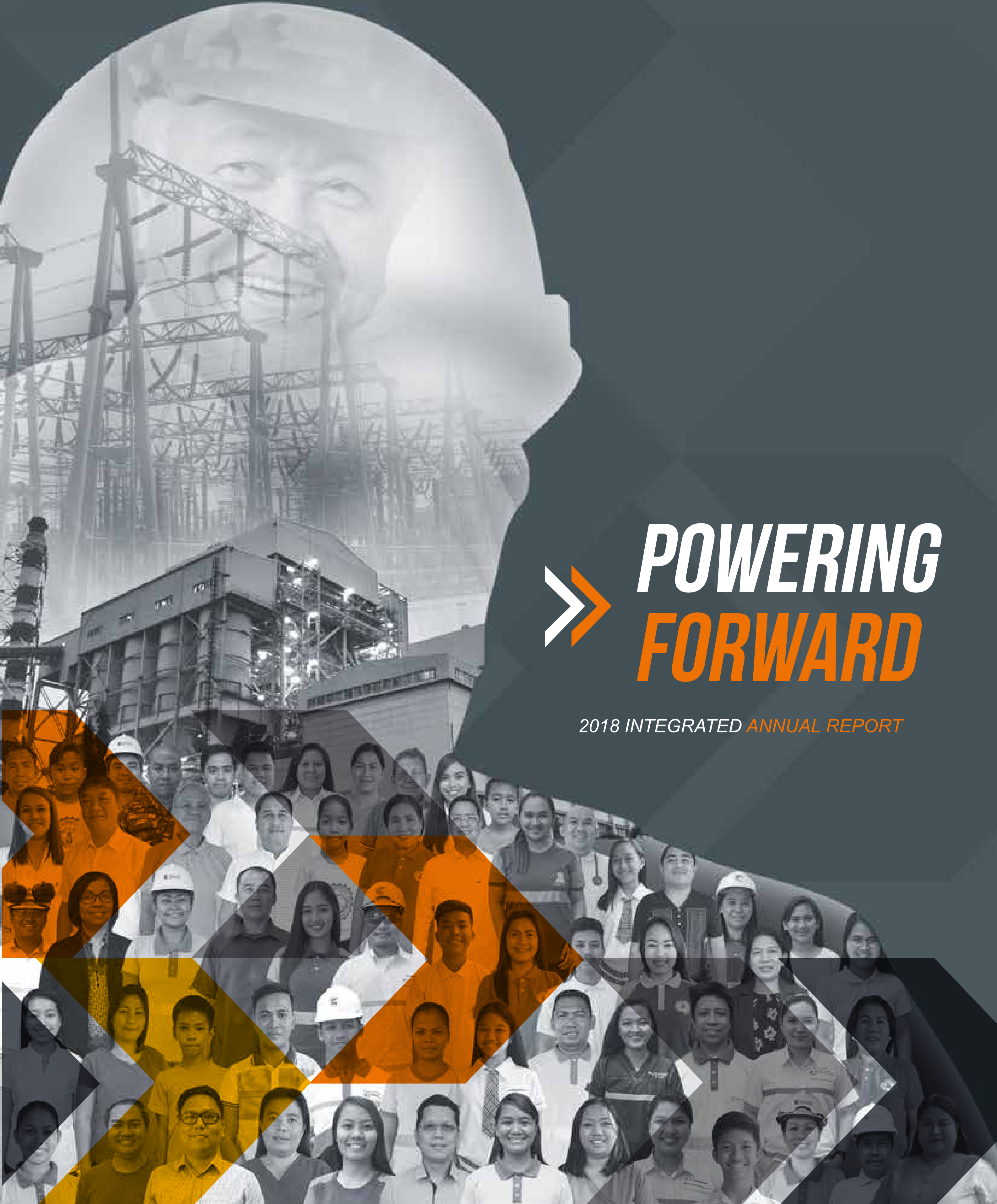
SEMIRARA MINING & POWER CORPORATION

POWERING FORWARD

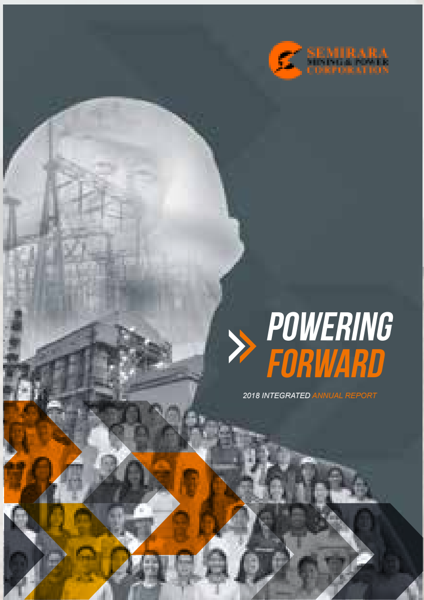
2018 INTEGRATED ANNUAL REPORT



THIS YEAR'S THEME

After more than twenty years of pioneering and innovating energy production in the Philippines, Semirara Mining and Power Corporation (SMPC) continues to power through the next decade and beyond with the commitment to sustainable leadership, from our core operations to our social responsibility efforts.

Powering forward is not only a call to keep pushing the boundaries and innovations forward, but also passing on this energy outward and beyond — to our partners and stakeholders.



ABOUT THE COVER

These are the many faces and the many forces that drive businesses, communities, and the nation forward. The cover depicts all the collaborative, responsible, and sustainable efforts of SMPC as the leading provider and innovator of the energy and power business in the Philippines. The double exposure theme serves to underscore these achievements, which the Company endeavors to do as one.

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REMEMBERING
VICTOR A. CONSUNJI

The world has its fair share of great men. Great men who have achieved marvelous feats and survived the greatest odds for themselves.

But it is another thing to be great in the service of others.

Victor A. Consunji (VAC) spent his life doing good for other people, and his greatest feat transformed a struggling island off the coast of Antique into a thriving hub of progress and opportunity. In the midst of poverty, adversity, and uncertainty, VAC saw hope. He saw the beauty in the island and its people, and he listened to their stories, he heard their aspirations. He saw the island needed help, so he set out to build.

His greatness can only be eclipsed perhaps by his kindness. A familiar presence in the mine site, VAC was always to be found in the island, casually catching up with the drivers about their day. He was well-loved by all the employees, and saw them not just as partners – he came to know each of them like family. He trusted them with his life's work as they trusted him with their livelihood.

Throughout his twenty years of leadership, he weathered many challenges and crises and ushered the Company towards unprecedented heights – from helming the vertical integration of mining with power integration, to pushing for environmental and community development initiatives.

His greatness did not only come from what he achieved; it was also the way he had shared, inspired, and empowered people to believe and act towards a shared goal. He felt pride in what they had built together. The legacy he left behind are the countless men and women who will continue his life's work and passion.

Here's to you, sir VAC – a great man, with a greater and an even bigger heart.

Requiescat In Pace.

"Victor believed in the power of commitment and hard work.

ABOUT OUR COMPANY

SEMIRARA MINING AND POWER CORPORATION:

POWERING IT FORWARD

From a coal mining operation to a fully-integrated energy enterprise, Semirara Mining and Power Corporation (SMPC) has revolutionized the energy industry in the Philippines, spanning over 20 years of history, growth, and innovation.

