# COVER SHEET
## for
## SEC FORM 17-Q

SEC Registration Number

| 0 | 6 | 9 | - | 0 | 3 | 9 | 2 | 7 | 4 | |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

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

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

Level 11, PHINMA Plaza, 39 Plaza DriVe, Rockwell Center, Makati CiTy

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 17-Q | | |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| – | 870-0100 | – |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 3,192 | 04/12 | 12/31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Yolanda D. Añonuevo | ydanonuevo@phinma.com.ph | 870-0100 | – |

**CONTACT PERSON's ADDRESS**

Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City, Philippines 1200

***NOTE 1 :*** *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies*

**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2018**

2. Commission identification number **39274**

3. BIR Tax Identification No. **000-506-020-000**

4. Exact name of issuer as specified in its charter **PHINMA ENERGY CORPORATION**

5. Province, country or other jurisdiction of incorporation or organization **Metro Manila**

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office Postal Code
   **Level 11 Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City, 1210**

8. Issuer's telephone number, including area code **(632) 870-0100**

9. Former name, former address and former fiscal year, if changed since last report

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

| | |
|---|---|
| Number of shares of common stock outstanding | **4,889,775 shares** |
| Amount of debt outstanding | **Php 6.7 billion** |

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

    Yes [**X**] No [ ]

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
    **Philippine Stock Exchange** **Common**

12. Indicate by check mark whether the registrant:

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

    Yes [**X**] No [ ]

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

    Yes [**X**] No [ ]

## PART I--FINANCIAL INFORMATION

**Item 1. Financial Statements.**

Please refer to attached ANNEX "A"

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

Please refer to attached ANNEX "B"

## PART II--OTHER INFORMATION

Please refer to attached ANNEX "C"

## SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on August 13, 2018.

**PHINMA ENERGY CORPORATION**

Raymundo A. Reyes Jr.
**RAYMUNDO A. REYES, JR.**
Senior Vice President

**MARIEJO P. BAUTISTA**
SVP-Finance and Controller

# Annex A

## PHINMA Energy Corporation
*(Formerly Trans-Asia Oil and Energy Development Corporation)*
## and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2018 (With comparative audited figures as at December 31, 2017)
and the Six Months Ended June 30, 2018 and 2017

## PHINMA ENERGY CORPORATION
**(Formerly Trans-Asia Oil and Energy Development Corporation)**
## AND SUBSIDIARIES
## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**(Amounts in Thousands)**

| | **June 30, 2018** ***(Unaudited)*** | December 31, 2017 *(Audited)* |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 5 and 22) | **₱1,497,980** | ₱1,300,999 |
| Short-term investment (Note 22) | – | 478,362 |
| Investments held for trading (Note 22) | **640,813** | 1,483,519 |
| Receivables (Notes 6 and 22) | **3,702,920** | 3,861,798 |
| Fuel and spare parts - at cost (Note 7) | **385,824** | 321,525 |
| Other current assets (Note 8) | **1,237,239** | 1,236,005 |
| **Total Current Assets** | **7,464,776** | 8,682,208 |
| **Noncurrent Assets** | | |
| Property, plant and equipment (Note 9) | **5,977,285** | 6,130,201 |
| Investments and advances (Note 10) | **4,258,023** | 4,057,602 |
| Available-for-sale investments (Notes 22) | **296,688** | 293,127 |
| Investment properties | **48,277** | 50,915 |
| Goodwill and other intangible assets (Note 11) | **326,909** | 380,146 |
| Deferred income tax assets – net | **677,170** | 430,280 |
| Other noncurrent assets (Note 12) | **586,651** | 734,054 |
| **Total Noncurrent Assets** | **12,171,003** | 12,076,325 |
| **TOTAL ASSETS** | **₱19,635,779** | ₱20,758,533 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and other current liabilities (Notes 13 and 22) | **₱3,420,075** | ₱3,882,493 |
| Income and withholding taxes payable | **17,233** | 42,308 |
| Due to stockholders (Notes 20 and 22) | **15,297** | 15,300 |
| Current portion of long-term loans (Notes 14 and 22) | **1,213,557** | 226,949 |
| **Total Current Liabilities** | **4,666,162** | 4,167,050 |
| **Noncurrent Liabilities** | | |
| Long-term loans - net of current portion (Notes 14 and 22) | **5,532,742** | 6,622,427 |
| Pension and other employee benefits | **43,464** | 36,110 |
| Deferred income tax liabilities – net | **103,033** | 111,387 |
| Other noncurrent liabilities (Note 15) | **420,088** | 682,000 |
| **Total Noncurrent Liabilities** | **6,099,327** | 7,451,924 |
| **Total Liabilities** | **10,765,489** | 11,618,974 |

*(Forward)*

| | December 31 | |
|---|---|---|
| | **June 30, 2018 *(Unaudited)*** | December 31, 2017 *(Audited)* |
| **Equity** | | |
| Capital stock (Note 16) | **₱4,889,775** | ₱4,889,775 |
| Additional paid-in capital | **83,768** | 83,768 |
| Other equity reserve (Note 16) | **18,338** | 18,338 |
| Unrealized fair value gains on available-for-sale investments | **88,436** | 85,924 |
| Remeasurement losses on defined benefit plan | **(3,130)** | (3,130) |
| Accumulated share in other comprehensive income of a joint venture (Note 10) | **(3,197)** | (3,413) |
| Retained earnings (Note 16) | **3,775,132** | 4,018,980 |
| Treasury shares (Note 16) | **(28,793)** | (28,793) |
| Total equity attributable to equity holders of Parent Company | **8,820,329** | 9,061,449 |
| Non-controlling interests | **49,961** | 78,110 |
| **Total Equity** | **8,870,290** | 9,139,559 |
| **TOTAL LIABILITIES AND EQUITY** | **₱19,635,779** | ₱20,758,533 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

## PHINMA ENERGY CORPORATION
**(Formerly Trans-Asia Oil and Energy Development Corporation)**
## AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**
**(Amounts in Thousands, Except Per Share Figures)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **REVENUES** | | | | |
| Revenue from sale of electricity | **₱4,411,117** | ₱4,699,663 | **₱8,123,040** | ₱8,314,365 |
| Dividend income | **6,625** | 5,734 | **7,384** | 8,012 |
| Rental income | **161** | 42 | **316** | 168 |
| | **4,417,903** | 4,705,439 | **8,130,740** | 8,322,545 |
| **COSTS AND EXPENSES** | | | | |
| Costs of sale of electricity (Note 17) | **4,690,795** | 4,541,305 | **8,346,353** | 7,954,391 |
| General and administrative expenses (Note 18) | **194,659** | 147,143 | **350,347** | 286,514 |
| | **4,885,454** | 4,688,448 | **8,696,700** | 8,240,905 |
| **INTEREST AND OTHER FINANCE CHARGES** | **(107,049)** | (110,723) | **(213,848)** | (268,875) |
| **EQUITY IN NET INCOME (LOSSES) OF ASSOCIATES AND JOINT VENTURES** | **284,564** | 281,844 | **410,211** | 364,169 |
| **OTHER INCOME (LOSS) - NET (Note 19)** | **23,772** | 17,439 | **54,308** | 33,335 |
| **INCOME BEFORE INCOME TAX** | **(266,264)** | 205,551 | **(315,289)** | 210,269 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | | | | |
| Current | **8,953** | 15,807 | **17,355** | 28,816 |
| Deferred | **(158,464)** | (31,216) | **(256,238)** | (116,718) |
| | **(149,511)** | (15,409) | **(238,883)** | (87,902) |
| **NET INCOME** | **(₱116,753)** | ₱220,960 | **(₱76,406)** | ₱298,171 |
| **Net Income (Loss) Attributable To:** | | | | |
| Equity holders of the Parent Company | **(₱91,570)** | ₱221,873 | **(₱48,257)** | ₱300,293 |
| Non-controlling interests | **(25,183)** | (913) | **(28,149)** | (2,122) |
| | **(₱116,753)** | ₱220,960 | **(₱76,406)** | ₱298,171 |
| **Basic/Diluted Earnings Per Share** (Note 21) | **(₱0.02)** | ₱0.05 | **(₱0.01)** | ₱0.06 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements*

## PHINMA ENERGY CORPORATION
**(Formerly Trans-Asia Oil and Energy Development Corporation)**
## AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**
**(Amounts in Thousands)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **NET INCOME FOR THE YEAR** | **(₱116,753)** | ₱220,960 | **(₱76,406)** | ₱298,171 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| *Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods* | | | | |
| Net changes in the fair market value of AFS investments | **39** | (884) | **3,508** | (2,734) |
| Income tax effect | **(540)** | 20 | **(996)** | (85) |
| | **(501)** | (864) | **2,512** | (2,819) |
| *Other comprehensive income (loss) not to be reclassified directly to profit or loss in subsequent periods* | | | | |
| Share in other comprehensive income of a joint venture - net of deferred income tax | **–** | – | **216** | – |
| | **–** | – | **216** | – |
| **OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX** | **(501)** | (864) | **2,728** | (2,819) |
| **TOTAL COMPREHENSIVE INCOME** | **(₱117,254)** | ₱220,096 | **(₱73,678)** | ₱295,352 |
| **Total Comprehensive Income (Loss) Attributable To:** | | | | |
| Equity holders of the Parent Company | **(₱92,071)** | ₱221,009 | **(₱45,529)** | ₱297,474 |
| Non-controlling interests | **(25,183)** | (913) | **(28,149)** | (2,122) |
| | **(₱117,254)** | ₱220,096 | **(₱73,678)** | ₱295,352 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements*

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

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE SEMESTERS ENDED JUNE 30, 2018 AND 2017
## (Amounts in Thousands)

| | Attributable to Equity Holders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 16) | Additional Paid-in Capital | Other Equity Reserve (Note 16) | Unrealized Fair Value Gains on Available-for-Sale Investments | Remeasurement Losses on Defined Benefit Plan | Accumulated Share in Other Comprehensive Income of a Joint Venture | Retained Earnings (Note 16) | Treasury Shares (Note 16) | Total | Non-controlling Interests | Total Equity |
| **BALANCES AT DECEMBER 31, 2017** | **₱4,889,775** | **₱83,768** | **₱18,338** | **₱85,924** | **(₱3,130)** | **(₱3,413)** | **₱4,018,980** | **(₱28,793)** | **₱9,061,449** | **₱78,110** | **₱9,139,559** |
| Net income | – | – | – | – | – | – | **(48,257)** | – | **(48,257)** | **(28,149)** | **(76,406)** |
| Other comprehensive income (loss) | – | – | – | **2,512** | – | **216** | – | – | **2,728** | – | **2,728** |
| Total comprehensive income (loss) | – | – | – | **2,512** | – | **216** | **(48,257)** | – | **(45,529)** | **(28,149)** | **(73,678)** |
| Dividends declared (Note 16) | – | – | – | – | – | – | **(195,591)** | – | **(195,591)** | – | **(195,591)** |
| Cost of original issuance of stocks | – | – | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | **(195,591)** | – | **(195,591)** | – | **(195,591)** |
| **BALANCES AT JUNE 30, 2018** | **₱4,889,775** | **₱83,768** | **₱18,338** | **₱88,436** | **(₱3,130)** | **(₱3,197)** | **₱3,775,132** | **(₱28,793)** | **₱8,820,329** | **₱49,961** | **₱8,870,290** |
| BALANCES AT DECEMBER 31, 2016 | ₱4,885,898 | ₱81,209 | ₱18,338 | ₱109,366 | (₱8,562) | (₱277) | ₱3,859,659 | (₱28,793) | ₱8,916,838 | ₱84,706 | ₱9,001,544 |
| Net income | – | – | – | – | – | – | 300,293 | – | 300,293 | (2,122) | 298,171 |
| Other comprehensive income (loss) | – | – | – | (2,819) | – | – | – | – | (2,819) | – | (2,819) |
| Total comprehensive income (loss) | – | – | – | (2,819) | – | – | 300,293 | – | 297,474 | (2,122) | 295,352 |
| Dividends declared (Note 16) | – | – | – | – | – | – | (194,443) | – | (194,443) | – | (194,443) |
| Forfeiture of stock options (Note 16) | – | – | – | – | – | – | (17,810) | – | (17,810) | – | (17,810) |
| | – | – | – | – | – | – | (212,253) | – | (212,253) | – | (212,253) |
| BALANCES AT JUNE 30, 2017 | ₱4,885,898 | ₱81,209 | ₱18,338 | ₱106,547 | (₱8,562) | (₱277) | ₱3,947,699 | (₱28,793) | 9,002,059 | 82,584 | 9,084,643 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

## PHINMA ENERGY CORPORATION
**(Formerly Trans-Asia Oil and Energy Development Corporation)**
## AND SUBSIDIARIES
## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
**(Amounts in Thousands)**

| | For the Semesters Ended | |
|---|---|---|
| | **June 30, 2018** *(Unaudited)* | June 30, 2017 *(Unaudited)* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **(₱315,289)** | ₱210,269 |
| Adjustments for: | | |
| Equity in net earnings of associates and joint ventures (Note 10) | **(410,211)** | (364,169) |
| Interest and other finance charges | **213,848** | 268,875 |
| Depreciation and amortization | **200,494** | 207,899 |
| Amortization of trading revenue | **(197,916)** | – |
| Provision for probable losses | **48,263** | – |
| Interest and other financial income (Note 19) | **(35,777)** | (32,868) |
| Foreign exchange loss – net | **(20,902)** | 808 |
| Pension and other employee benefits | **6,822** | 5,441 |
| Provision for doubtful accounts | **–** | 4,540 |
| Dividend income | **(7,384)** | (8,012) |
| Loss (gain) on sale of: | | |
| Derivatives | **19,038** | (71) |
| Marketable Securities | **(20)** | 20 |
| Operating income before working capital changes | **(499,034)** | 292,874 |
| Decrease (increase) in: | | |
| Receivables | **29,559** | (383,930) |
| Fuel and spare parts - at cost | **(57,126)** | (67,069) |
| Other current assets | **(886,613)** | (146,192) |
| Increase in accounts payable and other current liabilities | **480,546** | 83,914 |
| Net cash generated from (used in) operations | **(932,668)** | (220,403) |
| Income taxes paid | **(13,407)** | (20,849) |
| Net cash flows from (used in) operating activities | **(946,075)** | (241,252) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to: | | |
| Property, plant and equipment (Note 9) | **(₱54,346)** | (₱42,091) |
| Investments in associates and joint venture | **(12,500)** | (86,324) |
| Deferred exploration costs (Note 11) | **(3,120)** | (283) |
| Available-for-sale investments | **(32)** | (7,215) |
| Proceeds from: | | |
| Sale and redemption of investments held for trading | **853,184** | 918,738 |
| Short-term investments | **478,362** | 2,498 |
| Insurance claim | **17,448** | – |
| Settlement of currency forward contracts | **(9,190)** | – |
| Sale of available-for-sale investments | **–** | 55 |
| Increase in other noncurrent assets | **159,212** | (103,560) |
| Cash dividends received | **229,890** | 299,230 |
| Interest received | **27,789** | 19,673 |
| Net cash flows from investing activities | **1,686,697** | 1,000,721 |

| | For the Semesters Ended | |
|---|---|---|
| | **June 30, 2018** **(*Unaudited*)** | June 30, 2017 *(Unaudited)* |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from: | | |
| Long-term debt – net of issuance costs | **–** | 2,338,250 |
| Payments of: | | |
| Interest on long-term loans | **(208,127)** | (184,883) |
| Long-term loans (Note 14) | **(107,181)** | (2,380,000) |
| Finance leases | **(4,227)** | (4,668) |
| Cash dividends | **(195,591)** | (377,311) |
| DST on original issuance of stocks | – | (17,811) |
| Decrease in due to stockholders | **(3)** | (93) |
| Increase (decrease) in pension and other employee benefits and other noncurrent liabilities | **(49,414)** | 116,131 |
| Net cash flows used in financing activities | **(564,543)** | (510,385) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **20,902** | (645) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **196,981** | 248,439 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,300,999** | 395,582 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱1,497,980** | ₱644,021 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

## 1. Corporate Information and Status of Operations

PHINMA Energy Corporation ("PHINMA Energy or the Parent Company"), incorporated on September 8, 1969, and its subsidiaries: PHINMA Power Generation Corporation (PHINMA Power), formerly Trans-Asia Power Generation Corporation; CIP II Power Corporation (CIPP); PHINMA Renewable Energy Corporation (PHINMA Renewable), formerly Trans-Asia Renewable Energy Corporation; One Subic Oil Distribution Corporation (One Subic Oil), formerly Trans-Asia Gold and Minerals Development Corporation; PHINMA Solar Energy Corporation (PHINMA Solar), formerly Trans-Asia Wind Power Corporation; One Subic Power Generation Corporation (One Subic Power); PHINMA Petroleum and Geothermal, Inc. (PHINMA Petroleum), formerly Trans-Asia Petroleum Corporation; and Palawan55 Exploration & Production Corporation (Palawan55), collectively referred to as "the Company", were incorporated and registered with the Philippine Securities and Exchange Commission (SEC). The direct and ultimate parent company of PHINMA Energy is Philippine Investment-Management (PHINMA), Inc., also incorporated in the Philippines. PHINMA Energy is managed by PHINMA, Inc. under an existing management agreement. (see Note 20). The Company and PHINMA, Inc. are domiciled in the Philippines.

The Parent Company is engaged in power generation and trading, oil and mineral exploration, development and production. The Parent Company was registered as a Wholesale Aggregator (WA) and is a licensed Retail Electricity Supplier (RES). The WA license authorized the Parent Company to consolidate electricity power demand of distribution utilities, pursuant to the Electric Power Industry Reform Act of 2001 (EPIRA). By virtue of Energy Regulatory Commission (ERC) Resolution No. 12 Series of 2015, also known as the Resolution to Discontinue the Wholesale Aggregator Scheme as Embodied in the Rules for the Registration of the Wholesale Aggregators, the ERC resolved to discontinue the wholesale aggregation scheme and that all existing licenses shall be effective only until the end of their respective terms. The license of the Parent Company as a WA effectively expired on December 19, 2016. As a RES, the Parent Company is allowed to supply electricity to the contestable market pursuant to the EPIRA. Other activities of the Parent Company include investing in various operating companies and financial instruments.

In 2016, the Parent Company changed its corporate name to PHINMA Energy Corporation and extended its corporate life for another 50 years. The SEC issued the Certificate of Amended Articles of Incorporation, dated August 15, 2016, while the Bureau of Internal Revenue (BIR) issued an amended Certificate of Registration, dated August 25, 2016 for the change in the name of the Parent Company.

PHINMA Power was incorporated and registered with the SEC on March 18, 1996. PHINMA Power is engaged in power generation. In October 2006, the Philippine Electricity Market Corporation (PEMC) approved PHINMA Power's application for registration as trading participant for both generation and customer categories in the Wholesale Electricity Spot Market (WESM). Both the Parent Company and PHINMA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM. Effective December 26, 2013, PHINMA Power entered into a Power Administration and Management Agreement (PAMA) valid for ten years with PHINMA Energy for the administration and management by PHINMA Energy of the entire capacity and net output of PHINMA Power starting 2014.

In addition to the capacity fee, PHINMA Energy is billed by PHINMA Power for transmission and fuel costs. On January 23, 2017, PHINMA Power's Board of Directors (BOD) approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Power Generation Corporation. The amended Articles of Incorporation were issued by the SEC on June 2, 2017 while the Certificate of Registration was issued by the BIR on June 8, 2017.

