consolidated Mining	9,000	44,910	44,910	-
Ayala Corp.	500	365,250	365,250	-
Ayala Land	-	-	-	690
Banco de Oro	986	110,531	110,531	-
BPI	-	-	-	382
D & L Industries, Inc.	8,000	91,200	91,200	1,600
Del Monte Pacific Ltd.	5,972	77,039	77,039	3,681
Dharmala	367,200	-	-	-
Energy Development Corp.	6,000	30,900	30,900	1,560
First Generation Corp.	7,200	158,400	158,400	2,520
First Philippine Holdings Corporation	5,260	357,154	357,154	8,920
Globe Telecom, Inc.	-	-	-	-
Metropolitan Bank and Trust Company	1,693	122,912	122,912	-
Otto Energy Ltd.	6,556,331	8,444,064	8,444,064	-
Pepsi Cola	15,000	48,600	48,600	-
Philex Mining Corp "B	4,500	38,700	38,700	-
Philippine Long Distance Telephone Company	-	19,500	19,500	-
PXP Energy	765	2,532	2,532	-
RCBC	1,000	33,550	33,550	-
Robinsons Retail Holdings	-	-	-	-
Security Bank	1,767	335,730	335,730	3,534
SSI Group	15,000	38,250	38,250	-
Vulcan	73,486	-	-	-
BDO MMF Classified as Available for Sale	5,000,000	5,271,794	5,271,794	-
		<b>309,070,175</b>	<b>309,070,175</b>	<b>7,419,963</b>
<b>Loans and Receivables</b>				
Cash and Cash Equivalents		395,582,383	395,582,383	82,852
Short-term Investments		2,497,800	2,497,800	13,219,585
Trade and Other Receivables		3,962,329,188	3,962,329,188	-
Refundable Deposits and Other Receivables	701,109,323	659,420,614	659,420,614	12,670,166
	<b>701,109,323</b>	<b>5,019,829,985</b>	<b>5,019,829,985</b>	<b>25,972,603</b>
<b>Derivative Assets</b>				
		<b>71,818</b>	<b>71,818</b>	
		<b>₱8,390,241,413</b>	<b>₱8,390,241,413</b>	<b>₱33,392,566</b>

Attachment I

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES**

**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

**December 31, 2016**

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, 2016 equal to or above the established threshold of the Rule.

## Attachment I

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES****Schedule C. Accounts Receivable from Related Parties which are eliminated during the consolidation of financial statements****December 31, 2016**

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	P59,125	P10,350	(P69,475)	P -	P -	P -	P -
Trans-Asia Power Generation Corporation	375,887,200	346,198,156	(705,223,255)	-	16,862,101	-	16,862,101
Trans-Asia Renewable Energy Corporation	502,791,086	465,458,245	(370,360,187)	-	597,889,144	-	597,889,144
Trans-Asia Gold & Minerals Dev. Corporation	-	-	-	-	-	-	-
Trans-Asia Petroleum Corporation	-	373,425	(373,425)	-	-	-	-
Palawan55 Exploration and Petroleum Corporatior	-	-	-	-	-	-	-
Trans-Asia Wind Corporation	-	-	-	-	-	-	-
One Subic Power Generation Corporation	-	4,904,550	(4,904,550)	-	-	-	-
	P878,737,411	P 816,944,726	(P1,080,930,892)	P -	P614,751,245	P -	P 614,751,245

## Attachment I

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES****Schedule D. Intangible Assets - Other Assets****December 31, 2016**