With the heart of its mining operations located in Semirara island, Antique and with key power plants strategically placed across the country; SMPC is a key provider of coal and energy to power plants, cement plants, and other small boilers; connecting the nation with affordable and reliable power.

Fueling the next generation of businesses, people, and communities; SMPC continues to power through with forward-thinking innovations, paving the way for sustainable leadership in the many years to come.

OUR VISION

Semirara Mining and Power Corporation is the leading responsible vertically-integrated energy enterprise contributing towards inclusive growth.

OUR MISSION

To responsibly and efficiently operate in all sites. To empower host communities, contributing to their sustainability.
To nurture and uphold environmental stewardship. To ensure equitable returns to all stakeholders.

OUR CORPORATE OBJECTIVES

- Business Sustainability
- Value Maximization

OUR VALUES

We conduct ourselves and manage our business according to the following:

Commitment
We are highly focused on realizing our mission without compromising the Environment, Safety, and Health of our stakeholders.

Excellence
We set high standards for ourselves and for our Company and then strive to consistently exceed them.

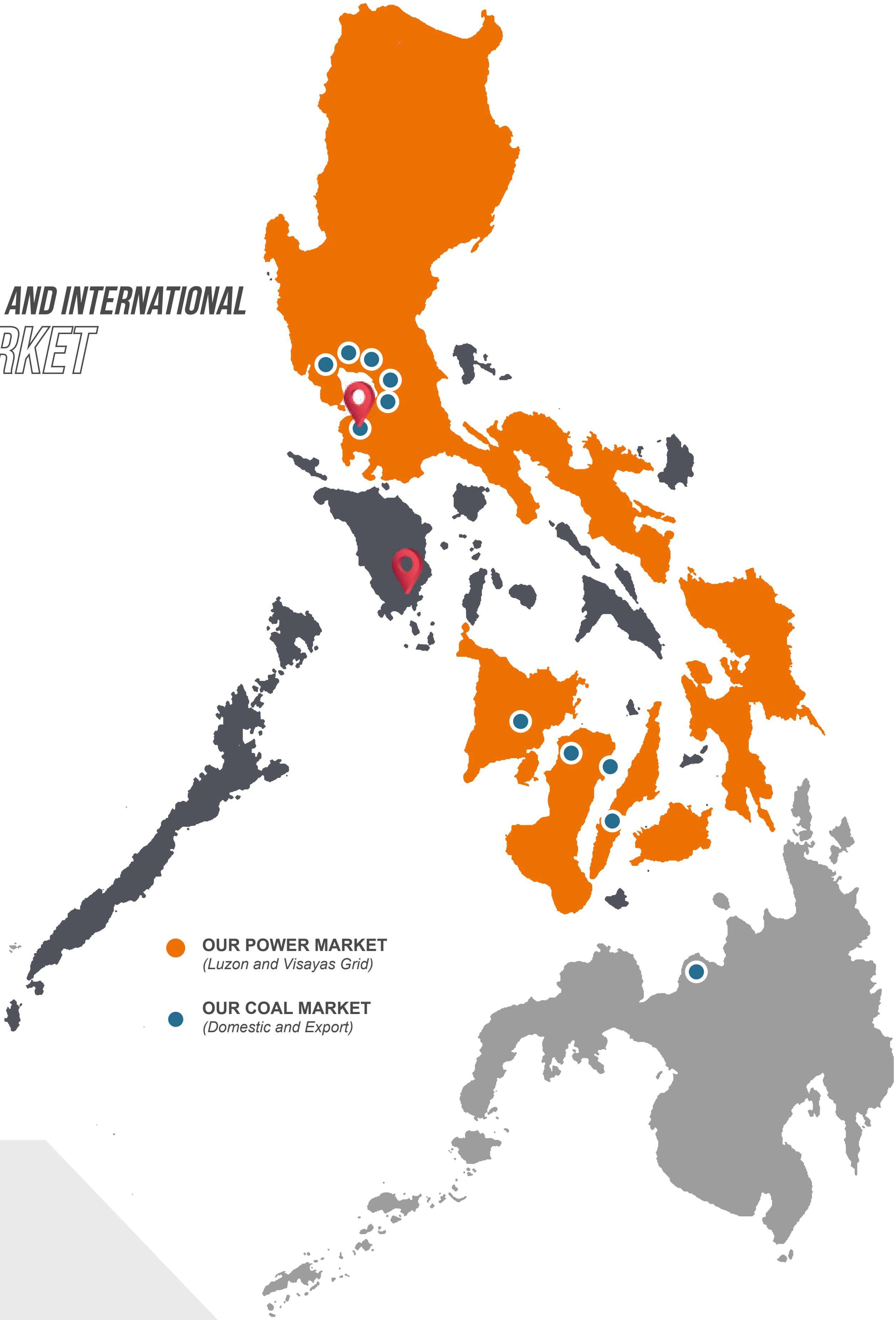
Professionalism
We use our skills, competence, and character to deliver value to our stakeholders.

Teamwork
We work together and support each other to achieve our shared goals.

Integrity
We act in a fair, honest, ethical, and responsible manner.

Loyalty
We put a premium on personal commitment over self-interest.