CIPP was incorporated and registered with the SEC on June 2, 1998. CIPP is a utilities enterprise, the primary purpose of which was to develop and operate a power supply and distribution system at Carmelray Industrial Park II Special Economic Zone in Calamba, Laguna. In April 2009, CIPP sold its distribution assets resulting in the cessation of CIPP's operations and separation of substantially all of its employees effective January 31, 2010. On February 22, 2010 and March 24, 2010, the BOD and stockholders, respectively, of the Parent Company approved the proposed merger of the Parent Company and CIPP subject to the approval by the SEC. In December 2010, CIPP's BOD approved the transfer of its 21 MW bunker C-fired power plant from Laguna to Barangay Quirino, Bacnotan, La Union which was completed in 2012. In 2013, CIPP and PHINMA Energy entered into a PAMA valid for ten years for the latter's administration and management of the entire capacity and net output of CIPP. As at August 7, 2018, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

PHINMA Renewable was incorporated and registered with the SEC on September 2, 1994. It was established with the primary purpose of developing and utilizing renewable energy and pursuing clean and energy-efficient projects. On May 20, 2013, the Philippine Department of Energy (DOE) confirmed the Declaration of Commerciality of PHINMA Renewable's 54 MW San Lorenzo Wind Power project (SLWP) in Guimaras. On October 7, 2014, the SLWP started delivering power to the grid and on February 16, 2015, PHINMA Renewable received from the DOE the confirmation of start of Commercial Operations declared on December 27, 2014. On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the ERC.

On December 8, 2015, PHINMA Renewable's BOD approved to increase its authorized capital stock from ₱2,000.00 million divided into 2 billion shares with par value of ₱1.00 per share to ₱5,000.00 million composed of ₱2,000.00 million common shares with par value of ₱1.00 per share and ₱3,000.00 million preferred shares with a par value of ₱1.00 per share. The increase in authorized capital stock was approved by the SEC on March 31, 2017. On January 30, 2017, PHINMA Renewable's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Renewable Energy Corporation. The amended Articles of Incorporation were issued by the SEC on June 13, 2017 while the Certificate of Registration was issued by the BIR on June 21, 2017.

PHINMA Petroleum was incorporated and registered with the SEC on September 28, 1994.
PHINMA Petroleum is engaged in oil exploration and well development. On November 28, 2012, the SEC approved the increase in authorized capital stock of PHINMA Petroleum from ₱40 million divided into 4 billion shares with a par value of ₱0.01 per share to ₱1 billion divided into 100 billion shares with a par value of ₱0.01 per share. It also approved the change in its name to PHINMA Petroleum and the primary purpose from power generation to oil and gas exploration and production.

PHINMA Petroleum listed its shares with the Philippine Stock Exchange (PSE) by way of introduction on August 28, 2014. On April 10, 2017, PHINMA Petroleum's BOD approved the amendment of its Articles of Incorporation to change PHINMA Petroleum's corporate name to

PHINMA Petroleum and Geothermal, Inc. and to include in its primary and secondary purposes the exploration and development of geothermal resources.

The amended Articles of Incorporation were issued by the SEC on May 31, 2017 while the Certificate of Registration was issued by the BIR on June 14, 2017. As at August 7, 2018, PHINMA Petroleum has not started commercial operations. The registered office address of PHINMA Petroleum is Level 11, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

One Subic Oil was incorporated and registered with the SEC on July 2, 2007 to primarily engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD approved the suspension of exploration activities of One Subic Oil effective March 31, 2009. On August 9, 2017, One Subic Oil's BOD approved the amendment of the Articles of Incorporation to change the corporate name to One Subic Oil Distribution Corporation, to change its primary purpose to importation, storage, transportation, distribution and disposal of any and all kinds of fuel and petroleum products, and to change the principal office of the corporation to Causeway Extension, Subic Gateway District, Subic Bay Freeport Zone, Subic. The amended Articles of Incorporation were issued by the SEC on August 9, 2017. As at August 7, 2018, One Subic Oil has not started commercial operations for its petroleum distribution business.

Palawan55 was incorporated and registered with the SEC on November 16, 2012. Palawan55 is engaged in the development and utilization of crude oil, natural gas, natural gas liquids and other forms of petroleum. As at August 7, 2018, Palawan55 has not started its commercial operations. The registered office address of Palawan55 is 11th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

PHINMA Solar was incorporated and registered with the SEC on July 26, 2013. Its primary purpose is to construct, develop, own, operate, manage, repair and maintain wind power generation plants, to generate electricity from such power plants and to market and sell the electricity produced thereby. On January 30, 2017, PHINMA Solar's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Solar Energy Corporation, to include in its primary and secondary purposes the development, operation and maintenance of solar power generation plants and the development of solar products and to increase the number of directors to nine. The amended Articles of Incorporation were issued by the SEC on June 27, 2017 while the Certificate of Registration was issued by the BIR on June 30, 2017. As at April 26, 2018, PHINMA Solar has completed the installation of its first Solar Photovoltaic Rooftop System in Cagayan de Oro.

On June 29, 2011, the Parent Company entered into a 50-50 joint venture agreement with AC Energy Holdings, Inc. (AC Energy) to form South Luzon Thermal Energy Corporation (SLTEC), the primary purpose of which is to generate, supply and sell electricity to the public through the operation of a 2 x 135 MW coal fired power plant in Calaca, Batangas. SLTEC was incorporated on July 29, 2011. The construction, testing and commissioning of the first unit of SLTEC Circulating Fluidized Bed Coal-fired Power Plant was completed during the first half of 2015 and started its commercial operations on April 24, 2015. The second unit started its commercial operation on February 21, 2016. On December 20, 2016, the Parent Company sold 5% interest in SLTEC to Axia Power Holdings Philippines Corporation (APHPC), which also purchased a 15% interest in SLTEC from AC Energy. The current ownership structure of SLTEC is as follows: 45% PHINMA Energy, 35% AC Energy, and 20% APHPC. The registered office address of SLTEC is KM. 117 National Road, Phoenix Industrial Park Phase II Puting Bato West, Calaca, Batangas.

The Parent Company has 50% interest in ACTA Power Corporation (ACTA), a joint venture with AC Energy. ACTA is engaged in the business of owning, developing, constructing, operating and maintaining power generation facilities as well as generation and sale of electricity. ACTA was incorporated on February 9, 2012 and has not started commercial operations as at August 7, 2018.

One Subic Power 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 Power entered into a PAMA wherein PHINMA Energy administers and manages the entire generation output of the 116 MW diesel power plant in Subic, Olongapo City. The PAMA became effective on February 17, 2011. On May 12, 2014, PHINMA Power purchased from Udenna Energy Corporation (UDEC) the entire outstanding shares of stock of One Subic Power. Prior to the acquisition, One Subic Power was a wholly owned subsidiary of UDEC, a company incorporated and domiciled in the Philippines. On January 23, 2017, One Subic Power's BOD approved the amendment of the Articles of Incorporation for the change in the primary purpose to include exploration, discovery, development, processing, and disposal of any and all kind of petroleum products. The amended Articles of Incorporation were approved by the SEC on June 19, 2017.

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

The interim condensed consolidated financial statements of the Company were authorized for issuance by the Company's BOD on August 7, 2018.

## 2. Basis of Preparation and Consolidation and Statement of Compliance

Basis of Preparation and Statement of Compliance

The interim condensed consolidated financial statements of the Company for the semester ended June 30, 2018 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual consolidated financial statements as at December 31, 2017.

The interim condensed 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 interim condensed 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 interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at June 30, 2018 and December 31, 2017. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim condensed 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 interim condensed consolidated statement of income. Any investment retained is recognized at fair value.

Non-controlling interests represent the interests in the subsidiaries not held by the Parent Company, and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position, separately from equity attributable to holders of the Parent Company. NCI share in losses even if the losses exceed the non-controlling equity interest in the subsidiary.

The interim condensed consolidated financial statements include the accounts of the Parent Company and the following subsidiaries as at June 30, 2018 and December 31, 2017:

| | | **Percentage of Ownership (%)** | |
|---|---|---|---|
| | Principal Activities | **Direct** | **Indirect** |
| PHINMA Power | Power generation | **100.00** | **–** |
| CIPP | Power generation | **100.00** | **–** |
| PHINMA Renewable | Renewable energy generation | **100.00** | **–** |
| One Subic Oil | Distribution of petroleum products* | **100.00** | **–** |
| PHINMA Solar | Renewable energy generation | **100.00** | **–** |
| One Subic Power | Power generation | **–** | **100.00** |
| PHINMA Petroleum | Oil, gas, and geothermal exploration | **50.74** | **0.40** |
| Palawan55 | Oil and gas exploration | **30.65** | **35.46** |

* *Mineral exploration in 2016*

## 3. Summary of Significant Accounting Policies and Disclosures

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

*Effective beginning January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is currently assessing the impact of the adoption of these amendments on the consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method.

Based on the Company's initial assessment, the requirements of PFRS 15 on the following may have an impact on the Company's consolidated financial position, performance and disclosures:

- Recognition of revenue on contracts dependent on ERC - approved rates to be applied retrospectively, which may result in the recognition of contract asset (revenue) or liability (reduction in revenue) depending on the final approved rate and agreed payment arrangement.
- Change in presentation for energy-based contracts with maximum contracted capacity. Reimbursement of energy delivered in excess of maximum contracted capacity is currently recognized as an addition to trading cost but will be recognized as a reduction to revenue under PFRS 15.
- Change in presentation for energy-based contracts with consideration payable to customer for sale of customer's unutilized energy, which is currently recognized as an addition to trading cost but will be recognized as a reduction to revenue under PFRS 15.
- Effect of contract modifications based on new criteria provided under PFRS 15.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Company is currently assessing what needs to be changed in its current systems, internal controls, policies and procedures to enable the Company to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. Based on the Company's financial assets and financial liabilities as at June 30, 2018, which has been limited to the facts and circumstances at said date, the Company has identified the following areas that are expected to be impacted by the application of PFRS 9:

*Classification and measurement*

Under PFRS 9, debt financial instruments are subsequently measured at FVPL, amortized cost, or FVOCI with recycling of gains or losses to profit or loss upon derecognition. The classification is based on two criteria: whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding, or the SPPI criterion; and the business model for managing the financial assets.

A business model refers to how an entity manages its financial assets in order to generate cash flows – (1) by collecting contractual cash flows, (2) selling financial assets or (3) both.

Depending on the characteristics of the contractual cash flows of the financial asset,

- Financial assets at amortized cost are held in a business model whose objective is to hold assets in order to collect contractual cash flows.
- Financial assets classified and measured at fair value through other comprehensive income are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. Financial assets that are held for trading and those managed on a fair value basis are also included in this category.

On the other hand, equity securities will be classified at either fair value through profit or loss (FVTPL) or irrevocably designated at initial recognition at fair value through other comprehensive income (FVOCI). As such, all equity securities shall be measured at fair value.

The assessment of the Company's business models was made as at the date of initial application, January 1, 2018, and then applied and modified restrospectively, to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely payments of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. From these assessments, the Company expects its term deposits, short-term investments, trade and other receivables to continue to be accounted for at amortized cost.

Available-for-sale (AFS) financial assets is composed of quoted and unquoted equity securities. In applying PFRS 9 the Company assessed that these equity securities shall be designated, on date of initial application, as financial assets at FVOCI with gains and losses remaining in other comprehensive income. Thus, these instruments will continue to be measured at fair value, with market-to-market fluctuations and realized gain (loss) on sale directly recognized in other comprehensive income.

*Impairment*

PFRS 9 introduces a new impairment model that requires the recognition of expected credit losses (ECL) on all financial assets at amortized cost or at fair value through other comprehensive income (other than equity instruments), lease receivables and certain loan commitments and financial guarantee contracts. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment. The ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL is recognized earlier under PFRS 9.

The objective of the new impairment model is to record lifetime losses on all financial assets which have experienced a significant increase in credit risk from initial recognition. As a result, ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on our internal credit assessment, the counterparty is determined to require close monitoring or with well-defined credit weakness.

Financial assets have the following staging assessment, depending on the quality of the credit exposures:

For non-credit-impaired financial assets:

- Stage 1 financial assets are comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. We recognize a 12-month ECL for Stage 1 financial assets.
- Stage 2 financial assets are comprised of all non-impaired financial assets which have experienced a significant increase in credit risk since initial recognition. We recognize a lifetime ECL for Stage 2 financial assets.

For credit-impairment financial assets:

- Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial assets.

PFRS 9 provides some operational simplifications for short-term trade receivables, lease receivables and contract assets by introducing an alternative simplified approach. Under the simplified approach, there is no more requirement to determine at reporting date whether a credit exposure has significantly increased in credit risk or not. Credit exposures under the simplified approach will be subject only to lifetime ECL. In addition, PFRS 9 allows the use of a provision matrix approach or a loss rate approach as a practical expedient when measuring ECL, so long as these methodologies reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

ECL is a function of the risk of a default occurring and the magnitude of default, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The risk of a default occurring represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 assets or lifetime horizon for Stages 2 and 3 assets. The risk of a default occurring for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. We segmented the credit exposures based on homogenous risk characteristics and applied a specific ECL methodology for each. The methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. The magnitude of default represents the amount that may not be recovered in the event of default and is determined based on the historical cash flow recoveries and reasonable and supportable information about future economic conditions, where appropriate.

The Company plans to apply the simplified approach and record lifetime ECL on all trade receivables and contract assets. The new impairment requirements will impact the current impairment methodologies of debt securities classified as at amortized cost or at FVOCI and the corresponding impairment allowance levels.

*Hedge accounting*

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Company has currently no existing hedge relationships to qualify for hedge accounting under PFRS 9 and applying the hedging requirements of PFRS 9 will not have a significant impact on the consolidated financial statements.

The Company is continuously refining internal controls and processes which are relevant in the proper implementation of PFRS 9.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
  They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later

of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

*Effective beginning January 1, 2019*

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their consolidated statements of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss.
  Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

*Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## 4. 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 interim condensed consolidated financial statements.

| | For the six months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Power | Petroleum | Segment Total | Adjustments and Eliminations | Consolidated |
| **Revenue** | **₱8,123,040** | **₱–** | **₱8,123,040** | **₱7,700** | **₱8,130,740** |
| **Costs and expenses** | **(8,501,411)** | **(96,285)** | **(8,597,696)** | **(99,004)** | **(8,696,700)** |
| **Other income (expense) – net** | | | | | |
| **Equity in net earnings of associates and joint ventures** | **410,211** | **–** | **410,211** | **–** | **410,211** |
| **Interest and other financial charges** | **(66,382)** | **–** | **(66,382)** | **(147,466)** | **(213,848)** |
| **Interest and other financial income** | **–** | **–** | **–** | **35,777** | **35,777** |
| **Gain on sale of available-for-sale investments** | **–** | **–** | **–** | **20** | **20** |
| **Marked-to-market gain on derivatives** | **–** | **–** | **–** | **(19,038)** | **(19,038)** |
| **Foreign exchange loss** | **–** | **–** | **–** | **35,304** | **35,304** |
| **Others** | **83** | **–** | **83** | **2,162** | **2,245** |
| **Segment profit** | **(34,459)** | **(96,285)** | **(130,744)** | **(184,545)** | **(315,289)** |

| | Power | Petroleum | Segment Total | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|
| | **For the six months ended June 30, 2018** | | | | |
| | **As at June 30, 2018** | | | | |
| **Operating assets** | **₱15,570,035** | **₱34,821** | **₱15,604,856** | **₱4,030,923** | **₱19,635,779** |
| **Operating liabilities** | **₱5,459,919** | **₱6,944** | **₱5,466,863** | **₱5,298,626** | **₱10,765,489** |
| **Other disclosure** | | | | | |
| **Capital expenditures** | **₱48,468** | **₱4,709** | **₱53,177** | **₱1,169** | **₱54,346** |
| **Disposal of assets** | **115** | **–** | **115** | **–** | **115** |
| **Investments and advances** | **4,257,392** | **–** | **4,257,392** | **631** | **4,258,023** |
| **Depreciation and amortization** | **190,921** | **228** | **191,149** | **9,345** | **200,494** |
| **Provision for income tax** | **–** | **–** | **–** | **(238,883)** | **(238,883)** |

| | Power | Petroleum | Segment Total | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|
| | For the six months ended June 30, 2017 | | | | |
| Revenue | ₱8,314,365 | ₱– | ₱8,314,365 | ₱8,180 | ₱8,322,545 |
| Costs and expenses | (8,094,180) | (9,107) | (8,103,287) | (137,618) | (8,240,905) |
| Other income (expense) – net | | | | | |
| Interest and other financial charges | (116,599) | – | (116,599) | (152,276) | (268,875) |
| Interest and other financial income | – | – | – | 32,868 | 32,868 |
| Equity in net earnings of associates and joint ventures | 364,169 | – | 364,169 | – | 364,169 |
| Gain on sale of available-for-sale investments | – | – | – | (20) | (20) |
| Marked-to-market gain on derivatives | (72) | – | (72) | 1 | (71) |
| Foreign exchange loss | – | – | – | (765) | (765) |
| Others | – | – | – | 1,323 | 1,323 |
| Segment profit | 467,683 | (9,107) | 458,576 | (248,307) | 210,269 |
| | As at June 30, 2017 | | | | |
| Operating assets | ₱17,251,364 | ₱83,137 | ₱17,334,501 | ₱4,204,107 | ₱21,538,608 |
| Operating liabilities | ₱6,867,761 | ₱792 | ₱6,868,553 | ₱5,585,412 | ₱12,453,965 |
| Other disclosure | | | | | |
| Capital expenditures | ₱37,578 | ₱92 | ₱37,670 | ₱4,898 | ₱42,568 |
| Disposal | – | 31 | 31 | – | 31 |
| Investments and advances | 4,178,798 | – | 4,178,798 | 631 | 4,179,429 |
| Depreciation and amortization | (197,933) | (339) | (198,272) | (9,627) | (207,899) |
| Provision for income tax | – | – | – | (87,902) | (87,902) |

**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**

| | **Jan-Jun 2018** | Jan-Jun 2017 |
|---|---|---|
| Segment total profit before adjustments and eliminations | **(₱130,744)** | ₱458,576 |
| Dividend income | **7,384** | 8,012 |
| Rent Income | **316** | 168 |
| General and administrative expense | **(99,004)** | (137,618) |
| Interest and other financial charges | **(147,466)** | (152,276) |
| Interest and other financial income | **35,777** | 32,868 |
| Other income – net | **18,448** | 539 |
| Income before income tax | **(₱315,289)** | ₱210,269 |

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**

| | **June 2018** | December 2017 |
|---|---|---|
| Segment operating assets | **₱15,604,856** | ₱15,731,771 |
| *Current assets* | | |
| Cash and cash equivalents | **1,497,980** | 1,300,999 |
| Short-term investments | – | 478,362 |
| Investments held for trading | **640,813** | 1,483,519 |
| Receivables and other current assets | **545,877** | 659,056 |
| *Noncurrent assets* | | |
| Property, plant and equipment | **56,254** | 67,258 |
| Investments in an associate and AFS financial assets | **297,319** | 293,758 |
| Investment property | **13,085** | 13,085 |
| Deferred income tax asset - net | **677,170** | 430,280 |
| Other noncurrent assets | **302,425** | 300,445 |
| Total assets | **₱19,635,779** | ₱20,758,533 |

**Reconciliation of liabilities**

| | **June 2018** | December 2017 |
|---|---|---|
| Segment operating liabilities | **₱5,466,863** | ₱5,917,433 |
| *Current liabilities* | | |
| Accounts payable and other current liabilities | **57,773** | 359,195 |
| Income and withholding taxes payable | **17,233** | 42,308 |
| Due to stockholders | **15,297** | 15,300 |
| Current portion of long-term loans | **1,109,672** | 144,406 |
| *Noncurrent liabilities* | | |
| Long term loans - net of current portion | **3,952,154** | 4,989,640 |
| Deferred income tax liabilities - net | **103,033** | 111,387 |
| Pension and other employee benefits | **43,464** | 36,110 |
| Other noncurrent liabilities | **–** | 3,195 |
| Total liabilities | **₱10,765,489** | ₱11,618,974 |

## 5. Cash and Cash Equivalents

| | **June 2018** | December 2017 |
|---|---|---|
| Cash on hand and in banks | **₱37,586** | ₱120,897 |
| Short-term deposits | **1,460,394** | 1,180,102 |
| | **₱1,497,980** | ₱1,300,999 |

Cash in banks earn interest at the respective bank deposit rates of 0.25% per annum for its peso and dollar accounts, respectively.

