PHINMA ENERGY

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PHINMA Energy Corporation** formerly Trans-Asia Oil and Energy Development Corporation (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

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

RAMON R. DEL ROSARIO, JR.
Chairman of the Board

FRANCISCO L. VIRAY
President and Chief
Executive Office

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

Signed this 21st day of March 2019

PHINMA ENERGY CORPORATION
L11 PHINMA Plaza, 39 Plaza Drive Rockwell Center
Makati City, Philippines 1200
Tel: 8700-100
www.phinmaenergy.com

(Page 2 of Statement of Management's
Responsibility for Financial Statements)

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

APR 08 2019

SUBSCRIBED AND SWORN to before me this _____ affiant(s) exhibiting to me their Passport, as follows:

Name	Passport No.	Date of Issue	Place of Issue
Ramon R. Del Rosario. Jr.	P5770713A	25 January 2018	Manila
Francisco L. Viray	EC3546900	27 Feb 2015	NCR East
Pythagoras L. Brion, Jr.	P3455624A	22 June 2017	NCR East

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Page No. 62
Book No. 96
Series of 19

ATTY. JOSHUA P. LAPUZ
Notary Public for Makati City
Appointment # M-82 until 12/31/2019
PTR No. 7333096-Jan 3, 2019, Makati City
Roll No. 45790, IBP Lifetime Roll #04897
MCLE No. VI-0016565/Jan. 14, 2019
G/F Fedman Suites, 199 Salcedo Street
Legaspi Village, Makati City

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PHINMA Energy Corporation
Level 11, PHINMA Plaza
39 Plaza Drive, Rockwell Center
Makati City

Opinion

We have audited the consolidated financial statements of PHINMA Energy Corporation and its Subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Goodwill

Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to annually test for impairment the goodwill amounting to ₱234.15 million as at December 31, 2018 which arose from the Company's acquisition of One Subic Power Generation Corporation in 2014. This annual impairment test is significant to our audit because the amount of goodwill is material to the consolidated financial statements and management's assessment process in the determination of the recoverable amount of the cash-generating unit (CGU) to which the goodwill belongs requires significant judgments and is based on significant assumptions, specifically prices in the energy spot market, fuel prices and discount rates.

The Company's disclosures about goodwill are included in Notes 4 and 17 to the consolidated financial statements.

Audit response

We obtained an understanding of the Company's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate and gross margins. We compared the revenue growth and gross margins to the historical data of the CGU and inquired about the rationale for the changes from prior years. Likewise, we compared the Company's key market-related assumptions with external industry data. These assumptions include energy spot market prices, energy generated and fuel prices. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Provisions and Contingencies

As discussed in Note 40 to the consolidated financial statements, the Company is involved in legal proceedings and assessments for local and national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgments by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and application of the laws and tax rulings.

Audit response

We involved our internal specialist in the evaluation of management's assessment on whether or not any provision for tax contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the tax assessments and obtained the Company's correspondences with the relevant tax authorities and opinions of the external tax counsel. We evaluated the tax position of the Company by considering the relevant tax laws, rulings and jurisprudence.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Belinda T. Beng Hui.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0943-AR-3 (Group A),
March 14, 2019, valid until March 13, 2022
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332528, January 3, 2019, Makati City

March 21, 2019

PHINMA ENERGY CORPORATIONAND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 35)	**₱1,022,366**	₱1,300,999
Short-term investments (Note 35)	**35,326**	478,362
Investments held for trading (Notes 6, 35 and 36)	**–**	1,483,519
Financial assets at fair value through profit or loss (FVTPL; Notes 7, 35 and 36)	**743,739**	–
Receivables (Notes 8, 31 and 35)	**2,627,291**	2,738,287
Fuel and spare parts (Note 9)	**413,673**	321,525
Current portion of:		
Input VAT	**26,332**	20,127
Creditable withholding taxes	**79,443**	598,526
Other current assets (Notes 10 and 35)	**182,766**	281,593
	5,130,936	7,222,938
Assets held for sale (Note 11)	**34,328**	–
Total Current Assets	**5,165,264**	7,222,938
Noncurrent Assets		
Property, plant and equipment (Note 12)	**5,760,963**	6,130,201
Investments and advances (Note 13)	**4,322,684**	4,057,602
Financial assets at:		
Fair value through other comprehensive income (FVOCI; Notes 15, 35 and 36)	**257,995**	–
FVTPL (Notes 7, 35 and 36)	**5,452**	–
Available-for-sale (AFS) investments (Notes 14, 35 and 36)	**–**	293,127
Investment properties (Note 16)	**13,085**	50,915
Goodwill and other intangible assets (Note 17)	**320,219**	380,146
Deferred income tax assets - net (Note 29)	**261,346**	430,280
Net of current portion:		
Input VAT (Note 40)	**335,759**	335,759
Creditable withholding taxes	**704,726**	–
Other noncurrent assets (Notes 18 and 35)	**1,777,202**	1,857,565
Total Noncurrent Assets	**13,759,431**	13,535,595
TOTAL ASSETS	**₱18,924,695**	₱20,758,533

(Forward)

	December 31	
	2018	2017
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loan (Note 20)	**₱400,000**	₱–
Accounts payable and other current liabilities (Notes 19, 30, 31 and 35)	**2,269,398**	2,758,982
Income and withholding taxes payable	**11,762**	42,308
Due to stockholders (Notes 22, 31 and 35)	**16,651**	15,300
Current portion of long-term loans (Notes 20, 35 and 36)	**265,460**	226,949
Total Current Liabilities	**2,963,271**	3,043,539
Noncurrent Liabilities		
Long-term loans - net of current portion (Notes 20, 35 and 36)	**6,071,473**	6,622,427
Pension and other employee benefits (Note 30)	**40,246**	36,110
Deferred income tax liabilities - net (Note 29)	**95,180**	111,387
Other noncurrent liabilities (Notes 18 and 21)	**1,383,077**	1,805,511
Total Noncurrent Liabilities	**7,589,976**	8,575,435
Total Liabilities	**10,553,247**	11,618,974
Equity		
Capital stock (Note 22)	**4,889,775**	4,889,775
Additional paid-in capital	**83,768**	83,768
Other equity reserves (Note 22)	**18,338**	18,338
Unrealized fair value gains on equity instruments at FVOCI (Note 15)	**59,772**	–
Unrealized fair value gains on AFS investments - net of tax (Note 14)	**–**	85,924
Remeasurement gains (losses) on defined benefit plan (Note 30)	**536**	(3,130)
Accumulated share in other comprehensive loss of a joint venture and associates (Note 13)	**(2,193)**	(3,413)
Retained earnings (Note 22)	**3,303,708**	4,018,980
Treasury shares (Note 22)	**(27,706)**	(28,793)
Total equity attributable to equity holders of Parent Company	**8,325,998**	9,061,449
Non-controlling interests (Note 33)	**45,450**	78,110
Total Equity	**8,371,448**	9,139,559
TOTAL LIABILITIES AND EQUITY	**₱18,924,695**	₱20,758,533

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATIONAND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Figures)

	Years Ended December 31		
	2018	2017	2016
REVENUES			
Revenue from sale of electricity (Note 34)	**₱15,113,601**	₱17,011,044	₱15,465,866
Dividend income (Notes 14 and 15)	**9,117**	8,483	7,433
Rental income	**674**	706	4,574
	15,123,392	17,020,233	15,477,873
COSTS AND EXPENSES			
Cost of sale of electricity (Notes 24, 26 and 27)	**15,109,491**	16,929,239	14,105,874
General and administrative expenses (Notes 25, 26 and 27)	**654,517**	664,550	899,635
	15,764,008	17,593,789	15,005,509
INTEREST AND OTHER FINANCE CHARGES (Note 28)	**(433,649)**	(513,566)	(468,485)
EQUITY IN NET INCOME OF ASSOCIATES AND JOINT VENTURES (Note 13)	**532,460**	1,024,995	886,224
OTHER INCOME - Net (Note 28)	**120,252**	105,617	552,879
INCOME (LOSS) BEFORE INCOME TAX	**(421,553)**	43,490	1,442,982
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**20,699**	72,722	114,623
Deferred	**150,904**	(376,400)	(54,172)
	171,603	(303,678)	60,451
NET INCOME (LOSS)	**(₱593,156)**	₱347,168	₱1,382,531
Net Income (Loss) Attributable To:			
Equity holders of the Company (Note 32)	**(₱560,496)**	₱353,764	₱1,402,228
Non-controlling interests (Note 33)	**(32,660)**	(6,596)	(19,697)
	(₱593,156)	₱347,168	₱1,382,531
Basic/Diluted Earnings (Loss) Per Share (Note 32)	**(₱0.11)**	₱0.07	₱0.29

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET INCOME (LOSS)	**(₱593,156)**	₱347,168	₱1,382,531
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods			
Net changes in the fair market value of AFS investments (Note 14)	–	(23,049)	8,313
Income tax effect (Note 14)	–	(393)	(425)
	–	(23,442)	7,888
Other comprehensive income (loss) not to be reclassified directly to profit or loss in subsequent periods			
Remeasurement gains (losses) on defined benefit plan (Note 30)	**5,237**	7,760	(8,261)
Net changes in the fair market value of equity instruments at FVOCI	**1,475**	–	–
Income tax effect	**(940)**	(2,328)	2,434
	5,772	5,432	(5,827)
Share in other comprehensive income (loss) of a joint venture and an associate - net of deferred income tax (Note 13)			
Remeasurement gains (losses) on defined benefit plan	**1,220**	(3,136)	49
Disposal during the year	–	–	31
	1,220	(3,136)	80
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**6,992**	(21,146)	2,141
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱586,164)**	₱326,022	₱1,384,672
Total Comprehensive Income (Loss) Attributable To:			
Equity holders of the Parent Company	**(₱553,504)**	₱332,618	₱1,404,369
Non-controlling interests (Note 33)	**(32,660)**	(6,596)	(19,697)
	(₱586,164)	₱326,022	₱1,384,672

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATIONAND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 22)	Additional Paid-in Capital	Other Equity Reserve (Note22)	Unrealized Fair Value Gains on AFS Investments (Note 14)	Unrealized Fair Value Gains (Losses) on Equity Instruments at FVOCI (Note 15)	Remeasurement Gains (Losses) on Defined Benefit Plan (Note 30)	Accumulated Share in Other Comprehensive Gains (Losses) of a Joint Venture (Note 13)	Retained Earnings (Note 22)	Treasury Shares (Note 22)	Total	Non-controlling Interests (Note33)	Total Equity
BALANCES AT JANUARY 1, 2018, AS PREVIOUSLY REPORTED	**₱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**
Changes on initial application of PFRS 9 (Notes 3 and 15)	**–**	**–**	-	**(85,924)**	**99,513**	**–**	**–**	**(9,614)**	**–**	**3,975**	**–**	**3,975**
BALANCES AT JANUARY 1, 2018, AS ADJUSTED	**4,889,775**	**83,768**	**18,338**	**–**	**99,513**	**(3,130)**	**(3,413)**	**4,009,366**	**(28,793)**	**9,065,424**	**78,110**	**9,143,534**
Net loss	**–**	**–**	-	**–**	**–**	**–**	**–**	**(560,496)**	**–**	**(560,496)**	**(32,660)**	**(593,156)**
Other comprehensive income	**–**	**–**	-	**–**	**2,106**	**3,666**	**1,220**	**–**	**–**	**6,992**	**–**	**6,992**
Total comprehensive income (loss)	**–**	**–**	-	**–**	**2,106**	**3,666**	**1,220**	**(560,496)**	**–**	**(553,504)**	**(32,660)**	**(586,164)**
Sale of equity investments at FVOCI (Note 15)	**–**	**–**	-	**–**	**(41,847)**	**–**	**–**	**49,436**	**–**	**7,589**	**–**	**7,589**
Dividends declared (Note 22)	**–**	**–**	-	**–**	**–**	**–**	**–**	**(194,598)**	**–**	**(194,598)**	**–**	**(194,598)**
Disposal of treasury shares (Note 22)	**–**	**–**	-	**–**	**–**	**–**	**–**	**–**	**1,087**	**1,087**	**–**	**1,087**
	–	**–**	-	**–**	**(41,847)**	**–**	**–**	**(145,162)**	**1,087**	**(185,922)**	**–**	**(185,922)**
BALANCES AT DECEMBER 31, 2018	**₱4,889,775**	**₱83,768**	**₱18,338**	**₱–**	**₱59,772**	**₱536**	**(₱2,193)**	**₱3,303,708**	**(₱27,706)**	**₱8,325,998**	**₱45,450**	**₱8,371,448**
BALANCES AT DECEMBER 31, 2016	₱4,885,898	₱81,209	₱18,338	₱109,366	**₱–**	(₱8,562)	(₱277)	₱3,859,659	(₱28,793)	₱8,916,838	₱84,706	₱9,001,544
Net income	–	–	-	–	**–**	–	–	353,764	–	353,764	(6,596)	347,168
Other comprehensive income (loss)	–	–	-	(23,442)	**–**	5,432	(3,136)	–	–	(21,146)	–	(21,146)
Total comprehensive income (loss)	–	–	-	(23,442)	**–**	5,432	(3,136)	353,764	–	332,618	(6,596)	326,022
Dividends declared (Note 22)	–	–	-	–	**–**	–	–	(194,443)	–	(194,443)	–	(194,443)
Issuance of stocks - stock grants (Note 23)	3,877	2,559	-	–	**–**	–	–	–	–	6,436	–	6,436
	3,877	2,559	-	–	**–**	–	–	(194,443)	–	(188,007)	–	(188,007)
BALANCES AT DECEMBER 31, 2017	₱4,889,775	₱83,768	₱18,338	₱85,924	**₱–**	(₱3,130)	(₱3,413)	₱4,018,980	(₱28,793)	₱9,061,449	₱78,110	₱9,139,559

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 22)	Additional Paid-in Capital	Other Equity Reserve (Note 22)	Unrealized Fair Value Gains on AFS Investments (Note 14)	Remeasurement Losses on Defined Benefit Plan (Note 30)	Accumulated Share in Other Comprehensive Loss of a Joint Venture (Note 13)	Retained Earnings (Note 22)	Treasury Shares (Note 22)	Total	Non-controlling Interests (Note 33)	Total Equity
BALANCES AT DECEMBER 31, 2015	₱4,865,146	₱40,783	₱34,913	₱101,478	(₱2,735)	(₱357)	₱2,845,559	(₱28,793)	₱7,855,994	₱104,403	₱7,960,397
Net income	–	–	–	–	–	–	1,402,228	–	1,402,228	(19,697)	1,382,531
Other comprehensive income (loss)	–	–	–	7,888	(5,827)	80	–	–	2,141	–	2,141
Total comprehensive income (loss)	–	–	–	7,888	(5,827)	80	1,402,228	–	1,404,369	(19,697)	1,384,672
Dividends declared (Note 22)	–	–	–	–	–	–	(388,128)	–	(388,128)	–	(388,128)
Issuance of stocks - stock options (Note 23)	20,752	25,765	–	–	–	–	–	–	46,517	–	46,517
Reversal of other equity reserve on a joint venture	–	–	(1,914)	–	–	–	–	–	(1,914)	–	(1,914)
Forfeiture of stock options (Note 23)	–	14,661	(14,661)	–	–	–	–	–	–	–	–
	20,752	40,426	(16,575)	–	–	–	(388,128)	–	(343,525)	–	(343,525)
BALANCES AT DECEMBER 31, 2016	₱4,885,898	₱81,209	₱18,338	₱109,366	(₱8,562)	(₱277)	₱3,859,659	(₱28,793)	₱8,916,838	₱84,706	₱9,001,544

See accompanying Notes to Consolidated Financial Statements.

PHINMA ENERGY CORPORATIONAND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (losses) before income tax	**(₱421,553)**	₱43,490	₱1,442,982
Adjustments for:			
Equity in net earnings of associates and joint ventures (Notes 13 and 37)	**(532,460)**	(1,024,995)	(886,224)
Interest and other finance charges (Note 28)	**433,649**	513,566	468,485
Depreciation and amortization (Note 27)	**405,835**	399,384	413,091
Provisions for (reversals of):			–
Probable losses on deferred exploration costs (Note 17)	**48,263**	4,892	22,713
Unrecoverable input VAT	**43,712**	–	2,568
Plug-in and abandonment	**38,776**	11,384	–
Credit losses (Note 8)	**14,548**	4,542	53,195
PPE impairment (Note 12)	**2,066**	–	–
Inventory obsolescence	**159**	–	–
Accrued liabilities	–	(2,236)	(5,800)
Interest and other financial income (Note 28)	**(96,851)**	(87,185)	(46,077)
Loss (gain) on derivatives - net (Notes 28 and 36)	**15,056**	(9,399)	(8,741)
Movement of pension and other employee benefits (Note 30)	**9,373**	3,327	5,816
Dividend income (Notes 14, 15 and 31)	**(9,117)**	(8,483)	(7,433)
Loss (gain) on sale of:			
Gain on sale of investments (Note 28)	**(5,834)**	17	(7)
Property, plant and equipment (Note 28)	**(254)**	–	(27,863)
Investment in joint venture (Note 28)	**–**	–	(444,207)
Foreign exchange loss (gain) - net	**(3,471)**	6,851	(151)
Changes in fair value of long-term receivable	**–**	165	–
Deferred exploration costs written off	**–**	–	1,192
Operating income (loss) before working capital changes	**(58,103)**	(144,680)	983,539
Decrease (increase) in:			
Receivables	**(121,909)**	(17,365)	(406,796)
Fuel and spare parts - at cost	**(92,307)**	(90,379)	79,783
Other current assets	**(487,086)**	(104,787)	(181,498)
Increase (decrease) in accounts payable and other current liabilities	**(223,804)**	(318,681)	1,069,746
Cash generated from (used in) operations	**(983,209)**	(675,892)	1,544,774
Income and withholding taxes paid	**(20,699)**	(63,011)	(113,077)
Net cash from (used in) operating activities	**(1,003,908)**	(738,903)	1,431,697

(Forward)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Financial assets at FVTPL/ Investments held for trading	**(₱15,741,377)**	(₱21,604,487)	(₱2,106,124)
Investments in a joint venture (Note 13)	**(236,315)**	(18,073)	(5,639)
Property, plant and equipment (Note 12)	**(119,680)**	(125,138)	(229,617)
Short-term investment (Note 35)	**(35,326)**	(485,653)	(2,498)
Deferred exploration costs (Note 17)	**(4,526)**	(10,209)	(15,888)
Available-for-sale investments	**–**	(7,215)	–
Advances to associates (Note 13)	**–**	(80,250)	–
Proceeds from:			
Sale and redemption of investments held for trading	**16,505,872**	23,219,212	–
Termination of short-term investments	**478,932**	2,498	
Insurance claim	**90,146**	–	–
Sale of financial assets at FVOCI	**53,328**		
Sale of property, plant and equipment	**261**	511	411,923
Sale of available-for-sale investments	**–**	92	291
Sale of investment in joint venture	**–**	–	841,771
Cash dividends received (Notes 13 and 14)	**514,030**	1,090,225	651,384
Decrease (increase) in other noncurrent assets	**118,346**	(1,399)	(124,541)
Interest received	**33,471**	33,723	13,953
Settlement of derivatives from fuel purchases (Note 36)	**–**	–	8,767
Net cash from (used in) investing activities	**1,657,162**	2,013,837	(556,218)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of long-term loans (Note 20)	**930,000**	2,350,000	–
Availment of short-term debt	**400,000**	–	–
Sale of investment (Note 13)	**225,000**	–	–
Sale of treasury (Note 22)	**1,415**	–	–
Issuance of capital stock (Note 22)	–	6,436	46,516
Payments of:			
Long-term loans (Note 20)	**(1,445,235)**	(2,520,651)	(210,500)
Interest on long-term loans	**(406,779)**	(443,216)	(504,147)
Cash dividends	**(193,247)**	(270,347)	(182,491)
Finance leases	**(8,153)**	(7,331)	(3,134)
Debt issuance costs (Note 20)	**(6,975)**	(11,750)	–
Mortgage loan	**–**	–	(461)
Increase (decrease) in other noncurrent liabilities	**(431,384)**	527,115	18,517
Net cash used in financing activities	**(935,358)**	(369,744)	(835,700)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**3,471**	227	60
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(278,633)**	905,417	39,839
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**1,300,999**	395,582	355,743
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 5 and 35)	**₱1,022,366**	₱1,300,999	₱395,582

1. Corporate Information and Status of Operations

PHINMA Energy Corporation ("PHINMA Energy or the Parent Company"), incorporated on September 8, 1969 and registered with the Philippine Securities and Exchange Commission (SEC), is engaged in power generation and trading, oil and mineral exploration, development and production. The Parent Company is a licensed Retail Electricity Supplier (RES). 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. 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 31). The Company and PHINMA, Inc. are both domiciled in the Philippines. PHINMA Energy and its subsidiaries below are collectively referred to as "the Company".

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

The Subsidiaries

PHINMA Power Generation Corporation (PHINMA Power)

PHINMA Power, formerly Trans-Asia Power Generation Corporation, 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 (10) 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 12, 2018, PHINMA Power and the Parent Company amended the PAMA, providing for a higher capacity rate based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMA became effective on March 26, 2018.

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.

One Subic Power Generation Corporation (One Subic Power)

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 and shall be valid throughout the term of the lease agreement with Subic Bay Metropolitan Authority (SBMA). 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.

CIP II Power Corporation (CIPP)
CIPP was incorporated and registered with the SEC on June 2, 1998. CIPP is a utilities enterprise, the primary purpose of which was to develop and operate a power supply and distribution system at Carmelray Industrial Park II Special Economic Zone in Calamba, Laguna. In April 2009, CIPP sold its distribution assets resulting in the cessation of CIPP's operations and separation of substantially all of its employees effective January 31, 2010. On February 22, 2010 and March 24, 2010, the Parent Company's BOD and stockholders, respectively, 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 (10) years for the latter's administration and management of the entire capacity and net output of CIPP. On January 12, 2018, CIPP and the Parent Company amended the PAMA, providing for the same capacity rate based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMA became effective on March 26, 2018 and valid for ten (10) years and is subject to regular review. As at March 21, 2019, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

PHINMA Renewable Energy Corporation (PHINMA Renewable)
PHINMA Renewable, formerly Trans-Asia Renewable Energy Corporation, 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 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 Energy Regulatory Commission (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.

One Subic Oil Distribution Corporation (One Subic Oil)
One Subic Oil, formerly Trans-Asia Gold and Minerals Development Corporation, was incorporated and registered with the SEC on July 2, 2007 to primarily engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD approved the suspension of exploration activities of One Subic Oil effective March 31, 2009. On August 9, 2017, One Subic Oil's BOD approved the amendment of the Articles of Incorporation to change the corporate name to One Subic Oil Distribution Corporation, to change its primary purpose to importation, storage, transportation, distribution and disposal of any and all kinds of fuel and

petroleum products, and to change the principal office of the corporation to Causeway Extension, Subic Gateway District, Subic Bay Freeport Zone, Subic. The amended Articles of Incorporation were issued by the SEC on September 20, 2017 while the Certificate of Registration was issued by BIR on June 27, 2018. As at March 21, 2019, One Subic Oil has not started commercial operations for its petroleum distribution business.

PHINMA Petroleum and Geothermal, Inc. (PHINMA Petroleum)
PHINMA Petroleum, formerly Trans-Asia Petroleum Corporation, 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 Trans-Asia Petroleum Corporation and the primary purpose from power generation to oil and gas exploration and production.

On April 22, 2013, PHINMA Petroleum's BOD and stockholders voted to increase the par value of capital stock from ₱0.01 to ₱1.00 per share, which reduced the number of authorized capital stock from 100 billion to 1 billion and the issued and outstanding shares from 25 billion to 250 million. The increase in par value per share was approved by the SEC on June 3, 2013.

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 March 21, 2019, 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.

Palawan55 Exploration & Production Corporation (Palawan55)
Palawan55 was incorporated and registered with the SEC on November 16, 2012. Palawan55 is engaged in the development and utilization of crude oil, natural gas, natural gas liquids and other forms of petroleum. As at March 21, 2019, 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.

Material Interest in Joint Ventures
PHINMA Solar Energy Corporation (PHINMA Solar)
PHINMA Solar, formerly Trans-Asia Wind Power Corporation and a wholly owned subsidiary of the Parent Company, 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 (9). 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.

On December 11, 2018, the Parent Company and Union Galvasteel Corporation (UGC), a company under common control of PHINMA Inc., entered into a Deed of Sale for the sale of the Parent

Company's 50% interest in PHINMA Solar to UGC amounting to ₱225,000.00 million. As a result of the sale transaction, PHINMA Solar ceased to be a subsidiary of the Parent Company (see Note 13). In 2018, PHINMA Solar completed installation and commenced operations of two (2) solar panel projects.

South Luzon Thermal Energy Corporation (SLTEC)
On June 29, 2011, the Parent Company entered into a 50-50 joint venture agreement with AC Energy Holdings, Inc. (AC Energy) to form SLTEC, the primary purpose of which is to generate, supply and sell electricity to the public through the operation of a two (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.

ACTA Power Corporation (ACTA)
The Parent Company has 50% interest in ACTA, a joint venture with AC Energy. ACTA is engaged in the business of owning, developing, constructing, operating and maintaining power generation facilities as well as generation and sale of electricity. ACTA was incorporated on February 9, 2012 and has not started commercial operations as at March 21, 2019. The registered office address of ACTA is 4th Floor, 6750 Ayala Avenue Office Tower, Makati City.

The consolidated financial statements of the Company were authorized for issuance by the Parent Company's BOD on March 21, 2019.