Description	Beginning Balance	Additions At Cost	Deductions		Other Changes-Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
Oil exploration and development costs:						
Service Contract (SC) No. 6	₱23,946,450	₱2,235,701	₱ -	₱ -	₱ -	₱26,182,151
SC 51	32,665,864	-	-	-	-	32,665,864
SC 55	5,713,210	-	-	-	-	5,713,210
SC 69	15,085,259	388,443	-	-	-	15,473,702
SC 52	30,437,173	-	-	-	(19,443,350)	10,993,823
SC 50	11,719,086	-	-	-	-	11,719,086
Geothermal Service Contract (GSC) No. 8 Mabini	7,336,763	12,135,834	-	-	-	19,472,597
Hydropower Service Contracts:						
SC 467	-	1,084,000	(1,084,000)	-	-	-
SC 465	-	108,000	(108,000)	-	-	-
		-	-	-	-	-
	126,903,805	15,951,978	(1,192,000)	-	(19,443,350)	122,220,433
Allowance for probable losses	-	-	(22,712,908)	-	-	(22,712,908)
Total deferred exploration cost	126,903,805	15,951,978	(23,904,908)	-	(19,443,350)	99,507,525
Leasehold rights	73,529,761	-	(16,190,039)	-	-	57,339,722
Goodwill	234,152,394	-	-	-	-	234,152,394
	₱434,585,960	₱15,951,978	(₱40,094,947)	₱ -	(₱19,443,350)	₱390,999,641

Note:

(1) The deduction in SC 52 pertains to reclassification to receivable of option fee due to expiration of the service contract.

## Attachment I

## PHINMA ENERGY CORPORATION AND SUBSIDIARIES

Schedule E. Long-Term Debt  
December 31, 2016

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	₱2,074,750,000	₱77,180,700	₱1,997,569,300	6.25 - 8.36%	25 semi-annual payments	February 14, 2029
Security Bank Corporation	2,074,750,000	77,180,700	1,997,569,300	6.57 - 6.74%	25 semi-annual payments	February 14, 2029
Security Bank Corporation	970,000,000	20,000,000	950,000,000	5.81 - 6.55%	16 quarterly payments	April 11, 2019
China Bank Corporation	1,455,000,000	30,000,000	1,425,000,000	5.68 - 7.13%	36 quarterly payments	April 10, 2024
Banco De Oro	485,000,000	10,000,000	475,000,000	4.84%	36 quarterly payments	April 30, 2024
Total	7,059,500,000	214,361,400	6,845,138,600			
Derivative on long-term loans	7,721,472	1,711,500	6,009,972			
Unamortized debt issue costs	(72,871,346)	(15,287,405)	(57,583,941)			
	₱6,994,350,126	₱200,785,495	₱6,793,564,631			

Attachment I

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES**

**Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)**

**December 31, 2016**

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
-----------------------	--------------------------------------	--------------------------------

**Not Applicable:** The Company has no indebtedness to related party as at December 31, 2016.

Attachment I

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES**  
**Schedule G. Guarantees of Securities of Other Issuers**  
**December 31, 2016**

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
<p><b>Not Applicable:</b> The Company has no guarantees of securities of other issuers as at December 31, 2016.</p>				

## Attachment I

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES**  
**Schedule H. Capital Stock**  
**December 31, 2016**

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	4,885,897,908	64,178,345	2,583,605,366	74,997,693	2,227,294,849

## ATTACHMENT II

### PHINMA ENERGY CORPORATION (Formerly Trans-Asia Oil and Energy Development Corporation) AND SUBSIDIARIES

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#### SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION DECEMBER 31, 2016 (Amounts in Thousands)

Retained earnings, beginning	₱1,909,974
Adjustment:	
Deferred income tax asset as at December 31, 2015	(21,793)
Derivative asset as at December 31, 2015	(98)
Unrealized FV gain of FVPL as at December 31, 2015	(743)
Retained earnings, beginning, as adjusted to amount available for dividend declaration, beginning	1,887,340
Add: Net income actually realized during the year	
Net income during the year closed to retained earnings	1,233,339
Add (deduct):	
Unrealized fair value gains on investments held for trading and derivative assets	(494)
Movement of recognized deferred income tax assets	(42,378)
Net income actually realized during the year	1,190,467
Less: Dividends declared during the year	(390,114)
Retained earnings available for dividend declaration, end	₱2,687,693