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

Short-term deposits account includes debt service reserves amounting to ₱54.37 million and ₱45.17 million as at June 30, 2018 and December 31, 2017, respectively for the wind project loan facility (see Note 14).

## 6. Receivables

| | **June 2018** | December 2017 |
|---|---|---|
| Trade | **₱3,554,006** | ₱3,745,679 |
| Due from related parties (see Note 20) | **13,015** | 20,314 |
| Receivables from: | | |
| Third parties | **163,131** | 120,862 |
| Assignment of Mineral Production Sharing Agreement (MPSA) (see Note 11) | **39,365** | 39,365 |
| Consortium - SC 50 | **20,000** | 20,000 |
| Consortium - SC 52 (see Note 11) | **19,444** | 19,444 |
| Employees | **6,561** | 2,636 |
| Others | **8,267** | 14,367 |
| | **3,823,789** | 3,982,667 |
| Less allowance for doubtful accounts | **120,869** | 120,869 |
| | **₱3,702,920** | ₱3,861,798 |

Trade receivables mainly represent receivables from PEMC, NGCP, National Transmission Corporation (TransCo) for the FIT and from the Company's bilateral customers. Trade receivables consist of noninterest-bearing and interest-bearing receivables. The term is generally 30 to 60 days.

Receivables from third parties as at December 31, 2017 mainly represent the current portion of the Company's non-interest bearing receivables from NGCP (see Note 12).

The aging analysis of receivables is as follows:

| | **June 2018** | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Neither Past Due nor** | **Past Due but not Impaired** | | | | **Past Due and** |
| | **Total** | **Impaired** | **<30 Days** | **30–60 Days** | **61–90 Days** | **91–120 Days** | **Impaired** |
| Trade | **₱3,554,006** | **₱2,026,835** | **₱90,912** | **₱72,467** | **₱50,330** | **₱1,274,696** | **₱38,766** |
| Due from related parties | **13,015** | **13,015** | – | – | – | – | – |
| Others | **256,768** | **173,538** | – | – | – | **1,127** | **82,103** |
| | **₱3,823,789** | **₱2,213,388** | **₱90,912** | **₱72,467** | **₱50,330** | **₱1,275,823** | **₱120,869** |

| | December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Neither Past Due nor | Past Due but not Impaired | | | | Past Due and |
| | Total | Impaired | <30 Days | 30–60 Days | 61–90 Days | 91–120 Days | Impaired |
| Trade | ₱3,745,679 | ₱1,991,626 | ₱90,559 | ₱62,378 | ₱20,648 | ₱1,541,702 | ₱38,766 |
| Due from related parties | 20,314 | 20,314 | – | – | – | – | – |
| Others | 216,674 | 131,987 | 7 | 8 | 4 | 2,565 | 82,103 |
| | ₱3,982,667 | ₱2,143,927 | ₱90,566 | ₱62,386 | ₱20,652 | ₱1,544,267 | ₱120,869 |

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

| | Trade | Others | Total |
|---|---|---|---|
| Balances at January 1, 2017 | ₱34,224 | ₱82,103 | ₱116,327 |
| Provision for the year | 4,542 | | 4,542 |
| Balances at December 31, 2017 | 38,766 | 82,103 | 120,869 |
| Provision for the semester | – | – | – |
| **Balances at June 30, 2018** | **₱38,766** | **₱82,103** | **₱120,869** |

Due to its interpretation of the WESM Rules, the PEMC allocates its uncollected receivables due from power purchasers in the WESM to the generators who sold power to the WESM. On December 23, 2013, the Supreme Court (SC) issued a 60-day Temporary Restraining Order ("TRO") enjoining the MERALCO and the ERC from implementing the Automatic Generation Rate Adjustment (AGRA) mechanism for the November 2013 billing period. The AGRA allows automatic pass through of the cost of power purchased from WESM. In turn, MERALCO did not pay PEMC a significant portion of its November and December 2013 power bills. PEMC in turn, did not pay the Company the full amount of its electricity sales. On April 22, 2014, the SC extended indefinitely the TRO it issued over the collection of the November 2013 power rate increase.

The ERC issued an Order (ERC Case No. 2014-021 MC) dated March 3, 2014 voiding the WESM prices of November and December 2013 bills. As directed by ERC, PEMC recalculated regulated prices and issued WESM adjustment bills in March 2014 which the Company recorded resulting to an increase in receivables and net trading revenues.

Certain market players filed motions for reconsideration resulting in ERC's issuance of another Order dated March 27, 2014 for PEMC to provide market participants an additional 45 days, or up to May 12, 2014 to settle their WESM bills covering the adjustments for the period October 26 to December 25, 2013. ERC extended the settlement of WESM bills to a non-extendible period of 30 days up to June 11, 2014 which resulted in a Multilateral Agreement where the WESM Trading Participants agreed to be bound to a payment schedule of 6 months or 24 months subject to certain conditions. The Company signed the Agreement on June 23, 2014. In 2016, the Company collected ₱205.31 million, under the said Multilateral Agreement and was recognized as payable and included under "Trade Payables" in the "Accounts payable and other current liabilities" account in the consolidated statements of financial position. In June 2016, the 24-month period of repayment prescribed; hence, the Company provided an allowance for doubtful accounts related to the receivables under the Multilateral Agreement amounting to ₱13.75 million.

## 7. Fuel and Spare Parts - at cost

| | **June 2018** | December 2017 |
|---|---|---|
| Fuel | **₱282,288** | ₱243,679 |
| Spare parts | **103,536** | 77,846 |
| | **₱385,824** | ₱321,525 |

Fuel charged to "Costs of sale of electricity" in the interim condensed consolidated statements of income amounted to ₱543.75 million and ₱368.20 million during the first semester of 2018 and 2017, respectively (see Note 17).

## 8. Other Current Assets

| | **June 2018** | December 2017 |
|---|---|---|
| Creditable withholding taxes | **₱671,879** | ₱598,526 |
| Tax credits receivable | **335,759** | 335,759 |
| Deposits receivable | **163,073** | 176,989 |
| Prepaid expenses | **49,583** | 94,756 |
| Input VAT | **16,945** | 20,127 |
| Derivative asset (see Note 22) | – | 9,848 |
| | **₱1,237,239** | ₱1,236,005 |

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

On August 15, 2016, PHINMA Renewable applied for a tax credit certificate with the BIR in relation to its excess and unutilized input VAT attributable to the Company's zero-rated sales of power generated from its 54 MW San Lorenzo wind farm. Petition for Review on the Company's application for tax credit certificate is still pending before the Court of Tax Appeals (CTA).

Deposit receivables include advances to suppliers and land owners and deposits to distribution utilities.

Prepaid expenses pertain to insurance, taxes, rent and other expenses paid in advance.

Input VAT is recognized when the Company purchases goods and services from a VAT-registered supplier.

## 9. Property, Plant and Equipment

The details and movements of this account as of June 30 and for the year ended December 31 are shown below:

**June 2018**

| | Land and Land Improvements | Buildings and Improvements | Machinery and Equipment | Transportation Equipment | Mining and Other Equipment | Office Furniture, Equipment and Others | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at beginning of year | ₱252,241 | ₱493,256 | ₱6,881,019 | ₱38,869 | ₱54,662 | ₱60,750 | ₱419 | ₱7,781,216 |
| Additions | – | 1,743 | 29,538 | 4,446 | 10,947 | 695 | 6,977 | 54,346 |
| Insurance claim | – | – | (17,448) | – | – | – | – | (17,448) |
| Disposal | – | – | – | – | – | (115) | – | (115) |
| Reclassification | – | – | (110) | – | (115) | 123 | 45 | (57) |
| Balance at end of the quarter | 252,241 | 494,999 | 6,892,999 | 43,315 | 65,494 | 61,453 | 7,441 | 7,817,942 |
| **Accumulated depreciation** | | | | | | | | |
| Balance at beginning of year | 1,236 | 305,437 | 1,251,610 | 15,942 | 29,201 | 47,589 | – | 1,651,015 |
| Depreciation | – | 11,340 | 168,700 | 3,807 | 3,565 | 2,345 | – | 189,757 |
| Disposal | – | – | – | – | – | (115) | – | (115) |
| Reclassification | – | 996 | (476) | – | – | (520) | – | – |
| Balance at end of the quarter | 1,236 | 317,773 | 1,419,834 | 19,749 | 32,766 | 49,299 | – | 1,840,657 |
| **Net Book Value** | ₱251,005 | ₱177,226 | ₱5,473,165 | ₱23,566 | ₱32,728 | ₱12,154 | ₱7,441 | ₱5,977,285 |

December 2017

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| Balance at beginning of year | ₱251,488 | ₱428,651 | ₱6,698,824 | ₱37,692 | ₱37,766 | ₱54,674 | ₱228,283 | ₱7,737,378 |
| Additions | 753 | 40,778 | 35,632 | 3,994 | 16,916 | 6,524 | 21,295 | 125,892 |
| Disposals | – | – | – | (2,817) | – | (448) | – | (3,265) |
| Reclassifications | – | – | 249,159 | – | – | – | (249,159) | – |
| Transfer to investment property | – | (4,306) | (102,596) | – | – | – | – | (106,902) |
| Transfer from investment property | – | 28,133 | – | – | – | – | – | 28,133 |
| Retirement | – | – | – | – | (20) | – | – | (20) |
| Balance at end of year | 252,241 | 493,256 | 6,881,019 | 38,869 | 54,662 | 60,750 | 419 | 7,781,216 |
| Accumulated depreciation | | | | | | | | |
| Balance at beginning of year | 1,236 | 246,135 | 997,211 | 10,878 | 24,776 | 42,574 | – | 1,322,810 |
| Depreciation | – | 46,090 | 316,768 | 7,375 | 4,445 | 5,458 | – | 380,136 |
| Disposals | – | – | – | (2,311) | – | (443) | – | (2,754) |
| Transfer to investment property | – | 16,838 | – | – | – | – | – | 16,838 |
| Transfer from investment property | – | (3,626) | (62,369) | – | – | – | – | (65,995) |
| Retirement | – | – | – | – | (20) | – | – | (20) |
| Balance at end of year | 1,236 | 305,437 | 1,251,610 | 15,942 | 29,201 | 47,589 | – | 1,651,015 |
| Net Book Value | ₱251,005 | ₱187,819 | ₱5,629,409 | ₱22,927 | ₱25,461 | ₱13,161 | ₱419 | ₱6,130,201 |

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

| Category | Years |
|---|---|
| Buildings and improvements | 6-25 years |
| Machinery and equipment | 9-25 years |
| Transportation equipment | 3-5 years |
| Land improvements | 10 years |
| Mining and other equipment | 10 years |
| Office furniture, equipment and others | 3-10 years |

*Purchase of Power Barges*
On July 8, 2015, Power Barges 101, 102 and 103 were officially transferred from Power Sector and Liabilities Management Corporation (PSALM) to PHINMA Energy after its sale in 2014. In February 2016, Power Barges 101 and 102 received their respective Certificates of Compliance and started operations and all related capitalized costs were reclassified from “Construction in Progress” to “Machinery and Equipment”. As at December 31, 2017, the total costs capitalized to Power Barges 101 and 102 included under “Machinery and Equipment” account amounted to ₱386.42 million. These costs include the purchase price and all other dry-docking and repair costs.

In October 2017, Power Barge 103 received its Certificate of Compliance from the ERC. All related costs capitalized to Power Barge 103 were reclassified from Construction in Progress to Machineries and Equipment. The carrying amount of Power Barge 103 included in Machinery and Equipment amounted to ₱242.38 million and ₱252.12 million as at June 30, 2018 and December 31, 2017, respectively.

*Wind Projects*
On October 7, 2014, the 54 MW Wind Power project in San Lorenzo, Guimaras started delivering power to the grid. Commercial operations started on December 27, 2014. The carrying amounts of the wind farm included under “Machinery and equipment” account as at June 30, 2018 and December 31, 2017 amounted to ₱4,412.53 million and ₱4,518.83 million , respectively, while those under “Land and land improvements” account as at June 30, 2018 and December 31, 2017 amounted to ₱197.18 million.

PHINMA Renewable commissioned wind measuring devices in several sites. Three devices were already decommissioned earlier due to low wind regime and typhoon damage. Wind masts in Aparri and Ballesteros were decommissioned in January and February 2016, respectively, due to their deteriorated condition, rendering both structures unsafe. Wind masts located in Sibunag and San Lorenzo, Guimaras were likewise decommissioned in May and June 2016, respectively, also due to their deteriorated condition.

On December 23, 2016, a new wind mast was installed in San Lorenzo, Guimaras for wind resource analysis and correlation with the 54 MW San Lorenzo Wind Farm. In May 2017, the wind mast in Nueva Valencia was decommissioned due to its deteriorated condition. As at August 7, 2018, PHINMA Renewable’ remaining wind measuring device continue to gather wind resource measurements at San Lorenzo.

*Sale of Transmission Assets*
PHINMA Renewable and CIPP executed Deeds of Sale with the NGCP on April 22, 2016 and May 23, 2016, respectively, for the disposition of transmission assets and PHINMA Renewable’s submarine cable pursuant to Section 8 of RA No. 9136 or the EPIRA and the ERC decisions. As at date of sale, the carrying value of transmission assets and submarine cables sold by PHINMA Renewable and CIPP amounted to ₱660.15 million and ₱65.17 million, respectively. Receivables from NGCP arising from these sales are included under “Receivables” and “Other noncurrent assets” (see Note 6 and 12).

*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. The carrying amount of land held under finance leases, included under "Land and land improvements", as at June 30, 2018 and December 31, 2017 amounted to ₱116.81 million.

*Mortgaged Property and Equipment*
PHINMA Renewable's wind farm with carrying value of ₱4,412.53 million and ₱4,511.93 million included under "Machinery and Equipment" account is mortgaged as security for the long term loan as at June 30, 2018 and December 31, 2017 (see Note 14).

## 10. Investments and Advances

Details of investments in associates and interests in joint ventures and the carrying amounts as at June 30 and December 31 are as follows:

| | Percentage of Ownership | **June 2018** | December 2017 |
|---|---|---|---|
| Investments in associates: | | | |
| Maibarara Geothermal, Inc. (MGI) | 25.00 | **₱586,054** | ₱535,230 |
| Asia Coal Corporation (Asia Coal)* | 28.18 | **631** | 631 |
| Union Aggregates Corporation (UAC)** | 31.25 | **–** | – |
| | | **586,685** | 535,861 |
| Interests in joint ventures: | | | |
| SLTEC | 45.00 | **3,639,898** | 3,490,213 |
| ACTA | 50.00 | **31,440** | 31,528 |
| | | **3,671,338** | 3,521,741 |
| | | **₱4,258,023** | ₱4,057,602 |

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

The details and movements of investments as well as the advances in associates and interests in joint ventures accounted for under the equity method are as follows:

| | **June 2018** | December 2017 |
|---|---|---|
| Investment in an associate and interests in joint ventures | | |
| Acquisition costs: | | |
| Balance at beginning of the period | **₱3,675,257** | ₱3,531,934 |
| Additions | **12,500** | 98,323 |
| Conversion from advances* | **–** | 45,000 |
| Disposal | **–** | – |
| Balance at end of the period | **3,687,757** | 3,675,257 |
| Accumulated equity in net earnings (losses): | | |
| Balance at beginning of the period | **370,086** | 426,832 |
| Equity in net earnings for the period | **410,211** | 1,024,995 |
| Disposal | **–** | – |
| Dividend received | **(222,506)** | (1,081,741) |
| Balance at end of the period | **557,791** | 370,086 |
| Accumulated share in OCI: | | |
| Balance at beginning of the period | **(3,413)** | (277) |
| Share in OCI (loss) | **216** | (3,136) |
| Disposal | **–** | – |
| Balance at end of the period | **(3,197)** | (3,413) |
| Other equity transactions: | | |

| | June 2018 | December 2017 |
|---|---|---|
| Balance at beginning of the period | **17,231** | 17,231 |
| Disposal | **–** | – |
| Balance at end of the period | **17,231** | 17,231 |
| Less accumulated impairment losses | **1,559** | 1,559 |
| | **4,258,023** | 4,057,602 |
| Advances to an associate and a joint venture | | |
| Balance at beginning of the period | **₱–** | ₱45,000 |
| Additions | **–** | – |
| Advances converted to investment* | **–** | (45,000) |
| Balance at end of the period | **–** | – |
| Total investments and advances | **₱4,258,023** | ₱4,057,602 |

** 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. In 2017, advances to MGI were converted to an investment in associate.*

Investments in Associates

*MGI*

The Parent Company subscribed to 25% of the capital stock of MGI which was incorporated and registered with the SEC on August 11, 2010, to implement the integrated development of the Maibarara geothermal field in Calamba, Laguna and Sto. Tomas, Batangas for power generation. MGI's registered business address is 7th F JMT Building, ADB Avenue, Ortigas Center, Pasig City.

The summarized financial information of MGI, a material associate of the Parent Company, as at and for the semester ended June 30, 2018 and for the year ended December 31, 2017 and the reconciliation with the carrying amount of the investments and advances in the interim condensed consolidated financial statements are shown below:

Summarized Statements of Financial Position

| | June 2018 | December 2017 |
|---|---|---|
| Current assets | **₱724,360** | ₱625,746 |
| Noncurrent assets | **5,004,660** | 4,964,246 |
| Total assets | **5,729,020** | 5,589,992 |
| Current liabilities | **(325,740)** | (400,884) |
| Noncurrent liabilities | **(3,059,064)** | (3,048,187) |
| Net assets | **2,344,216** | 2,140,921 |
| Proportion of the Company's ownership | **25%** | 25% |
| Carrying amount of investments | **₱586,054** | ₱535,230 |

Summarized Statements of Income

| | **For the six months ended June 30** | |
|---|---|---|
| | **2018** | 2017 |
| Revenue from sale of electricity | **₱476,236** | ₱415,958 |
| Costs of sale of electricity | **(230,671)** | (183,405) |
| Gross profit | **245,565** | 232,553 |
| Interest expense - net | **(74,209)** | (60,770) |
| General and administrative expenses | **(19,092)** | (16,778) |
| Other income (charges) - net | **235** | (167) |
| Income before income tax | **152,499** | 154,838 |
| Provision for income tax | **69** | 389 |
| Net income | **₱152,430** | ₱155,227 |
| OCI | **864** | – |
| Total comprehensive income | **₱153,294** | ₱155,227 |

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. 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 June 30, 2018 and December 31, 2017, 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. Phase 2 started its commercial operation on April 30, 2018.

The advances of ₱45.00 million granted by the Parent Company in 2015 were converted to investments in associates in 2017. In 2017, the Parent Company invested additional capital amounting to ₱80.25 million and received dividend of ₱25.00 million from MGI. No dividend was received by the Company in 2016 and 2015. In 2018, the Parent Company invested additional capital amounting to ₱12.50 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 August 7, 2018, Asia Coal is still in the process of securing a tax clearance with the BIR in connection with the filing with the SEC of its application for dissolution.

Asia Coal had no activities since it filed for the shortening of its corporate life.