2. Basis of Preparation and Consolidation and Statement of Compliance

Basis of Preparation and Statement of Compliance
The consolidated financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The consolidated financial statements have been prepared on a historical cost basis, except for investments held for trading/financial assets at fair value through profit or loss (FVTPL), derivative financial instruments and available-for-sale (AFS) investments/equity instruments at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The consolidated financial statements are presented in Philippine peso which is the Parent Company's functional and presentation currency. All values are rounded to the nearest thousands (000), except par values, per share amounts, number of shares and when otherwise indicated.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using uniform accounting policies. When necessary, adjustments are made to the separate financial statements of the subsidiaries to bring its accounting policies in line with the Parent Company's accounting policies.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and,
- the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Parent Company and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. 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 resulting gain or loss is recognized in the consolidated statement of income. Any investment retained is recognized at fair value.

NCI represents the interests in the subsidiaries not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to holders of the Parent Company. NCI shares in losses even if the losses exceed the NCI in the subsidiary.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

		Percentage of Ownership (%)			
		2018		2017	
Subsidiaries	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
PHINMA Power	Power generation	**100.00**	–	100.00	–
CIPP	Power generation	**100.00**	–	100.00	–
PHINMA Renewable	Renewable energy generation	**100.00**	–	100.00	–
One Subic Oil	Distribution of petroleum products*	**100.00**	–	100.00	–
PHINMA Solar**	Renewable energy generation	–	–	100.00	–
One Subic Power	Power generation	–	**100.00**	–	100.00
PHINMA Petroleum	Oil, gas, and geothermal exploration	**50.74**	**0.40**	50.74	0.40
Palawan55	Oil and gas exploration	**30.65**	**35.46**	30.65	35.46

* *Mineral exploration in 2016*

** *PHINMA Solar ceased to be a subsidiary of the Parent Company after the sale of its 50% interest in PHINMA Solar which is accounted for as an investment in joint venture as at December 31, 2018 (see Note 13).*

Reclassification of Prior Year Amounts

Certain reclassifications were made to the 2017 consolidated financial statements for comparability with the 2018 consolidated financial statements. As a result, certain line items in the consolidated statements of financial position as at December 31, 2018 and the related notes were amended. The reclassifications had no effect on the Company's consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows.

The items that were reclassified are as follows:

a. Input VAT claimed for refund amounting to ₱335.76 million from current to noncurrent assets in the consolidated statements of financial position as at December 31, 2017 (see Note 40).
b. Trade receivable and trade payable, both amounting to ₱1,123.00 million as at December 31, 2017, were reclassified to noncurrent assets and noncurrent liabilities, respectively, (see Notes 18 and 21).

3. Summary of Significant Accounting Policies and Disclosures

Changes in Accounting Policies

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 the pronouncements either did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.

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

- PFRS 9, *Financial Instruments*

  The Company adopted PFRS 9 with a date of initial application of January 1, 2018. PFRS 9 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.

  The Company has applied PFRS 9 using the modified retrospective approach. The Company chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:
  - Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7. *Financial Instruments: Disclosures* will be retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
  - The Company will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as at December 31, 2017.
  - The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening retained earnings or other component of equity, as appropriate.

- As comparative information is not restated, the Company is not required to provide a third consolidated statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

As at January 1, 2018, the Company has reviewed and assessed all of its existing financial assets.

Classification and measurement
The table below illustrates the classification and measurement of financial assets and financial liabilities under PFRS 9 and PAS 39 at the date of initial application. The accounting policies adopted by the Company in its evaluation of the classification and measurement categories under PFRS 9 are discussed subsequently.

The measurement category and the carrying amount of financial assets and liabilities in accordance with PAS 39 and PFRS 9 as at January 1, 2018 are compared as follows:

	PAS 39		PFRS 9				
				Remeasurement			
Financial Assets	Category	Amount	Reclassification	Expected Credit Losses (ECL)	Others	Amount	Category
Cash and cash equivalents:	Loans and receivables						Amortized cost
Cash on hand and in banks		₱120,897	₱–	₱–	₱–	₱120,897	
Cash equivalents		1,180,102	–	–	–	1,180,102	
		1,300,999	–	–	–	1,300,999	
Short-term investments	Loans and receivables	478,362	–	–	–	478,362	Amortized cost
Equity instruments:	Fair value through profit or loss (FVPL)						FVTPL
Unit Investment Trust Funds (UITFs)		1,329,701	5,340	–	–	1,335,041	
Fixed Rate Treasury Notes (FXTNs)		153,818	–	–	–	153,818	
		1,483,519	5,340	–	–	1,488,859	
Receivables:	Loans and receivables						Amortized cost
Trade receivables		3,706,913	–	(9,668)	–	3,697,245	
Due from related parties		20,314	–	–	–	20,314	
Nontrade and other receivables		134,571	–	–	–	134,571	
Long-term receivables		650,627	–	–	–	650,627	
Deposits receivables		179,674	–	–	–	179,674	
		4,692,099	–	(9,668)	–	4,682,431	
Equity instruments:	AFS investments						FVOCI
UITFs		5,340	(5,340)	–	–	–	
Quoted equity shares*		133,540	–	–	–	133,540	
Unquoted equity shares*		100,977	–	–	16,051	117,028	
Golf club shares*		53,270	–	–	–	53,270	
		293,127	(5,340)	–	16,051	303,838	
Derivative assets	FVPL	9,848	–	–	–	9,848	FVTPL

* As at January 1, 2018, the Company has irrevocably classified AFS investments as FVOCI.

At the date of initial application, the Company holds financial asset with contractual terms that do not represent solely payments of principal and interest amounting to ₱5.34 million. The Company reclassified this from AFS investments to financial assets at FVTPL using its fair value as at January 1, 2018 and the related unrealized gain closed to retained earnings amounted to ₱0.05 million. All gains and losses from changes in fair value and from disposals of UITFs are subsequently recorded in the consolidated statement of income (see Note 7).

The Company has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement for the Company's financial liabilities.

The Company does not have financial assets and financial liabilities which were previously designated at FVTPL to reduce an accounting mismatch in accordance with PAS 39 and which have been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

Impairment
The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach. Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a forward-looking approach in determining provisions. Further, since the implementation of PFRS 9, all financial assets except those measured at FVTPL and equity instruments at FVOCI are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as at January 1, 2018:

Measurement category	Impairment allowance under PAS 39	Remeasurement	Impairment allowance under PFRS 9
Cash and cash equivalents	₱–	₱–	₱–
Short-term investments	–	–	–
Receivables	120,869	9,668	130,537
Long-term receivables	–	–	–
Deposit receivables	–	–	–

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11 *Construction Contracts*, PAS 18 *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the

costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Company adopted PFRS 15 using the modified retrospective method with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to contracts not yet completed as at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related Interpretations.

The adoption of PFRS 15 had no significant impact on the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of cash flows, except on presentation of remittances to customers of proceeds from sale of unutilized capacity to the market as a reduction from revenue instead of cost of sale of electricity. Amount reclassified in 2018 is ₱129.19 million.

The table presents the Company's revenue from different revenue streams for the year ended December 31, 2018:

Revenue streams	Power Generation
Revenue from power supply contracts	₱9,445,862
Revenue from power generation and trading	5,651,301
Revenue from ancillary services	16,438
Total	**₱15,113,601**

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

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

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

Pronouncements Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements, if applicable, when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies
The accounting policies set out below have been applied consistently to all periods presented in the Company's consolidated financial statements, unless otherwise indicated.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Company elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in the consolidated statement of income. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Business Combination Involving Entities Under Common Control
Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are combined and reflected at their carrying amounts reported in the Company's consolidated statement of financial position. The consolidated statement of income, comprehensive income and cash flows reflect the

result of the combining entities in full, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date entities had been under common control.

Under the pooling of interest method of accounting, the results of operations and cash flows of the Parent Company and its subsidiaries are combined from the beginning of the financial period in which the acquisition occurred and their assets and liabilities are combined at the amounts at which these were previously recorded at the Company's consolidated financial statements as if these had been part of the Company for the whole of the current and preceding periods.

Presentation of Consolidated Financial Statements
The Company has elected to present all items of recognized income and expense in two statements: a statement displaying components of profit or loss (consolidated statement of income) and a second statement beginning with profit or loss and displaying components of OCI (consolidated statement of comprehensive income).

Current versus Noncurrent Classification
The Company presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve (12) months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve (12) months after the reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statement of financial position is composed of cash in banks and on hand and short-term deposits with a maturity of three (3) months or less, which are subject to an insignificant risk of changes in value.

Short-term Investments
Short-term investments represent investments that are readily convertible to known amounts of cash with original maturities of more than three (3) months to one (1) year.

Fair Value Measurement
The Company measures investments held for trading/ financial assets at FVTPL, AFS investments/ financial assets at FVOCI and derivative financial instruments at fair value at each reporting date.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Quantitative disclosures of fair value measurement hierarchy, see Note 36
- Investment properties, see Note 16
- Financial instruments (including those carried at amortized cost), see Note 36

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described in Note 36, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Financial Instruments - Initial Recognition, Classification and Subsequent Measurement
(Prior to adoption of PFRS 9)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial Recognition, Classification and Measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial

assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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

Subsequent Measurement

a. *Financial assets at FVPL*
   Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

   Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39.

   Net changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as gain or loss on changes in fair value of investments held for trading under "Interest and other financial income" included in "Other income - net" account. Interest and other financial income or charges are recorded when earned or incurred, respectively, while dividend income is recorded when the right to receive payment has been established.

   The Company has no financial assets designated at FVPL on initial recognition.

   As at December 31, 2017, the Company's investments in UITFs and FXTNs are classified as financial assets at FVPL under PAS 39 (see Notes 6 and 35).

   Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVPL.

   The Company enters into short-term forward currency contracts to hedge its currency exposure. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under

hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

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

As at December 31, 2017, the Company's derivative asset, included under "Other current assets" account in the consolidated statement of financial position, is classified as a financial asset at FVPL (see Notes 10 and 35).

b. *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in "Other income - net" in the consolidated statement of income.

As at December 31, 2017, the Company's cash and cash equivalents, short-term investments, receivables and refundable deposits are classified as loans and receivables under PAS 39 (see Notes 5, 8, 10, 18 and 35).

c. *HTM investments*
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investments when the Company has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR, less impairment.

As at December 31, 2017, the Company has no financial assets classified as HTM investments.

d. *AFS financial assets*
AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income (OCI) and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of income. Interest earned while holding AFS financial assets is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to the consolidated statement of income over the remaining life of the investment using the EIR method. Any difference between the new

amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

As at December 31, 2017, the Company's investments in listed and unlisted equity securities, golf club shares and investment in a UITF that is neither classified as held for trading nor designated at FVPL are classified as noncurrent AFS financial assets under PAS 39 (see Notes 14 and 35).

Financial Liabilities

Initial Recognition, Classification and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, as derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable and other current liabilities (excluding statutory payables), due to stockholders and long-term loans and other noncurrent liabilities including derivative liabilities (excluding deferred revenue).

Subsequent Measurement
The subsequent measurement of financial liabilities depends on their classification, as described below:

a. *Financial liabilities at FVPL*
   Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVPL.

   Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

   Gains or losses on liabilities held for trading are recognized in the consolidated statement of income.

   Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied.

b. *Other financial liabilities*
   After initial recognition, other financial liabilities that are interest-bearing are subsequently measured at amortized cost using the EIR method.

   Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process.

   Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in "Other income - net" account in the consolidated statement of income.

As at December 31, 2017, the Company has not designated any financial liability at FVPL. The Company's accounts payable and other current liabilities (excluding statutory payables), due to stockholders, deposit payables and long-term loans and other noncurrent liabilities (excluding deferred revenue) are classified as other financial liabilities under PAS 39 (see Notes 19, 20, 21, 31 and 35).

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

Financial Instruments – Classification and Measurement (Upon adoption of PFRS 9)

Classification of Financial Assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at FVTPL
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual Cash Flows Characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business Model
The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument.

The Company's business model refers to how it manages its financial assets in order to generate cash flows. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to

the Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial Assets at Amortized Cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Other income- net" in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "Provision for credit losses" in the consolidated statement of income.

As at December 31, 2018, the Company's financial assets at amortized cost includes cash and cash equivalents, short-term investments, receivables and refundable deposits (see Notes 5, 8, 10, 18, and 35).

Financial Assets at FVOCI

Debt instruments
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

As of December 31, 2018, the Company does not have debt instruments at FVOCI.

Equity instruments
The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:
- the Company's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

As at December 31, 2018, the Company's investments in quoted and unquoted equity securities and golf club shares are classified as financial asset at FVOCI under PFRS 9 (see Notes 15 and 35).

Financial Assets at FVTPL
Financial assets at FVTPL are measured at fair value unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the consolidated statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Company may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

As at December 31, 2018, the Company's investments in UITFs and FXTNs and derivative assets are classified as financial assets at FVTPL under PFRS 9 (see Notes 6 and 36).

Classification of Financial Liabilities

Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

As at December 31, 2018, the Company has not designated any financial liability at FVTPL. The Company's accounts payable and other current liabilities (excluding statutory payables), due to stockholders, short-term and long-term loans, deposit payables and other noncurrent liabilities are classified as financial liabilities measured at amortized cost under PFRS 9 (see Notes 19, 20, 21, 31 and 35).

Reclassifications of Financial Instruments (Upon adoption of PFRS 9)
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company does not reclassify its financial assets when:
- a financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- a financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- there is a change in measurement on credit exposures measured at fair value through profit or loss.

Derecognition of Financial Assets and Financial Liabilities (Prior to and upon adoption of PFRS 9)

Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated statement of financial position) when:
- the rights to receive cash flows from the asset have expired; or,
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Modification of Contractual Cash Flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Financial liability

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

Offsetting of Financial Instruments (Prior to and upon adoption of PFRS 9)
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

There are no offsetting of financial assets and financial liabilities and any similar arrangements that are required to be disclosed in the Company's consolidated financial statements as at December 31, 2018 and 2017.

Impairment of Financial Assets (Prior to adoption of PFRS 9)
Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant judgment and estimates, see Note 4
- Receivables, see Notes 8, 31 and 35
- AFS investments, see Notes 14 and 35

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables Carried at Amortized Cost
For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses

them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of income. Interest income, recorded under "Other income - net" account in the consolidated statement of income, continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other income - net" account in the consolidated statement of income.

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

AFS Financial Assets
For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income, is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

<u>Impairment of Financial Assets (Upon adoption of PFRS 9)</u>
PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Company recognizes ECL on debt instruments that are measured at amortized. No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- 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.

Financial assets migrate through the following three (3) stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss Allowance
For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognized a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than trade receivables, ECLs are recognized using general approach wherein the Company tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Determining the Stage for Impairment
At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Write-off policy
The Company writes-off a financial asset and any previously recorded allowance, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Fuel and Spare Parts
Fuel and spare parts are stated at the lower of cost or net realizable value (NRV). Cost is determined using the first-in, first-out method. NRV is the current replacement cost of fuel and spare parts.

Non-current Assets Held for Sale
The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification under PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

Property, plant and equipment are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

Property, Plant and Equipment
Property, plant and equipment, except land, is stated at cost, net of accumulated depreciation and impairment losses. Such cost includes the cost of replacing a part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost, net of accumulated impairment losses, if any.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The depreciation of property and equipment, except land, begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases when the assets are fully depreciated or at the earlier of the date that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, and the date the item is derecognized. The estimated useful lives used in depreciating the Company's property, plant and equipment are disclosed in Note 12.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the periods and methods of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. These are adjusted prospectively, if appropriate.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

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

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for operational use.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A reassessment is made after the inception of the lease, if any, if the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
d) there is substantial change to the asset.

Where the reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) above, and at the date of renewal or extension period for scenario (b).

The Company determines whether arrangements contain a lease to which lease accounting must be applied. The costs of the agreements that do not take the legal form of a lease but convey the right to use an asset are separated into lease payments if the entity has the control of the use or access to the asset, or takes essentially all of the outputs of the asset. The said lease component for these arrangements is then accounted for as finance or operating lease.

Company as a Lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under "Other income - net" account in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as "Rent" included under "Cost of sale of electricity" and "General and administrative expenses" in the consolidated statement of income on a straight-line basis over the lease term.

Company as a Lessor
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate used by the Company is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

All other borrowing costs are expensed in the period in which these occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency Denominated Transactions and Balances
Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized as "Foreign exchange loss - net" under "Other income - net" in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair values are determined. The gains or losses arising on translation of non-monetary items measured at fair value are treated in line with the recognition of the gains or losses on the change in fair values of the items (i.e., translation differences on items which the fair value gains or losses are recognized in OCI or in profit or loss are also recognized in OCI or in profit or loss, respectively).

Interests in Joint Arrangements

Joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint Operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities and share in the revenues and expenses relating to the arrangement. The Company's service contracts (SC) are assessed as joint operations.

Investments in Associates and Joint Ventures

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Company's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share in the net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The consolidated statement of income reflects the Company's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Company's share in profit or loss of the associate or the joint venture is shown in the consolidated statement of income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate or joint venture.

If the Company's share in losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Company discontinues recognizing its share of further losses.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Investment Properties

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

Investment properties are derecognized either when disposed of or when permanently withdrawn from use and no future economic benefit is expected from disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Leasehold Rights

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

Intangible assets with finite lives are amortized over their economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

The useful lives of leasehold rights are assessed as finite. The amortization expense on leasehold rights are recognized as "Depreciation and amortization" under "Cost of sale of electricity" account in the consolidated statement of income.

Deferred Exploration Costs

The Company follows the full cost method of accounting for exploration costs determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities, net of any allowance for impairment losses.

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

Impairment of Non-financial Assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired in accordance with PAS 36. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth (5th) year.

Impairment losses are recognized in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount,

nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

The following assets have specific characteristics for impairment testing:

Property, Plant and Equipment and Investment Properties
For property, plant and equipment and investment properties, the Company assesses for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

Investments in Associates and Interests in Joint Ventures
The Company determines at the end of each reporting period whether there is any objective evidence that the investments in associates and interests in joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and interests in joint ventures, and their carrying amounts.

Goodwill
Goodwill is tested for impairment annually and more frequently when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Leasehold Rights
Intangible assets with finite useful lives are tested for impairment when circumstances indicate that the carrying value may be impaired.

Deferred Exploration Costs
Deferred exploration costs are reassessed for impairment on a regular basis. An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:

- The period for which the Company has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;
- Substantive expenditure on further exploration and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- When a service contract where the Company has participating interest in is permanently abandoned; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as "Other income - net" in the consolidated statement of income.

Asset Retirement Obligation
The Company is legally required under a lease agreement to dismantle certain machinery and equipment and restore the leased site at the end of the lease contract term. The Company recognizes the fair value of the liability for this obligation and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The liability is subsequently carried at amortized cost using the EIR method with the related interest expense recognized in the consolidated statement of income.

Pensions and Other Post-employment Benefits
Defined Benefit Plan
The Company operates separate and distinct retirement plans for PHINMA Energy, PHINMA Power, PHINMA Renewable, PHINMA Solar and CIPP, which require contributions to be made to separately administered funds. Other entities are covered by Republic Act (R.A.) 7641, otherwise known as "The Philippine Retirement Law", which provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641. The cost of providing benefits is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which these occur. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognized in the consolidated statement of income on the earlier of:
- the date of the plan amendment or curtailment; or,
- the date that the Company recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation under "Cost of sale of electricity" and "General and administrative expenses" accounts in the consolidated statement of income:
- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when these are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Capital Stock
Capital stock represents the portion of the paid-in capital representing the total par value of the shares issued.

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

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

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

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

If the outstanding options are dilutive, its effect is reflected as additional share dilution in the computation of diluted earnings per share.

Additional Paid-in Capital (APIC)
APIC represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Treasury Shares
Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying

amount and the consideration, if reissued, is recognized in APIC. Share options exercised during the reporting period are satisfied with treasury shares.

Other Equity Reserve
Other equity reserves are made up of equity transactions other than capital contributions such as share in equity transactions of associates and joint ventures.

Retained Earnings
Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income, net of any dividend declaration and adjusted for the effects of changes in accounting policies as may be required by PFRS's transitional provisions.

Cash Dividend and Non-cash Dividend to Equity Holders of the Parent Company
The Company recognizes a liability to make cash or non-cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. A corresponding amount is recognized directly in equity.

Revenue from Contracts with Customers
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of Electricity (Prior to and Upon Adoption of PFRS 15)
Sale of electricity is consummated whenever the electricity generated by the Company is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is based on sales price. Sales of electricity using bunker fuel are composed of generation fees from spot sales to the WESM and supply agreements with third parties and are recognized monthly based on the actual energy delivered.

Starting December 27, 2014, sales of electricity to the WESM using wind are based on the Feed in Tariff (FIT) rate under the FIT System and are recognized monthly based on the actual energy delivered. Meanwhile, revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided. Revenue from sale of electricity through Retail Supply Contract (RSC) is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Upon adoption of PFRS 15, the Company identified the sale of electricity as its performance obligation since the customer can benefit from it in conjunction with other readily available resources and it is also distinct within the context of the contract. The performance obligation qualifies as a series of distinct services that are substantially the same and have the same pattern of transfer. The Company concluded that the revenue should be recognized overtime since the customers simultaneously receives and consumes the benefits as the Company supplies electricity.

Amounts Reimbursed to Customers (Prior to and Upon Adoption of PFRS 15)
Certain revenue contracts with customers provide for the sale of any unutilized electricity to the WESM. The Company records such sales as part of its revenue, with the proceeds paid back to the customers. Prior to adoption of PFRS 15, the proceeds are recorded as part "Cost of sales of electricity" in the consolidated statement of income. Upon adoption of PFRS 15, the proceeds are recorded as reduction in "Revenue from sale of electricity" in the consolidated statement of income.

Dividend Income
Dividend income is recognized when the Company's right to receive the payment is established, which is generally when shareholders of the investees approve the dividend.

Rental Income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature.

Other Income
Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized when incurred.

Taxes
Current Income Tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Management periodically evaluates positions taken in the tax return with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

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

Deferred Income Tax
Deferred income tax is provided using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:
- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss;

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

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in the consolidated statement of income.

Creditable Withholding Taxes

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

Value-added Tax (VAT)

Expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and,

- When receivables and payables are stated with the amount of VAT included

The amount of VAT recoverable from the taxation authority is recognized as "Input VAT", while VAT payable to taxation authority is recognized as "Output VAT" under "Accounts payable and other current liabilities" in the consolidated statement of financial position.

Output VAT is recorded based on the amount of sale of electricity billed to third parties. Any amount of output VAT not yet collected as at reporting period are presented as "Deferred output VAT" under "Income and withholding taxes payable" account in the consolidated statements of financial position.

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

Segment Reporting
The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 37 to the consolidated financial statements.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. If it is probable that an outflow of resources embodying economic benefits will occur and the liability's value can be measured reliably, the liability and the related expense are recognized in the consolidated financial statements.

Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to the financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it is virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the consolidated financial statements.

Events After the Reporting Period
Post year-end events that provide additional information about the Company's position as at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

Upon Adoption of PFRS 15
Identifying Performance Obligations
The Company identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customers and the Company's promise to transfer the good or service to the customer is separately identifiable.

The Company assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if (i) each distinct good or service in the series are transferred over time and (ii) the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation.

For power generation and trading and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the customer cannot benefit from the contracted capacity alone without the corresponding energy and the customer cannot obtain energy without contracting a capacity.

The combined performance obligation qualifies as a series of distinct services that are substantially the same and have the same pattern of transfer since the delivery of energy every month are distinct services which are all recognized over time and have the same measure of progress.

Retail supply also qualifies as a series of distinct services which is accounted for as one performance obligation since the delivery of energy every month is a distinct service which is recognized over time and have the same measure of progress.

Identifying Methods for Measuring Progress of Revenue Recognized Over Time
The Company determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

For ancillary services, the Company determined that the output method is the best method in measuring progress since actual energy is supplied to customers. The Company recognizes revenue based on contracted and actual kilowatt hours (kwh) dispatched which are billed on a monthly basis.

For power generation and trading and retail supply, the Company uses the actual kwh dispatched which are also billed on a monthly basis.

Determining Method to Estimate Variable Consideration and Assessing the Constraint
The Company includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company considers both likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Company will subject to constraint. Factors such as (i) highly susceptible to factors outside of the Company's influence, (ii) timing of resolution of the uncertainty, and (iii) having a large number and broad range of possible outcomes are considered.

Some contracts with customers provide for unspecified quantity of energy, index adjustments and prompt payment discounts that give rise to variable considerations. In estimating the variable consideration, the Company is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while most likely amount is used when the outcome is binary.

The Company determined that the expected value method is the appropriate method to use in estimating the variable consideration given the large number of customer contracts that have similar characteristics and wide the range of possible outcomes.

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are to be fully constrained based on its historical experience (i.e., prompt payment discounts), the range of possible outcomes (i.e., unspecified quantity of energy), and the unpredictability of other factors outside the Company's influence (i.e., index adjustments).

Determining Whether an Arrangement Contains a Lease
PHINMA Energy supplies the electricity requirements of certain customers under separate Electricity Supply Agreements (ESA) (see Note 34). The Company has evaluated the arrangements and the terms of the ESA and determined that the agreements do not qualify as leases. Accordingly, fees billed to these customers are recognized as revenue from sale of electricity.