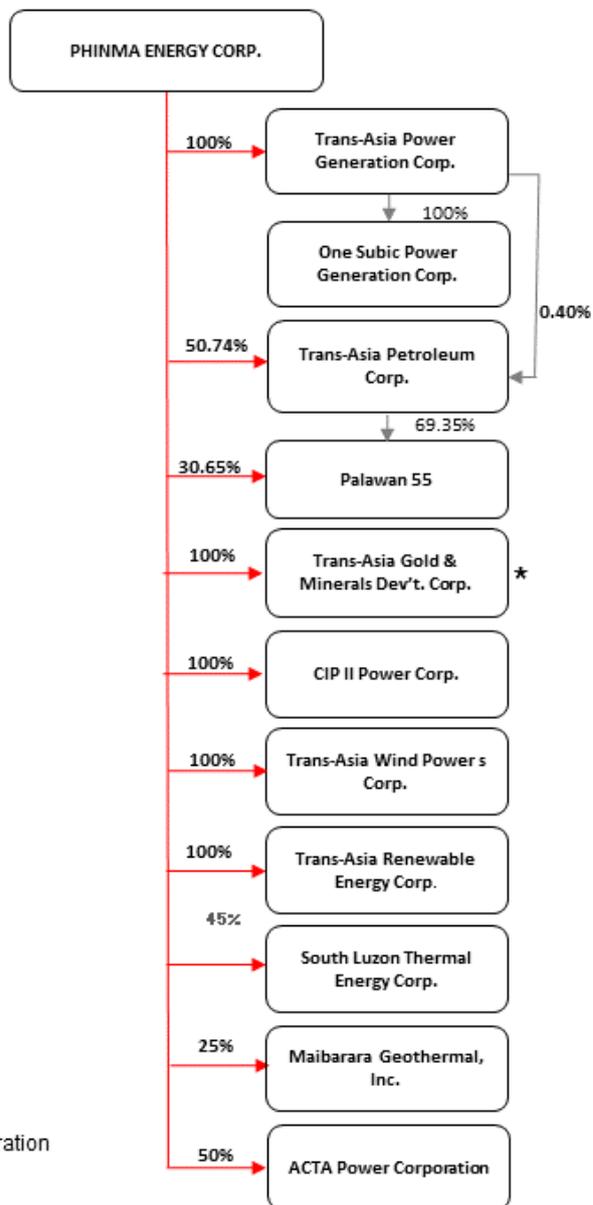
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**ATTACHMENT III**

Page 2 of 2

**Map of Relationships of the Companies within the Group  
As of December 31, 2016**



ATTACHMENT IV

Page 1 of 3

**PHINMA ENERGY CORPORATION AND SUBSIDIARIES  
SUPPLEMENTARY SCHEDULE REQUIRED  
UNDER SRC RULE 68, AS AMENDED**

KPI	Formula	31-Dec-16 Audited	31-Dec-15 Audited	31-Dec-14 Audited
<i>Liquidity Ratios</i>				
<b>Current ratio</b>	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.92	1.89	2.16
<b>Acid test ratio</b>	$\frac{\text{Cash + Short-term investments + Accounts Receivables + Other liquid assets}}{\text{Current liabilities}}$	1.62	1.47	1.68
<i>Solvency Ratios</i>				
<b>Debt/Equity ratio</b>	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	1.29	1.34	1.30
<b>Asset to equity ratio</b>	$\frac{\text{Total Assets}}{\text{Total Equity}}$	2.29	2.34	2.30
<b>Interest coverage ratio</b>	$\frac{\text{Earnings before interest \& tax (EBIT)}}{\text{Interest expense}}$	4.08	3.48	2.83
<b>Net Debt to Equity Ratio</b>	$\frac{\text{Debt - Cash \& cash equivalents, short-term investments \& investment held for trading}}{\text{Total equity}}$	0.91	1.18	1.17

KPI	Formula	31-Dec-16 Audited	31-Dec-15 Audited	31-Dec-14 Audited
<b>Profitability Ratios</b>				
<b>Return on equity</b>	$\frac{\text{Net income after tax}}{\text{Average stockholder's equity}}$	16.30%	11.93%	2.51%
<b>Return on assets</b>	$\frac{\text{Net income after taxes}}{\text{Total assets}}$	7.04%	5.14%	1.31%
<b>Asset turnover</b>	$\frac{\text{Revenues}}{\text{Total assets}}$	78.86%	76.50%	77.98%

## CY 2016 vs CY 2015

### 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.

**CY 2015 vs CY 2014**

**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.

**PHINMA ENERGY CORPORATION**  
**(Formerly Trans-Asia Oil and Development Corporation)**  
**AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE REQUIRED**  
**UNDER SRC RULE 68, AS AMENDED (2011)**

**A. List of Philippine Financial Reporting Standards (PFRSs) effective as at December 31, 2016**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		X		
<b>PFRSs Practice Statement Management Commentary</b>				X
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	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
<b>PFRS 2</b>	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		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	
<b>PFRS 3 (Revised)</b>	Business Combinations	X		
	Business Combinations - Accounting for Contingent Consideration in a Business Combination	X		
	Business Combinations - Scope Exceptions for Joint Arrangements	X		
<b>PFRS 4</b>	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, 2016.