<u>Interests in Joint Ventures</u>
The summarized financial information of SLTEC, a material joint venture of the Parent Company, as at and for the semester ended June 30, 2018 and year ended December 31, 2017 and the reconciliation with the carrying amount of the investment in the interim condensed consolidated financial statements are shown below:

Summarized Statements of Financial Position

| | June 2018 | December 2017 |
|---|---|---|
| Current assets | **₱5,144,893** | ₱5,367,311 |
| Noncurrent assets | **16,554,653** | 16,889,069 |
| Current liabilities | **(2,761,290)** | (2,883,687) |
| Noncurrent liabilities | **(10,897,391)** | (11,665,557) |
| Net assets | **8,040,865** | 7,707,136 |
| Proportion of the Company's ownership | **45%** | 45% |
| Parent Company's share in the net assets | **3,618,389** | 3,468,211 |
| Other adjustments* | **21,509** | 22,002 |
| Carrying amount of investment | **₱3,639,898** | ₱3,490,213 |

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

Additional Information

| | June 2018 | December 2017 |
|---|---|---|
| Cash and cash equivalents | **₱2,912,372** | ₱1,403,297 |
| Current financial liabilities* | **1,480,942** | 1,562,666 |
| Noncurrent financial liabilities | **10,890,735** | 11,653,160 |

**Excluding trade and other payables and provision.*

Summarized Statements of Income

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | 2017 |
| Revenue from sale of electricity | **₱3,954,183** | ₱3,724,363 |
| Costs of sale of electricity | **(2,701,987)** | (2,517,768) |
| Gross profit | **1,252,196** | 1,206,595 |
| General and administrative expenses | **(58,330)** | (62,485) |

*Forward*

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | 2017 |
| Interest expenses - net | **(369,291)** | (416,677) |
| Other income - net | **14,442** | 5,921 |
| Income (loss) before income tax | **839,017** | 733,354 |
| Provision for income tax | **10,830** | 9,619 |
| Net income | **828,187** | 723,735 |
| Total comprehensive income | **₱828,187** | ₱723,735 |

Additional Information

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | 2017 |
| Depreciation and amortization | **₱370,950** | ₱370,677 |
| Dividend received | **222,506** | 290,225 |
| Interest income | **25,005** | 25,721 |
| Interest expense | **391,328** | 442,398 |

The Company received a dividend from SLTEC during the first semester of 2018 and in the year 2017 amounting to ₱222.51 million and ₱1,057 million, respectively.

On October 29, 2011, SLTEC signed the Omnibus Loan and Security Agreement with its local third party creditor banks with the Parent Company and AC Energy as Project Sponsors.

Under the terms of the Agreement, the Parent Company shall:

- enter into supply agreements with end users sufficient to cover such capacity required by SLTEC to break-even for two years, within 18 months from first drawdown. The consequence of failure is a draw-stop, which means SLTEC will not be able to draw on the loan;
- commit to provide advances to SLTEC in proportion to the Parent Company's equity interest in SLTEC to fund the project cost of the SLTEC power plant project;
- guarantee jointly with AC Energy to redeem the loan in the event that SLTEC defaults on the loan, and lenders are not able to consolidate title to the project site because title to the properties have not been issued; and
- pledge its shares in SLTEC as security, and assign its offtake contracts to the lenders sufficient to cover such capacity required by SLTEC to break-even.

In accordance with the Joint Venture Agreement, AC Energy made an additional investment in SLTEC amounting to ₱61.08 million in 2011. The Company's share in the additional investment made by AC Energy amounting to ₱30.54 million was recorded under "Other equity reserve" account in the 2011 consolidated statement of changes in equity. From 2012 to 2014, SLTEC incurred stock issuance costs totaling ₱22.80 million which were recognized by SLTEC as a reduction from its APIC and Retained earnings. Of this amount, ₱11.40 million which represents the Company's share in the said costs, was recognized equally as a reduction from the Company's other equity reserve account and retained earnings.

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. 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. As a result, the other equity reserve was reduced to ₱17.23 million.

## 11. Goodwill and Other Intangible Assets

Changes in goodwill and other intangible assets for the semester ended June 30, 2018 and for the year ended December 31, 2017 are as follows:

| | **June 2018** | | | |
|---|---|---|---|---|
| | **Leasehold Rights** | **Deferred Exploration Costs** | **Goodwill** | **Total** |
| Cost: | | | | |
| Balance at beginning of year | **₱99,839** | **₱132,450** | **₱234,152** | **₱466,441** |
| Cash calls | **–** | **3,120** | **–** | **3,120** |
| Balance at end of the period | **99,839** | **135,570** | **234,152** | **469,561** |
| Accumulated depreciation: | | | | |
| Balance at beginning of year | **58,690** | – | **–** | **58,690** |
| Amortization | **8,094** | – | **–** | **8,094** |
| Balance at end of the period | **66,784** | – | **–** | **66,784** |
| Accumulated impairment | | | | |
| Balance at beginning of year | – | **27,605** | **–** | **27,605** |
| Provisions | – | **48,263** | **–** | **48,263** |
| Balance at end of the period | – | **75,868** | **–** | **75,868** |
| Net book value | **₱33,055** | **₱59,702** | **₱234,152** | **₱326,909** |

| | December 2017 | | | |
|---|---|---|---|---|
| | Leasehold Rights | Deferred Exploration Costs | Goodwill | Total |
| Cost: | | | | |
| Balance at beginning of year | ₱99,839 | ₱122,222 | ₱234,152 | ₱456,213 |
| Cash calls | – | 10,105 | – | 10,105 |
| Others | – | 123 | – | 123 |
| Balance at end of year | 99,839 | 132,450 | 234,152 | 466,441 |
| Accumulated depreciation: | | | | |
| Balance at beginning of year | 42,500 | – | – | 42,500 |
| Amortization | 16,190 | – | – | 16,190 |
| Balance at end of year | 58,690 | – | – | 58,690 |
| Accumulated impairment: | | | | |
| Balance at beginning of year | – | 22,713 | – | 22,713 |
| Provisions | – | 4,892 | – | 4,892 |
| Balance at end of year | – | 27,605 | – | 27,605 |
| Net book value | ₱41,149 | ₱104,845 | ₱234,152 | ₱380,146 |

<u>Leasehold Rights and Goodwill</u>
The leasehold rights and goodwill arose from PHINMA Power's acquisition of the entire outstanding shares of stocks of One Subic Power in 2014. One Subic Power and SBMA has an existing Facilities Lease Agreement (FLA) for a period of five (5) years up to July 19, 2020, as amended, with the option to extend subject to mutually acceptable terms and conditions. On December 21, 2017, the SBMA Board approved and ratified the amendment of the Facilities Lease Agreement extending the lease term until July 19, 2030.

As at June 30, 2018 and December 31, 2017, the leasehold rights have a remaining useful life of 2 years and 2.5 years, respectively.

*Impairment Testing of Goodwill*
The goodwill acquired through business combination was allocated for impairment testing to One

Subic Power's power plant operations, this being the CGU. The recoverable amount of goodwill in the CGU was determined using the value in use approach calculated using all cash flow projections related to CGU based on the financial budgets and forecasts approved by the BOD, which management believes are reasonable and are management's best estimate of the ranges of economic conditions that will exist over the remaining useful life of the asset. The pre-tax discount rates of 8.15% and 9.44% in 2017 and 2016, respectively, were applied based on the weighted average cost of capital adjusted for the difference in currency and specific risks associated with the business of the CGU.

The recoverable amount exceeded the carrying amount of the CGU and, as a result, no impairment was recognized for the semester ended June 30, 2018 and for the year ended December 31, 2017.

Deferred Exploration Costs

The balance of deferred exploration costs as at June 30 and December 31 consists of expenditures incurred in the following production-sharing petroleum and geothermal projects:

| | **June 2018** | December 2017 |
|---|---|---|
| *Petroleum and gas:* | | |
| SC 51/Geophysical Survey and Exploration Contract (GSEC) No. 93 (East Visayas) | **₱32,666** | ₱32,666 |
| SC 69 (Camotes Sea) | **15,597** | 15,597 |
| SC 6 (Northwest Palawan) | **27,158** | 27,022 |
| SC 55 (Southwest Palawan) | **5,714** | 5,714 |
| SC 52 (Cagayan Province) | **10,994** | 10,994 |
| SC 50 (Northwest Palawan) | **11,719** | 11,719 |
| *Geothermal:* | | |
| SC 8 (Mabini, Batangas) | **31,722** | 28,738 |
| *Hydropower:* | | |
| SC 467 (Pililia, Rizal) | – | – |
| SC 465 (Ilagan, Isabela) | – | – |
| | **135,570** | 132,450 |
| Allowance for impairment losses | **(75,868)** | (27,605) |
| Net book value | **₱59,702** | ₱104,845 |

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 2018, the Company provided for probable losses on deferred exploration costs for SC 51 amounting to ₱32.67 million due to deemed expiration of the exploration period, and for SC 69 amounting to ₱15.6 million, due to vigorous opposition of stakeholders and recent issuances of concerned LGUs declaring the Visayan Sea as a protected area and marine reserve.

In 2017, the Company assessed and fully provided for probable losses for deferred exploration costs pertaining to SC 6-B amounting to ₱4.89 million due to the relinquishment of PHINMA Petroleum's participating interest, but not the carried interest, to its partners. The Company also fully provided for probable losses on the deferred exploration costs of SC 50 and SC 52 amounting to ₱11.72 million and ₱10.99 million, respectively, in 2016 due to the expiration of their terms and subsequent denial of the DOE of the request for Force Majeure.

In 2016, the Company also wrote-off deferred exploration costs related to its hydropower service contracts amounting to ₱1.19 million due to the expiration of the pre-development term of two years and non-appeal on the denial by the DOE of the Company's request for increase in capacity.

No impairment was recognized for the other SCs as management believes that extensions and moratoriums requested that are pending approval by the DOE as of August 7, 2018 will be eventually approved based on prior years' experience. No impairment losses were recognized on deferred exploration costs in 2015.

The following summarizes the status of the foregoing projects:

a. SC 51/GSEC 93 (East Visayas)

In April 2012, the Operator, Otto Energy Investments Ltd. (Otto Energy) [formerly "NorAsian Energy Ltd."] commenced a 100-kilometer (km) 2D seismic program in the town of San Isidro, Leyte primarily to pick the optimum location for the drilling of the Duhat prospect, which reservoir objective was not reached by the Duhat-1 and Duhat-1A wells in 2011.

In mid-May 2012, the foreign seismic acquisition contractor unilaterally suspended its field operations as instructed by its government.

In view of said development, the DOE granted on September 30, 2012 the consortium's request for a six-month extension of the current Sub-Phase 4 to January 31, 2013.

The 2D seismic survey resumed after a one-month suspension and was completed on October 1, 2012. Data processing was completed by December 31, 2012.

The consortium elected to enter Sub-Phase 5 (January 31, 2013 to January 31, 2014) with the drilling of Duhat-2 well in Northwest Leyte as work commitment.

Swan Oil and Gas Ltd. (Swan) withdrew from SC 51 in September 2012 after settling disputes over the North Block (Northwest Leyte) and the South Block (Cebu Strait) with Otto Energy and Filipino partners (remaining members of the consortium), respectively. Consequently, the 40% participating interest of Swan in the North Block reverted to Otto Energy, and as between Otto Energy and Filipino partners, the latter retained 100% interest in the South Block.

The Filipino partners signed a Farm-in Option Agreement with Frontier Oil Corporation (Frontier Oil) over the South Block on October 23, 2012. Under the said Agreement, Frontier Oil has the option to acquire 80% participating interest in the area by undertaking to drill the Argao-1 well at its sole cost during Sub-Phase 6 of SC 51 (January 31, 2015 to July 8, 2015). Frontier Oil may exercise its option not later than January 31, 2013, which was extended to February 28, 2013. The Farm-in Option Agreement lapsed since the option was not exercised by Frontier Oil.

On July 24, 2013, Otto Energy spudded the Duhat-2 well in Northwest Leyte but prematurely plugged and abandoned the well on July 26, 2013 at a depth of 201 meters for safety and environmental reasons, after encountering a high-pressure water zone. Otto Energy completed the demobilization for the Duhat-2 well on August 30, 2013 and conducted post-well studies. The new information will be considered in any future decisions on SC 51. The consortium requested the DOE a six-month extension of the current exploration Sub-Phase 5 to July 31, 2014 to be able to conduct post-well geological, geophysical and drilling studies. The DOE approved the foregoing request on November 7, 2013.

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

On June 28, 2014, the Filipino partners requested the DOE for suspension of the exploration of Sub-Phase 5 from the date Otto Energy notified the DOE of its withdrawal from SC 51 until the DOE approves the transfer of Otto Energy's participating interest to the Filipino partners.

On May 11, 2015, DOE approved the request for an extension of Sub-Phase 5 to July 8, 2016. On March 3, 2017 and December 20, 2017, the Filipino partners reiterated their intent to carry on with the exploration of SC 51, following Otto Energy's withdrawal from the block and consequent resignation as Operator. They further signed and executed a Deed of Undertaking to pay the outstanding financial obligation of Otto Energy amounting to US$124,763, subject to the approval of the transfer of interest from Otto Energy to the continuing parties, the extension of the term of the contract, and the revision of work program from drilling of a well to the conduct of pore pressure prediction study and gravity survey. Of this amount, PHINMA Petroleum's share is US$41,596, which is equivalent to the pro-rata amount of liability using its post-adjustment ownership interest.

The Filipino partners submitted to the DOE a revised Deed of Undertaking assuming the outstanding training fund obligation of the previous Operator, Otto Energy to enable transfer of latter's interests to the continuing parties. The Deed is subject to an extension of the contract term and conduct of gravity survey and pore pressure studies prior to exploratory drilling.

On May 15, 2018, PHINMA Petroleum formally notified the DOE of its withdrawal from SC 51. PHINMA Petroleum further advised that it will no longer pursue its entitlement to Otto Energy's participating interest under the Deed of Undertaking dated March 2, 2017.

Said withdrawal is currently being evaluated by the DOE.

PHINMA Petroleum holds 6.67% participating interest in SC 51.

b. SC 69 (Camotes Sea)

Interpretation of the 229-square kilometers (sq. km.) 3D seismic data acquired in June 2011 generated three drillable prospects.

The DOE granted the consortium's request for a nine-month extension of Sub-Phase 3 to May 7, 2013 to allow completion of technical studies.

On April 4, 2013, the DOE granted the consortium's request for a further six-month extension of Sub-Phase 3 to November 6, 2013 to allow completion of technical studies and initiate farm-out efforts.

On August 23, 2013, the Operator, Otto Energy (Philippines) Inc. (Otto Philippines), confirmed to PHINMA Petroleum that it did not intend to enter Sub-Phase 4 of SC 69 and will reassign 9% participating interest in SC 69 to PHINMA Petroleum pursuant to the Assignment Agreement dated February 3, 2011.

Following an unsuccessful campaign to farm out its participating interest, Otto Philippines notified PHINMA Petroleum and Frontier Gasfields Pty. Ltd. (Frontier Gasfields) of its withdrawal in SC 69 on October 4, 2013. PHINMA Petroleum and Frontier Gasfields subsequently jointly requested the DOE a six-month extension of the October 7, 2013 deadline to elect to enter the next exploration sub-phase, which started on November 7, 2013. An additional extension of the contract term to December 31, 2014 was requested due to the delays in the transfer of participating interests and operatorship to the remaining partners.

Following DOE approval of the assignment of Otto Philippines' interests to PHINMA Petroleum and Frontier Gasfields on October 14, 2014, PHINMA Petroleum's participating interest in SC 69 was adjusted from the current 6% to 50%.

On March 17, 2014, the parent Company and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until December 31, 2014.

The DOE extended the term of Sub-Phase 3 to May 7, 2014 to enable the remaining parties to proceed with planned exploration activities and PHINMA Petroleum was designated as Operator of SC 69.

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

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

As at December 29, 2017, the DOE approved on the consortium's request for Force Majeure condition in the block after the latter's submission of a detailed plan of activities covering permitting efforts for a proposed offshore seismic survey in the area.

Permitting activities and stakeholders' evaluation are continued in relation to the conduct of seismic survey in the contract area.

On June 4, 2018, PHINMA Petroleum formally notified the DOE of the consortium's relinquishment of the block in light of several oppositions to the Project from various stakeholders; and the recent issuances of local Ordinances and Resolutions for the protection, conservation and declaration of Visayan Sea as a national protected area and marine reserve.

Said relinquishment is currently being evaluated by the DOE.

PHINMA Petroleum holds 50% participating interest in SC 69.

c. SC 6 (Northwest Palawan)

Block A

Pitkin Petroleum Plc. (Pitkin), the Operator, completed a geophysical review of the block.

The partners for SC 6 Block A approved the conduct of a new 500-sq. km. 3D seismic program over selected prospects and leads in the first half of 2013, subject to issuance of local government permits.

Under the Farm-in Agreement dated July 11, 2011, Pitkin shall carry PHINMA Energy and the other non-operating consortium members in the costs of said seismic program and the drilling of two wells, in exchange for the assigned 70% participating interest.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed bathymetry and 3D seismic survey over the area to the Palawan Council for Sustainable Development (PCSD).

Pitkin completed a 500-sq. km. 3D seismic survey over selected prospects and leads.

Pitkin notified the partners on August 28, 2014 that it shall not exercise its option under the Farm-in Agreement to drill a well in the block and will withdraw from the block by December 31, 2014. By December 31, 2014, Pitkin completed geological and geophysical work programs in fulfillment of its obligations under the first exploration phase. The remaining partners agreed to pursue the geological evaluation of the block.

On August 28, 2015, the consortium completed its work program consisting of geological and geophysical evaluation.

On November 3, 2015, the DOE approved the 2016 work program consisting of specialized geophysical studies. The pertinent geophysical program commenced in November 2015 and was completed by December 31, 2016.

On December 20, 2016, the consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies. On February 13, 2017, the program was approved by the DOE. The work program of advanced seismic data reprocessing and quantitative seismic inversion study was completed in December 2017. The studies yielded significant improvement in the imaging of complex and deeper geological structures.

The consortium completed its 2017 work program consisting of advanced seismic data processing and quantitative inversion study.

On January 8, 2018, the consortium submitted to the DOE its proposed 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates.

As at March 31, 2018, the DOE approved its proposed 2018 work program composed of seismic interpretation and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates.

As at June 30, 2018, PHINMA Petroleum continued seismic interpretation work on the reprocessed PreSDM final stack incorporating the volumes derived from Quantitative Interpretation Study. The focus of the interpretation is to identify areas where the Galoc sand reservoir is better developed.

PHINMA Petroleum's interest reverted to 7.78% from 2.334% following the withdrawal of Pitkin Petroleum, and subsequent approval of the assignment of interest by the DOE on June 24, 2015.

<u>Block B</u>
Pursuant to a Farm-in Agreement dated February 4, 2011, Peak Oil and Gas Philippines Ltd. (Australia), Blade Petroleum Philippines Ltd. (Australia) and Venturoil Philippines, Inc. ("Farminees") exercised their option to acquire 70% participating interest of the SC 6 Block B consortium, which includes PHINMA Energy ("Farmors").

Under the Farm-in Agreement, the Farminees were supposed to shoulder all the Farmors' share of exploration and development expenditures in the Block up to the production of first oil.

The DOE denied the applications for the transfer of participating interests to the Farminees and transfer of operatorship due to failure of the Farminees to comply with DOE requirements. Under the Farm-in Agreement, the Farminees would have been eligible to earn a combined 70% of the participating interest of the farming out parties. On August 7, 2013, the DOE directed the original Operator, The Philodrill Corporation, to submit a new and comprehensive work program and budget of exploration activities over the Block.

On September 13, 2013, the DOE approved the work program and budget for SC 6 Block B for the 5th year of extension period. The pertinent geological and geophysical program commenced in October 2013 and was completed in January 2014.

The consortium formulated a work program for the next five years of the extension period which started on March 1, 2014. Partners submitted, for the DOE's approval, a 3-year work program consisting mainly of geophysical studies with a corresponding budget amounting to US$724,000. The geophysical studies were completed by the third quarter of 2016.

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

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

On February 20, 2017, PHINMA Petroleum gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include its 2.475% carried Interest.