LOCAL AND INTERNATIONAL MARKET

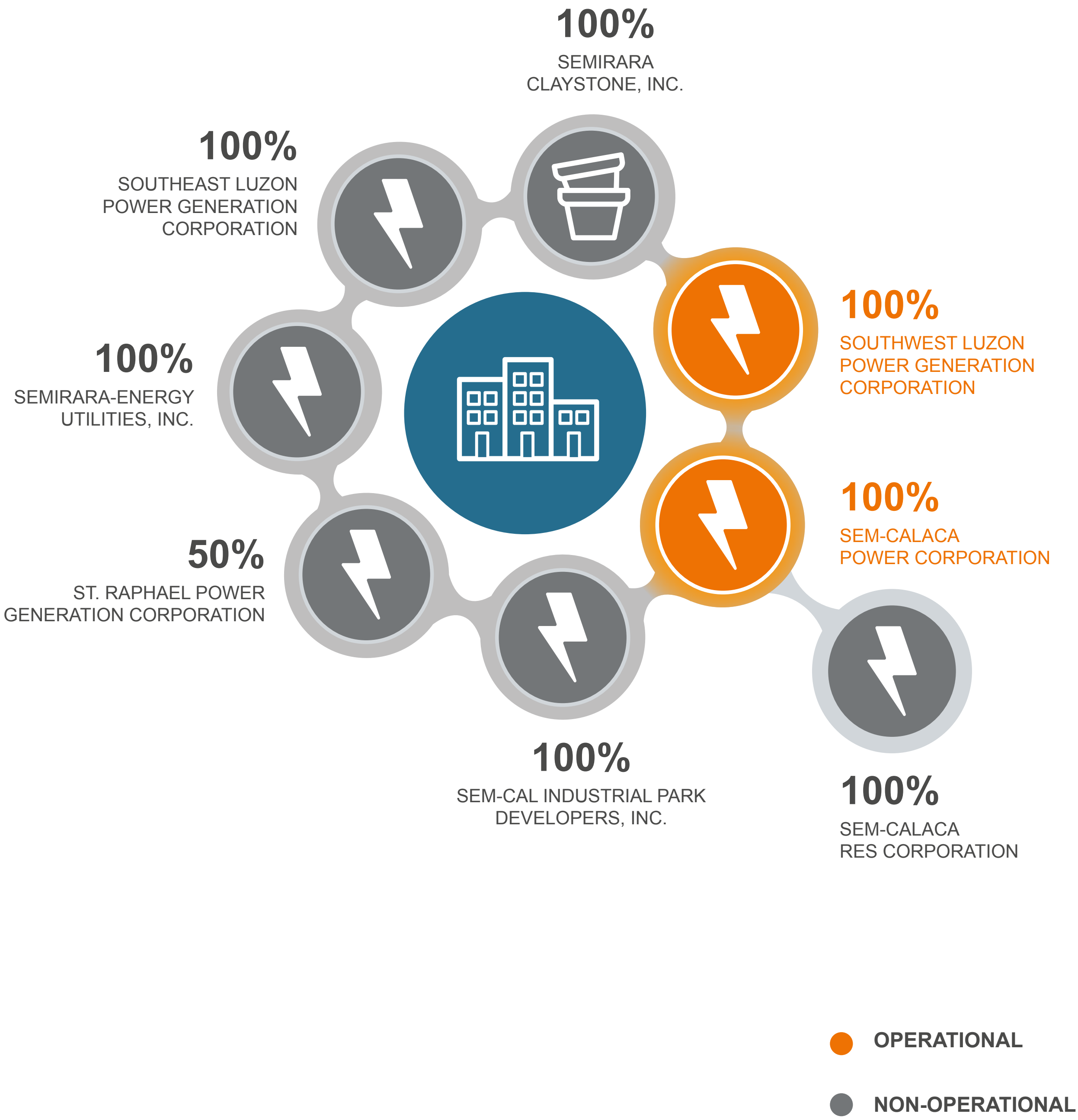


INDIA

THAILAND

CHINA INCLUDING TAIWAN

COMPANY STRUCTURE



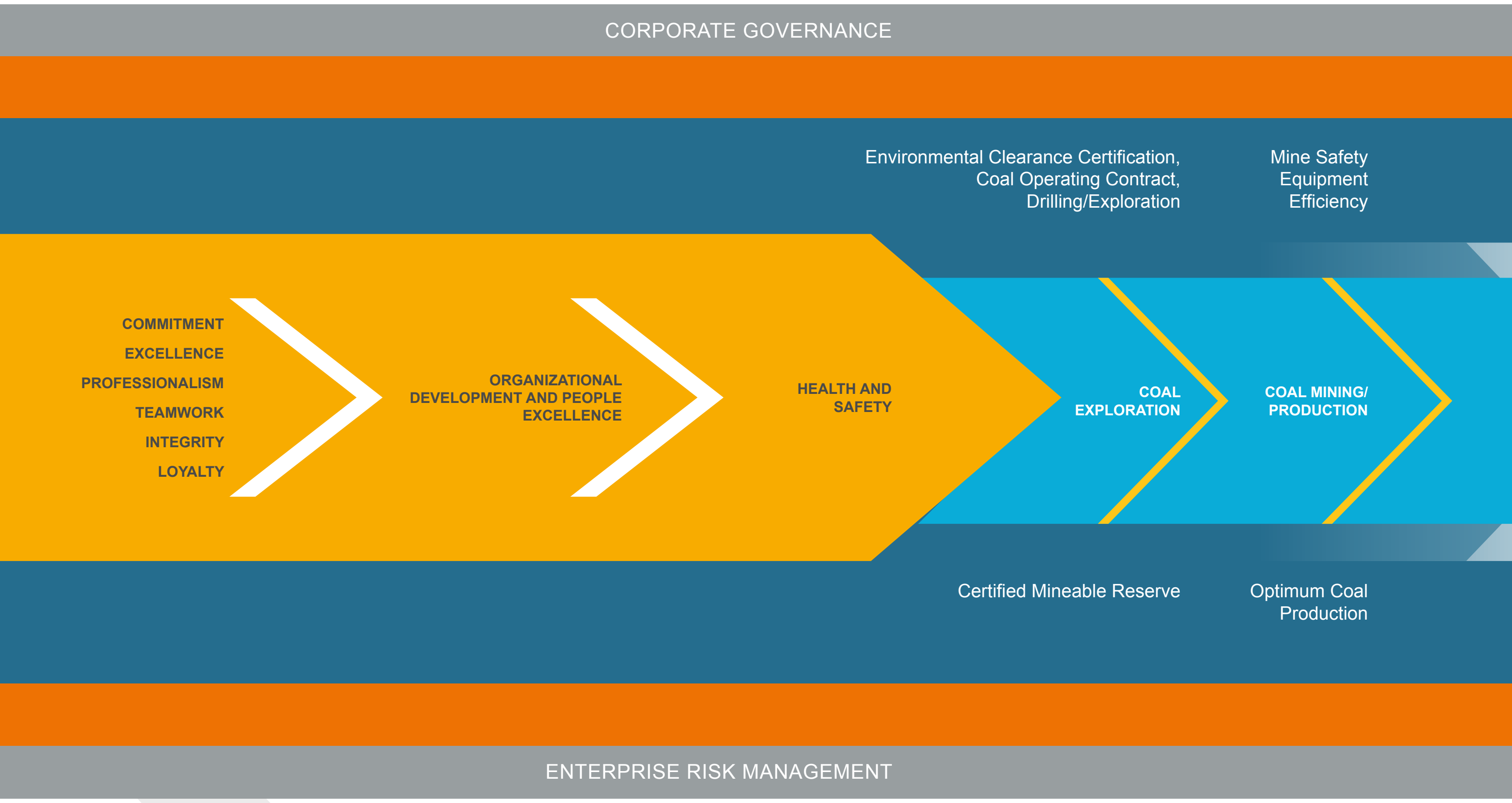
VALUE CREATION, BUSINESS MODEL, AND STRATEGY

Through the integration of the coal production with power generation, we have innovated the field, resulting in higher value proposition and strong product differentiation. SMPC remains to be the largest coal producer in the Philippines, and the only power producer in the country that owns and mines its own fuel source.

POWER OF ONE

Optimizing key elements in our production chain as well as maintaining cost efficiency is intrinsic in our operations. From coal exploration and mining, to power generation and delivery, SMPC's vertical integration sees to a synergy of process and management of resources. This value chain incorporates an interplay of factors, from environmental clearances and certification, efficient logistics support, to competitive pricing. The interconnectivity of all aspects of the business enables us to move as one strong and cohesive unit.

The Company's business model and strategic objectives aim to achieve our shared vision. All efforts, programs and initiatives, and their respective objectives and outcome, are guided by our integrated corporate governance and forward-thinking leadership.