Under PHINMA Energy's Power Purchase Agreement (PPA) with SLTEC and Maibarara Geothermal Inc. (MGI), PHINMA Energy agreed to purchase all of SLTEC and MGI's output (see Note 34). The Company has evaluated the arrangements and the terms of the PPA and determined that the agreements do not qualify as leases. Accordingly, fees paid to SLTEC and MGI are recognized under "Cost of sale of electricity" (see Note 24).

The Company also entered into various easements and right of way agreements with various land owners to support the erection of transmission lines to be used to connect its 54 MW Wind Farm Project in Guimaras. These agreements contain a lease as the arrangements convey the right to use the item and PHINMA Renewable has control over the utility of the asset.

Classification of Leases - the Company as Lessee
The Company exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Company. Lease agreements, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased items are classified as finance leases. Otherwise, these are considered as operating leases (see note 34).

The Company has entered into a lease agreement with Guimaras Electric Company (GUIMELCO) for a parcel of land used only as a site for electric generating plant and facilities, where it has determined that the risks and rewards related to the properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The lease is, therefore, accounted for as an operating lease.

One Subic Power has a lease agreement with SBMA for a parcel of land and electric generating plant and facilities where it has determined that the risks and rewards related to the properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The lease is, therefore, accounted for as an operating lease (see Note 34).

The Company has entered into various lease agreements with individual land owners where the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset, among others, which indicates that it does not transfer substantially all the risks and rewards from the various land owners to the Company incidental to the ownership of the parcels of land. These leases are classified as operating leases.

The Company has entered into various lease agreements with individual land owners where the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset, which indicates that the risks and rewards related to the asset are transferred to the Company. These leases are classified as finance leases.

Details of the above lease agreements are disclosed in note 34.

Classification of Leases - the Company as Lessor
The Company had a lease agreement for the lease of its investment property. The Company had determined that the risks and rewards of ownership of the underlying property were retained by the Company. Accordingly, the leases are classified as an operating lease (see Note 34).

Determining and Classifying Joint Arrangements
Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangements.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement. Specifically, the Company considers:

- the structure of the joint arrangement - whether it is structured through a separate vehicle;
- when the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:
  a. the legal form of the separate vehicle;
  b. the terms of the contractual arrangement; and,
  c. other facts and circumstances (when relevant).

This assessment often requires significant judgments on the conclusion on joint control and whether the arrangement is a joint operation or a joint venture, which may materially impact the accounting. As at December 31, 2018 and 2017, the Company's SCs are joint arrangements in the form of a joint operation.

The Company's joint control arrangements in which the Company has rights to the net assets of the investees are classified as joint ventures.

As at December 31, 2018, the Company holds 50% of the voting rights of PHINMA Solar. The Company also holds 50% and 45% of the voting rights of ACTA and SLTEC, respectively, as at December 31, 2018 and 2017. Under the contractual agreements, the Company has joint control over these arrangements as there is a unanimous consent where any party can prevent the other party from making unilateral decisions on the relevant activities without the other party's consent (see Notes 1 and 13).

The Company's joint arrangements are also structured through separate vehicles and provide the Company and the parties to the agreements with rights to the net assets of the separate vehicle under the arrangements.

Material Partly-Owned Subsidiaries
The consolidated financial statements include additional information about subsidiaries that have NCI that are material to the Company (see Note 33). Management determined material partly-owned subsidiaries as those with balance of NCI greater than 5% of total NCI's and those subsidiaries which type of activities those engage in are important to the Company as at the end of the year.

Material Associates and Joint Ventures
The consolidated financial statements include additional information about associates and joint ventures that are material to the Company (see Note 13). Management determined material associates and joint ventures as those associates and joint ventures where the Company's carrying amount of investments is greater than 5% of the total investments and advances in associates and joint ventures as at the end of the year.

Impairment of AFS Investments (Prior to adoption of PFRS 9)
The Company treats AFS investments in quoted shares of stock as impaired when there has been a significant and prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as greater than twelve (12) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. For unquoted shares, the Company determines that unquoted AFS investments are impaired when there is information about significant changes with adverse effects that have taken place in the market, economic or legal environment in which the issuer operates and indicate that the carrying amount of the investment in the equity instrument may not be recovered.

The Company assessed that there is no evidence of impairment as at December 31, 2017. The carrying value of AFS investments amounted to ₱293.13 million as at December 31, 2017 (see Note 14).

<u>Upon adoption of PFRS 9</u>

a. *Identification of Business Models*
   The Company manages its financial assets based on a business model that maintains adequate level of financial assets to match expected cash outflows while maintaining a strategic portfolio of financial assets for trading activities.

The Company's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. The following are the Company's business models:

Portfolio 1, Operating and Liquidity Fund (Amortized Cost)
Portfolio 1 is classified as amortized cost with the objective to hold to collect the financial asset to ensure sufficient funding to support the Company's operations and project implementation. It also aims to generate interest income from low-risk, short-term investments in highly liquid assets.

Funds in this portfolio is comprised of financial assets classified by the Bangko Sentral ng Pilipinas (BSP) and trust entities as conservative assets, which are principal-protected and highly liquid. These are placed in investment outlets that are redeemable within thirty (30) to ninety (90) days. This includes the Company's cash and cash equivalents, short-term investments, receivables and refundable deposits.

Main risks are credit risk, liquidity risk, market risk and interest rate risk. The performance of the portfolio is evaluated based on the yield of the investments. For further details on risks and mitigating factors, see Note 35.

Sales may be made when the financial assets are close to maturity and prices from the sales approximate the collection of the remaining contractual cash flows. Further, disposal is permitted when the Company believes that there is a credit deterioration of the issuer.

PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

Portfolio 2, Operating and Liquidity Fund
Portfolio 2 is classified as FVOCI with the objective to hold to collect and sell to ensure sufficient funding to support operations and project implementation. It also aims to generate interest income from low-risk, short-term investments in highly liquid assets.

Funds in this portfolio is comprised of financial assets classified by the BSP and trust entities as conservative assets, which are principal-protected and highly liquid. These are placed in investment outlets that are redeemable within thirty (30) to ninety (90) days. This includes the Company's UITFs, FXTNs and derivative assets.

Main risks are credit risk, liquidity risk, market risk and interest rate risk. The performance of the portfolio is evaluated based on the yield and fair value changes of the investments. For further details on risks and mitigating factors, see Note 35.

Sales may be made when the financial assets are close to maturity and prices from the sales approximate the collection of the remaining contractual cash flows. Further, disposal is permitted when the Company believes that there is a credit deterioration of the issuer.

Portfolio 3, Strategic Fund
Portfolio 3 is classified as FVOCI with the objective to hold to collect and to sell the financial asset to generate interest income from low-risk, long-term investments in liquid assets and maximize the returns from excess funds of the Company.

Funds in this portfolio have an overall weighted duration risk exposure of one (1) year or less. These are placed in investment outlets with tenors of at least ninety (90) days. The Company does not have debt instruments at FVOCI.

Main risks are credit risk, liquidity risk, market risk, interest rate risk and foreign currency risk. The performance of the portfolio is evaluated based on the yield and fair value changes of outstanding investments. For further details on risks and mitigating factors, see Note 35.

Sales may be made when the financial assets are close to maturity and prices from the sales approximate the collection of the remaining contractual cash flows. Further, disposal is permitted when the Company believes that there is a credit deterioration of the issuer.

b. *Definition of Default and Credit-impaired Financial Assets*
The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- *Quantitative criteria*
  The borrower is more than ninety (90) days past due on its contractual payments, i.e., principal and/or interest, which is consistent with the Company's definition of default.

- *Qualitative criteria*
  The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
  a. The borrower is experiencing financial difficulty or is insolvent
  b. The borrower is in breach of financial covenant(s)
  c. Concessions have been granted by the Company, for economic or contractual reasons relating to the borrower's financial difficulty
  d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
  e. Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout the Company's expected loss calculation.

Estimates

Estimating Allowance for Doubtful Accounts (Prior to adoption of PFRS 9)
The Company maintains allowance for doubtful accounts based on the results of the individual and collective assessment. Under the individual assessment, the Company considers the significant financial difficulties of the customer or significant delays in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the financial asset, as well as historical loss experience. Allowance for doubtful accounts is recorded when management believes that the receivable balance cannot be provided or realized after exhausting all efforts and courses of action. For the collective assessment, the Company groups its receivables based on the credit risk characteristics (customer type, past-due status and terms) of its customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. The methodology and assumptions used for the individual and collective assessments are based on management's judgments and estimates. Therefore, the amount

and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

The Company estimates the provision for doubtful accounts related to trade and other receivables based on specific evaluation of its receivables considering efforts exerted to collect the amounts due from customers and where the Company has information that certain customers are unable to meet their financial obligations (see Note 8).

Estimating Allowance for Credit Losses (Upon adoption of PFRS 9)

Measurement of expected credit losses
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

The Company leverages existing risk management indicators, credit risk rating changes and reasonable and supportable information which allows the Company to identify whether the credit risk of financial assets has significantly increased.

Inputs, Assumptions and Estimation Techniques

General approach for cash in banks and other financial assets measured at amortized cost
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, LGD and EAD, defined as follows:

- *Probability of Default*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on available market data using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

  The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at reporting date and future economic conditions that affect credit risk.

- *Loss Given Default*
  Loss Given Default represents the Company's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized

and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

- *Exposure at Default*
  EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

Simplified Approach for Trade Receivables
The Company uses a provision matrix to calculate ECLs for certain trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by revenue stream, customer type).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrices to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate, GDP, foreign exchange rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of Forward-Looking Information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Company considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. The Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses of each financial instrument and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at January 1 and December 31, 2018 included the following ranges of key Philippine economic indicators:

Economic indicators	December 31, 2018	January 1, 2018
Inflation rates	Base 3.90% Range between -0.4% and 6.7%	Base 3.50% Range between -0.4% and 5.2%
Foreign exchange rate	Base ₱52.61 Range between ₱40.67 and ₱51.34	Base ₱48.50 Range between ₱40.67 and ₱54.01
GDP growth	Base 6.90% Range between 5.10% and 7.20%	Base 6.70% Range between 5.10% and 7.20%

Predicted relationship between the key economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past five (5) to nine (9) years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Grouping of Instruments for Losses Measured on Collective Basis
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the Company to be statistically credible. Where sufficient information is not available internally, the Company has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below.

- *Universal and Commercial banks - Groupings for collective measurement*
  a. Instrument type
  b. Credit risk rating

- *Independent Electricity Market Operator of the Philippines [IEMOP; formerly Philippine Electricity Market Corporation (PEMC)], NGCP, RES, Direct and Wholesale Aggregator (WA) Customers - Groupings for collective measurement*
  a. Customer revenue classification (revenue stream)
  b. Credit risk rating band

The appropriateness of groupings is monitored and reviewed on a periodic basis. In 2018, the total gross carrying amount of receivables for which lifetime ECLs have been measured on a collective basis amounted to ₱1,597.57 million.

The carrying values of receivables and the related allowance for credit losses of the Company are disclosed in Note 8. In 2018 and 2017, provision for credit losses amounted to ₱14.55 million and ₱4.54 million, respectively (see Note 8).

As at December 31, 2018 and 2017, allowance for credit losses on receivables amounted to ₱131.33 million and ₱107.12 million, respectively (see Notes 8 and 18).

Recoverability of Input VAT
Input VAT represents taxes paid on purchases of applicable goods and services which can be recovered as tax credit against future output VAT liability of the Company. The Company is also allowed to recover excess input VAT by filing a claim for refund or tax credit certificate with the BIR. In 2016, PHINMA Renewable filed with the BIR a claim for tax credit certificate of its input VAT amounting to ₱335.76 million (see Note 40). Considering the uncertainty in the timing of the final decision of the Court of Tax Appeals (CTA), the input VAT claimed for refund was recognized as part of noncurrent asset in the consolidated statements of financial position.

In addition, the Parent Company has written-off ₱21.90 million of input VAT in 2018 as these are considered no longer recoverable. The Parent Company also provided provisions for unrecoverable input tax amounting to ₱43.71 million, nil and ₱2.57 million in 2018, 2017 and 2016, respectively (Note 28). The carrying amounts of input VAT as at December 31, 2018 and 2017 amounted to ₱362.09 million and ₱355.89 million, respectively.

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

As at December 31, 2018 and 2017, deferred income tax assets recognized by the Company amounted to ₱276.33 million and ₱447.34 million, respectively (see Note 29). The Company's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred income tax assets were recognized are disclosed in Note 29.

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Leasehold Rights
The Company estimates the useful lives of property, plant and equipment, investment properties and leasehold rights based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment properties and leasehold rights are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment properties are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. In 2018 and 2017, there were no changes in the estimated useful lives of the assets.

The total depreciation and amortization of property, plant and equipment, investment properties and leasehold rights amounted to ₱405.83 million, ₱399.38 million and ₱413.09 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 27).

Impairment of Deferred Exploration Costs
The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount under PFRS 6. Among the factors considered by management in the impairment review of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic. In the event of impairment, the Company measures, presents and discloses the resulting impairment loss in accordance with PAS 36.

The Company considers the status of the service contracts and its plans in determining the recoverable amount of the deferred exploration costs.

The Company recognized impairment losses on deferred exploration costs amounting to ₱48.26 million, ₱4.89 million, and ₱22.71 million for the years ended December 31, 2018, 2017, and 2016, respectively. The carrying value of deferred exploration costs amounted to ₱61.11 million and ₱104.85 million as at December 31, 2018 and 2017, respectively (see Notes 17 and 25).

Impairment of Non-financial Assets, Other than Goodwill and Deferred Exploration Costs
The Company assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill and deferred exploration costs, at each reporting date in accordance with PAS 16. These non-financial assets (investments and advances, property, plant and equipment, investment properties and leasehold rights) are tested for impairment whenever events or changes in circumstances indicate that carrying amount of the asset may not be recoverable. This requires an estimation of the value in use of the CGUs. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In cases where the value in use cannot be reliably measured, the recoverable amount is based on fair value less costs to sell.

The carrying amounts of the Company's non-financial assets other than goodwill and deferred exploration costs as at December 31 are as follows:

	2018	2017
Property, plant and equipment (see Note 12)	**₱5,760,963**	₱6,130,201
Investments and advances (see Note 13)	**4,322,684**	4,057,602
Investment properties (see Note 16)	**13,085**	50,915
Leasehold rights (see Note 17)	**24,959**	41,149

Other than the impairment loss on property, plant and equipment recognized in 2018 amounting to ₱2.07 million, no impairment loss was recognized on these non-financial assets in 2017 and 2016.

Accumulated impairment losses on investments amounted to ₱1.56 million as at December 31, 2018 and 2017 (see Note 13).

Impairment of Goodwill
The Company subjects goodwill to an impairment test annually and whenever there is an indication that it is impaired. This requires an estimation of the value in use of the related CGU. The value in use calculation requires the Company to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.
The carrying amount of goodwill amounted to ₱234.15 million as at December 31, 2018 and 2017 (see Note 17). No impairment loss has been recognized on goodwill in 2018, 2017 and 2016.

Pension and Other Employee Benefits
The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Pension and other employee benefits liability amounted to ₱54.15 million and ₱54.57 million as at December 31, 2018 and 2017, respectively (see Note 30).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 30.

Share-based Payments
The Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the binomial method. The expected life of the stock options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Company.

No equity-based compensation was recognized by the Company in 2018 and 2017 (see Note 23).

Contingencies and Tax Assessments
The Company is currently involved in various legal proceedings and assessments for local and national taxes (see Note 40). The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The final settlement of these may result in material adverse impact on the Company's consolidated financial statements.

5. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**₱151,317**	₱120,897
Short-term deposits	**871,049**	1,180,102
	₱1,022,366	₱1,300,999

Cash in banks earn interest at the applicable bank deposit rates for its peso and dollar accounts. Short-term deposits are made for varying periods between one day and three (3) months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income earned on cash in banks in 2018, 2017 and 2016 amounted to ₱0.90 million, ₱0.25 million and ₱0.08 million, respectively. Interest income earned on short-term deposits in 2018, 2017 and 2016 amounted to ₱33.15 million, ₱32.87 million and ₱13.22 million, respectively (see Note 28).

Short-term deposits account includes debt service reserves amounting to ₱54.77 million and ₱45.17 million as at December 31, 2018 and 2017, respectively, for the wind project loan facility (see Note 20).

6. Investments Held for Trading

Investments held for trading as of December 31, 2017 consists of:

UITFs	₱1,329,701
FXTNs	153,818
	₱1,483,519

On January 1, 2018, the Company reclassified all of its investments held for trading to financial assets at FVTPL (see Note 7).

The net changes in fair value of investments held for trading, included in "Interest and other financial income" account presented under "Other income - net" in the consolidated statements of income, amounted to ₱36.98 million and ₱20.10 million in 2017 and 2016, respectively (see Note 28).

Investments in UITFs as at December 31, 2017 include debt service reserves amounting to ₱47.09 million for the wind project loan facility (see Note 20).

7. Financial Assets at FVTPL

Financial assets at FVTPL as of December 31, 2018 consists of:

Current:	
UITFs	**₱743,739**
Noncurrent:	
UITF	**5,452**
	₱749,191

On January 1, 2018, the Company reclassified all of its investments held for trading to financial assets at FVTPL. Further, investment in a UITF previously recorded under AFS investments was reclassified to financial assets at FVTPL amounting to ₱5.34 million since as at date of initial application of PFRS 9, this was assessed to have contractual terms that do not represent solely payments of principal and interest (see Note 3).

The net changes in fair value of financial assets at FVTPL, included in "Interest and other financial income" account presented under "Other income - net" in the consolidated statement of income, amounted to ₱24.83 million in 2018 (see Note 28).

Financial assets at FVTPL as at December 31, 2018 include debt service reserves amounting to ₱57.80 million for the wind project loan facility (see Note 20).

8. Receivables

	2018	2017
Trade	**₱2,154,348**	₱2,608,417
Due from related parties (see Note 31)	**333,576**	20,314
Receivables from:		
Third parties	**179,550**	120,862
Assignment of Mineral Production Sharing Agreement (MPSA) (see Note 17)	**39,365**	39,365
Consortium - SC 50 (see Note 17)	**20,000**	20,000
Consortium - SC 52 (see Note 17)	**19,444**	19,444
Employees	**2,881**	2,636
Others	**9,461**	14,367
	2,758,625	2,845,405
Less allowance for credit losses	**131,334**	107,118
	₱2,627,291	₱2,738,287

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 both noninterest-bearing and interest-bearing receivables. The term is generally thirty (30) to sixty (60) days.

Receivables from third parties as at December 31, 2018 and 2017 mainly represent the current portion of the Company's noninterest-bearing receivables from NGCP (see Note 18).

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

	2018						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	More than 90 Days	Impaired
Trade	**₱2,154,348**	**₱1,712,945**	**₱40,844**	**₱19,387**	**₱191,896**	**₱148,354**	**₱40,922**
Due from related parties	**333,576**	**320,642**	**–**	**–**	**–**	**2,674**	**10,260**
Others	**270,701**	**183,751**	**8**	**106**	**39**	**6,645**	**80,152**
	₱2,758,625	**₱2,217,338**	**₱40,852**	**₱19,493**	**₱191,935**	**₱157,673**	**₱131,334**

	2017						
		Neither Past Due nor	Past Due but not Impaired				Past Due and
	Total	Impaired	<30 Days	30–60 Days	61–90 Days	More than 90 Days	Impaired
Trade	₱2,608,417	₱1,991,626	₱90,559	₱62,378	₱20,648	₱418,191	₱25,015
Due from related parties	20,314	20,314	–	–	–	–	–
Others	216,674	131,987	7	8	4	2,565	82,103
	₱2,845,405	₱2,143,927	₱90,566	₱62,386	₱20,652	₱420,756	₱107,118

The movements in the allowance for credit losses on individually impaired receivables in 2018 and 2017 are as follows:

	2018		
	Trade	**Others**	**Total**
Balances at beginning of year	**₱25,015**	**₱82,103**	**₱107,118**
Effect of adoption of PFRS 9	**9,668**	**–**	**9,668**
Provision for the year - net (see Note 25)	**3,168**	**11,380**	**14,548**
Balances at end of year	**₱37,851**	**₱93,483**	**₱131,334**

	2017		
	Trade	Others	Total
Balances at beginning of year	₱20,473	₱82,103	₱102,576
Provision for the year (see Note 25)	4,542	–	4,542
Balances at end of year	₱25,015	₱82,103	₱107,118

As a result of the adoption of PFRS 9, the Company recognized provision for credit losses amounting to ₱9.67 million which was adjusted to retained earnings as at January 1, 2018 (see Note 3).

Mineral Production Sharing Agreement (MPSA) 252-2007-V (Camarines Norte)
On July 28, 2007, the Parent Company was awarded MPSA No. 252-2007-V by the Philippine Department of Environment and Natural Resources (DENR) covering parcels of land with an aggregate area of more or less 333 hectares, located in the municipality of Camarines Norte, Philippines (the "Property"). On February 14, 2008, One Subic Oil, then TA Gold, and the Parent Company, entered into an Operating Agreement where the Parent Company granted unto and in favor of One Subic Oil the exclusive right to explore, develop and operate for commercial mineral production the Property under the MPSA. In June 2009, the Parent Company received a notice of an Order of the Secretary of the DENR excising portions of the MPSA area that are covered by alleged mineral patents of a third party for which the Parent Company filed a Motion for Reconsideration.

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

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

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

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

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

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

As at December 31, 2018 and 2017, receivable from Investwell amounted to ₱39.37 million which was provided with an allowance for impairment for the full amount since Investwell did not comply with the restructured payment schedule.

9. Fuel and Spare Parts

	2018	2017
Fuel - at cost	**₱317,923**	₱243,679
Spare parts - at net realizable value	**95,750**	77,846
	₱413,673	₱321,525

Fuel charged to "Cost of sale of electricity" in the consolidated statements of income amounted to ₱766.48 million, ₱763.87 million and ₱728.47 million in 2018, 2017 and 2016, respectively (see Note 24).

In 2018, PHINMA Energy recognized allowance for inventory obsolescence amounting to ₱0.16 million. The cost of spare parts carried at NRV amounted to ₱96.39 million and ₱78.33 million as at December 31, 2018 and 2017, respectively.

10. Other Current Assets

	2018	2017
Prepaid expenses	**₱82,577**	₱94,756
Deposits	**100,185**	176,989
Derivative assets (see Notes 35 and 36)	**4**	9,848
	₱182,766	₱281,593

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

Deposit receivables include advances to suppliers and land owners, deposits to distribution utilities and current portion of the refundable security deposit with SBMA.

11. Assets Held For Sale

PHINMA Energy

On August 7, 2018, the BOD approved the management's decision to sell the Parent Company's Guimaras Power Plant located in Jordan, Guimaras. Since the approval, the management has been actively looking for interested buyers. As at December 31, 2018, the Guimaras Power Plant was classified as "Assets held for sale" in the consolidated statement of financial position in accordance with PFRS 5, as the sale is highly probable (i.e., sale transaction will be completed within a year from the reporting date) and the asset is available for immediate sale in its present condition. The asset was previously presented as part of investment properties (see Note 16).

Subsequently, on January 7, 2019, the BOD approved the sale of the Guimaras Power Plant and on January 24, 2019, the Asset Purchase Agreement (APA) between the Parent Company and S.I. Power Corporation (the buyer) was signed and notarized with an agreed selling price of ₱45.00 million.

As at December 31, 2018, no impairment loss was recognized as the carrying value amounting to ₱30.71 million is below its fair value less costs to sell.

One Subic Oil

Starting July 18, 2018 until the end of the reporting period, the management communicated with its affiliates, suppliers, and other third party buyers its plan to sell some of its equipment and parts presented as part of "Machinery and equipment". Although nothing yet has been finalized, management has been actively looking for interested buyers.

The remaining unsold assets as at December 31, 2018 were classified as a "Assets held for sale" in the consolidated statement of financial position as the sale is highly probable (i.e., sale transaction will be completed within a year from the reporting date) and the asset is available for immediate sale in its present condition.

Immediately before the reclassification of the equipment and parts as held for sale, the recoverable amount was estimated and an impairment loss amounting to ₱1.13 million was recognized to reduce the carrying amount of the assets held for sale to their fair value less costs to sell. The carrying value of the remaining asset classified as assets held for sale amounted to ₱3.62 million as at December 31, 2018.