**ATTACHMENT V**

Page 2 of 7

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4*	Not Early Adopted		
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	X		X
	Amendments to PFRS 5: Changes in Methods of Disposal	X		X
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources	X		
<b>PFRS 7</b>	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		
<b>PFRS 8</b>	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		
<b>PFRS 9</b>	Financial Instruments*	Not Early Adopted		
<b>PFRS 10</b>	Consolidated Financial Statements	X		
	Amendments to PFRS 10: Investment Entities	X		X
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	X		X
<b>PFRS 11</b>	Joint Arrangements	X		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	X		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	X		X
	Amendments to PFRS 12: Investment Entities	X		X
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception	X		X

\*Standards and interpretations which will become effective subsequent to December 31, 2016.

**ATTACHMENT V**

Page 3 of 7

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendment to PFRS 12: Clarification of the Scope of the Standard*	Not Early Adopted		
<b>PFRS 13</b>	Fair Value Measurement	X		
	Amendment to PFRS 13: Short-term Receivables and Payables	X		
	Amendment to PFRS 13: Fair Value Measurement - Portfolio Exception	X		
<b>PFRS 14</b>	Regulatory Deferral Accounts	X		X
<b>PFRS 15</b>	Revenue from Contracts with Customers*	Not Early Adopted		
<b>PFRS 16</b>	Leases*	Not Early Adopted		
<b>Philippine Accounting Standards (PAS)</b>				
<b>PAS 1 (Revised)</b>	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		
<b>PAS 2</b>	Inventories	X		
<b>PAS 7</b>	Statement of Cash Flows	X		
	Statement of Cash Flows, Disclosure Initiative*	Not Early Adopted		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	X		
<b>PAS 10</b>	Events after the Reporting Period	X		
<b>PAS 11</b>	Construction Contracts	X		X
<b>PAS 12</b>	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*	Not Early Adopted		
<b>PAS 16</b>	Property, Plant and Equipment	X		
	Amendment to PAS 16: Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation	X		X
	Amendment to PAS 16: Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation	X		
	Amendment to PAS 16: Agriculture - Bearer Plants	X		X

\*Standards and interpretations which will become effective subsequent to December 31, 2016.

**ATTACHMENT V**

Page 4 of 7

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 17</b>	Leases	X		
<b>PAS 18</b>	Revenue	X		
<b>PAS 19 (Revised)</b>	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
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			X
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	X		
	Amendment: Net Investment in a Foreign Operation			X
<b>PAS 23 (Revised)</b>	Borrowing Costs	X		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	X		
	Amendments to PAS 24: Key Management Personnel	X		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			X
<b>PAS 27 (Amended)</b>	Separate Financial Statements	X		
	Amendments to PAS 27: Investment Entities	X		X
	Amendments to PAS 27: Equity Method in Separate Financial Statements	X		
<b>PAS 28 (Amended)</b>	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		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			X
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	X		X
	Amendment to PAS 32: Classification of Rights Issues	X		X
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	X		
<b>PAS 33</b>	Earnings per Share	X		
<b>PAS 34</b>	Interim Financial Reporting	X		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	X		

\*Standards and interpretations which will become effective subsequent to December 31, 2016.

**ATTACHMENT V**

Page 5 of 7

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 36</b>	Impairment of Assets	X		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	X		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	X		
<b>PAS 38</b>	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		
<b>PAS 39</b>	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
<b>PAS 40</b>	Investment Property	X		
	Amendment to PAS 40	X		
	Amendments to PAS 40: Investment Property, Transfers of Investment Property*	Not Early Adopted		
<b>PAS 41</b>	Agriculture			X
	Amendment to PAS 41: Agriculture - Bearer Plants			X
<b>Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities	X		
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			X
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	X		

\*Standards and interpretations which will become effective subsequent to December 31, 2016.