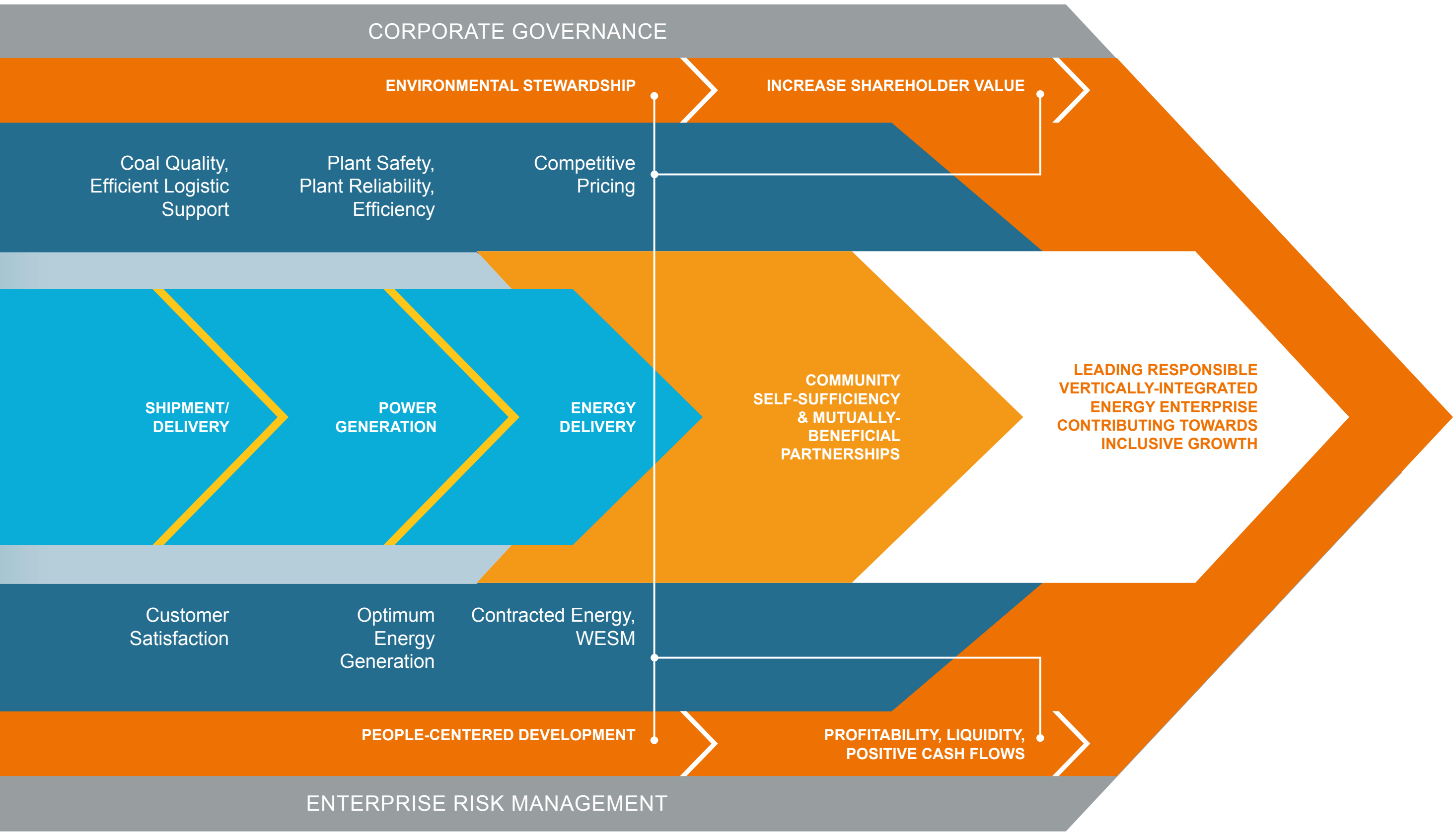
POWERING SUSTAINABILITY

The longevity of the business is grounded on achieving long-term operational goals. But more importantly, it is also about ensuring the continuous growth of our many loyal partners, employees, and communities where we do our best work. Our governance principles ensure that people are encouraged and engaged to lead, fostering a culture of excellence, raising the next generation of empowered leadership.

Social development is at the crux of our corporate responsibility programs, where our continued investment in community sustainability and self-sufficiency drives local enterprises forward.

More importantly, our power generation efforts integrate environmental sustainability, where our governance policies and risk management initiatives serve to mitigate the impact of our business on the environment and to find long-term and value-driven action plans for our host communities.

Our next years of SMPC will see through a focus on sustainability in all aspects of the business, from economic, governance, social, to environmental, where we power forward together, and as one.



MESSAGE TO SHAREHOLDERS AND OTHER STAKEHOLDERS

For 21 years under DMCI-HI control, SMPC laid the groundwork that changed the landscape of energy and power in the Philippines. What we are now as a Company – our feats and achievements, growth and success – is a testament to our commitment to transform the lives of Filipinos, for the better.

We look towards the next years of the Company with renewed commitments, purposeful leadership, and sustainable growth for all our shareholders and stakeholders. It begins with redefining sustainable leadership in the various facets and aspects of our business.

POWERING THROUGH CHALLENGES

The push for accelerated plans for environmental rehabilitation in our South Panian and inclement weather for two months in Q3 hampered coal production target yielding only 12.9 million MT this year, a 2% decrease YoY.

Total plant availability became low due to Unit 3's long outages after the HIP rotor accident. Though Units 1 and 2 improved by 5%, Units 3 and 4 dipped by 22%. Thus, leading to a 6% decline in power generation from previous year at 4,650 GWh.

Average Selling Price (ASP) for coal and power went up by 18% and 3% respectively, due to higher global coal prices. Lower coal production coupled with export restriction in Q4 brought a 12% decrease in Coal Sales Volume.

Although net income dropped by 15%, we still posted a consolidated net income of P12 billion, primarily market driven given the higher global coal prices in 2018. Earnings per Share posted at P2.83 from P3.33 last year.

We understand the interplay of numerous factors that influenced these outcomes for the Company. We will continue to power through and forward, aiming to carefully address these challenges and learn from these experiences as opportunities to grow further.

POWERING SUSTAINABLE BENEFITS

We value the partnerships we've forged with our shareholders and stakeholders, and together we benefit mutual long-term growth.

In 2018, our Company repurchased through the buyback program 7.86 million treasury shares at P251.61 million through the Exchange at prevailing market prices. Our share buyback program was undertaken to enhance shareholder value. By year end, our market capitalization was valued at P97.98 billion.

Our assets grew by 4% from P68.60 billion at the start of the year to P71.0 billion. Liabilities increased by 1% to P31.12 billion from P30.92 billion after availing of short-term debts. Earnings during the period boosted Equity by 6% to P39.93 billion from our P37.68 billion beginning balance, even after the payment of regular and special cash dividends totaling P9.6 billion.

POWERING TOWARDS RESILIENCY

Owing to the high-risk nature of our operations and impact to the society, sustainability in enterprise risk management means our continued commitment to provide long-term solutions that can uphold and safeguard shareholder interest.

We take safety very seriously, as we safeguard the welfare of our employee-partners. We continue to improve and bolster our risk resiliencies, by closely monitoring safety incidents, making us all the more steadfast and vigilant in identifying, assessing, and improving our overall enterprise risk management.

We consistently cascade our Enterprise Risk Management framework to all our members and partners. Risk-based decision-making processes are integral to our day-to-day operations as these enable us to balance risk and reward scenarios.