12. Property, Plant and Equipment

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

	2018							
	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Miscellaneous Assets	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost								
Balance at beginning of year	₱252,241	₱476,418	₱6,881,019	₱38,869	₱54,662	₱60,750	₱419	₱7,764,378
Additions	–	10,907	83,571	2,891	15,705	2,070	4,536	119,680
Disposals	–	–	–	(2,789)	(1,125)	(11,525)	–	(15,439)
Deconsolidation	–	–	(6,083)	–	–	(116)	(4,536)	(10,735)
Insurance claim	–	–	(90,146)	–	–	–	–	(90,146)
Transfer to asset held for sale (see Note 11)	–	–	(4,750)	–	(496)	–	–	(5,246)
Transfer from investment property (see Note 16)	–	1,845	–	–	–	–	–	1,845
Balance at end of year	252,241	489,170	6,863,611	38,971	68,746	51,179	419	7,764,337
Accumulated depreciation								
Balance at beginning of year	1,236	288,599	1,175,938	15,942	29,201	47,589	–	1,558,505
Depreciation (see Note 27)	–	75,327	290,354	7,489	6,388	4,813	–	384,371
Disposals	–	–	–	(2,789)	(1,125)	(11,518)	–	(15,432)
Deconsolidation	–	–	(154)	–	–	(25)	–	(179)
Transfer to asset held for sale (see Note 11)	–	–	–	–	(496)	–	–	(496)
Balance at end of year	1,236	363,926	1,466,138	20,642	33,968	40,859	–	1,926,769
Accumulated impairment loss								
Balance at beginning of year	–	–	75,672	–	–	–	–	75,672
Allowance for impairment loss	–	933	1,133	–	–	–	–	2,066
Transfer to asset held for sale (see Note 11)	–	–	(1,133)	–	–	–	–	(1,133)
Balance at end of year	–	933	75,672	–	–	–	–	76,605
Net Book Value	₱251,005	₱124,311	₱5,321,801	₱18,329	₱34,778	10,320	₱419	₱5,760,963

2017

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Miscellaneous Assets	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost								
Balance at beginning of year	₱251,488	₱428,651	₱6,698,824	₱37,692	₱37,766	₱54,674	₱228,283	₱7,737,378
Additions	753	40,778	35,632	3,994	16,916	6,524	21,295	125,892
Disposals	–	–	–	(2,817)	(20)	(448)	–	(3,285)
Reclassifications	–	–	249,159	–	–	–	(249,159)	–
Transfer to investment property (see Note 16)	–	(4,306)	(102,596)	–	–	–	–	(106,902)
Transfer from investment property (see Note 16)	–	11,295	–	–	–	–	–	11,295
Balance at end of year	252,241	476,418	6,881,019	38,869	54,662	60,750	419	7,764,378
Accumulated depreciation								
Balance at beginning of year	1,236	246,135	921,539	10,878	24,776	42,574	–	1,247,138
Depreciation (see Notes 27 and 38)	–	46,090	316,768	7,375	4,445	5,458	–	380,136
Disposals	–	–	–	(2,311)	(20)	(443)	–	(2,774)
Transfer to investment property (see Note 16)	–	(3,626)	(62,369)	–	–	–	–	(65,995)
Balance at end of year	1,236	288,599	1,175,938	15,942	29,201	47,589	–	1,527,292
Accumulated impairment loss								
Balance at beginning and end of year	–	–	75,672	–	–	–	–	75,672
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	In Years
Land improvements	10
Buildings and improvements	6-25
Machinery and equipment:	
Wind towers and equipment	25
Power plant	20
Power barges	10
Others	10-15
Tools and other miscellaneous assets	5-10
Transportation equipment	3-5
Office furniture, equipment and others	3-10

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, 2018, the total costs capitalized to Power Barges 101 and 102 included under "Machinery and equipment" 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 Machinery and Equipment. As at December 31, 2018, the carrying amount of Power Barge 103 included in "Machinery and equipment" amounted to ₱161.97 million.

Wind Projects
On October 7, 2014, the 54 MW Wind Power project in San Lorenzo, Guimaras started delivering power to the grid. Commercial operations started on December 27, 2014. The carrying amounts of the wind farm included under "Machinery and equipment" account as at December 31, 2018 and 2017 amounted to ₱4,310.28 million and ₱4,518.83 million, respectively, while those under "Land and land improvements" account as at December 31, 2018 and 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 March 19, 2018, PHINMA Renewable' remaining wind measuring device continue to gather wind resource measurements at San Lorenzo, Guimaras.

Sale of Transmission Assets
PHINMA Renewable and CIPP executed Deeds of Sale with the NGCP on April 22, 2016 and May 23, 2016, respectively, for the disposition of transmission assets and PHINMA Renewable's submarine cable pursuant to Section 8 of RA No. 9136 or the EPIRA and the ERC decisions. As at date of sale, the carrying value of transmission assets and submarine cables sold by PHINMA Renewable and CIPP amounted to ₱660.15 million and ₱65.17 million, respectively. Receivables from NGCP arising from these sales are included under "Receivables" and "Other noncurrent assets" (see Notes 8 and 18).

Land Held under Finance Leases
The Company entered into finance leases of land in Barangay Suclaran and Cabano in San Lorenzo, Guimaras and Barangay Zaldivar and Sawang in Buenavista, Guimaras to facilitate the construction of the San Lorenzo wind farm (see Note 34). The carrying amount of land held under finance leases, included under "Land and land improvements", as at December 31, 2018 and 2017 amounted to ₱116.81 million.

Mortgaged Property and Equipment
PHINMA Renewable's wind farm with carrying value of ₱4,310.28 million and ₱4,518.83 million included under "Machinery and equipment" account is mortgaged as security for the ₱4.30 billion term loan as at December 31, 2018 and 2017 (see Note 20).

The insurance claim on machinery and equipment amounting to ₱90.15 million in 2018 pertains to the net insurance proceeds from third parties for the reimbursement of capital expenditures relating to the repair of Power Barge 103 as a result of damages due to typhoon.

The cost of fully depreciated assets still used by the Company amounted to ₱166.64 million and ₱146.17 million as at December 31, 2018 and 2017, respectively.

13. Investments and Advances

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

	Percentage of Ownership	**2018**	2017
Investments in associates:			
MGI	25.00	**₱630,173**	₱535,230
Asia Coal Corporation (Asia Coal)*	28.18	**631**	631
Union Aggregates Corporation (UAC)**	31.25	**–**	–
		630,804	535,861
Interests in joint ventures:			
SLTEC	45.00	**3,438,199**	3,490,213
PHINMA Solar	50.00	**217,005**	–
ACTA	50.00	**36,676**	31,528
		3,691,880	3,521,741
		₱4,322,684	₱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:

	2018	2017
Investments in associates and interests in joint ventures		
Acquisition costs:		
Balance at beginning of year	**₱3,675,257**	₱3,531,934
Additions	**236,315**	98,323
Conversion from advances*	–	45,000
Balance at end of year	**3,911,572**	3,675,257
Accumulated equity in net earnings:		
Balance at beginning of year	**370,086**	426,832
Equity in net earnings for the year	**532,460**	1,024,995
Dividends received	**(504,913)**	(1,081,741)
Balance at end of year	**397,633**	370,086
Accumulated share in OCI:		
Balance at beginning of year	**(3,413)**	(277)
Share in other comprehensive income (loss)	**1,220**	(3,136)
Balance at end of year	**(2,193)**	(3,413)
Other equity transactions:		
Balance at beginning and end of year	**17,231**	17,231
Accumulated impairment losses	**(1,559)**	(1,559)
	4,322,684	4,057,602
Advances to an associate and a joint venture		
Balance at beginning of year	–	45,000
Additions	–	–
Advances converted to investment*	–	(45,000)
Balance at end of year	–	–
Total investments and advances	**₱4,322,684**	₱4,057,602

**ACTA's application for increase in authorized capital stock was approved on January 25, 2016. Consequently, the advances were converted to investment in a joint venture. In 2017, advances to MGI were converted to investment in associate.*

Investments in Associates

MGI

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

The summarized financial information of MGI, a material associate of the Parent Company, as at and for the years ended December 31 and the reconciliation with the carrying amount of the investments and advances in the consolidated financial statements are shown below:

Summarized Statements of Financial Position

	2018	2017
Current assets	**₱997,778**	₱621,971
Noncurrent assets	**4,860,066**	4,968,843
Total assets	**5,857,844**	5,590,814
Current liabilities	**(450,925)**	(348,820)
Noncurrent liabilities	**(2,887,058)**	(3,094,978)
Net assets	**2,519,861**	2,147,016
Proportion of the Parent Company's ownership	**25%**	25%
Carrying amount of investments	**₱629,965**	₱536,754

Summarized Statements of Income

	2018	2017	2016
Revenue from sale of electricity	**₱1,110,004**	₱832,084	₱784,609
Cost of sale of electricity	**507,587**	384,475	380,770
Gross profit	**602,417**	447,609	403,839
Interest expense - net	**(181,323)**	(129,147)	(219,871)
General and administrative expenses	**(55,341)**	(35,163)	(43,350)
Other income (charges) - net	**10,843**	4,976	(104)
Income before income tax	**376,596**	288,275	140,514
Provision for (benefit from) income tax	**(903)**	163	11
Net income	**377,499**	288,112	140,503
Other comprehensive income (loss)	**346**	(7,772)	–
Total comprehensive income	**₱377,845**	₱280,340	₱140,503

On September 16, 2011, the Parent Company entered into an ESA with MGI under which the Parent Company will purchase the entire net electricity output of MGI's power plant for a period of 20 years at an agreed price, subject to certain adjustments (see Note 34). 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 Parent Company is obligated to:

- assign, mortgage or pledge all its right, title and/or interest in and its shares of stocks in MGI, including those that may be issued in the name of the Parent Company;
- assign its rights and/or interests in the Joint Venture Agreement executed on May 19, 2010 with PNOC Renewables Corporation;
- secure the debt service reserve account (DSRA) with a standby letter of credit, when reasonably required and pursuant to the terms of the facilities;
- guarantee the completion of the projects and for this purpose, the Parent Company undertakes to:
  i. contribute to MGI its pro-rata share of the funds necessary to enable MGI to complete the construction of its projects; and,
  ii. make cash advances or otherwise arrange to provide MGI with funds sufficient to complete construction, in the event that MGI does not have sufficient funds available to cover the full cost of constructing and completing the project due to costs overrun.

The loan covenants covering the outstanding debt of MGI include, among others, maintenance of debt-to-equity and debt-service ratios. As at December 31, 2018 and 2017, MGI is in compliance with the said loan covenants.

In 2015, the construction of Phase 2 of the project commenced. MGI successfully commissioned the 12-megawatt (MW) Maibarara Geothermal Power Plant-2 (MGPP-2) and successfully synchronized to the Luzon grid on March 9, 2018. On April 30, 2018, MGPP-2 commenced its commercial operations.

The advances of ₱45.00 million granted by the Parent Company in 2015 were converted to investments in associates in 2017. The Parent Company invested additional capital and received dividends amounting to ₱12.50 million and ₱80.25 million, respectively, in 2018 and ₱12.50 million and ₱25.00 million, respectively, in 2017. No dividend was received by the Company in 2016.

Asia Coal
On March 19, 2009, the BOD 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 March 21, 2019, Asia Coal is still in the process of securing a tax clearance with the BIR in connection with the filing with the SEC of its application for dissolution.

Asia Coal has not engaged in any activity since filing for the shortening of its corporate life.

Interests in Joint Ventures

SLTEC
The summarized financial information of SLTEC, a material joint venture of the Parent Company, as at and for the years ended December 31 and the reconciliation with the carrying amount of the investment in the consolidated financial statements are shown below:

Summarized Statements of Financial Position

	2018	2017
Current assets	**₱4,219,021**	₱5,348,826
Noncurrent assets	**16,497,811**	16,907,554
Current liabilities	**(3,024,932)**	(2,883,687)
Noncurrent liabilities	**(10,098,160)**	(11,664,627)
Net assets	**7,593,740**	7,708,066
Proportion of the Parent Company's ownership	**45%**	45%
Parent Company's share in the net assets	**3,417,183**	3,468,630
Other adjustments*	**21,016**	22,002
Carrying amount of investment	**₱3,438,199**	₱3,490,632

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

Additional Information

	2018	2017
Cash and cash equivalents	**₱1,337,712**	₱1,403,297
Current financial liabilities*	**1,556,016**	1,562,666
Noncurrent financial liabilities	**10,082,253**	11,653,160

**Excluding trade and other payables and provision.*

Summarized Statements of Income

	2018	2017	2016
Revenue from sale of electricity	**₱6,270,087**	₱8,248,140	₱5,982,707
Cost of sale of electricity	**4,674,873**	5,163,660	3,526,798
Gross profit	**1,595,214**	3,084,480	2,455,909
General and administrative expenses	**(109,274)**	(152,125)	(163,838)
Interest expenses - net	**(749,724)**	(868,554)	(847,698)
Other income - net	**346,691**	70,302	376,249
Income before income tax	**1,082,907**	2,134,103	1,820,622
Provision for income tax	**104,953**	13,421	118,061
Net income	**977,954**	2,120,682	1,702,561
Other comprehensive income (loss) - net	**1,976**	(2,171)	98
Total comprehensive income	**₱979,930**	₱2,118,511	₱1,702,659

Additional Information

	2018	2017	2016
Depreciation and amortization	**₱781,075**	₱742,782	₱689,144
Interest income	**68,776**	49,983	45,233
Interest expense	**749,724**	868,554	892,931

The Parent Company earned dividends from SLTEC amounting to ₱492.42 million, ₱1,057 million and ₱644.95 million in 2018, 2017 and 2016, 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 eighteen (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 Parent 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 Parent Company's share in the said costs, was recognized equally as a reduction from the Parent Company's other equity reserve account and retained earnings (see Note 22).

On April 24, 2015, Unit 1 of the two (2) 135 MW coal fired units commenced its commercial operations. Unit 2 of the power plant commenced its commercial operations on February 21, 2016.

On December 20, 2016, the Parent Company sold 5% interest in SLTEC to APHPC (see Note 1). As a result of the sale, the Parent Company's interest in SLTEC was reduced from 50% to 45% and recognized a gain amounting to ₱444.21 million (see Note 28). As a result, the other equity reserve was reduced to ₱17.23 million (see Note 22).

PHINMA Solar
On December 11, 2018, the Parent Company and Union Galvasteel Corporation (UGC), a company under common control of PHINMA Inc., entered into a Deed of Sale for the sale of the Parent Company's 50% interest to UGC. The sale resulted in a gain of ₱5.83 million. In 2018, PHINMA Solar completed installation and commenced operations of two (2) solar panel projects.

The summarized financial information of PHINMA Solar, a material joint venture of the Parent Company, as at and for the year ended December 31, 2018 are shown below:

Summarized Statements of Financial Position

	2018
Current assets	**₱390,840**
Noncurrent assets	**45,856**
Current liabilities	**(2,463)**
Noncurrent liabilities	**(224)**
Net assets	**434,009**
Proportion of the Parent Company's ownership	**50%**
Parent Company's share in the net assets	**217,005**
Other adjustments	–
Carrying amount of investment	**₱217,005**

Additional Information

	2018
Cash and cash equivalents	**₱213,103**
Investments held for trading	**81,612**
Current financial liabilities	**2,463**
Noncurrent financial liabilities	**224**

Summarized Statements of Income

	2018	
	Jan – Sept	**Oct – Dec**
Revenue from sale of electricity	**₱535**	**₱467**
Cost of sale of electricity	**169**	**183**
Gross profit	**366**	**284**
General and administrative expenses	**(7,322)**	**(7,755)**
Other income - net	**2,921**	**480**
Loss before income tax	**(4,035)**	**(6,991)**
Benefit from income tax	**1,317**	**2,439**
Net loss	**(2,718)**	**(4,552)**
Other comprehensive income - net	–	**231**
Total comprehensive loss	**(₱2,718)**	**(₱4,321)**

Additional Information

	2018	
	Jan – Sept	**Oct – Dec**
Depreciation and amortization	**₱174**	**₱190**
Interest income	**642**	**1,659**

14. Available-for-sale Investments

AFS investments as of December 31, 2017 consists of:

Shares of stock:	
Listed	₱133,540
Unlisted	100,977
Golf club shares	53,270
Investment in a UITF	5,340
	₱293,127

No impairment was recognized in 2017 and 2016.

The movements in this account are as follows:

Balance at beginning of year	₱309,070
Additions during the year	7,215
Disposals during the year	(109)
Net changes in the fair market value of AFS investments	(23,049)
Balance at end of year	₱293,127

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

Balance at beginning of year - net of tax	₱109,366
Net changes in the fair market value of AFS investments	(23,049)
Income tax effect	(393)
Balance at end of year - net of tax	₱85,924

The dividend income earned from AFS investments amounted to ₱2.05 million, ₱8.48 million and ₱7.43 million in 2018, 2017 and 2016, respectively.

On January 1, 2018, the Company reclassified all of its AFS investments to financial assets at FVOCI (see Notes 3 and 15).

15. Financial assets at FVOCI

Upon adoption of PFRS 9 effective January 1, 2018, the Company reclassified its AFS investments to financial asset at FVOCI which consisted of the following as of December 31, 2018:

Shares of stock:	
Listed	**₱137,096**
Unlisted	**109,399**
Golf club shares	**11,500**
	₱257,995

The movements in net unrealized gain on financial assets at FVOCI for the year December 31, 2018 are as follows:

Balance at the beginning of year - net of tax	**₱–**
Changes upon adoption of PFRS 9 - net of tax:	
Unrealized gain on AFS equity securities transferred to FVOCI (Note 14)	**85,924**
Remeasurement gain of unlisted equity securities (Note 3)	**13,643**
Unrealized gain on investment in a UITF closed to retained earnings due to change in classification (Note 3)	**(54)**
Unrealized loss recognized in other comprehensive income	**2,106**
Cumulative unrealized gain on disposal of equity instruments at FVOCI transferred to retained earnings	**(41,847)**
Balance at end of year - net of tax	**₱59,772**

The dividend income earned from financial assets at FVOCI amounted to ₱7.07 million in 2018.

16. Investment Properties

			2018	
	Land	**Property and Equipment**	**Office Unit**	**Total**
Cost:				
Balance at beginning of year	**₱13,085**	**₱106,902**	**₱–**	**₱119,987**
Transfer to PPE (see Note 12)	**–**	**(9,005)**	**–**	**(9,005)**
Transfer to asset held for sale (see Note 11)		**(97,897)**		**(97,897)**
Balance at end of year	**13,085**	**–**	**–**	**13,085**
Less accumulated depreciation:				
Balance at beginning of year	**–**	**69,072**	**–**	**69,072**
Transfer to PPE (see Note 12)	**–**	**(7,160)**	**–**	**(7,160)**
Depreciation (see Note 27)	**–**	**5,274**	**–**	**5,274**
Transfer to asset held for sale (Note 11)	**–**	**(67,186)**	**–**	**(67,186)**
Balance at end of year	**–**	**–**	**–**	**–**
Net book value	**₱13,085**	**₱–**	**₱–**	**₱13,085**

			2017	
	Land	Property and Equipment	Office Unit	Total
Cost:				
Balance at beginning of year	₱13,085	₱–	₱28,133	₱41,218
Transfer from PPE (see Note 12)	–	40,907	–	40,907
Transfer to PPE (see Note 12)	–	–	(28,133)	(28,133)
Balance at end of year	13,085	40,907	–	53,992
Less accumulated depreciation:				
Balance at beginning of year	–	–	16,838	16,838
Transfer to PPE (see Note 12)	–	–	(16,838)	(16,838)
Depreciation (see Note 27)	–	3,077	–	3,077
Balance at end of year	–	3,077	–	3,077
Net book value	₱13,085	₱37,830	₱–	₱50,915

The Company's investment properties are composed of land, office unit and property and equipment. Depreciation on the Company's office unit and power plant is calculated on a straight-line basis over the estimated useful life of six (6) to twenty (20) years.

The fair value of the property and equipment in 2017 amounted to ₱81.30 million based on the valuation by an independent firm of appraisers. The value of property and equipment was arrived at using the Cost Approach which estimates the current replacement cost of the replaceable property in accordance with current market prices for manufactured equipment. Replacement cost is defined as the estimated cost of constructing a structure of comparable utility, employing the design and materials that are currently used in the market. Adjustments are then made to reflect depreciation resulting from physical deterioration plus any functional and economic obsolescence that may exist to arrive at a reasonable valuation.

Current prices of similar used property in the second-hand market and the age, condition, past maintenance, and present and prospective serviceability in comparison with units of like kind were also considered in the appraisal.

No rental income was earned for the office unit in 2018 and 2017 since the related lease agreement with a third party ended in 2016. Rental income from the office unit in 2016 amounted to ₱1.78 million, which was recognized in the consolidated statement of income, while related direct costs and expenses amounted to ₱3.11 million in which was included as part of "General and administrative expenses" account in the consolidated statements of income.

Revenue from the property and equipment amounted to ₱16.44 million, ₱18.24 million and ₱67.24 million in 2018, 2017 and 2016, respectively, which was recognized in the consolidated statements of income, while related direct costs and expenses amounted to ₱15.68 million, ₱17.91 million and ₱49.92 million in 2018, 2017 and 2016, respectively, which was included as part of "Cost of sale of electricity" account in the consolidated statements of income.

17. Goodwill and Other Intangible Assets

Changes in goodwill and other intangible assets for the years ended December 31, 2018 and 2017 are as follows:

	2018			
	Goodwill	**Deferred Exploration Costs**	**Leasehold Rights**	**Total**
Cost:				
Balance at beginning of year	**₱234,152**	**₱132,450**	**₱99,839**	**₱466,441**
Cash calls	–	**4,526**	–	**4,526**
Balance at end of year	**234,152**	**136,976**	**99,839**	**470,967**
Accumulated depreciation:				
Balance at beginning of year	–	–	**58,690**	**58,690**
Amortization (see Note 27)	–	–	**16,190**	**16,190**
Balance at end of year	–	–	**74,880**	**74,880**
Accumulated impairment:				
Balance at beginning of year	–	**27,605**	–	**27,605**
Provisions for the year (see Note 25)	–	**48,263**	–	**48,263**
Balance at end of year	–	**75,868**	–	**75,868**
Net book value	**₱234,152**	**₱61,108**	**₱24,959**	**₱320,219**

	2017			
	Goodwill	Deferred Exploration Costs	Leasehold Rights	Total
Cost:				
Balance at beginning of year	₱234,152	₱122,222	₱99,839	₱456,213
Cash calls	–	10,105	–	10,105
Others	–	123	–	123
Balance at end of year	234,152	132,450	99,839	466,441
Accumulated depreciation:				
Balance at beginning of year	–	–	42,500	42,500
Amortization (see Note 27)	–	–	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 for the year (see Note 25)	–	4,892	–	4,892
Balance at end of year	–	27,605	–	27,605
Net book value	₱234,152	₱104,845	₱41,149	₱380,146

Leasehold Rights and Goodwill

The leasehold rights and goodwill arose from PHINMA Power's acquisition of the entire outstanding shares of stocks of One Subic 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 December 31, 2018 and 2017, the leasehold rights have a remaining useful life of 1.5 years and 2.5 years, respectively (see Note 34).

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 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 10.20% and 8.15% in 2018 and 2017, respectively, were applied based on the weighted average cost of capital adjusted for the difference in currency and specific risks associated with the business of the CGU.

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

The Company factors the discount rate in the calculation of the value in use of its goodwill.

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying

individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

The excess of value in use over the carrying amount of the CGU amounted to ₱485.20 million as at December 31, 2018. An increase of 100 basis points in the Company's pre-tax discount rate will not result in an impairment of goodwill.

Deferred Exploration Cost

Details of deferred exploration costs are as follows:

	2018	2017
Petroleum and gas:		
SC 51/Geophysical Survey and Exploration Contract (GSEC) No. 93 (East Visayas)	**₱32,666**	₱32,666
SC 6 (Northwest Palawan)		
Block A	**22,568**	22,130
Block B	**4,892**	4,892
SC 69 (Camotes Sea)	**15,597**	15,597
SC 50 Northwest Palawan	**11,719**	11,719
SC 52 (Cagayan Province)	**10,994**	10,994
SC 55 (Southwest Palawan)	**6,817**	5,714
Geothermal:		
SC 8 (Mabini, Batangas)	**31,723**	28,738
	136,976	132,450
Allowance for impairment losses	**(75,868)**	(27,605)
Net book value	**₱61,108**	₱104,845

Below is the rollforward analysis of the deferred exploration costs as at December 31, 2018 and 2017:

	2018	2017
Cost:		
Balance at beginning of year	**₱132,450**	₱122,222
Cash calls	**4,526**	10,228
Balance at end of year	**136,976**	132,450
Accumulated impairment:		
Balance at beginning of year	**27,605**	22,713
Provision for the year (see Note 25)	**48,263**	4,892
Balance at end of year	**75,868**	27,605
Net book value	**₱61,108**	₱104,845

The foregoing deferred exploration costs represent the Company's share in the expenditures incurred under petroleum SCs with the DOE. The contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Operating agreements govern the relationship among co-contractors and the conduct of operations under an SC.

In 2017, the Company capitalized its share in various expenses to deferred exploration costs due to its operatorship in SC 69. Expenses capitalized were salaries and wages amounting to ₱0.09 million, depreciation expense amounting to ₱0.02 million and other expenses with a total amount of ₱0.01 million. Costs capitalized are included in the current work program for SC 69. No similar costs were incurred and capitalized in 2018.

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 the 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, the 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.

On May 15, 2018, PHINMA Petroleum notified the DOE of its withdrawal from SC 51 and advised the latter that it would no longer pursue its entitlement to Otto Energy's participating interest under the Deed of Undertaking dated March 3, 2017. The DOE acknowledged this formal notification from PHINMA Petroleum on May 23, 2018.

On June 1, 2018, the DOE approved the transfer of Otto Energy's participating interests in SC 51 to the Filipino Partners. PHINMA Petroleum's participating interest was adjusted from 6.67% to 33.34% after the DOE's approval of the withdrawal of Otto Energy.

On July 4, 2018, the SC 51 Consortium, noting that the attendant requested conditions that would allow full implementation of the proposed work program were not covered in the said approval (i.e., SC 51 term extension, revision of work program), notified the DOE of their decision to relinquish SC 51 block, to withdraw from SC 51 and to waive their rights to Otto Energy's interest.

The SC 51 Consortium met with the DOE on several occasions to craft the best way forward in SC 51. On December 17, 2018, as had been agreed in a number of meetings, the Consortium provided further justification for waiver to pay the outstanding financial obligation of Otto Energy, as executed in the Deed of Undertaking, given that the aforementioned conditions were not met. The matter is still being evaluated by the DOE and the aforementioned requests are pending as at March 21, 2019.

In 2018, the Company recognized full provision for probable loss on deferred exploration costs pertaining to SC 51 amounting to ₱32.67 million due to the relinquishment of PHINMA Petroleum's participating interest.

b. 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 Petroleum 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.