Documentation of the transfer of participating interest from PHINMA Petroleum to SC 6 Block B is in process as of August 7, 2018.

d. SC 50 (Northwest Palawan)

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

Subject to execution of said Farm-in Agreement, PHINMA Petroleum has committed to subscribe to 136,000,000 in Frontier Oil shares through the latter's planned initial public offering.

On September 1, 2014, the parent Company made advances to Frontier Oil amounting to ₱20,000,000 pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil dated August 22, 2014 subject to execution of a Farm-in Agreement and Loan Agreement among the parties not later than 30 days from date of execution of the MOA. The advances are due 24 months after the release of the funds. In the event a Loan Agreement for ₱136,000,000 is signed between PHINMA Petroleum and Frontier Oil, the advances shall be considered as initial drawdown on the Loan.

On October 16, 2014, the parent Company signed the following agreements providing for its acquisition of 10% participating interest in SC 50:

1. Farm-in Agreement with Frontier Energy and Frontier Oil
2. Deed of Assignment with Frontier Energy
3. Loan Agreement with Frontier Oil

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

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

In 2016, PHINMA Petroleum's advances to Frontier Oil amounting to ₱20 million was fully provided with an allowance for a doubtful account (see Note 7), due to the expiration of the SC's term and denial by the DOE of the request for force majeure.

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. As of August 7, 2018, negotiations between the DOE and Frontier Oil for possible reinstatement of SC 50 continues.

As of August 7, 2018, approval of the assignment of 10% participating interest in SC 50 to the Parent Company remains pending with the DOE.

e. SC 52 (Cagayan Province)

The Parent Company and Frontier Oil executed on January 12, 2012 a Farm-in Option Agreement which granted the Company the option to acquire 10% participating interest from Frontier, which may be exercised after completion of re-entry and testing of the Nassiping-2 well.

The Company desires and Frontier Oil decided to extend the option and expand its coverage to include the untested deeper prospective gas-bearing intervals in the Nassiping-2 well under the following terms:

1) The Company shall pay to Frontier Oil a total of US$400,000 (Supplemental Option Fee) as follows:

   a. US$200,000 shall be paid within 5 working days of signing of this second amendment agreement
   b. US$200,000 shall be paid within 5 working days of Company's receipt of a written notice from Frontier Oil which confirms that Frontier Oil has entered into a binding rig contract that will enable Frontier Oil to comply with the Workover Program

2) Upon payment of the Supplemental Option Fee, the Option Period shall be extended until 90 days from the date of completion of the Workover Program.

The Nassiping-2 well was drilled by Petro-Canada in 1994 but was not tested although gas shows were recorded.

Test operations conducted by Frontier Oil in February 2012 failed to establish a stable gas flow despite high surface pressure and strong initial flow rates. Frontier suspended the well for future re-entry after confirming the presence of movable gas in the target interval.

The Company and Frontier Oil signed an Amendment Agreement extending the former's option to 90 days after completion of programmed re-testing operations on the Nassiping-2 well.

The DOE approved the consortium's entry into Sub-Phase 4 (July 8, 2012 to July 8, 2013) with the Nassiping-2 Stimulation and Testing Program as work commitment.

Frontier Oil suspended the Stimulation and Testing Program in December 2012 after repeated attempts to remove a plug that would have allowed acidization of the upper test zones failed. In view of this suspension of the Stimulation and Testing Program, the Company recognized impairment loss amounting to ₱12.87 million in 2012.

Frontier Oil elected to enter Sub-Phase 5 (ending July 2014) with the deepening of the Nassiping-2 well, including the testing of all prospective gas-bearing intervals in the borehole, as one of two well obligations.

The Company and Frontier Oil signed a Second Amendment to their Farm-in Option. Agreement in July 2013 that extended the option period and expanded the coverage of the Company's option to include the untested deeper prospective gas-bearing intervals identified in the well.

On July 8, 2013, the first tranche of the supplemental option fee amounting to ₱8.7 million or US$200,000 was paid.

In December 2013, Frontier Oil signed a drilling rig contract for the deepening and testing of the Nassiping-2 well. On account of this recent development, the Company reversed in full the impairment loss in 2013. Based on the quantification of an independent expert, the expected monetary value of the contingent resources attributable to the SC 52 portion of the Nassiping Dome is US$128.7 million.

As requested by Frontier Oil, the DOE approved the extension of Sub-Phase 5 to January 8, 2015. On January 3, 2014, the second tranche of ₱8.88 million or US$200,000 was paid.

In letters dated February 10, 2015 and May 28, 2015, Frontier Oil Corporation requested the DOE a two-year moratorium on work obligations under Sub-Phase 5 which ended on July 8, 2015.

On January 13, 2016, Frontier Oil expressed its intent to pursue the company's commitments to the DOE and requested for a two-year Moratorium on SC 52. On February 2, 2016, the DOE denied Frontier Oil's request for moratorium of work commitments on the basis of Force Majeure. During 2016, the Company reclassified to receivables the option fee of ₱19.44 million recoverable upon expiration of the service contract. The option fee was fully provided with an allowance for doubtful account (see Note 7).

In December 2016, Frontier Oil, as instructed by the DOE, submitted certain documents in support of its request for Force Majeure. As at August 7, 2018, the requests for Moratorium and appeal for contract reinstatement are still pending DOE's approval.

f. SC 55 (Southwest Palawan)

On May 2, 2012, the DOE approved a twelve-month extension of exploration Sub-Phase 4 to August 5, 2013 to enable BHP Billiton Petroleum (Philippines) Corporation (BHP Billiton), the Operator, to secure a drilling rig with specialized well control equipment for the committed Cinco-1 well. The Cinco-1 well will test a large interpreted carbonate structure in 1,400 meters of water.

Palawan55 6.82% participating interest will be carried in the drilling cost of two (2) wells in the block under its Participation Agreement dated March 15, 2005 with the predecessors-in-interest of Otto Energy [formerly "NorAsian Energy Ltd."] and an Agreement with NorAsian Energy Ltd. dated February 3, 2011.

In May 2013, BHP Billiton filed a Notice of Force Majeure under SC 55 with the DOE in order to preserve the term of the current exploration sub-phase that requires the drilling of one exploratory well. It is deemed that the Force Majeure event commenced on September 7, 2012, at which time the endorsement of the Sangguniang Panlalawigan of the province of Palawan and the Strategic Environmental Plan (SEP) Clearance from the PCSD would have been released in the ordinary course of business.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed Cinco-1 drilling to the PCSD. The PCSD approved the issuance of the SEP clearance for the drilling of Cinco-1 well but BHP Billiton sought amendment and clarification on certain conditions set by PCSD. The SEP was issued by the PCSD and signed by all parties in October 2013.

BHP Billiton requested from the DOE an extension of the current Sub-Phase 4 to October 2014 to account for the Force Majeure period caused by the fourteen-month delay in issuance of the aforementioned PCSD clearance.

In November 2013, BHP Billiton verbally informed the partners of its decision not to drill a well under SC 55 and proposed to reassign its 60% participating interest to Otto Energy.

Otto Energy subsequently signed a Letter of Intent with BHP Billiton providing for the termination of their Farm-out Agreement and the reassignment of BHP Billiton's participating interest, including a cash settlement.

In January 2014, BHP Billiton and Otto Energy signed definitive agreements for the reassignment of the former's participating interest to the latter. The DOE approved the transfer of the 60% participating interest of BHP Billiton to Otto Energy Philippines, Inc. and the transfer of Operatorship to Otto Energy. The approval formalized the exit of BHP Billiton in SC 55.

Otto Energy submitted a revised work program to the DOE focused on the drilling of an ultra deepwater prospect and commenced a farm-out campaign. The new work program was subsequently approved by the DOE. On April 29, 2014, the DOE extended the term of Sub-Phase 4 to December 23, 2014. Otto Energy commenced preparations for exploratory drilling.

On October 15, 2014, Otto Energy requested the DOE a one-year extension of Sub-Phase 4 to December 23, 2015. The requested extension was approved by the DOE on November 7, 2014.

On July 31, 2015, Otto Energy commenced drilling of the Hawkeye-1 exploratory well and on August 17, 2015 completed the drilling to a total depth of 2,920 meters. The well discovered gas, which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract.

On December 22, 2015, the consortium requested the DOE for a two-year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye-1 on the remaining prospectively of the area.

On June 14, 2016, the DOE extended the term of SC 55 until December 23, 2017.

On November 21, 2016, Otto Energy and Otto Energy Philippines notified the DOE of their withdrawal from SC 55.

On November 22, 2017, Palawan55 notified the DOE of its willingness to assume its pro-rata, post-adjustment share (37.50%) amounting to US$ 64,613 of Otto Energy's outstanding training fund obligation of US$ 172,300 in conjunction with the DOE's approval of the assignment of interests and favorable consideration for a reasonable extension of the moratorium period that would allow execution of the committed technical studies.

On March 26, 2018, the DOE approved the transfer of interests from Otto Energy to the continuing parties; and the operatorship of Palawan55 Exploration & Production Corporation, subsidiary of Phinma Petroleum and Geothermal, Inc.

As at June 30, 2018, Palawan55 commenced preparatory works for the committed specialized geophysical studies (i.e. Quantative Interpretation and lithology and petrophysical modelling) that would reassess the prospectivity of SC 55 in light of the gas discovery in Hawkeye -1 well.

Palawan55 started project planning, technical data inventory and retrieval.

Palawan55 actively scouted for and continued advanced technical discussions, project scoping and cost estimation works with prospective geophysical contractor, aimed at consummating a final contract satisfactory in both technical and commercial terms. Two contractors initially shortlisted are DownUnder Geosolutions and IKON Science.

Palawan55 Exploration & Production Corporation now holds 37.50% participating interest in SC 55 as a result of the transfer of interests.

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, One Subic Oil, then TA Gold, and PHINMA Energy entered into an Operating Agreement where PHINMA Energy granted unto and in favor of One Subic Oil the exclusive right to explore, develop and operate for commercial mineral production the Property under the MPSA.

In June 2009, PHINMA Energy received a notice of an Order of the Secretary of the DENR excising portions of the MPSA area that are covered by alleged mineral patents of a third party for which PHINMA Energy filed a Motion for Reconsideration for the said Order.

In December 2009, the DENR denied PHINMA Energy's Motion for Reconsideration. PHINMA Energy filed a timely Appeal of the DENR's ruling with the Office of the President, which was also denied. PHINMA Energy then elevated the case to the Court of Appeals.

PHINMA Energy signed an Agreement on October 18, 2011 for the assignment of the MPSA to Investwell Resources, Inc. (Investwell), subject to certain conditions for a total consideration of US$4.00 million payable in four tranches. The receipt of the first nonrefundable tranche amounting to US$0.50 million (₱21.93 million) was recognized as income in 2011. The receipt of the second and third nonrefundable tranches amounting to US$1.00 million (₱42.20 million), net of the related deferred exploration cost of ₱11.47 million, was also recognized as income in the year payments were received.

On October 30, 2012, the Court of Appeals granted PHINMA Energy's petition to reverse and set aside the resolutions of the DENR and the Office of the President that ordered and affirmed, respectively, excision of certain areas covered by alleged mining patents of a third party from the contract area of the MPSA. Subsequently, PHINMA Energy elevated the case to the Supreme Court.

In Agreements dated May 29, 2012, March 19, 2013, June 25, 2013 and December 18, 2013, PHINMA Energy and Investwell amended and restructured the payment of the fourth tranche of the total consideration.

The DENR approved on February 7, 2013 the assignment of the MPSA to Investwell, and PHINMA Energy recognized US$0.87 million (₱37.93 million) income representing a portion of the final tranche.

On January 12, 2015, the Supreme Court ruled that the rights pertaining to mining patents issued pursuant to the Philippine Bill of 1902 and existing prior to November 15, 1935 are vested rights that cannot be impaired by the MPSA granted by the DENR to PHINMA Energy on July 28, 2007.

As at December 31, 2016 and 2015, receivable from Investwell amounted to ₱39.37 million (see Note 7). In 2014, PHINMA Energy provided an allowance for impairment for the full amount of receivable from Investwell since the latter did not comply with the restructured payment schedule.

Mabini Geothermal Service Contract (Batangas)
On December 3, 2013, PHINMA Energy signed a MOA with Basic Energy Corporation (Basic),

under which PHINMA Energy shall acquire from Basic a 10% participating interest in the Mabini Geothermal Service Contract, which interest may be increased up to 40%, at the option of PHINMA Energy, after PHINMA Energy completes a gravity program in the contract area at its sole cost.

The DOE approved on September 1, 2015 a one-year extension of Contract Year 8 to July 10, 2016 with a one-well drilling obligation. On September 15, 2015, the DOE approved the transfer of 25% participating interest in subject GSC from Basic to PHINMA Energy.

Preparations for the drilling commenced in the fourth quarter of 2015. The consortium completed the drilling program of MAB-1 well in March 2017.

Other field operations were stopped indefinitely due to Cease-and-Desist Order issued by the Mabini Mayor in light of the series of earthquakes that hit the town in April 2017.

The Consortium invoked the Force Majeure provision in the Contract and requested the DOE for the suspension of work obligation due to Force Majeure. The request is still under DOE evaluation.

On November 29, 2017, the DOE approved the work program consisting of Information and Education Campaigns (IEC) and permitting works.

As at August 7, 2018, the Consortium holds continuing IEC together with the DOE and PHIVOLCS to obtain support from the local government units towards lifting of the Cease-and-Desist Order.

Pililia Hydropower Service Contract (Rizal)
PHINMA Energy requested for the reinstatement of Pililia Hydropower Service Contract and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

PHINMA Energy also requested a three-year extension of the pre-development stage of the service contract and as at August 7, 2018, still waiting for the response from the DOE.

Ilagan Hydropower Service Contract (Isabela)
PHINMA Energy requested for the reinstatement of Ilagan Hydropower Service Contract and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

PHINMA Energy also requested approval for increase in capacity but was denied by the DOE in its letter dated July 8, 2016 due to adverse effect to other service contract applications covering areas upstream of the project site. PHINMA Energy did not appeal the DOE’s decision, thus the service contract is deemed terminated.

## 12. Other Non-current Assets

| | **June 2018** | December 2017 |
|---|---|---|
| Receivables from third parties | **₱494,884** | ₱650,627 |
| Prepaid rent | **48,822** | 55,497 |
| Deposit receivables from suppliers | **42,945** | 27,930 |
| Balance at end of the period | **₱586,651** | ₱734,054 |

Receivables from third parties include an interest bearing receivable collectible until April 2021 and non-interest bearing receivables from NGCP arising from the sale of transmission assets, which are collectible annually within 3 years, discounted using the Philippine Dealing System Treasury Reference Rate (PDST-R2) on transaction date ranging from 2.14% - 4.56%.

Prepaid rent pertains to easements and right of way agreements with land owners in Guimaras for the transmission lines connecting its 54 MW wind farm project located in San Lorenzo, Guimaras to the grid.

Deposit receivables include deposits to distribution utilities outstanding as at June 30, 2018 and December 31, 2017.

## 13. Accounts Payable and Other Current Liabilities

| | **June 2018** | December 2017 |
|---|---|---|
| Trade (see Note 22) | **₱1,727,559** | ₱1,639,792 |
| Due to related parties (see Note 20) | **908,430** | 1,187,845 |
| Deferred revenue - current portion | **405,754** | 402,447 |
| Accrued interest expenses | **129,685** | 133,983 |
| Nontrade (see Note 22) | **106,958** | 114,645 |
| Accrued expenses | **55,145** | 214,339 |
| Output VAT | **46,306** | 145,486 |
| Finance lease obligations - current portion | **28,954** | 14,328 |
| Retention payables | **3,630** | 2,867 |
| Accrued directors' and annual incentives (see Note 20) | **1,021** | 19,757 |
| Others | **6,633** | 7,004 |
| | **₱3,420,075** | ₱3,882,493 |

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

Trade payables refer to liabilities to suppliers of electricity and fuel purchased by the Company.

Deferred revenue pertains to the upfront payment received from a customer in consideration of the contract amendments and modifications. The deferred revenue shall be amortized over the remaining term of the contract.

Nontrade payables include liabilities for various purchases such as additions to property, plant and equipment and spare parts.

Accrued expenses include insurance, sick and vacation leave accruals, station use and One Subic Power variable rent at SBMA and accruals for incentive pay.

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.

Retention payables pertain to amounts retained from liabilities to suppliers and contractors.

Others consist of liabilities to employees, statutory payables, deposit payables and a derivative liability.

## 14. Long-term Loans

As at June 30 and December 31, this account consists of:

| | **June 2018** | December 2017 |
|---|---|---|
| PHINMA Renewable term loan facility | **₱1,699,088** | ₱1,732,558 |
| PHINMA Energy long term loans | **5,082,580** | 5,156,291 |
| | **6,781,668** | 6,888,849 |

*Forward*

| | **June 2018** | December 2017 |
|---|---|---|
| Add premium on long-term loans (embedded derivative) | **5,135** | 6,009 |
| Less unamortized debt issue costs | **40,504** | 45,482 |
| | **6,746,299** | 6,849,376 |
| Less current portion of long-term loans (net of unamortized debt issue costs) | **1,213,557** | 226,949 |
| Noncurrent portion | **₱5,532,742** | ₱6,622,427 |

Movements in derivatives and debt issue costs related to the long-term loans follow:

| | Derivatives | Debt Issue Costs |
|---|---|---|
| As at January 1, 2017 | ₱7,722 | ₱72,871 |
| Additions | – | 11,750 |
| Amortization for the period | (1,713) | (39,139) |
| As at December 31, 2017 | ₱6,009 | ₱45,482 |
| Additions | – | – |
| Amortization for the period | (874) | (2,471) |
| **As at June 30, 2018** | **₱5,135** | **₱43,011** |

PHINMA Renewable
On December 18, 2013, PHINMA Renewable entered into a ₱4.3 billion Term Loan Facility with Security Bank Corporation (SBC) and Development Bank of the Philippines (DBP). The proceeds were used to partially finance the 54 MW San Lorenzo Wind Farm composed of 27 2 MW wind turbine generators and related roads, jetty, substations, transmission line facilities and submarine cable to connect to the grid. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of 15 years with semi-annual interest payments starting on the date on which the loan is made. The Tranche A's interest is to be fixed at the higher of 10-year PDS Treasury Fixing (PDST-F) plus a spread of 1.625% or 6.25% for the first 10 years, to be repriced at higher of 5-year PDST-F plus a spread of 1.25% or 6.25% for the last 5 years. The Tranche B will be fixed at higher of interpolated 15-year PDST-F plus a spread of 1.625% or 6.5%. The interest rate floor on the loan is an embedded derivative that is required to be bifurcated. In 2013, the Company did not recognize any derivative liability arising from the bifurcated interest floor rate since the fair value is not significant.

On April 1, 2015, the publication of PDST-F rates ceased pursuant to the memo of the Bankers Association of the Philippines (BAP) dated January 8, 2015. Subsequently, the parties agreed to adopt PDST-R2 as benchmark rate in lieu of PDST-F rates.

The loan facility also contains a prepayment provision which allows PHINMA Renewable to make optional prepayment for both Tranche A and Tranche B in the amount calculated by the facility agent as accrued interest and other charges on the loan up to the prepayment date plus, the higher of a) the principal amount of the loan being prepaid, or b) the amount calculated as the present value of the remaining principal amortizations and interest payments on the loan being prepaid, discounted at the comparable benchmark tenor as shown in the Philippine Dealing and Exchange Corporation (PDEx) Market Page, Reuters and the PDS website (www.pds.com.ph ) at approximately 11:16 am on the business day immediately preceding the prepayment date. In addition, PHINMA Renewable is allowed to prepay the Tranche A loan, without penalty or breakfunding cost, on the interest re-pricing date. The prepayment option was assessed as closely related to the loan and, thus, was not bifurcated.