POWERING SUSTAINABLE GOVERNANCE

We stand committed to upholding an integrated system of transparency, accountability, responsibility, and stewardship for the relationships that we have forged in each and every thread of our vast network of shareholders and stockholders.

POWERING ENVIRONMENTAL SUSTAINABILITY

The accelerated rehabilitation of the South Panian Mine as well as the Life Extension Program for the SCPC plants are one of the many initiatives and developments, we put forward this year, with CAPEX spending increased by 50% YoY from P6.34 billion in 2017 to P9.53 billion. Our thrust towards responsible consumption and production is all the more committed and more impactful in the coming years.

Our long-term plans for our host island and communities are aligned with the United Nations' Sustainable Development Goals (SDG) aimed to address relevant and timely issues regarding climate change, environment, community development, self-sufficiency, and mutually beneficial partnership with all our stakeholders.

POWERING FORWARD

As the industry leader, SMPC defines the direction of the industry through innovative practices and enduring principles that value synergy, longevity, and sustainability above all.

Through our deep understanding of the best practices in the past and an awareness of our transformative role in the present; we stand firmly, resolutely, as a beacon for the industry in navigating these changing times, towards a sustainable future.

Maraming salamat po!

ISIDRO A. CONSUNJI
Chairman and Chief Executive Officer

MANAGEMENT REPORT

SMPC continues to pave the way for more sustainable progress amidst the difficult challenges in 2018. We powered forward through the hurdles and victories, emerged stronger in our commitment to delivering innovative sustainable solutions, and achieved corporate sustainability and responsibility.

We see those roadblocks as challenges to overcome through tried and tested corporate strategies and best practices that we have established in partnership with the communities we have nurtured through the years. As years of resilient industry leadership and experience have shown us, our openness to innovation and willingness to evolve made us and our Company stronger.

The changing times and paradigms bring with them some growing pains for the Company, and this year, several shifts in the industry landscape have magnified the need for more sustainable measures that will give us better opportunities moving forward. Thankfully, the operational strategies we've established have mitigated the perceived negative effects of these external forces, bringing our decline to minimal levels with significant room for growth.

RESILIENT PERFORMANCE

Coal Production

Our Company places immense importance on our environmental impact, and our rehabilitation efforts in our South Panian mine stand testament to this commitment. Lower coal production this year was caused by our push for accelerated plans for these rehab efforts, which, coupled with external factors, led to an expected decrease in sales volume. Last year's coal production record high also suffered a decrease but only by 2% YoY, exhibiting our strength against economic factors such as higher global prices. Higher average selling price per ton offset the decline in sales volume, resulting in an increase in revenue by 3% this year.

Power Subsidiaries

Economic and operational factors have influenced the performance of our power segment, a division where we continue to pursue growth through long-term investments and hardware rehabilitation. Total plant availability for SCPC Units 1 and 2 rose slightly by 5% YoY as Unit 1 ran continuously for 201 days before it was shut down for the 6-month Life Extension Program beginning December 30. Unit 3 was down for six months due to crack and rotor repairs following an accident which led to a decrease in volume sold, while the life extension and rehabilitation program of Units 1 and 2 brought an increase in non-cash cost from accelerated depreciation. Composite average price per kwh increased by 10% from P3.75 to P4.11 brought the total SCPC revenue up this year by 3% at P13.74 billion versus P13.37 biilion last year. SLPGC generated P5.0 billion in revenues in 2018 for 1,279 GWh of energy sold at a composite average price of P3.94/KWh.

Financial Results

Although net income dropped by 15%, a decrease in gross revenues YoY had been minimized to only 4%. Higher prices offset lower coal sales in 2018, while the prolonged outage of Unit 3 resulted in a decline in SLPGC's earnings this year. Accelerated depreciation amounting to P1.21 billion in 2018 and P840.08 million in 2017 (before tax effect) pulled down SCPC's income.

We have observed an expansion in our assets from P68.60 billion at the start of the year to P71.05 billion. Liabilities increased by 1% after availing of some necessary short-term debts. Earnings during this period boosted Equity by 6% to P39.93 billion from our P37.68 billion beginning balance, even after the payment of regular and special cash dividends totaling P9.57 billion.

As years of resilient industry leadership and experience have shown us, our openness to innovation and willingness to evolve from the challenges that we encountered made us and our Company stronger.

Integrated Management System

The Company continues to enjoy ISO certifications for the quality and safety of our coal and power operations, and we are proud of our dedicated subscription to global safety standards and best practices.
Our Company remains steadfast in conforming to ISO standards, demonstrating (1) our ability to consistently provide products and services that meet customer and regulatory requirements, (2) our innovative management systems that respond to how we identify and manage environmental risks and impact, and (3) our performance that emphasizes sound occupational health and safety for our workers and host communities.

Progress in Sustainability

Sustainability lies at the core of every decision we make, and we find our social responsibility to be of utmost importance in the work that we do. By building our sustainability and community efforts around the pillars of People, Planet, and Progress, we ensure that our priorities are straight and our focus sharpened on our stakeholders that matter most. We see these efforts not just as means for compliance, but as investments in these three pillars that help us realize that our work benefit society at large.

Our flagship programs lie at the heart of our host communities' natural ecosystems, with the preservation and rehabilitation of our environment

being our top priority in implementing our Corporate Social Responsibility initiatives. We find importance in conserving the environment of our host communities, places that are directly affected by our mining operations.

Our mangrove reforestation efforts cover more than 196 hectares of coastal area for carbon sequestration and island protection, with a total number of 673,439 hills survived as of December 2018, over 23,000-increase from the previous year. We achieved a total population of 1,772,166 trees from tree planting activities inside and outside the mining areas to rehabilitate sites with sparse vegetation.

We also nurture our human resources by providing them the necessary skills through the Semirara Training Center (STCI), a TESDA-accredited non-profit corporation that aims to provide residents with quality vocational training. Since 2006, the STCI has produced 1,146 graduates of courses that range from automotive servicing, computer hardware servicing, and welding, among others.

We continue to align ourselves with the United Nations SDG, a shared blueprint that we uphold in all levels of progress among our people and communities.

Awards and Achievements

Our Company has continued to gain accolades and commendations in recognition of our long-standing commitment to quality performance and strong corporate governance.

Our Company is a consistent Top Scoring Publicly-Listed Company in the ASEAN Corporate Governance Scorecard Assessment Run, recognizing our adoption of international corporate governance best practices that promote long-term sustainability and resilience.

We were also named by the Financial Times of London as one of 26 Philippine firms to join the inaugural FT 1000 High-Growth Companies in Asia Pacific at 394th place, or fourth among firms based in the Philippines.

POWERING FORWARD

We are defined by our devotion to developing people-first, results-driven approaches that in the long run would benefit not just us and our shareholders, but society as a whole. This year, we push forth a renewed commitment to our roles as stewards of this new paradigm in advocating for more sustainable efforts that are based on research and best practices, highlighting our proactive stance in our business practices that nurture our natural and communal ecosystems.

We stand with unwavering strength and dedication to continue our legacy of resilience. Strong foundations have been laid for improved company-wide performance. We would like to express our utmost thanks and gratitude to all our partners and stakeholders who continue to believe in and support our businesses through our struggles and victories.