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.

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

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

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

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

The Consortium completed its 2018 work program and said undertaking have improved the resource evaluation of the mapped leads and prospects in the area.

On December 18, 2018, the Partners have approved and the Operator, Philodrill Corporation (Philodrill), submitted to the DOE the proposed 2019 SC 6A Work Program and Budget amounting to US$314,116 composed of geological and geophysical evaluation and engineering projects. The same was approved by the DOE on January 23, 2019.

No impairment was recognized for SC 6 Block A as the Company believes that the related deferred exploration costs are still recoverable.

Block B

Pursuant to a Farm-in Agreement dated February 4, 2011, Peak Oil and Gas Philippines Ltd. (Australia), Blade Petroleum Philippines Ltd. (Australia) and Venturoil Philippines, Inc. ("Farminees") exercised their option to acquire 70% participating interest of the SC 6 Block B consortium, which includes PHINMA Petroleum ("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, Philodrill, 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$0.72 million. 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. The retained carried interest would entitle PHINMA Petroleum for a share in the gross proceeds from any production in the block, once all exploration costs have been recovered. The carried interest will be valued upon establishment of the commercial viability of the project.

In 2017, the Company recognized full provision for probable loss on deferred exploration costs pertaining to SC 6B amounting to ₱4.89 million due to PHINMA Petroleum's relinquishment of its participating interest, but not the carried interest, to its partners.

On April 12, 2018, the transfer of participating interest from PHINMA Petroleum to SC6 Block B continuing parties was approved by the DOE.

c. 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, PHINMA Petroleum and Frontier Gasfields jointly requested the DOE an extension of the term of SC 69 until December 31, 2014. The DOE extended the term of Sub-Phase 3 to May 7, 2014 to enable the remaining parties to proceed with planned exploration activities and 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 leg of the survey due to permitting and weather constraints. The consortium requested an extension of the term of SC 69 due to Force Majeure.

As at December 29, 2017, the DOE approved the request for extension due to Force Majeure, effective until November 7, 2018, with an attendant work program of permitting and information and education campaigns to address impediments to the planned seismic survey.

On June 4, 2018, the SC 69 Consortium notified the DOE of its relinquishment of SC 69 block in view of the strong oppositions to the Project from various stakeholders, including several Local Government Units and Non-Government Organizations, making the conduct of petroleum exploration business in the area very challenging, if not impossible. The aforementioned request is still pending with the DOE as at March 21, 2019.

In 2018, the Company recognized full provision for probable loss on deferred exploration costs pertaining to SC 69 amounting to ₱15.60 million due to the relinquishment of PHINMA Petroleum's participating interest.

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, PHINMA Petroleum made advance payment to Frontier Oil amounting to ₱20.00 million pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil dated August 22, 2014 subject to execution of a Farm-in Agreement and Loan Agreement among the parties not later than thirty (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 ₱136.00 million is signed between PHINMA Petroleum and Frontier Oil, the advances shall be considered as initial drawdown on the Loan.

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

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

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

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

In 2016, the advances to Frontier Oil amounting to ₱20.00 million was fully provided with an allowance for credit losses account (see Note 8) and the deferred exploration costs amounting to ₱11.72 million was fully provided with an allowance for impairment, 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. A subsequent letter was sent to the DOE, dated December 14, 2016, requesting for reconsideration of the termination of SC 50.

As at March 21, 2019 approval of the assignment of 10% participating interest in SC 50 to PHINMA Petroleum remains pending with the DOE.

e. 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's 6.82% participating interest will be carried in the drilling cost of two (2) wells in the block under its Participation Agreement dated March 15, 2005 with 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 prospect 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$0.06 million of Otto Energy's outstanding training fund obligation of US$0.17 million 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 participating interests from Otto Energy to its Partners, Palawan55, Century Red and Pryce Gases, Inc. The Moratorium Period until April 26, 2019 was also approved with a budget of US$0.48 million for 3D seismic reprocessing and Quantitative Inversion Study.

On August 23, 2018, Palawan55 awarded the 3D Marine PreSTM and PreSDM Reprocessing and Quantitative Services Contract to a third party. The Notice to Proceed was issued on September 10, 2018. Said work program is currently ongoing.

On November 19, 2018, Palawan55 requested for an extension of the SC 55 Moratorium Period up to December 31, 2019 due to the fact that the Quantitative Interpretation Study and Resource Assessment will only be completed after April 2019. The DOE acknowledged the receipt of this request from Palawan55 on November 23, 2018. The said request is still pending approval as at March 21, 2019.

In December 2018, a third-party Partner in the consortium advanced its payment for its share in the 2019 work program amounting to US$0.07 million or ₱3.66 million. This shall be applied to the third party's share in the subsequent expenditure of SC 55.

In 2018, Palawan55 accrued its share in the training obligations for SC55 payable to DOE amounting to ₱3.49 million.

Palawan55's 6.82% participating interest in SC 55 was adjusted to 37.50% upon the DOE's approval of the withdrawal of Otto Energy.

No impairment was recognized for SC 55 as the Company believes that the related deferred exploration costs are still recoverable.

f. SC 8 (Batangas - Mabini Geothermal Service Contract)

On December 3, 2013, the Parent Company signed a MOA with Basic Energy Corporation (Basic Energy), under which the Parent Company shall acquire from Basic Energy a 10% participating interest in the Mabini Geothermal Service Contract, which interest may be increased up to 40%, at the option of the Parent Company, after the Parent Company completes a gravity program in the contract area at its sole cost.

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

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

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

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

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

In 2018, the Consortium held continuing IEC together with the DOE and PHIVOLCS to obtain support from the local government units towards lifting of the Cease-and-Desist Order.

On July 3, 2018, the Parent Company formally notified Basic Energy, the Operator, of its withdrawal from the service contract and Joint Operating Agreement (JOA) for the block.

In August 2018, Basic Energy proposed to conduct the forward drilling program on its own, "Operation by Fewer than all the Parties: under the JOA) and carry the Parent Company's share of attendant costs. The Parent Company expressed its willingness to consider the said proposal and requested Basic Energy's key terms for the Parent Company's consideration.

Key terms of the proposal are yet to be provided by Basic Energy as at March 21, 2019.

g. SC 52 (Cagayan Province)

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

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

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

The Parent 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 Parent 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 Parent Company's option to include the untested deeper prospective gas-bearing intervals identified in the well, under the following terms:

1) The Parent Company shall pay to Frontier Oil a total of US$0.40 million (Supplemental Option Fee) as follows:
   a. US$0.20 million shall be paid within five (5) working days of signing of the second (2nd) amendment agreement
   b. US$0.20 million shall be paid within five (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 ninety (90) days from the date of completion of the Workover Program.

On July 8, 2013, the first tranche of the supplemental option fee amounting to ₱8.7 million or US$0.20 million was paid.

In December 2013, Frontier Oil signed a drilling rig contract for the deepening and testing of the Nassiping-2 well. On account of this development, the Parent 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 (2nd) tranche of ₱8.88 million or US$0.20 million was paid.

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

On February 2, 2016, the DOE denied Frontier Oil's request for moratorium of work commitments on the basis of Force Majeure. In 2016, the Company reclassified to receivables the option fee of ₱19.44 million recoverable upon expiration of the SC. The option fee was fully provided with an allowance for doubtful account (see Note 8).

In 2016, the Company assessed and fully provided for probable losses for deferred exploration costs pertaining to SC 52 amounting to ₱10.99 million due to the expiration of its terms and subsequent denial of the DOE of the request for Force Majeure.

In December 2016, Frontier Oil, as instructed by the DOE, submitted certain documents in support of its request for Force Majeure. As at March 21, 2019, the requests for Moratorium and appeal for contract reinstatement are still pending DOE's approval.

Pililia Hydropower Service Contract (HSC) (Rizal)

The Company requested for the reinstatement of Pililia HSC and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

The Parent Company also requested a three-year extension of the pre-development stage of the service contract and as at March 21, 2019, is still waiting for the response from the DOE.

18. Other Noncurrent Assets

	2018	2017
Trade receivable (Note 21)	**₱1,123,511**	₱1,123,511
Receivables from third parties	**501,266**	650,627
Deposits	**102,346**	27,930
Prepaid rent	**50,079**	55,497
Balance at end of year	**₱1,777,202**	₱1,857,565

Receivables from third parties include interest-bearing receivables collectible until April 2021 and noninterest-bearing receivables from NGCP arising from the sale of transmission assets as discussed in Note 12, which are collectible annually within three (3) years from the date of sale, 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 (see Note 34).

Deposits include deposits to distribution utilities, advances to contractors/ suppliers and noncurrent portion of the refundable security deposit with SBMA.

Noncurrent trade receivable and trade payable (see Note 21) relate to –

Multilateral Agreement

Due to its interpretation of the WESM Rules, the PEMC allocates its uncollected receivables due from power purchasers in the WESM to the generators which sold power to the WESM. On December 23, 2013, the Supreme Court (SC) issued a 60-day Temporary Restraining Order ("TRO") enjoining the Manila Electric Company (MERALCO) and the ERC from implementing the Automatic Generation Rate Adjustment (AGRA) mechanism for the November 2013 billing period. The AGRA allows automatic pass through of the cost of power purchased from WESM. In turn, MERALCO did not pay PEMC a significant portion of its November and December 2013 power bills. PEMC in turn, did not pay the Company the full amount of its electricity sales. On April 22, 2014, the 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 power bills. As directed by ERC, PEMC recalculated the regulated prices and issued WESM adjusted power 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 forty-five (45) days, or up to May 12, 2014 to settle their WESM power bills covering the adjustments for the period October 26 to December 25, 2013. ERC extended the settlement of WESM power bills to a non-extendible period of thirty (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 six (6) months or twenty-four (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. 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.

19. Accounts Payable and Other Current Liabilities

	2018	2017
Trade payables	**₱519,505**	₱516,281
Due to related parties (see Note 31)	**801,165**	1,187,845
Output VAT	**144,366**	145,486
Deferred revenue - current portion	**387,289**	402,447
Nontrade	**192,154**	114,645
Accrued expenses	**121,534**	214,339
Accrued interest expense (see Note 35)	**79,297**	133,983
Finance lease obligations - current portion (see Note 34)	**14,803**	14,328
Retention payables	**1,096**	2,867
Accrued directors' and annual incentives (see Note 31)	**–**	19,757
Others	**8,189**	7,004
	₱2,269,398	₱2,758,982

Accounts payable and other current liabilities are noninterest-bearing and are normally settled on thirty (30) to sixty (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 until December 2019.

Accrued expenses include insurance, sick and vacation leave accruals (see Note 30), station use, One Subic Power variable rent at SBMA (see Note 34) and accruals for incentive pay.

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

Finance lease obligations refer to lease agreements entered into by the Company with individual land owners. These leases have terms of twenty (20) to twenty-five (25) years (see Note 34).

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.

The Company is a party to certain claims and assessments in the ordinary conduct of business. The information usually required by PAS 37 is not disclosed on the ground that it can be expected to prejudice the outcome or the Company's position with respect to these matters.

20. Loans

Long-term loans

As at December 31, this account consists of:

	2018	2017
PHINMA Renewable term loan facility	**₱1,644,743**	₱1,732,558
PHINMA Energy long-term loans	**4,728,870**	5,156,291
	6,373,613	6,888,849
Add premium on long-term loans (embedded derivative)	**4,247**	6,009
Less unamortized debt issue costs	**40,927**	45,482
	6,336,933	6,849,376
Less current portion of long-term loans (net of unamortized debt issue costs)	**265,460**	226,949
Noncurrent portion	**₱6,071,473**	₱6,622,427

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

	Derivatives	Debt Issue Costs
As at December 31, 2016	₱7,722	₱72,871
Additions	–	11,750
Amortization/accretion for the year*	(1,713)	(39,139)
As at December 31, 2017	6,009	45,482
Additions	–	6,975
Amortization/accretion for the year*	(1,762)	(11,530)
As at December 31, 2018	**₱4,247**	**₱40,927**

**Included under "Interest and other financial charges" in the "Other income - net" account in the consolidated statements of income (see Note 28).*

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 272 MW wind turbine generators and related roads, jetty, substations, transmission line facilities and submarine cable to connect to the grid. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

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

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

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

On April 28, 2016, the Company prepaid ₱150.50 million of its long-term debt in accordance with the terms of the Agreement as follows:

- The Company shall effect a mandatory prepayment of the loan, without premium or penalty, within three (3) business days from receipt by the Company of any transmission line proceeds;
- Prepay the loan to the extent of seventy percent (70%) of the transmission line proceeds;
- The remaining thirty percent (30%) shall be transferred directly into the Company controlled distribution account for further distribution to the Project Sponsor.

On December 20, 2016, the BOD resolved to amend the Omnibus Loan and Security Agreement (OLSA) to allow the Company to prepay a portion of the long-term debt to SBC and DBP without penalties. On January 11, 2017, the Company prepaid ₱2,350.00 million of its long-term debt.

Under the terms of the Agreement, PHINMA Energy, as the Project Sponsor, shall:

- Provide equity contributions equivalent to 30% of the project cost;
- Fund any cost overruns on the project and the required debt service reserve amount DSRA in the event of delays in obtaining FIT eligibility or Renewable Energy Payment Agreement; and,
- Redeem the loan in the event that PHINMA Renewable defaults on the loan and titles to the project properties have not been issued to PHINMA Renewable or notwithstanding such titles, lenders fail to acquire title to the project properties due to lack of annotation or third party claims.

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

	Tranche A (DBP)		Tranche B (SBC)	
Drawdown date	Gross Amount[a]	Carrying Value[b]	Gross Amount[a]	Carrying Value[b]
February 14, 2014	₱118,574	₱118,917	₱118,574	₱117,620
May 27, 2014	210,374	209,952	210,374	208,908
August 5, 2014	210,374	211,452	210,374	208,979
September 2, 2014	191,249	191,458	191,249	190,052
July 30, 2015	91,800	87,739	91,800	87,709
	₱822,371	₱819,518	₱822,371	₱813,268

[a]*Net of prepayments made in 2016 and 2017*
[b]*Net of unamortized debt issue costs.*

In 2018 and 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	₱69,365
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 14, 2018	16,735	15,047	16,735	15,786
August 14, 2018	27,172	25,491	27,172	26,231
	₱1,327,627	₱1,305,487	₱1,327,627	₱1,315,753

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 thirty (30) days prior to payment, the fund is replenished. Debt service reserves are included in the consolidated statements of financial position under "Cash and cash equivalents" and "Investments held for trading"/"Financial assets at FVTPL" (see Notes 5, 6 and 7).

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) Historical DSCR post dividend declaration of 1.20x and Debt to Equity Ratio not exceeding 70:30 throughout the term of the loan;
(b) Equity infusion amounting to ₱328.13 million for retention and contingencies;
(c) Limitation on investments (not to enter into joint ventures, partnership; create subsidiary/branch); and
(d) Restricted payments (not to distribute dividends, make payments to affiliates).

PHINMA Renewable is in compliance with loan covenants as at December 31, 2018 and 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 values amounting to ₱4,310.28 million and ₱4,518.83 million as at December 31, 2018 and 2017, respectively (see Note 12). 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	**2018**	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 on April 10, 2024; contains negative pledge	**₱1,388,693**	₱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	–	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 on January 30, 2024; contains negative pledge	**461,467**	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 on July 11, 2029; contains negative pledge	**965,456**	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 on July 10, 2029; contains negative pledge	**965,469**	1,147,927
₱0.93 billion loan with SBC	The applicable peso benchmark (based on BVAL) plus minimum of 2.0% spread, with quarterly repricing, which shall be payable quarterly in arrears.	Availed on December 28, 2018 payable on June 28, 2020; up to 18 months from drawdown date	**923,061**	–
Carrying value (net of unamortized debt issue costs and embedded derivatives of ₱24.72 million and ₱22.24 million in 2018 and 2017, respectively)			**₱4,704,146**	₱5,134,048

In 2018 and 2017, principal repayments made relative to Company's loans amounted to ₱147.42 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. Break-funding cost on principal repayment shall be based on the difference between the contracted interest rate and the comparable benchmark rate. The negative difference shall be multiplied by the prepaid amount and the remaining tenor to come up with break-funding cost, which in no case is less than zero.
₱1.00 billion loan with SBC	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱0.50 billion loan with BDO	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱1.18 billion loan with SBC	Early redemption is at the option of the issuer exercisable on an interest payment date at par plus break-funding cost. Transaction cost is minimal.
₱1.18 billion loan with DBP	Early redemption is at the option of the issuer exercisable on the interest repricing date (8th anniversary of the drawdown date). Prepayment amount is at par. If redemption is exercised on a date that is not the interest repricing date, prepayment amount is at par plus break-funding cost. Transaction cost is minimal.
₱0.93 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. Break-funding cost on principal repayment shall be based on the difference between the contracted interest rate and the comparable benchmark rate. The negative difference shall be multiplied by the prepaid amount and the remaining tenor to come up with break-funding cost, which in no case is less than zero.

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.

In 2018, the Company prepaid ₱1,210.00 million of its long-term debt in accordance with the terms of the Agreements with SBC and DBP.

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

Description	Covenants
₱1.50 billion loan with CBC	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 1.5 times
₱1.00 billion loan with SBC	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 2.0 times (c) Minimum Current ratio of 1.0 times
₱0.50 billion loan with BDO	(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity (b) Maximum Debt to Equity ratio of 1.5 times
₱1.18 billion loan with SBC	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times
₱1.18 billion loan with DBP	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times
₱0.93 billion loan with SBC	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times

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

As at December 31, 2018 and 2017, PHINMA Energy is in compliance with the terms as required in the loan covenants.

Total interest expense recognized on PHINMA Energy's and PHINMA Renewable's loans amounted to ₱396.90 million, ₱432.59 million and ₱434.45 million in 2018, 2017 and 2016, respectively (see Note 28).

Short-term loan
As at December 31, 2018, the Parent Company has outstanding short-term loan amounting to ₱400.00 million which was obtained thru a promissory note to BDO, Unibank Inc. on August 14, 2018 with a maturity date of February 8, 2019. This was subsequently extended on February 8, 2019 for six (6) months.

Year	Amount
Loan amount	₱400 million
Net proceeds	₱400 million

Interest on principal amount is 5.25% per annum fixed for 31 days to be repriced every 30 to 180 days as agreed by the parties. In 2018, the Parent Company recognized interest expense amounting to ₱8.12 million (see Note 28).

21. Other Noncurrent Liabilities

	2018	2017
Trade payable (see Note 18)	**₱1,123,511**	₱1,123,511
Deposit payables	**174,370**	218,421
Deferred revenue - noncurrent portion (see Note 19)	**–**	387,146
Finance lease obligation - noncurrent portion (see Note 34)	**72,299**	63,839
Accrued expenses	**12,897**	12,594
	₱1,383,077	₱1,805,511

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

Accrued expenses pertain to accrual of asset retirement obligation.

22. Equity

Capital Stock

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

	Number of Shares	
	2018	2017
Authorized capital stock - ₱1 par value	**8,400,000,000**	8,400,000,000
Issued shares:		
Balance at beginning of year	**4,889,774,922**	4,885,897,908
Issuance during the year - Exercise of stock options and grants (see Note 23)	**–**	3,877,014
Balance at end of year	**4,889,774,922**	4,889,774,922

The issued and outstanding shares as at December 31, 2018 and 2017 are held by 3,191 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 (7) shares for every ten (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 through SRO. 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 SRO 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 (2nd) 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 ₱3.30 billion and ₱4.02 billion, respectively, as at December 31, 2018 and 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 ₱1,285.25 million and ₱1,363.91 million as at December 31, 2018 and 2017, respectively; and (b) cost of treasury shares amounted to ₱27.71 million and ₱28.79 million as at December 31, 2018 and 2017, respectively.

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 were considered as treasury shares. On December 21, 2018, PHINMA Power sold 1,152,000 shares of the Parent Company.

Other Equity Reserves

This account consists of:

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

a. This relates to the accumulated share in expenses directly attributable to issuance of stocks of SLTEC, one of the Parent Company's joint ventures (see Note 13).

b. This represents the impact of the property dividend distribution in the form of PHINMA Petroleum's shares to 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 2018, 2017, 2016 and after December 31, 2018 are as follows:

	Dividend			
Date of Declaration	Type	Rate	Amount *	Record Date
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 amounting to ₱993.00 million each declaration.*

23. Employee Stock Options and Executive Stock Grants

On April 2, 2007, the Parent Company's BOD and stockholders approved a total of 100 million shares to be taken from the then unsubscribed portion of the Parent Company's 2.00 billion authorized shares to be awarded as follows: (a) stock grants for officers and managers of the Parent Company; and (b) stock options for directors, officers and employees of PHINMA Energy and its subsidiaries and affiliates under the terms and conditions as determined by the Executive Committee of the BOD.

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

Stock Options
Following are the specific terms of the Company's Stock Option Plan:

Coverage	Directors, permanent officers and employees of PHINMA Energy and its subsidiaries and affiliates
Exercise price	At weighted average closing price for twenty (20) trading days prior to grant date but should not be lower than par value of ₱1.00 per share
Vesting period	• Up to 33% of the allocated shares on the 1st year from the date of grant; • Up to 66% of the allocated shares on the 2nd year from the date of grant; and • Up to 100% of the allocated shares on the 3rd year from the date of grant.
Right to exercise option	Continuous employment required. In the event of resignation, termination or retirement, the optionee shall be entitled only to the options due him/her up to the effectivity of separation. Full payment is required prior to separation date. In the event of death of optionee, his/her heirs, executors, or administrators shall have the right to exercise the balance of options granted and pay in cash.

On May 7, 2008, the Company's Stock Option Committee suspended the implementation of the Stock Option Plan. The Committee also decided to implement the Company's Stock Grant for its executives which resulted in the grant of 3.88 million shares for 2016 and 1.80 million shares for 2015.

On July 22, 2013, the grant date, the Company lifted the suspension of the Stock Option Plan and awarded additional options under the same plan. The fair value of options granted in 2013 amounted to ₱23.03 million.

No stock options are outstanding and exercisable as at December 31, 2018 and 2017. In 2016, 20.75 million stock options were exercised while 8.43 million shares were forfeited.

No equity-based compensation expense were recognized by the Company in 2018, 2017 and 2016.

Stock Grants
The executive stock grants are given to officers and managers of the Parent Company computed at a predetermined percentage of their variable compensation pay based on certain performance criteria.

On August 1, 2017, the Parent Company settled the variable compensation of its executives through the issuance of 3.88 million shares at ₱1.66 per share.

24. Cost of Sale of Electricity

	2018	2017	2016
Costs of power purchased	**₱13,327,756**	₱15,158,639	₱12,212,120
Fuel (see Note 9)	**766,480**	763,872	728,467
Depreciation and amortization (see Notes 12, 16, 17 and 27)	**379,901**	370,332	386,716
Repairs and maintenance	**185,872**	192,145	200,729
Salaries (see Note 26)	**96,682**	90,380	104,911
Rent	**79,461**	75,774	73,276
Taxes and licenses	**72,633**	76,028	74,087
Insurance	**71,749**	68,631	94,364
Transmission costs	**66,855**	76,541	169,293
Pension and other employee benefits (see Notes 26 and 30)	**25,498**	25,983	23,541
Stations used	**13,901**	4,690	11,317
Filing fees	**2,627**	337	1,098
Others	**20,076**	25,887	25,955
	₱15,109,491	₱16,929,239	₱14,105,874

25. General and Administrative Expenses

	2018	2017	2016
Salaries and directors' fees (see Notes 23, 26 and 30)	**₱149,127**	₱138,818	₱259,460
Taxes and licenses	**139,233**	132,493	159,939
Management and professional fees (see Note 31)	**103,240**	187,814	228,706
Provision for probable losses on deferred exploration costs (see Note 17)	**48,263**	4,892	22,713
Plug and abandonment	**38,776**	4,384	–
Depreciation and amortization (see Notes 12, 16, and 27)	**25,934**	29,052	26,375
Pension and other employee benefits (see Notes 26 and 30)	**22,618**	22,838	22,825
Building maintenance and repairs	**20,314**	18,681	17,915

(Forward)

	2018	2017	2016
Provision for credit losses (see Note 8)	**₱14,548**	₱4,542	₱53,195
Transportation and travel	**13,786**	12,808	9,138
Bank charges	**11,874**	9,493	7,404
Insurance, dues and subscriptions	**10,759**	21,197	8,898
Contractor's fee	**6,674**	15,158	11,076
Communication	**4,365**	5,374	4,779
Office supplies	**4,322**	5,278	3,780
Meeting and conferences	**2,979**	4,476	4,673
Rent	**2,891**	2,963	2,243
Provision for inventory obsolescence and PPE impairment (see Notes 9 and 12)	**2,225**	–	–
Advertisements	**1,721**	2,334	3,262
Corporate social responsibilities	**640**	5,539	5,545
Provisions for claims and professional fees	**600**	16,720	–
Donation and contribution	**592**	870	19,993
Entertainment, amusement and recreation	**180**	41	87
Write-off of deferred exploration costs (see Note 17)	**–**	–	1,192
Others	**28,856**	18,785	26,437
	₱654,517	₱664,550	₱899,635

26. Personnel Expenses

	2018	2017	2016
Salaries and directors' fees included under:			
Cost of sale of electricity (see Note 24)	**₱96,682**	₱90,380	₱104,911
General and administrative expenses (see Note 25)	**149,127**	138,818	259,460
Pension and other employee benefits included under:			
Cost of sale of electricity (see Notes 24 and 30)	**25,498**	25,983	23,541
General and administrative expenses (see Notes 25 and 30)	**22,618**	22,838	22,825
	₱293,925	₱278,019	₱410,737

27. Depreciation and Amortization

	2018	2017	2016
Property, plant and equipment (see Notes 12 and 13)	**₱384,371**	₱380,117	₱394,940
Investment property (see Note 16)	**5,274**	3,077	1,961
Leasehold rights (see Note 17)	**16,190**	16,190	16,190
	₱405,835	₱399,384	₱413,091
Cost of sale of electricity (see Note 24)	**₱379,901**	₱370,332	₱386,716
General and administrative expenses (see Note 25)	**25,934**	29,052	26,375
	₱405,835	₱399,384	₱413,091

28. Other Income (Charges)

	2018	2017	2016
Interest and other financial income (see Notes 5, 6, 7, 8 and 18)	**₱96,851**	₱87,185	₱46,077
Foreign exchange loss - net	**29,329**	(8,373)	(7,208)
Gain (loss) on derivatives - net (see Note 36)	**(15,056)**	9,399	8,741
Gain (loss) on sale of:			
Investments (see Note 13)	**5,834**	–	444,207
Property and equipment	**261**	–	27,863
AFS investments	**–**	(17)	7
Provisions for unrecoverable input tax	**(43,712)**	–	(2,568)
Others	**46,745**	17,423	35,760
	₱120,252	₱105,617	₱552,879

Others pertains to reimbursement of feasibility cost, reversal of outstanding payables, sale of scrap materials, refund of excess business taxes paid, oil hauling and disposal and reimbursement from a third party.