**ATTACHMENT V**

Page 6 of 7

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	X		
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	X		X
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			X
<b>IFRIC 8</b>	<i>Scope of PFRS 2</i>	X		
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	X		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	X		
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>	X		
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions	X		
<b>IFRIC 12</b>	Service Concession Arrangements	X		X
<b>IFRIC 13</b>	Customer Loyalty Programmes	X		X
<b>IFRIC 14</b>	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
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate*	Not Early Adopted		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation	X		X
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners	X		
<b>IFRIC 18</b>	Transfers of Assets from Customers	X		X
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments	X		X
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine	X		X
<b>IFRIC 21</b>	Levies	X		
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration*	Not Early Adopted		
<b>SIC-7</b>	Introduction of the Euro	X		X
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities	X		X
<b>SIC-12</b>	Consolidation - Special Purpose Entities	X		X
	Amendment to SIC - 12: Scope of SIC 12	X		X
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	X		
<b>SIC-15</b>	Operating Leases - Incentives	X		X
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	X		X
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	X		

\*Standards and interpretations which will become effective subsequent to December 31, 2016.

**ATTACHMENT V**

Page 7 of 7

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>SIC-29</b>	Service Concession Arrangements: Disclosures	X		X
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services	X		X
<b>SIC-32</b>	Intangible Assets - Web Site Costs	X		X

## **REPORT OF THE AUDIT AND RISK OVERSIGHT COMMITTEE TO THE BOARD OF DIRECTORS**

**The Board of Directors  
PHINMA Energy Corporation**

### **MEMBERSHIP OF THE COMMITTEE**

The Audit and Risk Oversight Committee is composed of two (2) independent directors, one (1) non-executive director and one (1) executive director. An independent director, Mr. David L. Balangue, chairs the Audit Committee. Changes to the committee membership were made in April 2016 with Ms. Corazon de la Paz - Bernardo replacing Mr. Ricardo Camua. The other members are Messrs. Victor del Rosario and Roberto Laviña. 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, risk management, 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 2016.

### **ACTIVITIES OF THE COMMITTEE**

The Audit Committee had four (4) meetings during the year. The first and last meetings obtained complete attendance while the second and third meetings had three members in attendance. Overall, attendance is at eighty eight percent (88%). 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, the status of Business Resiliency and Integrity Assurance activities and the 2015 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 2015 audited consolidated financial statements and the 2016 unaudited quarterly consolidated financial statements.

Informatively, in our first meeting for 2017 held on February 27, 2017, we likewise reviewed and endorsed to the Board of Directors for approval the 2016 audited consolidated financial statements presented in this 2016 annual report. 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.

The related party transactions were also reviewed for potential conflicts of interest. The Audit Committee found these related party transactions to be part of and within the regular course of business, with terms and conditions based on market and in the best interest of the Company.

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 2016.

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 27, 2017, we agreed to propose to the Board of Directors the retention of SGV & Co. as the external auditor for 2017.

### ***Internal Audit***

We reviewed and approved the Internal Audit plan for 2016 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. Various audit and control issues including actions taken by management were discussed in the Committee meetings. This is to ensure that management has taken appropriate corrective actions in a timely manner.

We also reviewed the organization and performance of Group Internal Audit for 2016 and found them to be sufficiently independent and effective.

### ***Business Resiliency Program***

We reviewed the status of ongoing activities related to the Company's Business Resiliency program as we are tasked to lead and monitor the same. This program encompasses a wide range of disciplines, including Business Continuity Management and Risk Management. We believe the program is both comprehensive and efficient in terms of the management and resolution of the company's risks.