On April 28, 2016, the Company prepaid ₱150.50 million of its long-term debt in accordance with the terms of the Agreement as 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 PHINMA Renewable defaults on the loan and titles to the project properties have not been issued to PHINMA Renewable or notwithstanding such titles, lenders fail to acquire title to the project properties due to lack of annotation or third party claims.

The loan agreement provides loan disbursement schedule for the drawdown of the loan. PHINMA Renewable made the following drawdowns during the years 2015 and 2014 with the corresponding carrying values as at June 30, 2018 and December 31, 2017:

| | **June 2018** | | | |
|---|---|---|---|---|
| | **Tranche A (DBP)** | | **Tranche B (SBC)** | |
| Drawdown date | **Gross Amount** | **Carrying value [a]** | **Gross Amount** | **Carrying value [b]** |
| February 14, 2014 | **₱122,492** | **₱122,578** | **₱122,492** | **₱121,428** |
| May 27, 2014 | **217,325** | **216,602** | **217,325** | **215,682** |
| August 5, 2014 | **217,325** | **217,925** | **217,325** | **215,758** |
| September 2, 2014 | **197,568** | **197,450** | **197,568** | **196,221** |
| July 30, 2015 | **94,834** | **90,428** | **94,834** | **90,401** |
| | **₱849,544** | **₱844,983** | **₱849,544** | **₱839,490** |

| | December 2017 | | | |
|---|---|---|---|---|
| | Tranche A (DBP) | | Tranche B (SBC) | |
| Drawdown date | Gross Amount | Carrying value [a] | Gross Amount | Carrying value [b] |
| February 14, 2014 | ₱124,905 | ₱124,739 | ₱124,905 | ₱123,732 |
| May 27, 2014 | 221,606 | 220,587 | 221,606 | 219,788 |
| August 5, 2014 | 221,606 | 221,739 | 221,606 | 219,870 |
| September 2, 2014 | 201,460 | 201,022 | 201,460 | 199,964 |
| July 30, 2015 | 96,701 | 91,955 | 96,701 | 91,932 |
| | ₱866,278 | ₱860,042 | ₱866,278 | 855,286 |

[a] *Net of unamortized debt issue costs of ₱4.56 million.*

[b] *Net of unamortized debt issue costs of ₱10.05 million..*

During the first semester of 2018 and for the year 2017, PHINMA Renewable made the following payments with their corresponding carrying values:

| | Tranche A (DBP) | | Tranche B (SBC) | |
|---|---|---|---|---|
| Payment date | Gross Amount | Carrying value | Gross Amount | Carrying value |
| April 28, 2016 | ₱75,250 | ₱63,722 | ₱75,250 | ₱69,364 |
| January 11, 2017 | 1,175,000 | 1,169,712 | 1,175,000 | 1,172,004 |
| February 14, 2017 | 16,735 | 16,422 | 16,735 | 16,558 |
| August 14, 2017 | 16,735 | 15,093 | 16,735 | 15,809 |
| February 24, 2018 | 16,735 | 15,047 | 16,735 | 15,786 |
| | ₱1,300,455 | ₱1,279,996 | ₱1,300,455 | ₱1,289,521 |

The loan's principal repayment is variable amount payable semi-annually; amount of principal repayment to be determined during the due diligence stage based on the required debt service coverage ratio (DSCR) and financial projections using the Financial Model validated by an independent financial model auditor. Any incremental revenue resulting from a subsequent increase in the applicable FIT rate shall be applied to principal repayment of the loan in the inverse order of maturity. Incremental revenue is the difference in the revenue based on existing FIT rate of ₱7.40/kwh and a new base rate as defined by the relevant government agency excluding annual adjustments to account for inflation and foreign exchange movements.

Under the loan facility agreement, PHINMA Renewable must maintain a debt service account into which will be paid the maximum interest forecasted to be due and payable for the next two following payment dates that will fall within the construction period and the amount of debt service after the construction period. The funds in the debt service reserves can be used by the Company provided that 30 days prior to payment, the fund is replenished.

*Covenants.* The Term Loan Facility includes, among others, certain restrictive covenants and requirements with respect to the following, effective upon commercial operations of PHINMA Renewable:

(a) Minimum DSCR post dividend declaration of 1.20x throughout the term of the loan
(b) Limitation on investments (not to enter into joint ventures, partnership; create subsidiary/branch)
(c) Restricted payments (not to distribute dividends, make payments to affiliates)

PHINMA Renewable is in compliance with loan covenants as at June 30, 2018 and December 31, 2017.

The loan facility is secured by PHINMA Renewable's wind farm, included in "Machinery and equipment" account under "Property, plant and equipment" with carrying value amounting to ₱4,412.53 million and ₱4,443.22 million as at June 30, 2018 and December 31, 2017, respectively (see Note 9). 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 | June 2018 | December 2017 |
|---|---|---|---|---|
| ₱1.50 billion loan with China Banking Corporation (CBC) | The higher of 7-year PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years, the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate. | Availed on April 14, 2014, payable in quarterly installment within 10 years to commence 1 year after the first interest payment date with final repayment in April 10, 2024; contains negative pledge | **₱1,403,681** | ₱1,418,673 |
| ₱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 | **939,172** | 948,656 |
| ₱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 | **466,170** | 470,875 |
| ₱1.18 billion loan with SBC | Fixed at a rate of 6.50% per annum which shall be payable at the end of the interest period of six months | Availed on January 11, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment in July 11, 2029; contains negative pledge | **1,126,395** | 1,147,917 |
| ₱1.18 billion loan with DBP | Fixed at a rate of 6.00% for the first 7 years; repricing for the last 5.5 years, the higher of 5-year PDST-R2 plus a spread of 1.625% or 6.25% | Availed on January 10, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment in July 10, 2029; contains negative pledge | **1,126,408** | 1,147,927 |
| Carrying value (net of unamortized debt issue costs and embedded derivatives) | | | **₱5,061,826** | ₱5,134,048 |

In the first semester of 2018 and for the year 2017, principal repayments made relative to PHINMA Energy's loans amounted to ₱107.18 million and ₱103.71 million, respectively.

PHINMA Energy's long-term loans also contain prepayment provisions as follows:

| Description | Prepayment provision |
|---|---|
| ₱1.50 billion loan with CBC | Early redemption is at the option of the issuer exercisable anytime at par plus break-funding cost.<br><br>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 |

| Description | Prepayment provision |
|---|---|
| | with break-funding cost, which in no case is less than zero. |
| ₱1.00 billion loan with SBC | Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal. |
| ₱0.50 billion loan with BDO | Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal. |
| ₱1.18 billion loan with SBC | Early redemption is at the option of the issuer exercisable on an interest payment date at par plus break-funding cost. Transaction cost is minimal. |
| ₱1.18 billion loan with DBP | Early redemption is at the option of the issuer exercisable on the interest repricing date (8th anniversary of the drawdown date). Prepayment amount is at par. If redemption is exercised on a date that is not the interest repricing date, prepayment amount is at par plus break-funding cost. Transaction cost is minimal. |

The prepayment option on all loans except for the ₱1.00 billion loan with SBC were assessed as closely related and, thus, not required to be bifurcated. For the ₱1.00 billion loan with SBC, the prepayment option was assessed as not closely related but was not bifurcated because the prepayment option has nil or very minimal value since it is deeply out of the money.

*Covenants.* Under the loan agreements, PHINMA Energy has certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control.

| Description | Covenants |
|---|---|
| ₱1.50 billion loan with CBC | (a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity<br>(b) Maximum Debt to Equity ratio of 1.5 times |
| ₱1.00 billion loan with SBC | (a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity<br>(b) Maximum Debt to Equity ratio of 2.0 times<br>Minimum Current ratio of 1.0 times |
| ₱0.50 billion loan with BDO | (a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity<br>(b) Maximum Debt to Equity ratio of 1.5 times |
| ₱1.18 billion loan with SBC | (a) Minimum DSCR of 1.0 times<br>(b) Maximum Consolidated Debt to Equity ratio of 1.5 times<br>(c) Minimum Current ratio of 1.0 times |

| | |
|---|---|
| ₱1.18 billion loan with DBP | (a) Minimum DSCR of 1.0 times<br>(b) Maximum Consolidated Debt to Equity ratio of 1.5 times<br>(c) Minimum Current ratio of 1.0 times |

In addition, there is also a restriction on the payment or distribution of dividends to its stockholders other than dividends payable solely in shares of its capital stock if payment of any sum due the lender is in arrears or such declaration, payment or distribution shall result in a violation of the financial ratios prescribed.

As at June 30, 2018 and December 31, 2017, the Company is in compliance with the terms as required in the loan covenants.

Total interest expense recognized on PHINMA Energy's and PHINMA Renewable's loans amounted to ₱206.00 million, and ₱264.46 million for the first semester ended June 30, 2018 and 2017, respectively.

## 15. Other Noncurrent Liabilities

| | **June 2018** | December 2017 |
|---|---|---|
| Deferred revenue - noncurrent portion | **₱185,923** | ₱387,146 |
| Deposit payable | **169,174** | 218,421 |
| Finance lease obligation- noncurrent portion | **52,210** | 63,839 |
| Accrued expenses | **12,781** | 12,594 |
| | **₱420,088** | ₱682,000 |

Deferred trading revenue pertains to unearned portion of revenue outstanding as of the end of the semester.

Deposit payables consist of security deposits from RES Customers refundable at the end of the contract.

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.

Accrued expenses pertains to accrual of asset retirement obligation and various provisions.

## 16. Equity

Capital Stock

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

| | Number of Shares | |
|---|---|---|
| | **June2018** | December 2017 |
| Authorized capital stock - ₱1 par value | **8,400,000,000** | 8,400,000,000 |
| | | |
| Issued shares: | | |
| Balance at beginning of the period | **4,889,774,922** | 4,885,897,908 |
| Issuance during the period - Exercise of stock options | – | 3,877,014 |
| Balance at end of the period | **4,889,774,922** | 4,889,774,922 |

The issued and outstanding shares as at June 30, 2018 and December 31, 2017 are held by 3,192 and 3,196 equity holders, respectively.

On November 16, 2009, in a special stockholders' meeting, the Parent Company's stockholders approved the increase in the Parent Company's authorized capital stock from ₱2.0 billion divided into 2 billion shares, to ₱4.2 billion divided into 4.2 billion shares which shall be funded through stock rights offering (SRO). On March 30, 2011, the SEC approved the SRO of 1.165 billion shares of the Parent Company at the rate of seven shares for every 10 shares held as at record date of May 18, 2011, at a price of ₱1 per share. The offer period commenced on May 30, 2011 and ended on June 3, 2011. Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.15 billion. The proceeds were used to partially finance the Company's equity investment in SLTEC and MGI.

On March 20, 2012, the Parent Company's stockholders approved the increase in the authorized capital stock from ₱4.2 billion divided into 4.2 billion shares with par value of ₱1 per share to ₱8.4 billion divided into 8.4 billion shares with a par value of ₱1 per share which shall be funded by a stock rights offering.

On September 26, 2012, the Parent Company filed with the SEC Form 10.1 Notice of / Application for Confirmation of Exempt Transaction covering the common shares to be issued relative to the Company's Rights Offer, pursuant to Sections 10.1 (e) and 10.1 (i) of the Securities Regulations Code (SRC) under which the exemption is based. On October 3, 2012, the SEC approved the stock rights offering of 1.42 billion shares of the Parent Company at the rate of one (1) share for every two (2) shares held as at record date of November 7, 2012 at a price of ₱1 per share. The offer period commenced on November 14, 2012 and ended on November 20, 2012. The Parent Company also offered an additional 212.25 million shares to meet additional demand from eligible stockholders ("Overallotment Option"). Total proceeds raised from the SRO, net of direct costs incurred, amounted to ₱1.61 billion. The proceeds were used to finance its equity investments in PHINMA Renewable's 54 MW wind energy project in San Lorenzo, Guimaras and SLTEC's second 135 MW clean coal-fired power plant in Calaca, Batangas, among other power project opportunities.

The following table presents the track record of registration of capital stock:

| Date of SEC Approval | No. of shares Registered | No. of shares Issued | Par Value | Issue/ Offer Price |
|---|---|---|---|---|
| 08-Feb-69 | 2,000,000,000 | 1,000,000,000 | ₱0.01 | ₱0.01 |
| 22-Jul-75 | 2,000,000,000 | 937,760,548 | 0.01 | 0.01 |
| 16-Jul-79 | 6,000,000,000 | 6,058,354,933 | 0.01 | 0.01 |
| 12-Feb-88 | 10,000,000,000 | 7,643,377,695 | 0.01 | 0.02 |
| 08-Jun-93 | 10,000,000,000 | 8,216,141,069 | 0.01 | 0.01 |
| 15-Jul-94 | 70,000,000,000 | 50,170,865,849 | 0.01 | 0.01 |
| 24-Aug-05 | 1,000,000,000 | 264,454,741 | 1.00 | 1.00 |
| 06-Jun-11 | 2,200,000,000 | 1,165,237,923 | 1.00 | 1.00 |
| 12-Nov-12 | 4,200,000,000 | 2,027,395,343 | 1.00 | 1.00 |

Retained Earnings

The Company's retained earnings balance amounted to ₱3.78 billion and ₱4.02 billion, respectively, as at June 30, 2018 and December 31, 2017. 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 ₱1,818.00 million and ₱959.48 million as at June 30, 2018 and December 31, 2017, respectively; and (b) cost of treasury shares amounted to ₱28.79 million as at June 30, 2018 and December 31, 2017.

Treasury Shares
As a result of PHINMA Power becoming a wholly-owned subsidiary of PHINMA Energy effective January 1, 2013, the Parent Company's shares of stock held by PHINMA Power amounting to ₱28.79 million was considered as treasury shares.

Other Equity Reserve
This account consists of:

| | **June 2018** | December 2017 |
|---|---|---|
| Other equity reserves from joint venture [a] | **₱17,231** | ₱17,231 |
| Effect of distribution of property dividends - PHINMA Petroleum shares [b] | **1,107** | 1,107 |
| | **₱18,338** | ₱18,338 |

a. This relates to the accumulated share in expenses directly attributable to issuance of stocks of SLTEC, one of the Parent Company's joint ventures.

b. This represents the impact of the property dividend distribution in the form of PHINMA 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 PHINMA Petroleum decreased from 100% to 50.74% in 2014.

Dividends Declared
Cash dividends declared in 2017, 2016, 2015 and after December 31, 2017 are as follows:

| | Dividend | | | |
|---|---|---|---|---|
| Date of Declaration | Type | Rate | Amount * | Record Date |
| February 23, 2015 | Cash | 0.04 per share | 194,602 | March 9, 2015 |
| February 23, 2016 | Cash | 0.04 per share | 194,606 | March 9, 2016 |
| December 16, 2016 | Cash | 0.04 per share | 195,436 | January 4, 2017 |
| March 3, 2017 | Cash | 0.04 per share | 195,436 | March 17, 2017 |
| **February 28, 2018** | **Cash** | **0.04 per share** | **195,591** | **March 14, 2018** |

**Includes dividends on shares held by PHINMA Power*

## 17. Costs of Sale of Electricity

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | **2017** |
| Costs of power purchased | **₱7,337,396** | ₱7,076,815 |
| Fuel (see Note 7) | **543,745** | 368,199 |
| Depreciation and amortization | **188,358** | 194,996 |
| Repairs and maintenance | **80,379** | 81,481 |
| Salaries | **55,043** | 50,297 |
| Taxes and licenses | **39,715** | 43,100 |
| Rent | **37,056** | 37,090 |
| Insurance | **34,704** | 33,679 |
| Pension and employee benefits | **11,377** | 11,520 |
| Transmission costs | **5,671** | 44,613 |
| Stations used | **2,678** | 2,019 |
| Filing fees | **540** | 226 |
| Others | **9,691** | 10,356 |
| | **₱8,346,353** | ₱7,954,391 |

## 18. General and Administrative Expenses

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | 2017 |
| Salaries and directors' fees | **₱77,527** | ₱74,697 |
| Taxes and licenses | **68,911** | 62,006 |
| Management and professional fees (see Note 20) | **57,206** | 66,264 |
| Provision for probable losses | **48,263** | – |
| Plug and abandonment | **31,789** | 4,384 |
| Depreciation and amortization | **12,136** | 12,903 |
| Pension and employee benefits | **11,399** | 9,152 |
| Bank charges | **8,976** | 4,681 |
| Building maintenance and repairs | **8,469** | 8,850 |
| Insurance, dues and subscriptions | **5,140** | 8,494 |
| Transportation and travel | **4,916** | 5,219 |
| Contractor's fee | **2,993** | 9,584 |
| Office supplies | **2,850** | 3,509 |
| Communication | **2,304** | 2,211 |
| Meeting and conferences | **2,262** | 2,413 |
| Corporate social responsibilities | **1,482** | 1,862 |
| Rent | **1,404** | 1,123 |
| Provision for doubtful accounts | **–** | 4,540 |
| Advertisements | **1,264** | 1,385 |
| Others | **1,056** | 3,237 |
| | **₱350,347** | ₱286,514 |

## 19. Other Income (Loss) - Net

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | 2017 |
| Interest and other financial income | **₱35,777** | ₱32,868 |
| Foreign exchange loss – net | **35,304** | (765) |
| Gain (loss) on derivatives - net | **(19,038)** | (71) |
| Gain (loss) on sale of AFS investment | **20** | (20) |
| Others | **2,245** | 1,323 |
| | **₱54,308** | ₱33,335 |

Interest and Other Financial Income
The details of interest and other financial income are as follows:

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | 2017 |
| Interest income on: | | |
| Cash in banks (see Note 5) | **₱192** | ₱63 |
| Short-term deposits (see Note 5) | **12,044** | 5,558 |
| Receivables and others | **13,057** | 10,576 |
| Net gains on investments held for trading | **10,484** | 16,671 |
| | **₱35,777** | ₱32,868 |

Interest and Other Finance Charges
The details of interest and other finance charges are as follows:

| | For the six months ended June 30 | |
|---|---|---|
| | **2018** | 2017 |
| Interest expense on: | | |
| Long-term loans (see Note 14) | **₱206,000** | ₱257,037 |
| Finance lease obligations | **8,178** | 7,420 |
| Amortization of debt issue cost (see Note 14) | **1,487** | 1,464 |
| Asset retirement obligation | **184** | 184 |
| Others | **(2,002)** | 2,686 |
| Other finance charges | **1** | 84 |
| | **₱213,848** | ₱268,875 |

## 20. 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 period-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 the semester ended June 30, 2018 and for the year ended December 31, 2017, 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 semester ended June 30, 2018 and year ended December 31, 2017 related parties are as follows:

| June 2018 | | | | | |
|---|---|---|---|---|---|
| **Company** | **Amount/ Volume** | **Nature** | **Outstanding Balance** | **Terms** | **Conditions** |
| ***Ultimate Parent*** | | | | | |
| **PHINMA, Inc.** | | | | | |
| Rental and other income | **₱103** | Rent and share in expenses | **₱16** | 30-60 day, non-interest bearing | Unsecured, no impairment |
| General and administrative expenses | **39,538** | Management fees and share in expenses | **(15,418)** | 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 | **49,308** | Cash dividend | **-** | On demand | Unsecured |
| ***Joint Venture*** | | | | | |
| **SLTEC** | | | | | |
| Revenue from sale of electricity, rental and other income | **26** | Sale of electricity, rent and share in expenses | **12,939** | 30-day, non-interest bearing | Unsecured, no impairment |
| Dividend income | **222,506** | | – | | |
| Costs of sale of electricity | **3,898,212** | Purchase of electricity | **(782,779)** | 30-day, non-interest bearing | Unsecured |
| Accounts payable and other current liabilities | – | Rental deposit | **(590)** | End of lease term | Unsecured |
| ***Associates*** | | | | | |
| **Asia Coal** | | | | | |
| Accounts payable and other current liabilities | – | Advances | **(254)** | Non-interest bearing | Unsecured |
| **MGI** | | | | | |
| Costs of sale of electricity | **459,391** | Trading cost | **(107,739)** | 30-day, non-interest bearing | Unsecured |
| Investments | **12,500** | Additional investments | – | Noninterest-bearing | Unsecured, no impairment |
| ***Entities under common control*** | | | | | |
| **PHINMA Property Holdings Corporation (PPHC)** | | | | | |
| Accounts payable and other current liabilities | – | Advances | **(171)** | 30-60 day, non-interest bearing | Unsecured |