Financial Income

The details of interest and other financial income are as follows:

	2018	2017	2016
Interest income on:			
Cash in banks (see Note 5)	**₱895**	₱252	₱83
Short-term deposits (see Note 5)	**33,146**	32,865	13,220
Receivables and others*	**37,983**	17,093	12,670
Net gains on investments held for trading (see Note 6)	**–**	36,975	20,104
Net gains on financial asset at FVTPL (see Note 7)	**24,827**	–	–
	₱96,851	₱87,185	₱46,077

**Includes amortization of security deposit amounting to ₱0.32 million and ₱0.58 million in 2018 and 2017, respectively.*

Interest and Other Finance Charges

The details of interest and other finance charges are as follows:

	2018	2017	2016
Interest expense on:			
Long-term loans* (see Note 20)	**₱396,901**	₱432,594	₱434,452
Finance lease obligations (see Note 34)	**16,635**	14,656	13,260
Amortization of debt issue cost (see Note 20)	**11,530**	39,139	17,016
Short-term loans (see Note 20)	**8,115**	–	–
Asset retirement obligation	**372**	372	372
Contract termination (see Note 34)	**–**	15,032	–
Others	**35**	10,732	3,178
Other finance charges	**61**	1,041	207
	₱433,649	₱513,566	₱468,485

** Net of accretion of interest expense of ₱1.76 million, ₱1.71 million and ₱1.67 million for the years ended December 31, 2018, 2017 and 2016, respectively, as an effect of amortization of embedded derivatives (see Note 20).*

29. Income Taxes

a. Current income tax pertains to the following:

	2018	2017	2016
RCIT	**₱20,496**	₱63,514	₱114,272
MCIT	**203**	9,208	351
	₱20,699	₱72,722	₱114,623

b. The components of the Company's net deferred income tax assets (liabilities) as at December 31 are as follows:

	2018	2017
Deferred income tax assets:		
Deferred revenue	**₱116,186**	₱236,878
NOLCO	**81,306**	138,122
Allowance for credit losses	**36,008**	29,286
Pension and other employee benefits	**15,292**	15,690
Accrued expense	**8,211**	7,818
Allowance for probable losses	**3,298**	3,298
Unamortized discount on long-term receivable	**3,228**	4,705
Unamortized past service cost	**2,528**	2,209
Asset retirement obligation - liability	**2,095**	2,279
Unrealized loss on FVOCI	**2,207**	–
Derivative liabilities on long-term loans	**1,274**	1,803
PAS 17 lease levelization	**1,051**	–
Allowance for impairment on property and equipment	**280**	–
Allowance for inventory obsolescence	**194**	
Unrealized foreign exchange loss	**48**	2,121
Others	**202**	707
	273,408	444,916
Deferred income tax liabilities:		
Unamortized debt issue costs	**(6,235)**	(5,598)
Unrealized gains on FVOCI	**(4,351)**	(4,982)
Unrealized fair value gains on FVPL	**(958)**	(657)
Unrealized foreign exchange gain	**(517)**	–
Derivative asset on forward contracts	**(1)**	(2,955)
Others	–	(444)
	(12,062)	(14,636)
Total deferred income tax assets - net	**₱261,346**	₱430,280
Deferred income tax assets:		
Excess of cost over fair value of power plant	**₱2,421**	₱2,421
Pension and other employee benefits	**289**	–
Allowance for credit losses	**181**	–
Unamortized past service cost	**27**	–
	2,918	2,421

(Forward)

	2018	2017
Deferred income tax liabilities:		
Excess of fair value over cost of power plant	**(₱87,827)**	(₱98,753)
Leasehold rights	**(7,488)**	(12,345)
Unamortized capitalized borrowing costs	**(1,946)**	(2,068)
Unrealized fair value gains on FVPL	**(834)**	(640)
Unrealized foreign exchange gain	**(3)**	(2)
	(98,098)	(113,808)
Total deferred income tax liabilities - net	**(₱95,180)**	(₱111,387)

The Company's deductible temporary differences and unused NOLCO for which no deferred income tax assets were recognized in the consolidated statements of financial position are as follows:

	2018	2017
NOLCO	**₱1,680,346**	₱63,947
Allowance for impairment loss on property and equipment	**106,885**	106,885
Allowance for probable losses	**64,874**	19,708
Allowance for doubtful accounts	**20,000**	20,000
Excess MCIT	**9,559**	9,579

Deferred income tax assets have not been recognized on these temporary differences as management believes it is not probable that sufficient future taxable income will be available against which the related deferred income tax assets can be used.

As at December 31, 2018, NOLCO totaling ₱1,951.37 million can be claimed as deduction from regular taxable income and MCIT amounting to ₱9.56 million can be credited against future RCIT. The movement in NOLCO and MCIT is shown in the tables below:

	NOLCO					
Year Incurred	Beginning	Additions	Application	Expiration	Ending	Expiry Date
2016	₱129,030	₱42,193	(₱17,644)	(₱51,259)	₱102,320	2019
2017	102,230	470,200	–	(48,077)	524,353	2020
2018	524,353	1,443,190	–	(16,177)	1,951,366	2021

	MCIT					
Year Incurred	Beginning	Additions	Application	Expiration	Ending	Expiry Date
2016	₱20	₱351	₱–	₱–	₱371	2019
2017	371	9,208	–	–	9,579	2020
2018	9,579	–	(20)	–	9,559	2021

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

	2018	2017	2016
Applicable statutory income tax rates	**30.00%**	30.00%	30.00%
Increase (decrease) in tax rate resulting from:			
Dividend income exempt from tax	**0.65**	(5.85)	(0.15)
Financial income subject to final tax	**3.80**	(32.72)	(9.63)
Equity in net income of associates and joint ventures	**37.89**	(707.05)	(18.42)
Net loss (income) under tax holiday	**3.89**	(37.69)	0.67
Nondeductible expenses	**(1.83)**	21.00	2.09
Movement in temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized and others	**(115.11)**	34.05	(0.37)
Effective income tax rates	**(40.71%)**	(698.26%)	4.19%

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

The TRAIN changes the existing tax law and includes several provisions that generally affected businesses on a prospective basis. In particular, management assessed that amendment of Section 148 - Excise tax on manufactured oil and other fuels - which increases the excise tax rates of lubricating oil, diesel fuel oil and bunker fuel oil, among others that are used for the power plants, may have material impact to the operations of the Company. Management has considered the impact of TRAIN in managing the operation hours of its power plants.

30. Pension and Other Employee Benefits

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

Pension and employee benefits consist of:

	2018	2017
Pension liability	**₱23,781**	₱28,394
Vacation and sick leave accrual	**30,370**	26,174
	54,151	54,568
Less current portion of vacation and sick leave accrual*	**13,905**	18,458
	₱40,246	₱36,110

**Included in "Accrued expenses" under "Accounts payable and other current liabilities".*

Pension and other employee benefits included under "Cost of sale of electricity" and "General and administrative expenses" accounts in the consolidated statements of income, consist of the following:

	2018	2017	2016
Pension expense	**₱14,571**	₱18,401	₱15,944
Vacation and sick leave accrual	**(1,414)**	1,343	3,492
	₱13,157	₱19,744	₱19,436

Net Defined Benefit Liability

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

Changes in net defined benefit liability of funded plan in 2018 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Net Defined Benefit Liability**
At January 1, 2018	**₱154,912**	**₱126,518**	**₱28,394**
Pension expense in consolidated statements of income:			
Current service cost	**14,240**	**–**	**14,240**
Net interest	**7,573**	**6,137**	**1,436**
Net acquired/(transferred) obligation	**426**	**–**	**426**
	22,239	**6,137**	**16,102**
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	**–**	**6,115**	**(6,115)**
Experience adjustments	**14,819**	**–**	**14,819**
Changes in demographic assumption	**(2,796)**	**–**	**(2,796)**
Actuarial changes arising from changes in financial assumptions	**(11,145)**	**–**	**(11,145)**
	878	**6,115**	**(5,237)**
Benefits paid	**(11,750)**	**(11,750)**	**–**
Contributions	**–**	**15,478**	**(15,478)**
At December 31, 2018	**₱166,279**	**₱142,498**	**₱23,781**

Changes in net defined benefit liability of funded plan in 2017 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability
At January 1, 2017	₱156,854	₱123,043	₱33,811
Pension expense in consolidated statements of income:			
Current service cost	16,818	–	16,818
Net interest	6,532	4,949	1,583
	23,350	4,949	18,401
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	(7,786)	7,786
Experience adjustments	(13,454)	–	(13,454)
Changes in demographic assumption	99	–	99
Actuarial changes arising from changes in financial assumptions	(2,191)	–	(2,191)
	(15,546)	(7,786)	(7,760)
Benefits paid	(9,746)	(9,746)	–
Contributions	–	16,058	(16,058)
At December 31, 2017	₱154,912	₱126,518	₱28,394

Changes in net defined benefit liability of funded plan in 2016 are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
At January 1, 2016	₱130,611	₱109,647	₱20,964
Pension expense in consolidated statements of income:			
Current service cost	15,019	–	15,019
Net interest	6,255	5,330	925
	21,274	5,330	15,944
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	(1,880)	1,880
Experience adjustments	11,850	–	11,850
Changes in demographic assumption	(184)	–	(184)
Actuarial changes arising from changes in financial assumptions	(5,285)	–	(5,285)
	6,381	(1,880)	8,261
Benefits paid	(1,412)	(1,412)	–
Contributions	–	11,358	(11,358)
At December 31, 2016	₱156,854	₱123,043	₱33,811

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair value of plan assets by each class as at December 31 follows:

	2018	2017	2016
Investments in:			
Equity instruments	**₱89,409**	₱79,382	₱80,655
Government securities	**48,607**	43,156	39,457
UITFs	**4,461**	3,961	3,905
Cash and cash equivalents	**226**	201	125
Liabilities	**(205)**	(182)	(1,099)
	₱142,498	₱126,518	₱123,043

Investments in government securities, mutual funds and UITFs can be readily sold or redeemed. Marketable equity securities, which can be transacted through the PSE, account for less than 10% of plan assets; all other equity securities are transacted over the counter.

The plan assets include shares of stock of the Parent Company with fair value of ₱1.15 million and ₱0.04 million as at December 31, 2018 and 2017 respectively. The shares were acquired at a cost of ₱0.03 million. There are no restrictions or limitations on the shares and there was no material gain or loss on the shares for the years ended December 31, 2018 and 2017. The voting rights over the shares are exercised through the trustee by the retirement committee, the members of which are directors or officers of the Parent Company.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining pension and post-employment benefit obligations for the defined benefit plans are shown below:

	2018	2017
Discount rate	**7.34%**	4.68%
Salary increase rate	**5.00%**	5.00%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

		2018	2017
		Increase (Decrease) in Pension Liability	Increase (Decrease) in Pension Liability
Discount rate	(Actual + 1.00%)	**(₱6,040)**	(₱7,638)
	(Actual – 1.00%)	**6,911**	8,974
Salary increase rate	(Actual + 1.00%)	**7,889**	9,873
	(Actual – 1.00%)	**(7,035)**	(8,597)

Management performs an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Company's current strategic investment strategy consists of 64% of equity instruments, 27% fixed income instruments and 9% cash and cash equivalents.

The Company expects to contribute ₱18.50 million to the defined benefit pension plan in 2019.

The following table sets forth the expected future settlements by Plan of maturing defined benefit obligation as at December 31, 2018:

	2018	2017
Less than one year	**₱82,379**	₱70,008
More than one year to five years	**57,159**	46,003
More than five years to 10 years	**73,705**	78,908
More than 10 years to 15 years	**40,976**	37,875
More than 15 years to 20 years	**83,435**	77,337
More than 20 years	**296,129**	429,520

The average duration of the expected benefit payments at the end of the reporting period ranges from 7.73 to 21.78 years.

Vacation and Sick Leave

The following tables summarize the components of vacation and sick leave expense (income) recognized in the consolidated statements of income and the amounts recognized in the consolidated statements of financial position.

	2018	2017	2016
Current service costs	**₱2,041**	₱2,772	₱4,817
Interest costs	**1,937**	1,290	1,037
Actuarial gain	**1,510**	(2,719)	(2,362)
	5,488	₱1,343	₱3,492

Changes in present value of the vacation and sick leave obligation are as follows:

	2018	2017
Balance at the beginning of year	**₱26,174**	₱25,174
Current service cost	**2,041**	2,772
Net interest	**1,937**	1,290
Actuarial loss	**1,510**	(2,719)
Benefits paid	**(1,292)**	(343)
Balance at the end of year	**₱30,370**	₱26,174

31. Related Party Transactions

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

Outstanding balances at year-end are unsecured and are to be settled in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. Provision for credit losses recognized for receivables from related parties amounted to ₱10.26 million, nil and nil for 2018, 2017 and 2016, respectively. The assessment of collectability of receivables from related parties is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In the ordinary course of business, the Company transacts with associates, affiliates, jointly controlled entities and other related parties on advances, loans, reimbursement of expenses, office space rentals, management service agreements and electricity supply. The transactions and balances of accounts as at and for the years ended December 31 with related parties are as follows:

	As at and for the Year Ended December 31, 2018					
			Outstanding Balance			
Company	**Amount/ Volume**	**Nature**	**Receivable**	**Payable**	**Terms**	**Conditions**
Ultimate Parent						
PHINMA, Inc.						
Rental and other income	**₱103**	Rent and share in expenses	**₱–**	**₱–**	30-60 day, non-interest bearing	Unsecured
Due to related parties/ General and administrative expenses	**27,968**	Management fees and share in expenses	–	**(23,521)**	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	**49,308**	Cash dividend	–	–	Payable on April 05, 2018; subsequently on demand	Unsecured
Due to related parties	–	Rental deposit	–	**(186)**	End of lease term	Unsecured

(Forward)

	As at and for the Year Ended December 31, 2018					
			Outstanding Balance			
Company	Amount/ Volume	Nature	Receivable	Payable	Terms	Conditions
Joint Ventures						
SLTEC						
Due to related parties/ Cost of sale of electricity	**₱6,283,516**	Purchase of electricity	**₱–**	**(₱508,808)**	30-day, non-interest bearing	Unsecured
Revenue from sale of electricity, rental, dividend and other income	**517,911**	Sale of electricity, rent, dividend and share in expenses	**288,453**	–	30-day, non-interest bearing	Unsecured, with impairment
Investments and advances (see Note 13)	–	Dividends received	–	–	30-day, non-interest bearing	Unsecured
Due to related parties	–	Rental deposit	–	**(497)**	End of lease term	Unsecured
PHINMA Solar						
Due to related parties	–	Advances	–	**(90,000)**	Non-interest bearing	Unsecured
Associates						
MGI						
Due to related parties/ Cost of sale of electricity	**1,142,885**	Trading cost	–	**(144,225)**	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 13)	**12,500**	Dividend received	–	–	Non-interest bearing	Unsecured
Asia Coal						
Due to related parties	–	Advances	–	**(254)**	Non-interest bearing	Unsecured
Entities Under Common Control						
PHINMA Property Holdings Corporation (PPHC)						
Due to related parties	–	Advances	–	**(171)**	30-60 day, non-interest bearing	Unsecured
PHINMA Corporation						
Dividend and other income	**5,804**	Cash dividend and share in expenses	–	–	30-60 day, non-interest bearing	Unsecured
Due to related parties/ Other expenses	**3,778**	Share in expenses	–	**(490)**	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	**51,293**	Cash dividends	–	–	Payable on April 05, 2018; subsequently on demand	Unsecured
Union Galvasteel Corp. (UGC)						
Due from related parties/	**619**	Rental income and advances	**123**	–	30-60 day, non-interest bearing	Unsecured, no impairment
Receivables	**225,000**	Sale of 50% Interest in PHINMA Solar	**45,000**		Noninterest-bearing	Unsecured, no impairment
Due to related parties		Rental deposit	–	**(158)**		
Dividend income	**3,458**	Cash dividend	–	–	30-60 day, non-interest bearing	Unsecured
General and administrative expenses	**136**	Roofing materials	–	–	30-60 day, non-interest bearing	Unsecured
T-O Insurance, Inc.						
Due to related parties/ General and administrative expenses	**59,146**	Insurance expense and membership fees	–	**(32,857)**	30-60 day, non-interest bearing	Unsecured
Other Related Parties						
Directors						
General and administrative expenses	**10,145**	Directors' fee and annual incentives	–	–	On demand	Unsecured
Stockholders						
Due to stockholders	**89,718**	Cash dividends	–	**(16,651)**	On demand	Unsecured
Due from related parties (see Note 8)			**₱333,576**	**₱–**		
Due to related parties (see Note 19)			–	**(801,165)**		
Accrued directors' and annual incentives (see Note 19)			–	–		
Due to stockholders (see Note 22 and 35)			–	**(16,651)**		

Company	2016 Amount/ Volume	As at and for the Year Ended December 31, 2017 Amount/ Volume	Nature	Outstanding Balances Receivable	Payable	Terms	Conditions
Ultimate Parent							
PHINMA, Inc.							
Rental and other income	₱1,100	₱771	Rent and share in expenses	₱54	₱–	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	104,055	80,903	Management fees and share in expenses	–	(31,164)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	97,855	49,308	Cash dividend	–	–	On demand	Unsecured
Joint Ventures							
SLTEC							
Revenue from sale of electricity, rental and other income	28,074	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 13)	644,945	1,056,742	Dividends received	–	–	30-day, non-interest bearing	Unsecured
Cost of sale of electricity	6,077,461	8,230,415	Purchase of electricity	–	(1,035,505)	30-day, non-interest bearing	Unsecured
ACTA							
Investments and advances (see Note 13)	–	18,073	Additional investment	–	–	Non-interest bearing	Unsecured
Associates							
Asia Coal							
Accounts payable and other current liabilities	–	–	Advances	–	(254)	Non-interest bearing	Unsecured
MGI							
Cost of sale of electricity	785,167	830,802	Trading cost	–	(83,101)	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 13)	–	25,000	Dividend received	–	–	Non-interest bearing	Unsecured
Investments and advances (see Note 13)	–	80,250	Additional investment	–	–	Non-interest bearing	Unsecured
Entities Under Common Control							
PPHC							
Accounts payable and other current liabilities	–	–	Advances	–	(171)	30-60 day, non-interest bearing	Unsecured
PHINMA Corporation							
Dividend and other income	5,387	5,387	Cash dividend and share in expenses	–	–	30-60 day, non-interest bearing	Unsecured
Other expenses	2,169	3,763	Share in expenses	–	(1,429)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	102,394	51,285	Cash dividends	–	–	On demand	Unsecured
Accounts payable and other current liabilities	–	4,178	Purchase of U.S. dollars	–	–	On demand	Unsecured
UGC							
Dividend income	2,281	3,334	Cash dividend	–	–	30-60 day, non-interest bearing	Unsecured
Rental income	–	329	Rent	214	–	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	–	–	Rental deposit	–	(159)	End of lease term	Unsecured
General and administrative expenses	92	108	Roofing materials	–	–	30-60 day, non-interest bearing	Unsecured
T-O Insurance, Inc.							
General and administrative expenses	91,400	112,000	Insurance expense and membership fees	–	(36,062)	30-60 day, non-interest bearing	Unsecured
Receivables	69	15	Refund of overpayment	–	–	30-60 day, non-interest bearing	Unsecured

(Forward)

Company	2016 Amount/ Volume	As at and for the Year Ended December 31, 2017 Amount/ Volume	Nature	Outstanding Balances Receivable	Payable	Terms	Conditions
Emar Corporation							
Other income	₱646	₱64	Share in expenses	₱–	₱–	30-60 day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	8,559	4,279	Cash dividend	–	–	On demand	Unsecured
PHINMA Education							
General and administrative expenses	2,698	2,298	Service fee	–	–	30-60 day, non-interest bearing	Unsecured
Other Related Parties							
Directors							
General and administrative expenses	72,846	33,546	Directors' fee and annual incentives	–	(19,757)	On demand	Unsecured
Stockholders							
Due to stockholders	179,320	89,564	Cash dividends	–	(15,300)	On demand	Unsecured
Due from related parties (see Note 8)				₱20,314	₱–		
Due to related parties (see Note 19)				–	(1,187,845)		
Accrued directors' and annual incentives (see Note 19)				–	(19,757)		
Due to stockholders (see Note 22 and 35)				–	(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 five (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, which remained effective as at March 21, 2019.

In 2018, CIPP's and PHINMA Renewable's BOD approved the renewal of its management contact with PHINMA, Inc. effective for another three (3) years.

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.

PHINMA Corporation

PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Company for its share in expenses. The Company also receives cash dividends from PHINMA Corporation. The Company has a dividend payable to PHINMA Corporation for cash dividends declared.

SLTEC

SLTEC leased and occupied part of the office space owned by the Parent Company. Monthly rent is based on a pre-agreed amount subject to 5% escalation rate per annum. The lease agreement is for a period of five years commencing on October 10, 2011. The contract ended on October 15, 2016 and it was not renewed as at March 21, 2019. The transactions with SLTEC also include the sale and purchase of electricity (see Note 34), reimbursements of expenses and receipt of dividends.

MGI
The Parent Company purchases the entire net electricity output of MGI (see Note 34). Other transactions with MGI include reimbursements of expenses and advances for future subscriptions. In 2018 and 2017, the Parent Company invested additional capital to MGI amounting to ₱12.50 million and ₱80.25 million, respectively (see Note 13).

PPHC/ UGC/Asian Plaza, Inc./Asia Coal/ACTA
PPHC, UGC, Asian Plaza, Inc., Asia Coal and ACTA are entities under common control. The transactions with these companies include cash dividends and/or advances.

In 2018 and 2017, the Parent Company made additional investments in ACTA's capital stock amounting to ₱4.65 million and ₱18.07 million, respectively (see Note 13).

T-O Insurance, Inc.
T-O Insurance, Inc. is likewise controlled by PHINMA, Inc. through a management agreement. The Company insures its properties through T-O Insurance, Inc. The Company's transaction with T-O insurance, Inc. includes payment of insurance and membership fees, the receipt of refund for overpayment and purchase of U.S. dollars.

Emar Corporation
The Parent Company bills Emar Corporation for its share in expenses which is collected within the year.

PHINMA Education
The Parent Company has payable to PHINMA Education for services rendered.

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

Retirement Fund
The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan (see Note 30).

Compensation of Key Management Personnel
Compensation of key management personnel of the Company are as follows:

	2018	2017	2016
Short-term employee benefits	**₱57,702**	₱74,447	₱165,214
Post-employment benefits	**4,643**	4,810	3,891
	₱62,345	₱79,257	₱169,105

32. Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share are computed as follows:

	2018	2017	2016
	(In Thousands, Except for Number of Shares and Per Share Amounts)		
(a) Net income (loss) attributable to equity holders of Parent Company	**(₱560,496)**	₱353,764	₱1,402,228
Common shares outstanding at beginning of year (see Note 22)	**4,889,774,922**	4,885,897,908	4,865,146,089
Weighted average number of shares issued during the year	**–**	1,614,537	12,259,975
(b) Weighted average common shares outstanding	**4,889,774,922**	4,887,512,445	4,877,406,064
Basic/Diluted earnings (loss) per share (a/b)	**(₱0.11)**	₱0.07	₱0.29

In 2018 and 2017, the Parent Company does not have any potential common shares or other instruments that may entitle the holder to common shares. In 2016, the Parent Company's stock options have no dilutive effect. Consequently, diluted earnings (loss) per share is the same as basic earnings (loss) per share in 2018, 2017 and 2016.

33. Material Partly-Owned Subsidiaries

Financial information of subsidiaries that have material NCI are provided below:

Equity interest held by NCI as at December 31, 2018 and 2017 are as follows:

	Percentage of Ownership (%)	
Name	**2018**	2017
PHINMA Petroleum	**48.868%**	48.864%
Palawan55	**33.891%**	33.888%

PHINMA Power sold 10,000 shares of PHINMA Petroleum costing ₱0.02 million with proceeds amounting to ₱0.03 million. This resulted to an increase in the noncontrolling interest on PHINMA Petroleum and Palawan55, a subsidiary of PHINMA Petroleum, as at transaction date. The Company used the NCI percentage of ownership before the treasury share sale transaction as it is the effective percentage of ownership for the majority of the year.