### ***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 2016.

  
DAVID L. BALANGUE  
Chairman, Independent Director

  
CORAZON DE LA PAZ-BERNARDO  
Vice Chairman, Independent Director

  
ROBERTO M. LAVIÑA  
Executive Director

  
VICTOR J. DEL ROSARIO  
Non-Executive Director

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, David L. Balangue, Filipino, of legal age and a resident of 32 Limasawa Street, Magallanes Village, Makati City, after having duly sworn to in accordance with law do hereby declare that:

1. I am an independent Director of Phinma Energy Corporation and am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Makati Commercial Estate Association, Inc.	President/Chairman	2010 - Present
Makati Parking Authority, Inc.	President/Chairman	2012 - Present
The Manufacturers Life Insurance Co. (Philippines), Inc.	Independent Director	2011 - Present
Ayala Land Inc.	Consultant	2010 - Present
One Subic Power Generation Corporation	Independent Director	2014 - Present
Unistar Credit and Finance Corp.	Independent Director	2012 - Present
Maybank ATR Kim Eng Capital Partners, Inc.	Independent Director	2013 - Present
Roxas Holdings, Inc.	Independent Director	2012 - Present
Holcim Philippines, Inc.	Independent Director	2015 - Present
Manulife Financial Plans, Inc.	Independent Director	2011 - Present
Manulife China Bank Life Assurance Corp.	Independent Director	2016 - Present
National Movement for Free Elections (NAMFREL)	Chairman	2014 - Present
Halcyon TCMers, Inc. (Family corporation)	President/Chairman	2003 - Present
Coalition Against Corruption	Chairman	2011 - Present
Philippine Bank of Communications	Independent Director	2014 - Present
Philippine Center for Population and Development, Inc.	Chairman	2014 - Present
OmniPay, Inc.	Independent Director	2014 - Present
Philippine Financial Reporting Standards Council	Chairman	2010 - Present
ATR Asset Management, Inc.	Independent Director	2013 - Present
Trans-Asia Power Generation Corporation	Independent Director	2014 - Present
ATRAM Trust Corporation	Independent Director	2017

2. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of PHINMA Energy Corporation, as provided for in

Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
5. I shall inform the Corporate Secretary of Phinma Energy Corporation of any changes in the abovementioned information within five days from its occurrence.

Done, this 14 day of MAR 2017, at Makati city.

M. Balangon

Affiant

14 MAR 2017

SUBSCRIBED AND SWORN to before me this \_\_\_ day of \_\_\_\_\_, 2017 at Makati City, affiant personally appeared before me and exhibited to me his Philippine Passport No. EB9581640 issued at DFA-Manila on November 13, 2013.

Doc. No. 41 ;  
Page No. 10 ;  
Book No. V ;  
Series of 2017.

H

**JONATHAN C. JO**  
Commission No. M-72  
Notary Public for Makati City  
Until Dec. 31, 2017  
Unit B, 12th Floor, 8 Rockwell Building  
Hidalgo Drive, Rockwell Center, Makati City  
Roll No. 63797  
PTR No. 5919511/01-00-2017; Makati City  
IBP No. 1061071/01-10-2017; Quezon City

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **CORAZON S. DELA PAZ-BERNARDO**, Filipino, of legal age, and a resident of Unit 19, 17-A Mckinley Road, Forbes Park, Makati City, Metro Manila, after having duly sworn to in accordance with law doe hereby declare that:

1. I am an Independent Director of **PHINMA ENERGY CORPORATION**.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
MFI Polytechnic Institute, Inc.	Trustee/Treasurer	1989 to present
Laura Viçuna Foundation for Street Children	Trustee	1990 to present
Jaime V. Ongpin Foundation Inc.	Vice Chairperson	1991 to present
Miriam College	Trustee	1998 to present
Makati Business Club	Trustee	2011 to present
Philippine Long Distance Telephone Company (PLDT)	Advisor to the Board Audit Committee	2004 to present
BDO Unibank Inc.	Advisor to the Board Audit Committee	2012 to present
University of the East	Trustee	2007 to present
UE Ramon Magsaysay Memorial Medical Center	Trustee	2007 to present
Children's Hour	Trustee	2010 to present
NAMFREL	Council Member, National Chairman 2013 Election	2009 to present
Roxas & Co.	Independent Director	2013 to present
Makati Medical Center	Independent Director	2013 to present
Republic Glass Holdings Corporation	Independent Director	2012 to present
Shareholders Association of the Philippines	Trustee/Vice Chairman (since 2015)	2011 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **PHINMA ENERGY CORPORATION**, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.