**June 2018**

| **Company** | **Amount/ Volume** | **Nature** | **Outstanding Balance** | **Terms** | **Conditions** |
|---|---|---|---|---|---|
| **PHINMA Corporation** | | | | | |
| Other income | **₱6,797** | Share in expenses | − | 30-60 day, non-interest bearing | Unsecured, no impairment |
| General and administrative expense | **1,866** | Share in expenses | **(504)** | 30-day, non-interest bearing | Unsecured |
| Accounts payable and other current liabilities | **51,293** | Cash dividend | **-** | On demand | Unsecured |
| **Union Galvasteel Corp. (UGC)** | | | | | |
| Dividend income | **757** | Cash dividend | − | 30-60 day, non-interest bearing | Unsecured, no impairment |
| Rental income | **289** | Rent | **60** | 30-60 day, non-interest bearing | Unsecured |
| Accounts payable and other current liabilties | − | Rental deposit | **(263)** | On demand | Unsecured |
| **T-O Insurance, Inc**. | | | | | |
| General and administrative expenses | **17,551** | Insurance expense and membership fees | **(526)** | 30-60 day, non-interest bearing | Unsecured |
| **Emar Corporation** | | | | | |
| Other income | **64** | Share in expenses | − | 30-60 day, non-interest bearing | Unsecured, no impairment |
| Accounts payable and other current liabilities | **4,279** | Cash dividend | **-** | On demand | Unsecured |
| **PHINMA Education Holdings Inc. (PHINMA Education)** | | | | | |
| General and administrative expenses | − | Service fee | − | 30-60 day, non-interest bearing | Unsecured |
| ***Other Related Parties*** | | | | | |
| **Directors** | | | | | |
| General and administrative expenses | **4,979** | Director’s fee and annual incentives | **(1,021)** | On demand | Unsecured |
| **Stockholders** | | | | | |
| Due to stockholders | **90,711** | Cash dividend | **(15,297)** | On demand | Unsecured |
| Due from related parties (see Note 6) | | | **₱13,015** | | |
| Receivable from stockholders (see Note 6) | | | − | | |
| Due to related parties (see Note 13) | | | **(908,430)** | | |
| Accrued directors and annual incentives (see Note 13) | | | **(1,021)** | | |
| Due to stockholders | | | **(15,297)** | | |

December 2017

| Company | Amount/ Volume | Nature | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| *Ultimate Parent* | | | | | |
| PHINMA, Inc. | | | | | |
| Rental and other income | ₱771 | Rent and share in expenses | ₱54 | 30-60 day, non-interest bearing | Unsecured, no impairment |
| General and administrative expenses | 80,903 | Management fees and share in expenses | (31,164) | 30-day, non-interest bearing | Unsecured |
| Accounts payable and other current liabilities | 49,308 | Cash dividend | − | On demand | Unsecured |
| *Joint Venture* | | | | | |
| SLTEC | | | | | |
| Revenue from sale of electricity, rental and other income | 27,213 | Sale of electricity, rent and share in expenses | 20,046 | 30-day, non-interest bearing | Unsecured, no impairment |
| Investments and advances (see Note 10) | 1,056,742 | Dividends received | − | 30-day, non-interest bearing | Unsecured, no impairment |
| Costs of sale of electricity | 8,230,415 | Purchase of electricity | (1,035,505) | 30-day, non-interest bearing | Unsecured |
| ACTA | | | | | |
| Investments and advances | 18,073 | Additional investment | − | Non-interest bearing | Unsecured, no impairment |
| *Associates* | | | | | |
| Asia Coal | | | | | |

| Company | Amount/ Volume | Nature | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| | | December 2017 | | | |
| Accounts payable and other current liabilities | − | Advances | (254) | Non-interest bearing | Unsecured |
| MGI | | | | | |
| Costs of sale of electricity | 830,802 | Trading cost | (83,101) | 30-day, non-interest bearing | Unsecured |
| Investments and advances (see Note 10) | 25,000 | Dividend received | − | Non-interest bearing | Unsecured, no impairment |
| Investments and advances (see Note 10) | 80,250 | Additional investment | − | Non-interest bearing | Unsecured, no impairment |
| *Entities Under Common Control* | | | | | |
| PHINMA Property Holdings Corporation (PPHC) | | | | | |
| Accounts payable and other current liabilities | − | Advances | (171) | 30-60 day, non-interest bearing | Unsecured |
| PHINMA Corporation | | | | | |
| Dividend and other income | ₱5,387 | Cash dividend and share in expenses | ₱− | 30-60 day, non-interest bearing | Unsecured, no impairment |
| Other expenses | 3,763 | Share in expenses | (1,429) | 30-day, non-interest bearing | Unsecured |
| Accounts payable and other current liabilities | 51,285 | Cash dividend | − | On demand | Unsecured |
| Accounts payable and other current liabilities | 4,178 | Purchase of dollars | − | On demand | Unsecured |
| Union Galvasteel Corp. (UGC) | | | | | |
| Dividend income | 3,334 | Cash dividend | − | 30-60 day, non-interest bearing | Unsecured, no impairment |
| Rental income | 329 | Rent | 214 | 30-60 day, non-interest bearing | Unsecured, no impairment |
| Accounts payable and other current liabilities | − | Rental deposit | (159) | | |
| General and administrative expenses | 108 | Roofing materials | − | 30-60 day, non-interest bearing | Unsecured |
| T-O Insurance, Inc. | | | | | |
| General and administrative expenses | 112,000 | Insurance expense and membership fees | (36,062) | 30-60 day, non-interest bearing | Unsecured |
| Receivables | 15 | Refund of overpayment | − | 30-60 day, non-interest bearing | Unsecured, no impairment |
| Emar Corporation | | | | | |
| Other income | 64 | Share in expenses | − | 30-60 day, non-interest bearing | Unsecured, no impairment |
| Accounts payable and other current liabilities | 4,279 | Cash dividend | − | On demand | Unsecured |
| PHINMA Education Holdings Inc. (PHINMA Education) | | | | | |
| General and administrative expenses | 2,298 | Service fee | − | 30-60 day, non-interest bearing | Unsecured |
| *Other Related Parties* | | | | | |
| Directors | | | | | |
| General and administrative expenses | 33,546 | Director's fee and annual incentives | (19,757) | On demand | Unsecured |
| Stockholders | | | | | |
| Due to stockholders | 89,564 | Cash dividend | (15,300) | On demand | Unsecured |
| Due from related parties (see Note 6) | | | ₱20,314 | | |
| Due to related parties (see Note 13) | | | (1,187,845) | | |
| Accrued directors' and annual incentives (see Note 13) | | | (19,757) | | |
| Due to stockholders | | | (15,300) | | |

PHINMA, Inc.

The Parent Company and its subsidiaries PHINMA Power, CIPP, PHINMA Renewable and PHINMA Petroleum have management contracts with PHINMA, Inc. up to August 31, 2018 except for PHINMA Power whose contract was renewed in 2016 for another 5 years prior to expiration. Under these contracts, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. Under the existing management agreement, the Parent Company, PHINMA Power, CIPP, PHINMA Renewable and PHINMA Petroleum pay PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of each company's net income. On February 23, 2016, PHINMA Petroleum's BOD approved the suspension of the management contract for 2016. In 2017, the management contract is still suspended. Other expenses billed by PHINMA, Inc. include the Company's share in common expenses. The Company has a dividend payable to PHINMA, Inc. for cash dividends declared. The Company also bills PHINMA, Inc. for rent and the latter's share in common expenses.

<u>SLTEC</u>
SLTEC leased and occupied part of the office space owned by the Parent Company. Monthly rent is based on a pre-agreed amount subject to 5% escalation rate per annum. The lease agreement is for a period of five years commencing on October 10, 2011. The contract ended on October 15, 2016 and it was not renewed. The transactions with SLTEC also include the sale and purchase of electricity, reimbursements of expenses and receipt of dividends.

<u>PHINMA Corporation</u>
PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Company for its share in expenses. The Company also receives cash dividends from PHINMA Corporation. The Company has a dividend payable to PHINMA Corporation for cash dividends declared. In 2015, PHINMA Energy purchased foreign currencies from PHINMA Corporation used to pay suppliers for foreign-currency denominated liabilities.

<u>MGI</u>
The Company purchases the entire net electricity output of MGI. Other transactions with MGI include reimbursements of expenses and advances for future subscriptions. For the first semester of 2018 and in 2017, the Parent Company invested additional capital amounting to ₱12.50 million and ₱80.25 million to MGI, respectively.

<u>PHINMA Property Holdings Corporation (PPHC)/Union Galvasteel Corporation (UGC) [formerly Atlas Holding Corporation (AHC)]/Asian Plaza, Inc./Asia Coal/ACTA</u>
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.

In 2017, the Parent Company made additional investment in ACTA's capital stock amounting to ₱18.07 million.

<u>T-O Insurance, Inc.</u>
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.

<u>Emar Corporation</u>
The Company bills Emar Corporation for its share in expenses which is collected within the year.

<u>PHINMA Education</u>
The Company has payable to PHINMA Education for services rendered.

Directors
The Company recognizes bonus to directors computed based on net income before the effect of the application of the equity method of accounting.

Retirement Fund
The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan.

## 21. Earnings Per Share

Basic and diluted EPS are computed as follows:

| | For the six months ended June 30 **2018** | 2017 |
|---|---|---|
| | *(In Thousands, Except for Number of Shares and Per Share Amounts)* | |
| (a) Net income attributable to equity holders of Parent Company | **(₱48,257)** | ₱300,293 |
| Common shares outstanding at beginning of year (see Note 15) | **4,889,774,922** | 4,885,897,908 |
| Weighted average number of shares issued during the year | – | – |
| (b) Weighted average common shares outstanding | **4,889,774,922** | 4,885,897,908 |
| Basic/Diluted EPS (a/b) | **(₱0.01)** | ₱0.06 |

In the first semester of 2018 and 2017, 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.

## 22. 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 June 30, 2018 and December 31, 2017:

| | **June 2018** | | | |
|---|---|---|---|---|
| | | **Fair Value** | | |
| | **Carrying Value** | **Quoted Prices in Active Markets (Level 1)** | **Significant Observable Input (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Asset** | | | | |
| Investments held for trading | **₱640,813** | **₱640,813** | **₱–** | **₱–** |
| AFS investments | **296,688** | **126,924** | **68,786** | **100,978** |
| Refundable deposits** | **41,059** | – | – | **41,059** |
| Receivable from third parties** | **494,884** | – | – | **494,884** |
| | **₱1,473,444** | **₱767,737** | **₱68,786** | **₱636,921** |
| **Liability** | | | | |
| Derivative liability*** | **₱196** | **₱–** | **₱196** | **₱–** |
| Long-term debt | **6,746,299** | – | **6,746,299** | – |
| Deposit payables and other liabilities**** | **221,385** | – | – | **221,385** |
| | **₱6,967,880** | **₱–** | **₱6,746,495** | **₱221,385** |

| | December 2017 | | | |
|---|---|---|---|---|
| | | Fair Value | | |
| | Carrying Value | Quoted Prices in Active Markets (Level 1) | Significant Observable Input (Level 2) | Significant Unobservable Inputs (Level 3) |
| Asset | | | | |
| Investments held for trading | ₱1,483,519 | ₱– | ₱1,483,519 | ₱– |
| AFS investments | 293,127 | 133,540 | 58,610 | 100,977 |
| Derivative assets* | 9,848 | – | 9,848 | – |
| Refundable deposits** | 192,676 | – | – | 170,191 |
| Receivables from third parties** | 762,675 | – | – | 763,138 |
| | ₱2,741,845 | ₱133,540 | ₱1,551,977 | ₱1,034,306 |
| Liabilitiy | | | | |
| Derivative liability*** | ₱196 | ₱– | ₱196 | ₱– |
| Long-term debt | 6,849,376 | – | 6,603,945 | – |
| Deposit payables and other liabilities**** | 301,191 | – | – | 274,681 |
| | ₱7,150,763 | ₱– | ₱6,604,141 | ₱274,681 |

* *Included under "Other current assets" account.*
** *Included under "Other current assets" and "Other noncurrent assets" accounts.*
*** *Included under "Accounts payable and other current liabilities" account.*
**** *Included under "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts.*

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

*Cash and Cash Equivalents, Short-term Investment, Receivables, Accounts Payable and Other Current Liabilities 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

*Foreign Currency Forwards*
The Company entered into a forward foreign currency forward contracts with a bank with an aggregate notional amount of US$4.53 million and US$8.50 million as at June 30, 2018 and December 31, 2017, respectively. The weighted average fixing rate amounted to ₱51.09 to US$1.00 as at December 31, 2017. As of June 30, 2018, there was no outstanding foreign currency forward contract.

The net fair value of these currency forwards amounted to ₱9.85 million gains as at December 31, 2017. The Company did not enter into a foreign currency forward contracts in 2017.

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

The Company's outstanding embedded forwards have an aggregate notional amount of US$0.34 million and US$0.13 million as at December 31, 2017 and 2016, respectively. The weighted average fixing rate amounted to ₱50.31 to US$1.00 and ₱47.51 to US$1.00 as at December 31, 2017 and 2016, respectively. The net fair value of these embedded derivatives amounted to ₱0.20 million gains and ₱0.07 million losses at December 31, 2017 and 2016, respectively.

The net movements in fair value changes of the Company's derivative instruments (both freestanding and embedded derivatives) are as follows:

| | **June 2018** | December 2017 |
|---|---|---|
| Balance at beginning of year | **₱9,652** | ₱72 |
| Net changes in fair value during the year | **(18,700)** | 9,399 |
| Fair value of settled contracts | **8,852** | 181 |
| Balance at end of the period | **(₱196)** | ₱9,652 |

The net changes in fair value during the year are included in the "Other income (loss) - net" account in the interim condensed consolidated statements of income (see Note 19).

The fair value of derivative assets is presented under "Other current assets" account in the interim condensed consolidated statement of financial position (see Note 8).

## 23. Supplemental Cash Flow Information

Movement in the Company's liabilities from financing activities are as follows:

| | **January 1, 2018** | **Dividend Declaration** | **Availments** | **Payments** | **Others** | **June 30, 2018** |
|---|---|---|---|---|---|---|
| Current portion of: | | | | | | |
| Long-term loans | **₱226,949** | **₱–** | **₱–** | **₱–** | **₱986,608** | **₱1,213,557** |
| Finance lease obligation | **14,328** | **–** | **–** | **–** | **14,626** | **28,954** |
| Dividends payable | **15,300** | **195,591** | **–** | **(195,594)** | **-** | **15,297** |
| Noncurrent portion of: | | | | | | |
| Long-term loans | **6,622,427** | **–** | **–** | **(107,181)** | **(982,504)** | **5,532,742** |
| Finance lease obligation | **63,839** | **–** | **–** | **(4,227)** | **(7,402)** | **52,210** |
| **Total liabilities from financing activities** | **₱6,942,843** | **₱195,591** | **₱–** | **(₱307,002)** | **₱11,328** | **₱6,842,760** |

## 24. Other Matters

a. On August 20, 2014, PHINMA Energy distributed cash and property dividends in the form of shares in PHINMA Petroleum after securing SEC's approval of the registration and receipt of Certificate Authorizing Registration (CAR) from the BIR.

   On October 22, 2014, PHINMA Energy received from the BIR a Formal Letter of Demand (FLD), assessing PHINMA Energy for a total donor's tax due of ₱157.75 million inclusive of penalty and interest up to September 30, 2014.

   On November 21, 2014, PHINMA Energy and its independent legal counsel filed an administrative protest in response to the FLD, on the following grounds:

   1) The dividend distribution is a distribution of profits by PHINMA Energy to its stockholders and not a "disposition" as contemplated under Revenue Regulations Nos. 6-2008 and 6-2013 which would result in the realization of any capital gain of PHINMA Energy;
   2) PHINMA Energy did not realize any gain or increase its wealth as a result of the dividend distribution; and,

3) There was no donative intent on the part of PHINMA Energy.

On May 27, 2015, PHINMA Energy received from the BIR a Final Decision on Disputed Assessment (FDDA) dated May 26, 2015, denying the protest.

On June 25, 2015, PHINMA Energy filed with the CTA a Petition for Review seeking a review of the FDDA and requesting the cancellation of the assessment. Both PHINMA Energy and the BIR have finished presenting evidence. In a resolution dated October 2, 2017, the CTA Third Division stated that the case is already submitted for decision. As at August 7, 2018, the issuance of the decision by the Court is still pending.

b. On August 15, 2016, PHINMA Renewable filed with the BIR a letter and application for tax credits or refund for the PHINMA Renewable's excess and unutilized input VAT for the period July 1, 2014 to June 30, 2015 amounting to ₱335.76 million attributable to PHINMA Renewable's zero-rated sales. On December 19, 2016, PHINMA Renewable received a letter from the BIR denying the administrative claim for refund of excess and unutilized input VAT for the period July 1, 2014 to December 31, 2014. As at December 31, 2017, BIR has not granted or denied PHINMA Renewable's administrative claim for refund for the period January 1, 2015 to June 30, 2015. On January 11, 2017, PHINMA Renewable filed with the CTA a Petition for Review. As at August 7, 2018, the case is still pending.

c. On September 5, 2017, CIPP received a Final Decision on Disputed Assessment from the BIR demanding the payment of a total amount of ₱341.73 million for various alleged deficiency taxes for taxable year 2013. On October 4, 2017, CIPP filed its request for reconsideration with the Office of the Commissioner. As at August 7, 2018, the case is still pending.

d. On January 4, 2018, PHINMA Power received a formal letter of demand issued by the BIR demanding payment amounting to ₱19.72 million for deficiency income tax, value-added tax, withholding tax and compromise penalties for the taxable year 2013. On January 5, 2018, PHINMA Power paid the amount of ₱19.72 million as full settlement of the assessment.

e. R.A. No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date.

The TRAIN Law changes the existing tax law and includes several provisions that will generally affect businesses on a prospective basis. In particular, the management assessed that amendment of Section 148 - Excise tax on manufactured oil and other fuels increased the excise tax rates of lubricating oil, diesel fuel oil and bunker fuel oil, among others, that are used for the power plants, may have material impact to the operations of the Company.

ANNEX B

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

The following discussion and analysis of financial position and results of operations of PHINMA Energy Corporation and its subsidiaries should be read in conjunction with the unaudited interim consolidated financial statements as at June 30, 2018 and the audited consolidated financial statements as at December 31, 2017 and for the six months ended June 30, 2018 and 2017. The unaudited interim consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards.

The Company posted ₱76 million consolidated net loss for the first half of 2018 compared to ₱298 million net income in the same period last year.

The tables below summarize the consolidated results of operations of PHINMA Energy's revenues, costs and expenses for the six months ended June 30, 2018 and 2017.

### Revenues

| | April - June | | January - June | | April - June | | January - June | |
|---|---|---|---|---|---|---|---|---|
| In thousands | 2018 | 2017 | 2018 | 2017 | Inc (Dec) | % | Inc (Dec) | % |
| Revenue from sale of electricity | 4,411,117 | 4,699,663 | 8,123,040 | 8,314,365 | (288,546) | -6% | (191,325) | -2% |
| Dividend income | 6,625 | 5,734 | 7,384 | 8,012 | 891 | 16% | (628) | -8% |
| Rental income | 161 | 42 | 316 | 168 | 119 | 283% | 148 | 88% |

### Material Changes for the Second Quarter and First Semester of 2018

- The decrease in **revenue from sale of electricity** was attributable to the lower energy sales from the Parent Company's power supply business as a result of expiration of some customers' contracts.
- The **dividend income** received from the Company's various investments were higher in the second quarter of 2018 but lower for the first semester of 2018 compared to the same period last year.
- **Rental income** increased as a result of a new rental contract entered into by the Parent Company.