Accumulated balances of NCI as at December 31 are as follows:

Subsidiary	**2018**	2017
PHINMA Petroleum	**₱44,658**	₱75,458
Palawan55	**792**	2,652
	₱45,450	₱78,110

Net loss allocated to NCI for the years ended December 31 are as follows:

Subsidiary	**2018**	2017	2016
PHINMA Petroleum	**₱30,800**	₱6,583	₱19,691
Palawan55	**1,860**	13	6
	₱32,660	₱6,596	₱19,697

Summarized statements of financial position as at December 31, 2018 and 2017 are as follows:

PHINMA Petroleum	**2018**	2017
Current assets	**₱63,753**	₱78,723
Noncurrent assets	**29,527**	77,327
Current liabilities	**1,590**	1,497
Noncurrent liability	**281**	111
Total equity	**₱91,409**	₱154,442
Attributable to:		
Equity holders of the Parent Company	**₱46,751**	₱78,984
NCI	**44,658**	75,458
	₱91,409	₱154,442

Palawan55	**2018**	2017
Current assets	**₱5,777**	₱2,151
Noncurrent assets	**6,816**	5,713
Current liabilities	**10,249**	39
Noncurrent liability	**6**	–
Total equity	**₱2,338**	₱7,825
Attributable to:		
Equity holders of the Parent Company	**₱1,546**	₱5,173
NCI	**792**	2,652
	₱2,338	₱7,825

Summarized statements of income and statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016 are as follows:

PHINMA Petroleum	**2018**	2017	2016
Expenses	**₱64,405**	₱14,850	₱41,541
Other income - net	**1,543**	1,249	1,490
Provision for (benefit from) deferred income tax	**170**	(128)	246
Net loss	**₱63,032**	₱13,473	₱40,297
Total comprehensive loss attributable to:			
Equity holders of the Parent Company	**₱32,232**	₱6,890	₱20,607
NCI	**30,800**	6,583	19,690
	₱63,032	₱13,473	₱40,297

Palawan55	**2018**	2017	2016
Expenses	**₱5,516**	₱50	₱28
Other income	**35**	13	10
Provision for deferred income tax	**6**	–	–
Net loss	**₱5,487**	₱37	₱18
Total comprehensive loss attributable to:			
Equity holders of the Parent Company	**₱3,627**	₱24	₱12
NCI	**1,860**	13	6
	₱5,487	₱37	₱18

Summarized statements of cash flows for the years ended December 31, 2018, 2017 and 2016 are as follows:

PHINMA Petroleum	**2018**	2017	2016
Operating activities	**(₱16,061)**	(₱8,903)	(₱9,566)
Investing activities	**19,025**	8,454	8,904
Net increase (decrease) in cash and cash equivalents	**₱2,964**	(₱449)	(₱662)

Palawan55	**2018**	2017	2016
Operating activities	**₱2,757**	(₱39)	(₱332)
Investing activities	**(1,102)**	–	–
Financing activities	**1,950**		
Net increase (decrease) in cash and cash equivalents	**₱3,605**	(₱39)	(₱332)

There were no dividends paid to NCI for the years ended December 31, 2018, 2017 and 2016.

34. Significant Laws, Commitments and Contracts

Electric Power Industry Reform Act (EPIRA)
R.A. No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include, among others, the following:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Company, including its contracts with independent power producers, and electricity rates;
(2) Creation of a WESM;
(3) Open and non-discriminatory access to transmission and distribution systems;
(4) Public listing of generation and distribution companies; and,
(5) Cross-ownership restrictions and concentrations of ownership.

The Company believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

Retail Competition and Open Access (RCOA)
Upon meeting all conditions set forth in the EPIRA, the ERC promulgated the Transitory Rules for the RCOA, by virtue of ERC Resolution No. 16 Series of 2012.

Through RCOA, licensed Electricity Suppliers, such as the Company, are empowered to directly contract with Contestable Customers (bulk electricity users with an average demand of 1 MW). This major development in the Power Industry enabled the Company to grow.

Secondary Price Cap
Significant events in November and December 2013 resulted in a surge of electricity prices that affected the end-consumers, which led the ERC to impose a supplemental regulatory cap under the ERC Resolution 20, Series of 2014. The said resolution established a preemptive mitigating measure in the WESM meant to limit significant increases in the WESM prices.

This regulatory cap was made permanent and requires all trading participants in the WESM to comply. PHINMA Energy and its subsidiaries that sell to WESM are subject to this cap.

Renewable Energy (RE) Act of 2008
As provided for in R.A. 9513, RE developers shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Company ventured into wind resource development projects through its subsidiary, PHINMA Renewable. The Act significantly affected the operating results of PHINMA Renewable due to a guaranteed FIT rate and reduction in taxes.

Wind Energy Service Contracts
PHINMA Renewable was awarded 12 wind service contract areas with an aggregate capacity estimated at 400 MW. This includes the 54 MW San Lorenzo Wind Project (SLWP) which started delivering power to the grid on October 7, 2014 and declared commercial operations on December 27, 2014. PHINMA Renewable sells its generated electricity to the WESM under the FIT System.

Feed-in-Tariff (FIT)
On June 10, 2015, the SLWP was issued a Certificate of Endorsement for Feed-In Tariff Eligibility by the DOE. On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the ERC which entitles PHINMA Renewable to recognize its FIT at an approved rate of ₱7.40, with a retroactive period beginning December 27, 2014, for a guaranteed period of twenty (20) years until December 26, 2034. Outstanding receivable under the FIT System amounted to ₱129.97 million and ₱190.89 million as at December 31, 2018 and 2017, respectively (see Note 8).

Power Purchase Agreement / Contract to Purchase Generated Electricity
PHINMA Energy entered into contracts with SLTEC, MGI and third parties where the Parent Company will purchase the entire or a portion of the net electricity output of the power plants for a period ranging from three (3) to twenty (20) years at an agreed price, subject to certain adjustments.

Power Administration and Management Agreement (PAMA)
PHINMA Energy entered into PAMAs with its subsidiaries PHINMA Power, CIPP and One Subic Power. Under the terms of the PAMA, PHINMA Energy will administer and manage the entire generation output of the plants and will pay for all electricity delivered by the power plant based on a formula as set forth in the PAMA and shall be payable monthly. The PAMAs with PHINMA Power and CIPP are valid for ten (10) years and are subject to regular review, while the PAMA with One Subic Power is valid throughout the life of the related Facilities Lease Agreement with SBMA (see Note 1).

On January 12, 2018, the PAMAs of the Company with CIPP and PHINMA Power were amended, providing for certain capacity rates based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMAs became effective starting March 26, 2018 and valid for ten years and are subject to regular review.

Ancillary Services Procurement Agreements (ASPA) with NGCP
PHINMA Energy and certain subsidiaries executed ASPAs with NGCP. Under the ASPA, the power plants will provide contingency and dispatchable reserves to NGCP to ensure reliability in the operation of the transmission system and the electricity supply in the Luzon Grid for five (5) years

upon the effectivity of the provisional approval or final approval issued by the ERC. ERC's provisional approval is extended every year.

Electricity Supply Agreement (ESA) / Contract for the Sale of Electricity (CSE) with GUIMELCO
On November 12, 2003, PHINMA Energy signed an ESA with GUIMELCO, under which PHINMA Energy agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel generator power station and to supply GUIMELCO with electricity based on the terms and conditions set forth in the ESA. The power plant commenced commercial operations on June 26, 2005.

Upon the expiration of the ESA, the parties entered into a CSE on March 2015. Under the contract, PHINMA Energy shall supply, for a period of 10 years from fulfillment of the conditions precedent indicated in the contract, all of GUIMELCO's electricity requirements that are not covered by GUIMELCO's base load supply. On February 1, 2018, PHINMA Energy has invoked a change in circumstances under the CSE considering that the passage of Tax Reform for Acceleration and Inclusion (TRAIN) law was not contemplated by parties during execution of CSE. In view of the requirements that have to be complied with by the parties, a Termination Agreement of the CSE is currently being finalized as at March 21, 2019.

Other ESAs / CSEs with customers
PHINMA Energy signed contracts to supply the energy requirements of various bilateral and RES contestable customers with a duration ranging from one (1) to fifteen (15) years.

Administration Agreement for the 40 MW Strips of the Unified Leyte Geothermal Power Plant (UL GPP)
On February 6, 2014, PHINMA Energy was officially declared a winning bidder of a 40 MW Strip of the UL GPP. Consequently, PSALM and PHINMA Energy, with conformity of the National Power Corporation entered into an Administration Agreement for the Selection and Appointment of the IPPAs for the Strips of Energy of the UL GPP. The agreement will expire on July 25, 2021.

On December 28, 2017, PHINMA Energy and PSALM have agreed to mutually terminate the Administration Agreement for the 40MW strip of energy of the UL GPP. PHINMA Energy also withdrew the case it filed earlier and no further claims will be pursued. As at March 21, 2019, PHINMA Energy has settled all its obligations with PSALM.

Service Contracts with the DOE

SC 14 (North Matinloc)
PHINMA Energy holds a 6.103% participating interest in SC 14 Block B-1 which hosts the North Matinloc-2 (NM-2) production well. The well is produced on cyclical mode with rest period longer than the flow phase, to enable the reservoir to build up enough pressure to push the crude to surface. In 2016, the well produced a total of 9,123 barrels of crude oil for an average 760 barrels monthly production.

SC 664 (Mabinay, Negros Oriental)
On November 10, 2016, the DOE awarded Hydropower Service Contract 2016-06-664 ("Ilog") to the Parent Company covering certain areas in Mabinay, Negros Oriental. The contract provides for a two-year Pre-Development Stage during which the Company shall evaluate the commercial feasibility of the project. Upon Declaration of Commerciality, the project shall proceed to the Development Stage which is valid for twenty-five (25) years. All costs during 2016 and 2017 with the Ilog Hydro projects were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (SESC) (Bugallon, Pangasinan)
On May 22, 2017, the DOE awarded a SESC to the Parent Company, which grants the Parent Company the exclusive right to explore, develop and utilize the solar energy resource in a 648-hectare area in the Municipality of Bugallon, Province of Pangasinan. Pre-development activities, such as, yield assessment, environmental impact study and system impact study are underway and are expected to be completed within the year. The Parent Company hopes to construct a 45MW ground mount fixed-tilt grid tied solar PV plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at March 21, 2019, all costs of the Bugallon Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (Lipa City and Padre Garcia, Batangas)
On July 18, 2017, the DOE awarded a SESC to the Parent Company, which grants the Parent Company the exclusive right to explore, develop and utilize the solar energy resource in a 486 hectare area in the City of Lipa and Municipality of Padre Garcia, Province of Batangas. The Parent Company hopes to construct a 45MW ground mount fixed-tilt grid connected solar plant in the service contract area. All technical studies were completed and necessary permits were secured such as the ECC as well as local government endorsement. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at March 21, 2019, all costs of the Lipa and Padre Garcia Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Operating Lease Commitments

PHINMA Energy's Lease Agreement with GUIMELCO
The Parent Company has entered into a lease agreement with GUIMELCO for a parcel of land used 7only as a site for electric generating plant and facilities. The term of the lease is 10 years with a renewal option included in the contract. The Parent Company is given the first option to buy the property if the lessor decides to sell the land. The lease is at a fixed monthly rate of ₱0.04 million for the duration of the lease term. On March 27, 2015, the lease agreement was extended for another 10 years. On January 24, 2019, the Guimaras Power Plant was sold to S. I. Power Corporation. Consequently, in view of the sale, the Parent Company intends to terminate the lease with GUIMELCO in 2019.

	2018	2017
Within one year	**₱480**	₱480
After one year but not more than five years	**2,400**	2,400
More than five years	**120**	600
	₱3,000	₱3,480

One Subic Power's Facilities Lease Agreement with SBMA
One Subic Power has a lease contract with SBMA for a parcel of land and electric generating plant and facilities. The lease was originally entered on July 20, 2010 and was valid for five years. The agreement was amended on October 24, 2012 to extend the term of the lease to July 19, 2020 with an option to renew for another five years. On December 21, 2017, SBMA informed One Subic Power that its BOD has approved the amendments of the FLA extending the lease term until July 19, 2030. On April 03, 2018, the third amendments was signed and approved. The future minimum lease payments under this operating lease agreement follows:

	2018	2017
Within one year	**₱62,412**	₱60,326
After one year but not more than five years	**749,389**	248,698
	₱811,801	₱309,024

One Subic Power recognized rent expense of ₱75.58 million, ₱71.23 and ₱67.99 million in 2018, 2017, and 2016, respectively, included in "Rent" account under "Cost of sale of electricity" (see Note 24).

PHINMA Renewable's Lease Agreement with Various Land Owners
PHINMA Renewable has entered into various lease agreements with individual land owners where the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased assets, which indicates that the risks and rewards relates to the asset are retained with the land owners. These leases are classified as operating leases and have terms of twenty (20) to twenty-five (25) years. Future minimum lease payments under these agreements are as follows:

	2018	2017
Within one year	**₱374**	₱356
After one year but not more than five years	**1,843**	2,003
More than five years	**8,853**	9,467
	₱11,070	₱11,826

PHINMA Renewable recognized rent expense of ₱0.71 million, ₱0.73 and ₱0.77 million in 2018, 2017, and 2016, respectively, included in "Rent" account under "Cost of sale of electricity" (see Note 24).
Details of prepaid rent related to these operating lease agreements are as follows (see Notes 10 and 18):

	2018	2017
Prepaid rent:		
Current	**₱536**	₱350
Noncurrent	**2,532**	2,513
	₱3,068	₱2,863

Easements and Right of Way Agreements
In 2014, the Company also entered to various easements and right of way agreements with land owners in Guimaras for the erection of transmission lines that will connect the 54 MW wind farm project located in San Lorenzo, Guimaras to the grid. One-off payments made by PHINMA Renewable to various land owners to cover the 25-year easement and right of way agreements were recognized as prepaid rent in the consolidated statements of financial position and amortized over the term of the lease. The amortization of the lease during the construction period was capitalized as part of the cost of the wind farm. Details of prepaid rent related to these easement agreements are as follows (see Notes 10 and 18):

	2018	2017
Prepaid rent:		
Current	**₱2,010**	₱2,010
Noncurrent	**44,029**	45,934
	₱46,039	₱47,944

PHINMA Renewable recognized rent expense of ₱2.01 million, ₱2.01 million and ₱1.99 million in 2018, 2017 and 2016, respectively, included in "Rent" account under "Cost of sale of electricity" (see Note 24).

Finance Lease

PHINMA Renewable's Lease Agreement with Various Land Owners
PHINMA Renewable has entered into various lease agreements with individual land owners where the present value of the minimum lease payments amounted to at least substantially all of the fair value of the leased assets, which indicate that the risks and rewards relates to the assets are transferred to PHINMA Renewable. These leases are classified as finance leases and have terms of twenty (20) to twenty-five (25) years.

Future minimum lease payments under these agreements are as follows:

	2018	2017
Within one year	**₱16,778**	₱7,635
After one year but not more than five years	**58,380**	58,209
More than five years	**251,179**	268,524
Total minimum finance lease payments	**326,337**	334,368
Less amount representing unamortized interest	**239,235**	256,201
Present value of net minimum finance lease payments	**87,102**	78,167
Less finance lease obligation maturing within one year	**14,803**	14,328
Noncurrent portion of finance lease obligation	**₱72,299**	₱63,839

In 2018, 2017 and 2016, the PHINMA Renewable recognized finance charges on finance leases amounting to ₱16.63 million, ₱14.66 million and ₱13.26 million, respectively, included under "Interest and other finance charges" account in the consolidated statements of income (see Note 28).

Details of prepaid rent related to these finance lease agreements are as follows (see Notes 10 and 18):

	2018	2017
Prepaid rent:		
Current	**₱2,267**	₱1,554
Noncurrent	**1,352**	1,479
	₱3,619	₱3,033

35. Financial Risk Management Objectives and Policies

Objectives and Investment Policies
The funds of the entities held directly or indirectly by PHINMA, Inc. are managed by the PHINMA Group Treasury. As such, the PHINMA Treasury Group manages the funds of the Company and invests in short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, listed shares of stocks, and mutual and trust funds denominated in Philippine peso, U.S. dollar and Euro. It is responsible for the sound and prudent management of the Company's financial assets that finance the Company's operations and investments in enterprises.

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

- Foreign currency risk
- Credit or counterparty risk
- Liquidity risk
- Market risk
- Interest rate risk

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

Basic investment policies as approved by the Investment Committee are:

- Safety of principal;
- Duration of investment must be consistent with the respective company's investment horizon based on needs as approved by the Investment Committee;
- Exposure limits:
    - For banks or fund managers: maximum 20% of total fund of each company per bank or fund;
    - For Philippine peso investments: minimal corporate exposure except for registered bonds for non-affiliates;
    - Limits on third currencies outside U.S. dollar, equities and offshore investments are set regularly and reviewed at least once a year by the Investment Committee;
    - For total foreign currencies: maximum 50% of total portfolio;
    - For investments in equities whether directly managed or managed by professional fund managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review.

Risk Management Process

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

Foreign currency risk is managed through:
- Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange;
- Regular discussions with banks to get multiple perspectives on currency trends/forecasts; Trading either by spot conversions and forward transactions on a deliverable or non-deliverable basis to protect values;
- Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises;
- Returns being calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's significant foreign currency-denominated financial assets and financial liabilities as at December 31, 2018 and 2017 are as follows:

	2018		2017	
	U.S. Dollar (US$)	**Euro (€)**	U.S. Dollar (US$)	Euro (€)
Financial Assets				
Cash and cash equivalents	**$872**	**€–**	$1,710	€–
Short-term investments	**672**	**–**	8,454	–
Derivative asset	**–**	**–**	197	–
Other receivables	**190**	**–**	194	–
	$1,734	**–**	10,555	–

	2018		2017	
	U.S. Dollar (US$)	**Euro (€)**	U.S. Dollar (US$)	Euro (€)
Financial Liabilities				
Accounts payable and other current liabilities	**(256)**	**(44)**	(497)	(77)
Due to related parties	**(480)**		–	–
	(736)	**(44)**	(497)	(77)
Net foreign currency-denominated assets (liabilities)	**$998**	**(44)**	$10,058	(€77)
Peso equivalent	**₱52,475**	**₱2,654**	₱502,196	(₱4,590)

**In 2017, the Company entered into a forward currency contract with a bank (see Note 36).*

In translating foreign currency-denominated financial assets and financial liabilities into Philippine Peso amounts, the exchange rate used were ₱52.58 to US$1.00 and ₱60.31 to €1.00 as at December 31, 2018 and ₱49.93 to US$1.00 and ₱59.61 to €1.00 as at December 31, 2017.

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets and liabilities) in 2018 and 2017. The possible change are based on the survey conducted by management among its banks. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives (see Note 36).

	Increase (Decrease) in		
Year	**Foreign Exchange Rate**	**US$**	**Euro (€)**
2018	(₱0.50)	**(₱499)**	**₱22**
	(1.00)	**(998)**	**44**
	0.50	**499**	**(22)**
	1.00	**998**	**(44)**
2017	(₱0.50)	(₱693)	₱77
	(1.00)	(1,385)	38
	0.50	693	(77)
	1.00	1,385	(38)

Credit or Counterparty Risk

Credit or counterparty risk is the **risk** due to uncertainty in counterparty's ability to meet its obligations.

Credit or counterparty risk is managed through the following:

- Investments are coursed through or transacted with duly accredited domestic and foreign banks and mutual funds up to a maximum of 20% of the Company's investible funds. For UITF and mutual funds, fund placements cannot exceed 10% of the UITF's or mutual funds' total funds. Individual limits are further established for one bank or mutual fund on the basis of their valuation, financial soundness, business performance and reputation or expertise. Banks', UITF's and mutual funds' performance as well as their fund level, investment mix and duration are reviewed at least once a month or as often as required.
- Investments in nonrated securities are subject to a comprehensive credit and business review in coordination with sponsoring dealers or underwriters. For rated corporate bonds and sovereign bonds, credit ratings studies and updates from the major rating agencies are used as references (S & P, Moody's) in addition to a comprehensive credit and business review.

- For temporary investments in related parties, transactions are done on an arms-length basis taking into account the related parties' financial standing and ability to pay. Interest rates are based on a formula that considers the average of the borrowing and lending rates of the parties and maturity dates are strictly complied with.
- Discussions are done on every major investment by Treasury en banc before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a senior Treasury Officer supervises major transaction executions.
- Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.
- A custodian bank for Philippine peso instruments and foreign currency instruments has been appointed based on its track record on such service and the bank's financial competence.
- Product manuals on new products are studied and reviewed to ensure that risks are identified and addressed prior to the endorsement of the new product for Investment Committee approval.

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

	2018					
	Neither Past Due nor Impaired			**Past Due but not**	**Past Due Individually**	
	Class A	**Class B**	**Class C**	**Impaired**	**Impaired**	**Total**
Trade and other receivables						
Current:						
Trade receivables	**₱1,712,945**	**₱–**	**₱–**	**₱400,481**	**₱40,922**	**₱2,154,348**
Due from related parties	**–**	**320,642**	**–**	**2,674**	**10,260**	**333,576**
Others	**–**	**183,751**	**–**	**6,798**	**80,152**	**270,701**
Noncurrent						
Trade receivables	**–**	**–**	**–**	**1,123,511**	**13,751**	**1,137,262**
Receivables from third Parties	**–**	**501,266**	**–**	**–**	**–**	**501,266**
	₱1,712,945	**₱1,005,659**	**₱–**	**₱1,533,464**	**₱145,085**	**₱4,397,153**

	2017					
	Neither Past Due nor Impaired			Past Due but not	Past Due Individually	
	Class A	Class B	Class C	Impaired	Impaired	Total
Trade and other receivables						
Current:						
Trade receivables	₱1,991,626	₱–	₱–	₱591,776	₱25,015	₱2,608,417
Due from related parties	–	20,314	–	–	–	20,314
Others	–	131,987	–	2,584	82,103	216,674
Noncurrent						
Trade receivables	–	–	–	1,123,511	13,751	1,137,262
Receivables from third parties	–	650,627	–	–	–	650,627
	₱1,991,626	₱802,928	₱–	₱1,717,871	₱120,869	₱4,633,294

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

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

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

The Company's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, short-term investments, derivative assets and financial assets at FVTPL/investments held for trading were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.
- Listed and unlisted financial assets at FVOCI/AFS investments were assessed as high grade since these are investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty or collateral.