5. To the best of my knowledge, I disclose that I am the subject of the following criminal/administrative investigation or proceedings (as the case may be):

OFFENSE CHARGED/INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
OMB-C-C-16-0341: For violation of Section 3(E), Republic Act No. 3019, and Article 217 of the Revised Penal Code	Office of the Ombudsman	Pending preliminary investigation

6. I shall inform the Corporate Secretary of **PHINMA ENERGY CORPORATION** of any changes in the abovementioned information within five (5) days from its occurrence.

Done this 20 MAR 2017 day of \_\_\_\_\_ 2017, at Makati City Philippines.

*Corazon D. De la Paz-Bernardo*  
**CORAZON DELA PAZ- BERNARDO**  
 Affiant

20 MAR 2017  
**SUBSCRIBED AND SWORN TO** before me this \_\_\_ day of \_\_\_\_\_ 2017 at Makati City, affiant personally appeared before me and exhibited to me her TIN number 112-070-586.

Doc. No. 62 ;  
 Page No. 14 ;  
 Book No. ✓ ;  
 Series of 2017.

*A*  
**JONATHAN C. JO**  
 Commission No. M-72  
 Notary Public for Makati City  
 U. Ill. Dec. 31, 2017  
 Unit 3, 12th Floor, B Michael Building  
 Hiddage Center, Hiddage Center, Makati City  
 Tel. No. 83187  
 PTR No. 39 (Makati) 01-2017; Makati City  
 IBP No. 100107 (01-10-2017); Quezon City

## CERTIFICATION OF INDEPENDENT DIRECTORS

I, **Ricardo V. Camua**, Filipino, of legal age, and a resident of 83 Doña Ines St., Alabang Hills Village, Muntinlupa City, after having duly sworn to in accordance with law do hereby declare that:

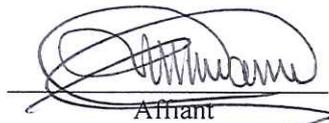
1. I am an independent Director of Phinma Energy Corporation.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Manila Cordage Company	President / CEO	2000-2009
Manco Synthetics, Inc.	President / CEO	2007-2009
Manco Insurance Agents, Inc.	VP / Director	2009
Tupperware Realty Corporation	VP / Director	2008-2009
Manco Farms Inc.	Director	1986-2009
Filmag Holdings, Inc.	Director	2005-2009
RVCCI	President	2008-Present

3. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
4. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Phinma Energy Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
5. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
6. I shall inform the Corporate Secretary of Phinma Energy Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

16 MAR 2017

Done this \_\_\_ day of \_\_\_\_\_ 2017, at Makati City Philippines.

  
 Affiant

16 MAR 2017

**SUBSCRIBED AND SWORN TO** before me this \_\_\_ day of \_\_\_\_\_ 2017 at \_\_\_\_\_, affiant personally appeared before me and exhibited to me his TIN number 113-383-630.

Doc. No. 53 ;  
 Page No. 12 ;  
 Book No. V ;  
 Series of 2017.

  
**JONATHAN C. JO**  
 Commission No. M-72  
 Notary Public for Makati City  
 Until Dec. 31, 2017  
 Unit B, 12th Floor, 8 Rockwell Building  
 Hidalgo Drive, Rockwell Center, Makati City  
 Roll No. 83767  
 PTR No. 5919511/01-03-2017; Makati City  
 IBP No. 1061071/01-10-2017; Quezon City