**Costs and Expenses**

| In thousands | April - June 2018 | April - June 2017 | January - June 2018 | January - June 2017 | April - June Inc (Dec) | April - June % | January - June Inc (Dec) | January - June % |
|---|---|---|---|---|---|---|---|---|
| Costs of sale of electricity | 4,690,795 | 4,541,305 | 8,346,353 | 7,954,391 | 149,490 | 3% | 391,962 | 5% |
| General and administrative expenses | 194,659 | 147,143 | 350,347 | 286,514 | 47,516 | 32% | 63,833 | 22% |

- Higher **costs of sale of electricity** was mainly due to increased cost of power purchased coupled with higher fuel and oil costs due to higher excise taxes, as imposed by the TRAIN Law effective January 1, 2018.
- The increase in **general and administrative expenses** is primarily due to plug and abandonment costs of a petroleum service contract and provision for probable losses of deferred exploration costs for SC 51 due to deemed expiration of the exploration period, and for SC 69, due to vigorous opposition of stakeholders and recent issuances of concerned LGUs declaring the Visayan Sea as a protected area and marine reserve.

**Other Income and Expenses**

| In thousands | April - June 2018 | April - June 2017 | January - June 2018 | January - June 2017 | April - June Inc (Dec) | April - June % | January - June Inc (Dec) | January - June % |
|---|---|---|---|---|---|---|---|---|
| Interest & other financial charges | (107,049) | (110,723) | (213,848) | (268,875) | (3,674) | -3% | (55,027) | -20% |
| Equity in net income of associates & JV | 284,564 | 281,844 | 410,211 | 364,169 | 2,720 | 1% | 46,042 | 13% |
| Other income - net | 23,772 | 17,439 | 54,308 | 33,335 | 6,333 | 36% | 20,973 | 63% |

| In thousands | April - June 2018 | April - June 2017 | January - June 2018 | January - June 2017 | April - June Inc (Dec) | April - June % | January - June Inc (Dec) | January - June % |
|---|---|---|---|---|---|---|---|---|
| **Other income - net** | | | | | | | | |
| Interest & other financial income | 18,466 | 17,645 | 35,777 | 32,868 | 821 | 5% | 2,909 | 9% |
| Loss on derivatives - net | (8,809) | 1 | (19,038) | (71) | (8,810) | -881000% | (18,967) | 26714% |
| Foreign exchange gain (loss) - net | 12,143 | (619) | 35,304 | (765) | 12,762 | 2062% | 36,069 | 4715% |
| Gain (loss) on sale of AFS investments | - | (20) | 20 | (20) | 20 | -100% | 40 | 200% |
| Others | 1,972 | 432 | 2,245 | 1,323 | 1,540 | 356% | 922 | 70% |

- **Interest and other finance charges** went down due to payment of the amortization of long-term loans of the Parent Company and its subsidiary
- Higher **equity in net income of associates and JV** were posted in 2018 as compared to 2017 due to higher generation in 2018 and longer scheduled preventive maintenance and shutdown of Units 1 and 2 of SLTEC in January and February 2017.
- **Other income - 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 higher level of investments.
  - Increase in loss on derivatives primarily from forward contracts entered into in 2017 which matured in 2018.
  - Higher foreign exchange gain on foreign-currency denominated deposits due to depreciation of peso in the second quarter and first semester of 2018.
  - There was no disposal of property and equipment and available-for-sale investment in the second quarter of 2018. Gain was realized on the sale of available-for-sale investments in the first semester of 2018.
  - The increase in miscellaneous income during the second quarter of 2018 was due to higher shared and pass-through expenses.

**Provision for (benefit from) income tax**

| | **April - June** | | **January - June** | | **April - June** | | **January - June** | |
|---|---|---|---|---|---|---|---|---|
| In thousands | **2018** | **2017** | **2018** | **2017** | **Inc (Dec)** | **%** | **Inc (Dec)** | **%** |
| Current | 8,953 | 15,807 | 17,355 | 28,816 | (6,854) | -43% | (11,461) | -40% |
| Deferred income tax | (158,464) | (31,216) | (256,238) | (116,718) | (127,248) | 408% | (139,520) | 120% |

- The decrease in the provision for income tax - current was due to lower consolidated taxable income in the second quarter and first semester of 2018.
- Higher **benefit from deferred income tax** in second quarter and first semester of 2018 was due to the tax effect of pension and other post-employment benefits and NOLCO.

## Material changes in Consolidated Statements of Financial Position accounts

| ASSETS | | | | |
|---|---|---|---|---|
| In thousands | June 2018 | December 2017 | Inc (Dec) | % |
| **Current Assets** | | | | |
| Cash and cash equivalents | 1,497,980 | 1,300,999 | 196,981 | 15% |
| Short-term investments | - | 478,362 | (478,362) | -100% |
| Investments held for trading | 640,813 | 1,483,519 | (842,706) | -57% |
| Fuel & spare parts - at cost | 385,824 | 321,525 | 64,299 | 20% |
| **Noncurrent Assets** | | | | |
| Investments in associates and JV | 4,258,023 | 4,057,602 | 200,421 | 5% |
| Investment properties | 48,277 | 50,915 | (2,638) | -5% |
| Goodwill and other intangible assets | 326,909 | 380,146 | (53,237) | -14% |
| Deferred income tax assets - net | 677,170 | 430,280 | 246,890 | 57% |
| Other noncurrent asses | 586,651 | 734,054 | (147,403) | -20% |

- The Consolidated Statements of Cash Flows detail the material changes in cash and cash equivalents, short-term investments and investments held for trading.
- **Fuel & spare parts** increased due to increase in fuel purchases coupled with higher fuel cost.
- The increase in **investments in associates and joint ventures** was brought about by higher share in net income of associates and joint venture.
- **Goodwill and other intangible assets** dropped due to provision of probable losses set up in the second quarter of 2018.
- **Deferred income tax assets** increased due to the tax effect of pension & other post-employment benefits and NOLCO.
- The decrease in **other noncurrent assets** was due to lower deposit receivable brought about by the expiration of some customers’ contracts.

| LIABILITIES AND EQUITY | | | | |
|---|---|---|---|---|
| In thousands | June 2018 | December 2017 | Inc (Dec) | % |
| **Current Liabilities** | | | | |
| Accounts payable and other current liabilities | 3,420,075 | 3,882,493 | (462,418) | -12% |
| Income and withholding taxes payable | 17,233 | 42,308 | (25,075) | -59% |
| Current portion of long-term loans | 1,213,557 | 226,949 | 986,608 | 435% |
| **Noncurrent Liabilties** | | | | |
| Long-term loans - net of current porion | 5,532,742 | 6,622,427 | (1,089,685) | -16% |
| Pension & other employment benefits | 43,464 | 36,110 | 7,354 | 20% |
| Deferred income tax liabilities - net | 103,033 | 111,387 | (8,354) | -7% |
| Other noncurrent liabilities | 420,088 | 682,000 | (261,912) | -38% |
| **Equity** | | | | |
| Accumulated share in other comprehensive income of a joint venture | (3,197) | (3,413) | 216 | -6% |
| Retained earnings | 3,775,132 | 4,018,980 | (243,848) | -6% |
| Non-controlling Interests | 49,961 | 78,110 | (28,149) | -36% |

- The decrease in **accounts payable and other current liabilities** was mainly due to settlement of outstanding payables in the first semester of 2018.
- The decrease in **income and withholding taxes payable** was mainly due to lower tax withheld at the end of the first semester of 2018.
- **Current portion of long-term loans** increased due to reclassification from noncurrent to current.
- **Pension and other employees' benefits** increased due to the higher accrual of retirement expense during the first semester of 2018.
- **Other noncurrent liabilities** decreased due to amortization of deferred revenue in the first semester of 2018.
- **Accumulated share in other comprehensive income of a joint venture** decreased due to the adjustment in remeasurement loss on defined benefit plan of MGI.
- **Retained earnings** decreased due to net loss incurred in the first semester of 2018.
- **Non-controlling interests** decreased due to net loss incurred in the first semester of 2018.

**Key Performance Indicators**

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

| KPI | Formula | 30-Jun-18 Audited | 31-Dec-17 Audited | Increase (Decrease) | |
|---|---|---|---|---|---|
| | | | | Difference | % |
| ***Liquidity Ratios*** | | | | | |
| **Current ratio** | Current assets / Current liabiltiies | 1.60 | 2.08 | (0.48) | (23) |
| **Acid test ratio** | Cash + Short-term investments + Accounts Receivables + Other liquid assets / Current liabilities | 1.25 | 1.71 | (0.46) | (27) |
| ***Solvency Ratios*** | | | | | |
| **Debt/Equity ratio** | Total Liabilities / Total Equity | 1.21 | 1.27 | (0.06) | (5) |
| **Asset to equity ratio** | Total Assets / Total Equity | 2.21 | 2.27 | (0.06) | (3) |
| **Interest coverage ratio** | Earnings before interest & tax (EBIT) / Interest expense | (0.47) | 1.78 | (2.26) | (127) |
| **Net debt to equity ratio** | Debt - Cash & cash equivalents / Total equity | 0.97 | 0.91 | 0.06 | 6 |

| KPI | Formula | 30-Jun-18 Unaudited | 30-Jun-17 Unaudited | Increase (Decrease) Difference | % |
|---|---|---|---|---|---|
| ***Profitability Ratios*** | | | | | |
| **Return on equity** | Net income after tax / Average stockholder's equity | -0.85% | 3.30% | (4.15) | (126) |
| **Return on assets** | Net income after taxes / Total assets | -0.38% | 1.41% | (1.79) | (127) |
| **Asset turnover** | Revenues / Total assets | 40.26% | 39.48% | 0.78 | 2 |

**Current ratio & Acid test ratio**

Current ratio & acid test ratio decreased due to the 12% increase in liabilities while assets decreased by 14%.

**Debt to equity ratio and Asset to equity ratio**

Debt to equity ratio and asset to equity ratio slightly decreased due to the 3% decrease in equity brought about by net loss incurred in the first semester of 2018 and payment of cash dividends.

**Interest coverage ratio**

Interest coverage ratio dropped brought about by net loss before interest and tax in the first semester of 2018 as compared to the same period last year.

**Net debt to equity ratio**

Net debt to equity ratio slightly increased due to the 3% decrease in equity brought about by net loss incurred in the first semester of 2018 and payment of cash dividends.

**Return on equity and assets**

Return on equity and assets went down due to net loss incurred in the first semester of 2018.

**Asset turnover**

Asset turnover slightly increased as revenues decreased by 2% as compared to 4% decrease in average total assets.

**Material events and uncertainties for the Six Months Period of 2018**

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

- There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

- Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures -
  - The Company has projects in solar roof, 40MW expansion of the Guimaras wind farm and 45MW solar farm in Batangas. Negotiations with interested parties and various distribution utilities are on-going. The plan for funding these projects will come partly from participation of offtakers and partly from external capital.

- Any known trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations
  - The results of operations of the Company and its subsidiaries depend, to a significant extent, on the performance of the Philippine economy.
  - The current highly competitive environment and the operation of priority-dispatch variable renewable energy have driven market prices of electricity downward, resulting in lower margins.
  - Movements in the WESM prices could have a significant favorable or unfavorable impact on the Company's financial results.

- Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way – Material to the Company's liquidity and profitability is the current negotiations to reduce supply costs. The Company is also pursuing customer contracts at higher prices from both the retail and wholesale markets. The Company has identified low-earning assets and have offered these in the market. The Company is also looking at cost optimization and reduction in operating expenses at the plant level as well as head office.

- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.

- There were no operations subject to seasonality and cyclicality except for the operation of PHINMA Renewable's wind farm. The wind regime is high during the first quarter due to the northeast monsoon and wind turbines generate more power to be supplied to the grid. The generation drops in the second and third quarter due to low wind regime brought about by the southwest monsoon.

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

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**Annex C**

The Company filed the following reports on SEC 17-C during the first semester ended June 30, 2018 covered this report:

| Date of filing | Items of reported |
|---|---|
| April 11, 2018 | *Results of the Annual Stockholders' Meeting of PHINMA Energy Corporation* |

PHINMA Energy Corporation held its Annual Stockholders' Meeting on 11 April 2018 at One Esplanade, Pasay City.

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

| Name of Person | Shareholdings in the Listed Company | | Nature of Indirect Ownership |
|---|---|---|---|
| | Direct | Indirect | |
| Ramon R. del Rosario, Jr. | 18,102,450 | 26,745,698 | thru Emar Corporation |
| Oscar J. Hilado | 5,500,000 | 0 | - |
| Francisco L. Viray | 15,157,487 | 614,000 | thru Mrs. Jacoba Viray |
| Roberto M. Laviña | 3,275,434 | 0 | - |
| Magdaleno B. Albarracin, Jr. | 13,427,926 | 0 | - |
| Victor J. del Rosario | 4,620,362 | 26,745,698 | thru Emar Corporation |
| Pythagoras L. Brion, Jr. | 1,095,321 | 0 | - |
| Ricardo V. Camua | 1,727,000 | 0 | - |
| David L. Balangue | 2,610,001 | 0 | - |
| Guillermo D. Luchangco | 1,500,001 | 0 | - |

| | | | |
|---|---|---|---|
| Corazon S. dela Paz-Bernardo | 1 | 0 | - |

| | |
|---|---|
| **External auditor** | Sycip, Gorres, Velayo & Company |

| **List of other material resolutions, transactions and corporate actions approved by the stockholders** |
|---|
| 1. Minutes of the previous Annual Shareholders Meeting which was held on 10 April 2017.<br>2. Annual Report of Management including the Audited Financial Statements for the year 2017 and all acts of the Board of Directors and of Management since the last Annual Shareholders Meeting.<br>3. Election of Directors for the ensuing year 2018.<br>4. Management Contract of the company with the Philippine Investment Management (PHINMA), Inc. for another five (5) years from 31 August 2018.<br>5. Appointment of Sycip, Gorres, Velayo & Company as External Auditor for the calendar year 2018 |

April 12, 2018

*Results of the Organizational Meeting of the Board of Directors*
*PHINMA Energy Corporation*

The newly-elected directors of PHINMA Energy Corporation held its organizational meeting on 11 April 2018 at One Esplanade, Pasay City.

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

| Name of Person | Position/Designation | Shareholdings in the Listed Company | | Nature of Indirect Ownership |
|---|---|---|---|---|
| | | Direct | Indirect | |
| Ramon R. del Rosario, Jr. | Chairman | 18,102,450 | 26,745,698 | thru Emar Corporation |
| Oscar J. Hilado | Vice Chairman | 5,500,000 | 0 | - |
| Francisco L. Viray | President and Chief Executive Officer | 15,157,487 | 614,000 | Family member |
| Nanette P. Villalobos | Treasurer | 78,000 | 0 | - |

| | | | | | |
|---|---|---|---|---|---|
| Virgilio R. Francisco, Jr. | Senior Vice President | 2,417,857 | 0 | - | |
| Pythagoras L. Brion, Jr. | Senior Vice President & CFO | 1,095,321 | 0 | - | |
| Mariejo P. Bautista | Senior Vice President Finance & Controller | 2,008,677 | 0 | - | |
| Raymundo A. Reyes, Jr. | Senior Vice President | 1,875,798 | 0 | - | |
| Rizalino G. Santos | Senior Vice President - Power Business | 4,173,632 | 0 | - | |
| Troy A. Luna | Corporate Secretary | 0 | 0 | - | |
| Daniea Isabelle F. Palad | Asst. Corporate Secretary | 0 | 0 | - | |
| Cecille B. Arenillo | Vice President - Compliance Officer | 300,000 | 0 | - | |
| Alan T. Ascalon | Vice President - Legal and Corporate Affairs | 534,173 | 0 | - | |
| Danilo L. Panes | Vice President - Renewable Energy | 385,737 | 0 | - | |
| Danielle R. del Rosario | Assistant Vice President - Sales and Marketing | 561,401 | 0 | - | |
| Ma. Teresa P. Posadas | Assistant Vice President - Human Resources | 257,898 | 0 | - | |
| Arthur R. Villacorte | Assistant Vice President - Materials Management | 420,561 | 0 | - | |

**List of Committees and Membership**

| Name of Committees | Members | Position/Designation in Committee |
|---|---|---|
| Executive Committee | Ramon R. del Rosario, Jr. | Chairman |
| Executive Committee | Oscar J. Hilado | Member |
| Executive Committee | Magdaleno B. Albarracin, Jr. | Member |
| Executive Committee | Francisco L. Viray | Member |
| Executive Committee | Guillermo D. Luchangco | Member |
| Audit Committee | David L. Balangue | Chairman |
| Audit Committee | Corazon S. dela Paz-Bernardo | Member |
| Audit Committee | Victor J. del Rosario | Member |
| Risk Oversight Committee | Corazon S. dela Paz-Bernardo | Chairman |
| Risk Oversight Committee | David L. Balangue | Member |
| Risk Oversight Committee | Roberto M. Laviña | Member |
| Corporate Governance and Related Party Transactions Committee | Guillermo D. Luchangco | Chairman |
| Corporate Governance and Related Party Transactions Committee | Corazon S. dela Paz-Bernardo | Member |
| Corporate Governance and Related Party Transactions Committee | Ricardo V. Camua | Member |
| Corporate Governance and Related Party Transactions Committee | David L. Balangue | Member |
| Compensation Committee | Oscar J. Hilado | Chairman |
| Compensation Committee | Ramon R. del Rosario, Jr. | Member |
| Compensation Committee | Ricardo V. Camua | |

May 2, 2018

*Clarification of philstar.com.ph news article on PHINMA Energy Corporation.*

| | |
|---|---|
| **Source** | philstar.com.ph |
| **Subject of News Report** | "Phinma Energy ventures into solar rooftop development" |
| **Date of Publication** | May 2, 2018 |

h
is is in reply to your request for clarification of the news article posted today, May 2, 2018 in philstar.com.ph titled "Phinma Energy ventures into solar rooftop development" which reported that:

"MANILA, Philippines — Phinma Energy Corp., the listed power unit of the Phinma Group, is delving deeper into the renewable energy sector as it ventures into solar rooftop development.

Initially, it will target solar rooftop installations in the buildings of the Phinma Group.

'The first installations will be on Phinma Education Network's Cagayan de Oro College and University of Pangasinan, the Information Center at Phinma Renewable Energy Corp.'s San Lorenzo wind farm in Guimaras and Union Galvasteel Corp. in Calamba, Laguna,' Phinma Energy said.

. . . ."

We confirm the accuracy of the news report. We will advise the Exchange promptly of any developments in the project as applicable.

Thank you.

June 11, 2018

Changes in the email address and company website link of PHINMA Energy Corporation (PHEN).

To update the email address and company website link of PHINMA Energy Corporation (PHEN).

| | |
|---|---|
| **Old Business Address** | 11th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City |
| **New Business Address** | 11th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City |

| **Old Contact Details** | |
|---|---|
| **Telephone Numbers** | (632) 870-0100 |
| **Fax Numbers** | (632) 870-0433 |
| **E-mail Address** | avr@trans-asia.phinma.com |

**New Contact Details**

| | |
|---|---|
| **Telephone Numbers** | (632) 870-0100 |
| **Fax Numbers** | (632) 870-0433 |
| **E-mail Address** | investors.energy@phinma.com.ph |

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|---|---|
| **Old Company Website** | http://www.phinmaenergy.com/ta |
| **New Company Website** | www.phinmaenergy.com |
| **Effective Date** | Jun 8, 2018 |