Maraming salamat!

MARIA CRISTINA C. GOTIANUN
Executive Vice President

We are defined by our devotion to developing people-first, results-driven approaches that in the long run would benefit not just us and our shareholders, but society as a whole.

2018
PERFORMANCE HIGHLIGHTS

Net Income After Tax
P12.03B

Cash Position
P1.90B

Debt-to-Equity Ratio
0.78

Capital Expenditures
P9.53B

Cash Dividend Payout
P9.57B

Market Capitalization
P97.98B

Coal Shipment
P11.6M Tons

Coal Revenue
P30.70B

Energy Revenue
18.78B

Energy Generated
4,650 GWh

ECONOMIC

Total Operating Workforce: 4,813

Total spend for Sustainability Development Programs: 1.43B

Total Royalties and Taxes Paid: P5.80B

SMPC, SCPC, SLPGC Payroll: 1.57B

ENVIRONMENTAL

Giant Clams Propagated: 163,267

Inland Reforestation and Vegetation: 1.77M trees

Thriving Mangrove Population: 673,439

Total spend for Panian Rehab: P2.92B

SOCIAL

Energy Shared to Host Communities: 23.34 GWH

Technical Training Graduates (Calaca): 979

Employed from Direct Host Communities: 2,425

STCI Graduates: 1,146

GOVERNANCE

ASEAN Corporate Governance Scorecard (ACGS) Overall Score Points: 100.35

Top 100 Philippine Publicly Listed Companies - ACGS Ranking: 15th

FINANCIAL SCORECARD

This year, SMPC is presented with many challenges that influenced our overall performance.

Global economic forces as well as operational issues affected our Company's profitability.

Despite these issues, we continue to power through with robust profit margins from continuous positive contributions from our coal and power segments, and consistent retained earnings translated to a strong payout ratio.

We remain steadfast and strong in leading the industry, powering forward towards long-term growth and sustainability.

KEY PERFORMANCE INDICATOR	TARGET
GROW INCOME	Deliver consistent income growth
GENERATE ATTRACTIVE DIVIDEND YIELD	Strong dividend payout
EXERCISE FINANCIAL PRUDENCE	Maintain DE Ratio at less than 2:1
GENERATE STRONG MARGINS	Robust profit margins
MAINTAIN HIGH LIQUIDITY	Keep Current Ratio to less at least 1

OUTCOME / DATA

The Company continuously posts strong NIAT over the years. Consolidated Net Income After Tax however decreased by 15% to P12.03 billion in 2018 from P14.21 billion the previous year due to operational issues.

NIAT

2018	**P12.03 B**
2017	P14.21 B
2016	P12.04 B
2015	P8.49 B
2014	P6.86 B

The Company paid regular cash dividends of P1.25 per share and special cash dividends of P1.00 per share in 2018.

PAYOUT RATIO*

2018	**87%**
2017	106%
2016	63%
2015	55%
2014	80%

*computed based on previous year's earnings

Strong earnings matched increase in total debts in 2018. DE improved to 0.78x from 0.82x in 2017.

DE RATIO

2018	**0.78**
2017	0.82
2016	0.92
2015	1.12
2014	1.29

Net profit margin remains strong at 29% with strong revenues from continuous positive contribution from both coal and power businesses.

NET PROFIT MARGIN

2018	**29%**
2017	32%
2016	33%
2015	34%
2014	24%

Increase in Current Liabilities is correspondingly complemented by rise in Current Assets to keep Current Ratio of 1.26 as at the end 2018 within the Company's targets.

CURRENT RATIO

2018	1.26
2017	1.60
2016	1.35
2015	0.97
2014	1.05

Depleted Unong Mine today.
More than two decades since it closed, it was transformed into a lake rimmed with a wide band of green trees that line a three-kilometer circumferential road.

AWARDS
AND RECOGNITIONS

15TH RANKING AMONG TOP PHILIPPINE LISTED COMPANIES

2018 ASEAN Corporate Governance Scorecard Run

SHARIAH COMPLIANT

2018 PSE 56 Philippine Listed Companies

CONFORMANCE TO ISO 14064-1:2006 FOR SCPC AND SLPGC'S GREENHOUSE GAS INVENTORY

TÜV Rheinland Taiwan

53RD ANVIL AWARDS - GOLD
PUBLIC RELATIONS TOOL CATEGORY
SMPC Code of Conduct and Business Ethics

Public Relations Society of the Philippines

53RD ANVIL AWARDS - GOLD
PUBLIC RELATIONS TOOL CATEGORY
SMPC 2016 Integrated Annual Report

Public Relations Society of the Philippines

OUR PERFORMANCE

This year has been met with numerous challenges for the organization, but we continue to power through and forward, aiming to learn from these experiences as opportunities to grow further.

The consolidated Net Income After Tax (NIAT) decreased by 15% to P12.03 billion from P14.21 billion last year due to a number of operational and economic forces: higher prices offset lower coal sales volume; prolonged outage of Unit 3 resulted in decline in earnings; and accelerated depreciation amounting to P1.2 billion in 2018 (before tax effect) also pulled down SCPC's income.

SCPC's gross generation dropped by 7%, from previous year's 3,515 GWh to 3,282 GWh. Meanwhile, SLPGC's gross generation also decreased by 19% to 1,386 GWh compared to 1,687 GWh last year.

Coal Segment

Power Segment

Financial Performance

COAL SEGMENT

2018 saw a year of many shifts in the landscape of the industry, from economic, regulatory, and other external forces that influenced our overall performance.

The push for accelerated plans for environmental rehabilitation in our South Panian mine from the initial 10-year plan was reduced to 2 years, which resulted in lower coal production. Due to the rehabilitation efforts which moved 22.7 million bank cubic meters (bcm) of materials, strip ratio is at 12.0:1. Rehab notwithstanding, strip ratio would have only been 10.2:1 vs 2017's 9.5:1.

Economic factors also affected this year's profitability. Average Selling Price (ASP) went up by 18% due to higher global coal prices. On the other hand, the abovementioned lower production coupled with export restriction in Q4 brought a 12% decrease in Sales Volume. Increase of production materials, fuel, and parts resulted in an 18% increase in cost per ton. There was also a 2% decline in production volume cause by the prolonged rainy season in Q3.

Production

Total materials grew by 21% YoY to 164 bcm in 2018 from 135 bcm the previous year. Per the Department of Energy (DoE) directive, the rehabilitation plan for South Panian mine shortened to two (2) years from the original plan of 10 years. Production also decreased by 2% YoY from 13.2 million tons in 2017 to 12.9 million tons this year.