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

Maximum exposure to credit risk of financial assets not subject to impairment
The gross carrying amount of financial assets not subject to impairment also represents the Company's maximum exposure to credit risk, as follows:

	2018	2017
Financial Assets at FVTPL	**₱749,191**	₱1,483,519
Financial Assets at FVOCI	**257,995**	293,127
	₱1,007,186	₱1,776,646

Maximum exposure to credit risk of financial assets subject to impairment
The gross carrying amount of financial assets subject to impairment are as follows:

	2018	2017
Financial Assets at Amortized Cost (Portfolio 1)		
Cash and cash equivalents	**₱1,022,366**	₱1,300,999
Short-term investments	**35,326**	478,362
Under "Receivables"		
Trade receivables	**2,154,348**	2,608,417
Due from related parties	**333,576**	20,314
Others	**270,701**	216,674
Under "Other Noncurrent Assets"		
Trade receivables	**1,137,262**	1,137,262
Receivables from third parties	**501,266**	650,627
	₱5,454,845	₱6,412,655

The Company's maximum exposure to credit risk are as follows:

	2018					2017
	12-month	Lifetime ECL			Total	Total
Grade	Stage 1	Stage 2	Stage 3	Simplified Approach		
High	₱1,057,692	₱–	₱–	₱1,712,945	₱2,770,637	₱3,770,987
Standard	–	–	–	1,005,738	1,005,738	802,928
Substandard	–	–	–	1,533,464	1,533,464	1,717,871
Default	–	–	143,135	1,950	145,085	120,869
Gross carrying amount	1,057,692	–	143,135	4,254,097	5,454,924	6,412,655
Less loss allowance	–	–	143,135	1,950	145,085	120,869
Carrying amount	₱1,057,692	₱–	₱–	₱4,252,147	₱5,309,839	₱6,291,786

Liquidity Risk

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:

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

The tables below summarize the maturity profile of the Company's financial liabilities as at December 31 based on contractual undiscounted payments:

	2018					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱–	₱569,534	₱134,106	₱7,940	₱–	₱711,580
Retention payable	–	1,096	–	–	–	1,096
Accrued expenses [a]	19,720	80,376	14,888	–	–	114,984
Accrued interest	–	19,581	59,716	–	–	79,297
Due to related parties	–	785,069	16,175	–	–	801,244
Others [b]	–	54	4,603	–	–	4,657
Due to stockholders	16,651	–	–	–	–	16,651
Short-term loans [d]	–	5,425	410,033	–	–	415,458
Finance lease obligation [c]	–	5,304	11,474	58,380	251,179	326,337
Long-term loans [d]	–	273,692	266,213	2,718,367	3,229,049	6,487,321
Other noncurrent liabilities [e]	1,123,511	–	–	187,267	–	1,310,778
	₱1,159,882	₱1,740,131	₱917,208	₱2,971,954	₱3,480,228	₱10,269,403

[a] *Excluding current portion of vacation and sick leave accruals amounting to ₱6.50 million (see Note 30).*
[b] *Excluding payable to officers and employees amounting to ₱3.53 million.*
[c] *Gross contractual payments.*
[d] *Including contractual interest payments.*
[e] *Excluding noncurrent portion of finance lease obligation amounting to ₱72.30 million (see Note 21).*

	2017					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱–	₱487,709	₱19,711	₱123,506	₱–	₱630,926
Retention payable	–	2,867	–	–	–	2,867
Accrued expenses [a]	19,720	166,764	9,397	–	–	195,881
Accrued interest	–	33,496	100,487	–	–	133,983
Accrued directors' and annual incentives	–	19,757	–	–	–	19,757
Due to related parties	–	1,169,560	18,285	–	–	1,187,845
Others [b]	–	450	4,603	–	–	5,053
Due to stockholders	15,300	–	–	–	–	15,300
Finance lease obligation [c]	–	2,810	4,825	58,209	268,524	334,368
Long-term loans [d]	–	229,726	264,453	3,028,992	5,200,731	8,723,902
Other noncurrent liabilities [e]	1,123,511	–	–	618,161	–	1,741,672
	₱1,158,531	₱2,113,139	₱421,761	₱3,828,868	₱5,469,255	₱12,991,554

[a] *Excluding current portion of vacation and sick leave accruals amounting to ₱18.46 million (see Note 30).*
[b] *Excluding payable to officers and employees amounting to ₱1.95 million.*
[c] *Gross contractual payments.*
[d] *Including contractual interest payments.*
[e] *Excluding noncurrent portion of finance lease obligation amounting to ₱63.84 million (see Note 21).*

As at December 31, 2018 and 2017, the profile of financial assets used to manage the Company's liquidity risk is as follows:

	2018				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Loans and receivables:					
Current:					
Cash and cash equivalents	**₱1,022,366**	**₱–**	**₱–**	**₱–**	**₱1,022,366**
Short-term investments	**35,326**	**–**	**–**	**–**	**35,326**
Receivables:					
Trade	**441,403**	**1,712,945**	**–**	**–**	**2,154,348**
Due from related parties	**12,855**	**320,721**	**–**	**–**	**333,576**
Others	**86,952**	**183,749**	**–**	**–**	**270,701**
Deposit receivables*	**–**	**–**	**69,056**	**–**	**69,056**
Noncurrent:					
Trade receivables	**1,137,262**	**–**	**–**	**–**	**1,137,262**
Receivable from third parties	**–**	**–**	**–**	**501,266**	**501,266**
Deposit receivables	**–**	**–**	**–**	**102,346**	**102,346**
Financial assets at FVTPL	**749,191**	**–**	**–**	**–**	**749,191**
Derivative assets	**–**	**4**	**–**	**–**	**4**
Financial assets at FVOCI:					
Quoted	**–**	**–**	**–**	**137,096**	**137,096**
Unquoted	**–**	**–**	**–**	**120,899**	**120,899**
	₱3,485,355	**₱2,217,419**	**₱69,056**	**₱861,607**	**₱6,633,437**

	2017				
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Loans and receivables:					
Current:					
Cash and cash equivalents	₱1,300,999	₱–	₱–	₱–	₱1,300,999
Short-term investments	478,362	–	–	–	478,362
Receivables:					
Trade	616,791	1,991,626	–	–	2,608,417
Due from related parties	–	20,314	–	–	20,314
Others	84,687	131,987	–	–	216,674
Deposit receivables*	–	–	164,747	–	164,747
Noncurrent:					
Trade receivables	1,137,262	–	–	–	1,137,262
Receivable from third parties	–	–	–	650,627	650,627
Deposit receivables	–	–	–	27,930	27,930
Financial assets at FVPL -					
Investments held for trading	1,483,519	–	–	–	1,483,519
Derivative assets	–	6,520	3,328	–	9,848
AFS Investments:					
Quoted	–	–	–	192,150	192,150
Unquoted	–	–	–	100,977	100,977
	₱5,101,620	₱2,150,447	₱168,075	₱971,684	₱8,391,826

**Excluding nonrefundable deposits amounting to ₱13.52 million and ₱12.24 million as at December 31, 2018 and 2017, respectively.*

Market Risk

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or business and economic changes. Interest rate, foreign exchange rates and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

Market risk is managed through:

- Constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists or strategy officers are done to get multiple perspectives on interest rate trends or forecasts.
- Updates of the portfolio's local and foreign currency bonds' gains and losses are made as often as necessary.
- "Red Lines" are established then reviewed and revised as the need arises for major movements in the financial markets and are used to determine dealing parameters. Red lines are the strategic yield curves, bond prices or spreads that the Treasury Group uses as guides whether to buy, hold or sell bonds as approved by the Investment Committee or, in cases of high volatility, by the CFO.
- In cases of high volatility, dealers constantly give updates to approving authorities regarding changes in interest rates or prices in relation to strategies.
- Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2018 and 2017, the Company has fixed rate financial instruments measured at fair value.

The Company's exposure to interest rate risk relates primarily to long-term debt obligations that bear floating interest rate. The Company generally mitigates risk of changes in market interest rates by constantly monitoring fluctuations of interest rates and maintaining a mix of fixed and floating interest-bearing loans. Specific interest rate risk policies are as follows:

PHINMA Renewable

PHINMA Renewable entered into a ₱4.30 billion peso-denominated Term Loan Facility that will be used to partially finance the 54MW San Lorenzo Wind Farm. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of fifteen (15) years with semi-annual interest payments starting on the date on which the loan is made. The interest of Tranche A bears a fixed rate for the first ten (10) years and is subject to an interest rate repricing on the last five (5) years.

On April 28, 2016, the Company prepaid a portion of its long-term debt in accordance with the terms of the Agreement as follows:

- the Company shall effect a mandatory prepayment of the loan, without premium or penalty, within three (3) business days from receipt by the Company of any transmission line proceeds;
- prepay the loan to the extent of seventy percent (70%) of the transmission line proceeds;
- the remaining thirty percent (30%) shall be transferred directly into the Company controlled distribution account for further distribution to the Project Sponsor.

PHINMA Energy

In 2014, the Parent Company also availed a total of peso-denominated ₱3.00 billion corporate notes and loan agreements from CBC, SBC and BDO to be used to fund its projects and working capital. SBC has a term of five (5) years with quarterly payments starting on the 5th quarter drawdown. Both BDO and CBC have a term of ten (10) years with quarterly payments starting on the 5th quarter drawdown having fixed interest rates to be repriced for the last three (3) years.

The following table sets out the carrying amount, by maturity of the Company's financial assets that are exposed to interest rate risk:

		2018					
	Interest Rates	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	Beyond 4 years	Total
Long-term loans							
PHINMA Renewable							
DBP	6.25 - 8.36%	₱54,410	₱57,365	₱61,559	₱65,766	₱580,419	₱819,519
SBC	6.57 - 6.74%	55,348	58,904	63,112	67,333	568,572	813,269
PHINMA Energy							
Short-term loan							
BDO	5.25%	400,000	–	–	–	–	400,000
Long-term loan							
BDO	5.81 - 6.55%	9,386	9,363	9,340	9,320	424,060	461,469
CBC	5.68 - 7.13%	29,966	29,949	28,553	27,949	1,272,278	1,388,695
SBC	8.69%	(4,541)	927,602	–	–	–	923,061
DBP	6.00 - 6.09%	61,435	66,383	71,136	75,893	690,623	965,470
SBC	6.50 - 6.59%	61,435	66,383	71,136	75,893	690,605	965,452
Special savings account (SSA) – Peso	1.60 - 6.90%	830,685	–	–	–	–	830,685
Special savings account (SSA) – Dollar	1.50 - 3.00%	44,411	–	–	–	–	44,411
Short-term investments	–	30,285	–	–	–	–	30,285

	2017						
	Interest Rates	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	Beyond 4 years	Total
Long-term loans							
PHINMA Renewable							
DBP	6.25 - 8.36%	₱40,525	₱53,133	₱57,391	₱61,595	₱647,399	₱860,043
SBC	6.57 - 6.74%	42,010	54,650	57,775	61,983	638,868	855,286
PHINMA Energy							
BDO	5.81 - 6.55%	9,407	9,386	9,362	442,720	–	470,875
CBC	5.68 - 7.13%	29,980	29,966	29,950	1,328,777	–	1,418,673
SBC	4.84 - 4.95%	18,950	929,706	–	–	–	948,656
DBP	6.09%	43,032	70,306	75,970	81,409	877,210	1,147,927
SBC	6.59%	43,038	70,310	75,972	81,409	877,188	1,147,917
Special savings account (SSA)	1.125-4.25%	1,179,918	–	–	–	–	1,179,918
Special Deposit Accounts (SDA)	0.45-1.13%	184	–	–	–	–	184
Short-term investments	1.81-2.125%	478,362					478,362
Treasury bills	2.50-2.55%	153,818					153,818

The other financial instruments of the Company that are not included in the preceding table are not subject to interest rate repricing and are therefore not subject to interest rate volatility.

The following tables demonstrate the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Company's profit before tax for the years ended December 31, 2018 and 2017. The possible change are based on the survey conducted by management among its banks. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2018	
	Increase (Decrease) in Basis Points	**Effect on Profit Before Tax Increase (Decrease)**
Long-term loans	**25**	**(₱15,615)**
	(25)	**15,615**
SDA	**25**	**(980)**
	(25)	**980**
SSA	**25**	**1,766**
	(25)	**(1,766)**
Short-term loan	**25**	**980**
	(25)	**(980)**

	2017	
	Increase (Decrease) in Basis Points	Effect on Profit Before Tax Increase (Decrease)
Long-term loans	50	(₱33,755)
	(50)	33,755
SDA	50	1
	(50)	(1)
SSA	50	4,722
	(50)	(4,722)

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Based on the Company's expectation, the Company's assessment of reasonably possible change was determined to be an increase of 5.93% and 8.75% in 2018 and 2017, respectively, resulting in an increase in equity of ₱3.32 million and ₱8.20 million as at December 31, 2018 and 2017, respectively. The expectation is based on historical changes in the market composite index from 2013 to 2018.

Monitoring of Risk Management Process
Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

- Weekly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenged based on current and forecasted developments on the financial and political events.
- Monthly portfolio reports are submitted to the CFO that includes an updated summary of global and domestic events of the past month and the balance of the year.
- Quarterly presentations of the investment portfolio are made to the Investment Committee to discuss and secure approvals on strategy changes.
- Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.
- One on one coaching sessions are scheduled to assist, train and advise personnel.
- Periodic review of Treasury risk profile and control procedures.
- Periodic specialized audit is performed to ensure active risk oversight.

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or acquire long-term debts.

During 2014, the Parent Company availed ₱3.00 billion loan agreement from CBC, SBC and BDO and a ₱4.30 billion peso-denominated Term Loan Facility with SBC and DBP. During 2017, the Company availed ₱2.35 billion loan agreement with SBC and DBP (see Note 20). During 2018, the Company availed P0.93 billion loan agreement with SBC. In relation to these agreements, the Company closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration.

The following debt covenants are being complied with by the Company as part of maintaining a strong credit rating with its creditors:

PHINMA Energy

CBC and BDO
(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(b) Maximum Debt to Equity ratio of 1.5 times

SBC
(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(b) Maximum Debt to Equity ratio of 2.0 times
(c) Minimum Current ratio of 1.0 times

PHINMA Renewable
Under the Omnibus Loan Facility Agreement, PHINMA Renewable must maintain a Historical Debt Service Coverage Ratio of at least 1.20:1.00 and a Debt to Equity ratio of not exceeding 70:30. It also requires equity contributions from its shareholders amounting to ₱328.13 million for retention and contingencies.

Additional covenants prevent PHINMA Renewable from entering into any joint ventures, partnerships, or similar business combinations or arrangements. It also prohibits PHINMA Renewable from making payments of dividends or return of capital.

36. Fair Values

The table below presents the carrying values and fair values of the Company's financial assets and financial liabilities, by category and by class, as at December 31, 2018 and 2017:

	2018			
		Fair Value		
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Financial assets at FVTPL	**₱749,191**	**₱–**	**₱749,191**	**₱–**
Financial assets at FVOCI	**257,995**	**137,096**	**11,500**	**109,399**
Derivative assets*	**4**	**–**	**4**	**–**
Refundable deposits**	**154,010**	**–**	**–**	**136,129**
Receivables from third parties**	**517,757**	**–**	**–**	**518,071**
	₱1,678,957	**₱137,096**	**₱760,695**	**₱763,599**
Liabilities				
Short-term loan	**₱400,000**	**₱–**	**₱–**	**₱400,000**
Long-term debt	**6,336,933**	**–**	**6,114,507**	**–**
Deposit payables and other liabilities****	**4,603**	**–**	**–**	**4,202**
	₱6,741,536	**₱–**	**₱6,114,507**	**₱404,202**

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

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

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

Cash and Cash Equivalents, Short-term Investments, Receivables, Accounts Payable and Other Current Liabilities and Due to Stockholders
The carrying amounts of cash and cash equivalents, short-term investment, receivables, accounts payable and other current liabilities and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments.

Investments Held for Trading/ Financial Assets at FVTPL
Net asset value per unit has been used to determine the fair values of investments held for trading/ financial assets at FVTPL.

AFS Investments/ Financial Asset at FVOCI
Quoted market prices have been used to determine the fair values of quoted AFS investments/ financial assets at FVOCI. In 2017, the fair values of unquoted AFS investments are based on cost since the fair values are not readily determinable. In 2018, the fair values of financial assets at FVOCI are determined based on the discounted free cash flows of the investee.

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).

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
The estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted risk-free rates that are adjusted for credit spread.

Finance Lease Obligation
The fair value of finance lease obligation is no longer determined as it consists of numerous individually insignificant lease agreements and the effect is not expected to be significant.

Derivative Assets

Foreign Currency Forwards
PHINMA Energy entered into a forward foreign currency forward contracts with a bank with an aggregate notional amount of US$8.50 million in 2017. The weighted average fixing rate amounted to ₱51.09 to US$1.00 in 2017. The net fair value of these currency forwards amounted to ₱9.85 million gains as at December 31, 2017. PHINMA Energy did not enter into a foreign currency forward contracts in 2016. The foreign currency forward contracts were settled in 2018.

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$0.03 million and US$0.34 million as at December 31, 2018 and 2017, respectively. The weighted average fixing rate amounted to ₱52.35 to US$1.00 and ₱50.31 to US$1.00 as at December 31, 2018 and 2017, respectively. The net fair value of these embedded derivatives amounted to ₱0.20 million gains and ₱0.20 million losses at December 31, 2018 and 2017, respectively.

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

	2018	2017
Balance at beginning of year	**₱9,652**	₱72
Net changes in fair value during the year	**(15,056)**	9,399
Fair value of settled contracts	**5,408**	181
Balance at end of year	**₱4**	₱9,652

The net changes in fair value during the year are included in the "Other income - net" account in the consolidated statements of income (see Note 28).

The fair value of derivative assets is presented under "Other current assets" account in the consolidated statements of financial position (see Note 10).

37. Operating Segments

The Company is divided into two reportable operating segments based on the nature of the services provided - Power and Petroleum. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	2018				
	Power	**Petroleum**	**Segment Total**	**Adjustments and Eliminations**	**Consolidated**
Revenue	**₱15,113,601**	**₱–**	**₱15,113,601**	**₱9,792**	**₱15,123,393**
Costs and expenses	**15,428,035**	**116,348**	**15,544,383**	**219,625**	**15,764,008**
Other income (expense) - net					
Interest and other finance charges	**(132,377)**	**–**	**(132,377)**	**(301,272)**	**(433,649)**
Interest and other financial income	**–**	**–**	**–**	**96,851**	**96,851**
Equity in net earnings of associates and joint ventures	**532,460**	**–**	**532,460**	**–**	**532,460**
Gain on derivatives - net	**–**	**–**	**–**	**(15,056)**	**(15,056)**
Gain on sale of PPE	**181**	**–**	**181**	**80**	**261**
Gain on sale of investment	**5,834**	**–**	**5,834**	**–**	**5,834**
Foreign exchange loss – net	**–**	**–**	**–**	**29,329**	**29,329**
Provision for unrecoverable input tax	**(43,712)**	**–**	**(43,712)**	**–**	**(43,712)**
Others	**431**	**–**	**431**	**46,315**	**46,746**
Segment profit	**48,383**	**(116,348)**	**(67,965)**	**(353,586)**	**(421,551)**
Operating assets	**₱16,116,835**	**₱38,550**	**₱16,155,385**	**₱2,769,310**	**₱18,924,695**
Operating liabilities	**₱5,161,610**	**₱16,150**	**₱5,177,760**	**₱5,375,487**	**₱10,553,247**
Capital expenditures	**₱96,938**	**₱4,343**	**₱101,281**	**₱2,923**	**₱104,204**
Capital disposals	**2,367**	**–**	**2,367**	**556**	**2,923**
Investments and advances	**4,322,053**	**–**	**4,322,053**	**631**	**4,322,684**
Depreciation and amortization	**(385,341)**	**(458)**	**(385,799)**	**(19,985)**	**(405,784)**
Provision for income tax	**–**	**–**	**–**	**(171,603)**	**(171,603)**

	2017				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱17,011,044	₱–	₱17,011,044	₱9,189	₱17,020,233
Costs and expenses	17,238,567	23,437	17,262,004	331,785	17,593,789
Other income (expense) - net					
Interest and other finance charges	(184,075)	–	(184,075)	(329,491)	(513,566)
Interest and other financial income	–	–	–	87,185	87,185
Equity in net earnings of associates and joint ventures	1,024,995	–	1,024,995	–	1,024,995
Gain on derivatives - net	(449)	–	(449)	9,848	9,399
Loss on sale of AFS investments	–	–	–	(17)	(17)
Foreign exchange loss - net	–	–	–	(8,373)	(8,373)
Others	–	–	–	17,423	17,423
Segment profit (loss)	₱612,948	(₱23,437)	₱589,511	(₱546,021)	₱43,490
Operating assets	₱15,654,072	₱77,699	₱15,731,771	₱5,026,762	₱20,758,533
Operating liabilities	₱5,913,821	₱3,612	₱5,917,433	₱5,701,541	₱11,618,974
Capital expenditures	₱114,115	₱130	₱114,245	₱11,647	₱125,892
Capital disposals	2,018	830	2,848	417	3,265
Investments and advances	4,056,971	–	4,056,971	631	4,057,602
Depreciation and amortization	(379,519)	(689)	(380,208)	(19,195)	(399,403)
Benefit from income tax	–	–	–	303,678	303,678

	2016				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱15,465,866	₱–	₱15,465,866	₱12,007	₱15,477,873
Costs and expenses	14,357,951	81,403	14,439,354	566,155	15,005,509
Other income (expense) - net					
Interest and other finance charges	(303,644)	–	(303,644)	(164,841)	(468,485)
Interest and other financial income	–	–	–	46,077	46,077
Equity in net earnings of associates and joint ventures	886,224	–	886,224	–	886,224
Gain on derivatives	8,741	–	8,741	–	8,741
Gain (loss) on sale of:					
Investments	444,207	–	444,207	–	444,207
Property, plant and equipment	27,731	–	27,731	132	27,863
AFS investments	–	–	–	7	7
Foreign exchange loss - net	–	–	–	(7,208)	(7,208)
Unrecoverable input value-added tax	–	–	–	(2,568)	(2,568)
Others	1,210	–	1,210	34,550	35,760
Segment profit (loss)	₱2,172,384	(₱81,403)	₱2,090,981	(₱647,999)	₱1,442,982
Operating assets	₱16,049,329	₱103,314	₱16,152,643	₱4,475,252	₱20,627,895
Operating liabilities	₱7,941,587	₱6,143	₱7,947,730	₱3,678,621	₱11,626,351
Capital expenditures	₱171,253	₱2,853	₱174,106	₱5,379	₱179,485
Capital disposals	806,963	2,097	809,060	2,419	811,479
Investments and advances	4,018,530	–	4,018,530	631	4,019,161
Depreciation and amortization	(392,410)	(635)	(393,045)	(20,046)	(413,091)
Provision for income tax	–	–	–	(60,451)	(60,451)

Adjustments and eliminations

Interest and other financial income, including fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Likewise, certain operating expenses and finance-related charges are managed on a group basis and are not allocated to operating segments.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditures consist of additions to property, plant and equipment. Investments and advances consist of investments and cash advances to the Company's associates and joint ventures.

Reconciliation of profit

	2018	2017	2016
Segment total profit (loss) before adjustments and eliminations	**(₱67,965)**	₱589,511	₱2,090,981
Dividend income	**9,117**	8,483	7,433
Rent income	**674**	706	4,574
General and administrative expense	**(219,626)**	(331,785)	(566,156)
Interest and other financial income	**96,851**	87,185	46,077
Interest and other finance charges	**(301,272)**	(329,491)	(164,841)
Other income - net	**60,677**	18,881	24,913
Income (loss) before income tax	**(₱421,544)**	₱43,490	₱1,442,981

Other income - net include foreign exchange gain (loss), gain (loss) on sale of property, plant and equipment and AFS investments/ financial assets at FVOCI, provision for probable losses, gain (loss) on derivatives and other miscellaneous income (expense) which are managed on a group basis and are not allocated to operating segments.

Reconciliation of assets

	2018	2017
Segment operating assets	**₱16,155,385**	₱15,731,771
Current assets		
Cash and cash equivalents	**1,022,366**	1,300,999
Receivables and other current assets	**69,781**	659,056
Investments held for trading/ financial assets at FVTPL	**743,739**	1,483,519
Short-term investments	**35,326**	478,362
Noncurrent assets		
Property, plant and equipment	**47,361**	67,258
Investments in an associate, AFS investments/ financial assets at FVOCI and financial assets at FVTPL	**264,078**	293,758
Investment property	**13,085**	13,085
Deferred income tax asset - net	**261,346**	430,280
Other noncurrent assets	**312,228**	300,445
Total assets	**₱18,924,695**	₱20,758,533

Reconciliation of liabilities

	2018	2017
Segment operating liabilities	**₱5,177,760**	₱5,917,433
Current liabilities		
Accounts payable and other current liabilities	**107,502**	359,195
Income and withholding taxes payable	**11,762**	42,308
Due to stockholders	**16,651**	15,300
Short-term loan	**400,000**	–
Current portion of long-term loans	**157,683**	144,406
Noncurrent liabilities		
Long-term loans - net of current portion	**4,546,463**	4,989,640
Pension and other employee benefits	**40,246**	36,110
Deferred income tax liabilities - net	**95,180**	111,387
Other noncurrent liabilities	**–**	3,195
Total liabilities	**₱10,553,247**	₱11,618,974

38. Supplemental Cash Flow Information

The following table shows the Company's non-cash investing and financing activities and corresponding transaction amounts for the years ended December 31, 2018 and 2017:

	2018	2017
Non-cash investing activities:		
Reclassifications to:		
Creditable withholding taxes	**₱704,726**	₱–
Other noncurrent assets	**507,261**	–
Asset held for sale	**34,328**	–
Property and equipment	**1,844**	₱11,295
Investment property	–	40,907
Remeasurement of AFS financial assets	–	(23,049)
Acquisition of property and equipment under finance lease	–	754
Capitalized depreciation expense (see Notes 12 and 17)	–	19

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

	January 1, 2018	**Dividend Declaration**	**Availments**	**Payments**	**Others**	**December 31, 2018**
Current portion of:						
Short-term loans	**₱–**	**₱–**	**₱400,000**	**₱–**	**₱–**	**₱400,000**
Long-term loans	**226,949**	**–**	**–**	**–**	**38,511**	**265,460**
Finance lease obligation	**14,328**	**–**	**–**	**–**	**475**	**14,803**
Dividends payable	**15,300**	**194,598**	**–**	**(193,247)**	**–**	**16,651**
Noncurrent portion of:						
Long-term loans	**6,622,427**	**–**	**930,000**	**(1,445,235)**	**(35,719)**	**6,071,473**
Finance lease obligation	**63,839**	**–**	**–**	**(8,153)**	**16,635**	**72,321**
Total liabilities from financing activities	**₱6,942,843**	**₱194,598**	**₱1,330,000**	**(₱1,646,635)**	**₱19,902**	**₱6,840,708**

39. Events After the Reporting Period

On February 7, 2019 PHINMA Inc., PHINMA Corporation and AC Energy Corporation (AC Energy) signed an investment agreement for AC Energy's acquisition of the PHINMA Group's 51.476% stake in PHINMA Energy via a secondary share sale through the Philippine Stock Exchange at a price of ₱1.36 per share subject to adjustments. This transaction is subject to regulatory approval and mandatory tender offer. PHINMA Corporation will sell 1,283,422,198 shares while PHINMA, Inc. will sell 1,233,642,502 shares to AC Energy. As part of the agreement, AC Energy will also subscribe to 2,632,000,000 shares of PHINMA Energy at par value of ₱1.00 per share on closing date.

40. Contingencies

Tax assessments:

a. On September 5, 2017, the CIPP received an FDDA 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, the CIPP filed its request for reconsideration with the Office of the Commissioner. In the opinion of CIPP's management, in consultation with its outside counsel, these proceedings will not have material or adverse effect on the financial

statements. The information usually required by PAS 37 is not disclosed on the ground that it can be expected to prejudice the outcome or CIPP's position with respect to these matters. As at March 21, 2019, the case is still pending.

b. On August 20, 2014, PHINMA Energy distributed cash and property dividends in the form of shares in PHINMA Petroleum (see Note 22) 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. In its decision dated September 28, 2018, the CTA cancelled and withdrew the FLD. On January 24, 2019, the CTA denied the BIR's motion for reconsideration.

c. 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.

Claim for tax refund

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. On January 11, 2017, PHINMA Renewable filed with the CTA a Petition for Review. During 2018, PHINMA Renewable and the BIR presented their evidence and arguments. As at March 21, 2019, PHINMA Renewable awaits the CTA's decision.