## CERTIFICATION OF INDEPENDENT DIRECTORS

I, **GUILLERMO D. LUCHANGCO**, Filipino, of legal age with office address of 17th Floor, Robinson's Summit Centre, 6783 Ayala Avenue, Makati City, after having duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Phinma Energy Corporation.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Investment & Capital Corp of the Philippines	Chairman	since March 1987
ICCP Holdings Corp.	Chairman & CEO	since April 2007
ICCP Managers, Inc.	Chairman & President	since October 1987
Regatta Properties, Inc.	Chairman & CEO	since October 1993
Pueblo de Oro Development Corp.	Chairman & CEO	since February 1995
RFM-Science Park of the Philippines, Inc	Chairman & CEO	since August 1997
Science Park of the Philippines, Inc.	Chairman & CEO	since March 1989
Cebu Light Industrial Park, Inc.	Chairman & CEO	since December 1994
ICCP Land Management, Inc	Chairman & CEO	since November 1988
ICCP Ventures, Inc.	Chairman & CEO	since September 1989
ICCP Venture Partners, Inc.- U.S.	Chairman & CEO	since December 2004
Tech Venture Partners Ltd.	Chairman & CEO	since November 2004
Tech Venture Partners III Ltd	Chairman & CEO	since October 2004
Pacific Synergies Partners IV Ltd.	Chairman & CEO	since March 2008
Beacon Property Ventures, Inc	Chairman & President	since November 2004
Manila Exposition Complex, Inc	Chairman	since March 1995
ICCP Group Foundation, Inc.	Chairman	since April 1997
Ventrix Holdings Corporation	Chairman & President	since 1991
Pueblo de Oro Golf & Country Club, Inc.	Director	since April 1999
Ionics, Inc.	Director	since 1991
Ionics, Circuits, Ltd	Director	since 2000
Ionics EMS, Inc.	Director	since 1999
Ionics EMS, Ltd.	Director	since 2004
Ionics Properties, Inc.	Director	since 1997
Iomni Precision, Inc.	Director	since 2000
Maxima Trading	Director	since 1992
Phinma Corporation	Director	since April 2005
Fuld & Company	Director	since May 2011
Roxas & Company, Inc.	Director	since November 2009
Synertronix, Inc.	Director	since 1995
<b>Inactive Companies:</b> Palawan Agro-Development Corp. Palawan Integrated Development Corp. Optima Agri-Industrial Corp. San Isidro Mining Corp.		

As of March 1, 2017

3. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
4. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Phinma Energy Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
5. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.
6. I shall inform the Corporate Secretary of Phinma Energy Corporation of any changes in the abovementioned information within five days from its occurrence.

Done, this 17 MAR 2017 day of March, 2017 at Makati City.  
H

  
**GUILLERMO D. LUCHANGCO**  
Affiant

17 MAR 2017

SUBSCRIBED AND SWORN to before me this \_\_\_ day of \_\_\_ 2017 at Makati City affiant personally appeared before me and exhibited to me his Community Tax Certificate No. 25062307 issued at Makati City on February 20, 2017.

Doc. No. 59 ;  
Page No. 13 ;  
Book No. V ;  
Series of 2017 .

H  
**JONATHAN C. JO**  
Commission No. M-72  
Notary Public for Makati City  
Until Dec. 31, 2017  
Unit B, 12th Floor, 8 Rockwell Building  
Hidalgo Drive, Rockwell Center, Makati City  
Cell No. 83797  
PTR No. 5312511/01-09-2017; Makati City  
IEP No. 1061071/01-10-2017; Quezon City



March 17, 2017

**SECURITIES AND EXCHANGE COMMISSION**  
**Markets and Securities Regulation Department**  
Secretariat Building, PICC Complex, Roxas Boulevard, Pasay, 1307

Attention: **MR. VICENTE GRACIANO P. FELIZMENIO, JR.**  
Director

Re: **PHINMA ENERGY CORPORATION**

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Gentlemen:

This is to certify that none of the present Directors and nominees for Directors of PHINMA Energy Corporation ("PHINMA Energy") are public officers or employees, whether appointed or elected to any governmental body or agency of the Republic of the Philippines.

Mr. Ramon R. del Rosario, Jr. is a member of the Board of Trustees and Chairman of the National Museum of the Philippines (the "National Museum") as a representative from the private sector, a position expressly provided under Sections 8 and 9 of Republic Act No. 8492 or the National Museum Act of 1998. As such, Mr. del Rosario does not receive any salary, allowances or honoraria from the government.

Since Mr. del Rosario is a representative from the private sector, it is already presumed under the law that he is holding office in one form or another in a private enterprise. Thus, no consent from the National Museum should be necessary or required in order to be appointed as a Director of PHINMA Energy since the law itself gives such consent by necessary implication.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Alan T. Ascalon", is written over the typed name.

**ALAN T. ASCALON**

VP-Legal/Assistant Corporate Secretary