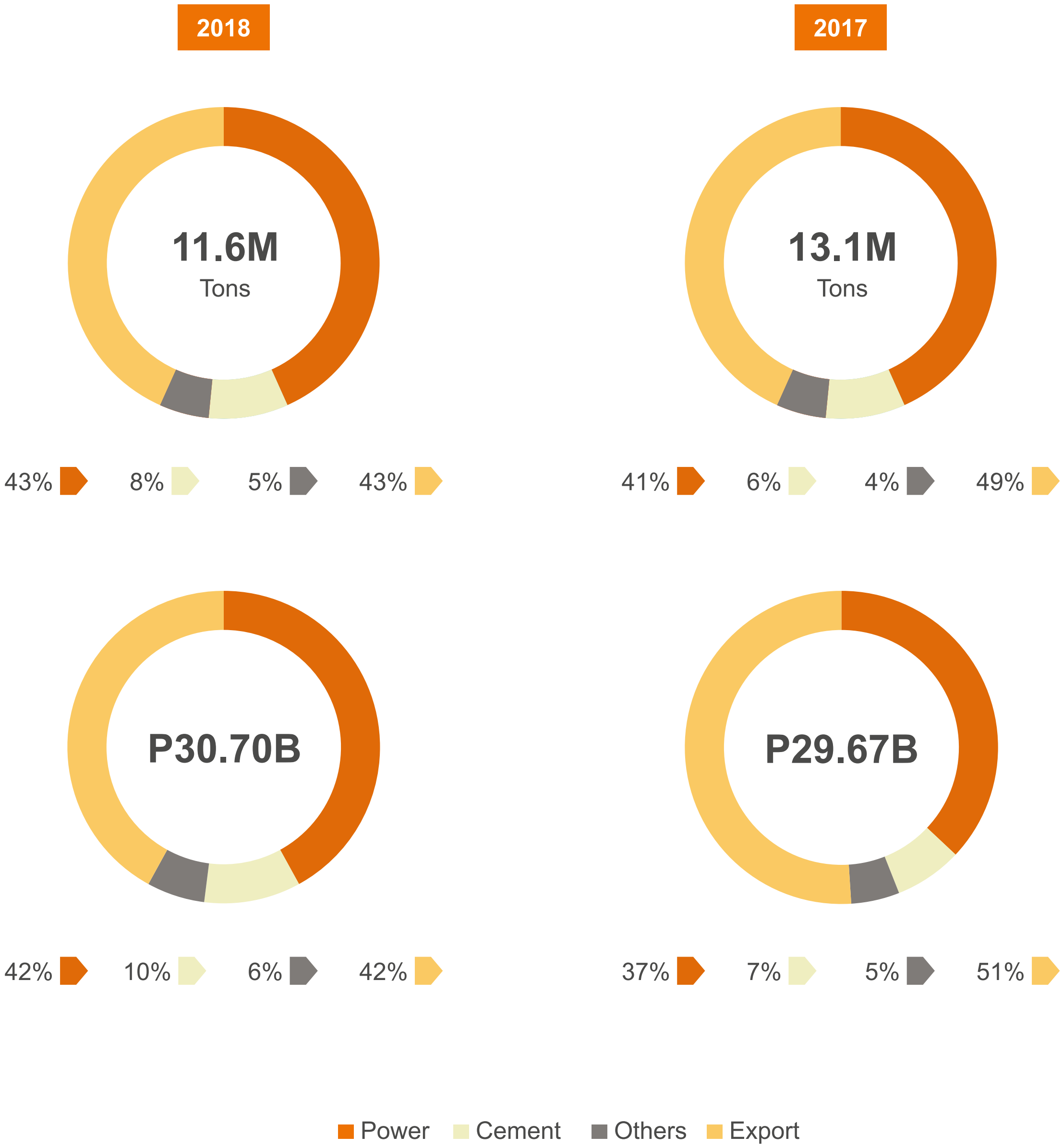
Materials moved in 2019 was inclusive of 22.7 million bcm for Panian mine rehabilitation, while coal production is inclusive of low-grade coal of 1.64 million tons and 1.43 million tons in 2018 and 2017, respectively.

Sales

Composite ASP increased by 18% due to this year's higher global prices. This increase in ASP offset decrease in volume sold which led to a growth in Gross Revenue by 3%. The 2017 and 2018 coal sales were inclusive of low-grade coal sold to own power plants of 1.3 million tons and 1.4 million tons, respectively.

COAL SALES MIX

2018 vs 2017



With lower production in Q3, coal sales dropped to 11.6 million tons against 2017's 13.1 million tons. Higher average selling price per ton offset the decline in sales volume, resulting in an increase in coal revenues by 3% - from P29.67 billion last year to P30.70 billion this year.

COAL SEGMENT
MANAGEMENT

L-R

VICENTE CESAR V. MALIG
Administrative Division
Manager for Core Mining

RUBEN P. LOZADA
Vice President - Mining Operations
& Resident Manager

MAXIMO V. SADURAL, JR.
Mine Planning and Engineering Head

L-R

ELSON J. CRISOLOGO
Geology Head

REDEMPTOR D. MACARAAN
Admin Division Head for Non-Core

BERNARD M. CADIGAL
Social Development Officer

RENE C. GONZALES
Mobile Maintenance Head

L-R

LETO T. MAC-LI-ING, JR.
Mine Truck and
Shovel Operation Head

ALMAR G. VALDEMAR
Human Resouces Officer in Charge

CRESLITO D. BANGALAO
Mine Operations Audit
Officer in Charge

COAL SEGMENT
MANAGEMENT

L-R

JOBER A. MALSI
Accounting Manager

MARK C. MUNAR
Civil Works Officer In Charge

NESTOR A. AGAPITO
Material Control Head

JANESTO S. DIAZ, JR.
Environmental Head and Pollution Control Officer

L-R

RODANTE Q. MOLINA
Mechanical Services Head

AGUSTIN D. GONZALES
Ship Repair and Maintenance Manager

MARK LOUIS A. BENTAYO
Product Head

JOSE LEO S. VALDEMAR
Power Plant Head

L-R

JERRY O. CELO
Electrical Services Head

HAROLD HENRY G. CABANILLA
Integrated Management System Head

ARNEL P. JADORMIO
Safety Manager

EDNA A. GAYONDATO
Analab Head

POWER SEGMENT

Our power segment's performance is not without
some challenges, influenced by many operational and economic factors.

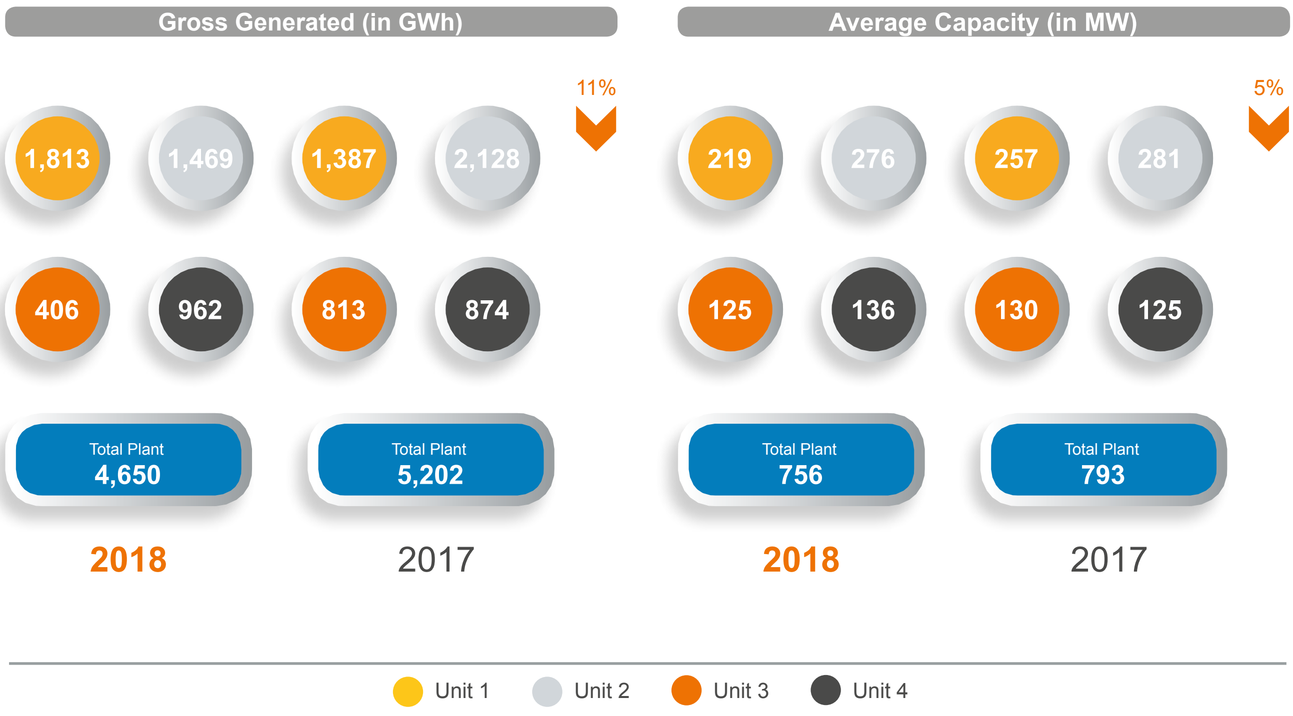
SCPC

Our SCPC plants reported a 6% decrease in volume sold due to lower total generation. The 10% increase in ASP, prompted by higher global coal prices, slightly offset the impact of the 22% increase in cost of sales per KWh. Meanwhile, the rehabilitation and life extension program of Units 1 and 2 resulted in recognition of accelerated depreciation amounting to P1.21 billion before tax in 2018.

SLPGC

The plant's Unit 3 was down from March 6 until the end of September for repairs of the crack in the rotor following an accident. The plant was able to collect advance payment in 2018 amounting to P483 million for machinery breakdown and business interruption insurance claims. This 204-day downtime led to a 19% drop in gross generation and 20% decrease in volume sold.

Expiration of higher-priced PSA and lower fixed price contract led to an 11% decrease in ASP. Cost of sales per KWh increased by 24% due to higher coal prices.



Units 1 and 2 gross generation dropped 7% YoY to 3,282 GWh this year from last year's 3,515 GWh. Unit 2 was down the whole Q1 this year for maintenance and both plants ran at lower capacity this year. Capacity factor is also lower by 7% in the current period.

Units 3 and 4 gross generation is down by 19% at 1,368 GWh, attributed to the prolonged shutdown of Unit 3 this year. Unit 3 ran at an average capacity of 125 MW, while Unit 4 averaged at 136 MW. Combined capacity factor of both plants is lower this year by 19%.

Plant Availability and Outages

Total plant availability for Units 1 and 2 rose slightly by 5% YoY. Unit 1 ran continuously for 201 days before it was shut down for the 6-month Life Extension Program starting December 30.

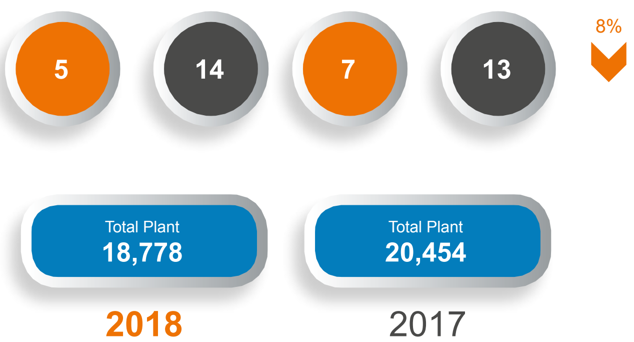
Units 3 and 4 combined operating hours decreased by 22% YoY. SLPGC's Unit 3 was down from March 6 to end September to repair a crack in the rotor following an accident.

Sales

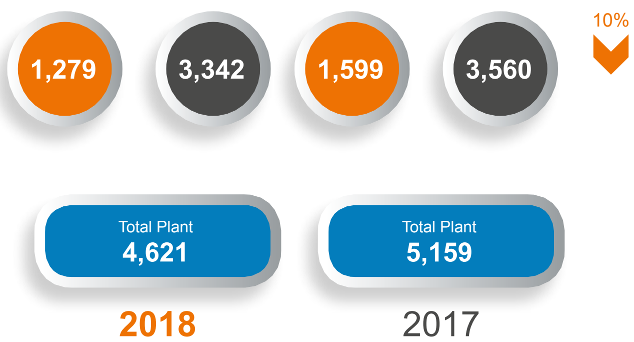
SCPC's total energy sold decreased by 6% to 3,342 GWh from 3,560 GWh in 2017. Composite average price per kwh increased by 10% at P4.11 from P3.75 last year. As a result, total revenue grew by 3% at P13.7 billion versus P13.4 billion last year.

SLPGC generated P5.0 billion in revenues in 2018 for 1,279 GWh of energy sold at a composite average price of P3.94/KWh.

Sales (in Billion P)



Volume Sold (in GWh)



POWER SEGMENT
MANAGEMENT

L-R

EDGARDO S. LAGMAN
Assistant Vice President - Facilities
Calaca Power Complex

DENEL C. MATEO
Assistant Vice President — Plant Manager
Sem Calaca Power Corporation

CHARLIE V. ROBLES
Plant Manager & Data Protection Officer
South Luzon Power Generation Corporation

L-R

EDGARDO V. ARAYA
Sr. Human Resource Manager
Calaca Power Complex

FELIX T. OCCEÑA
Manager, St. John Bulkhandlers Inc.

ROSSINI B. MARASIGAN
Learning and Development Manager
Calaca Power Complex

FREDERICO S. DELMENDO
Assistant Vice President - Procurement
Calaca Power Complex

POWER SEGMENT
MANAGEMENT

L-R

MARCELA V. ELLAO
Controller
Sem Calaca Power Corporation

MELCHOR D. BORBON
General Services Manager
Sem Calaca Power Corporation

EDLOR RUF V. RODRIGUEZ
Occupational Safety and Health Superintendent
Calaca Power Complex

BERNARD I. CARPIO
Asset and Outage Management Manager
Calaca Power Complex

L-R

RENE N. CORDERO
Engineering and Asset Manager
Calaca Power Complex

GIL D. ENAMNO
Maintenance Manager
Southwest Luzon Power
Generation Corporation

JOSEPHINE G. OLARTE
Finance and Accounting Head
Southwest Luzon Power
Generation Corporation

L-R

NOEL N. SALAMAT
Operations Manager
Southwest Luzon
Power Generation Corporation

ADOLFO M. MENDOZA
Operations Manager
Sem Calaca Power Corporation

JOVENAL M. LAFUENTE
Maintenance Manager
Sem Calaca Power Corporation

GENEROSO Q. FLOIRENDO, JR.
Officer In Charge, Environmental
Calaca Power Complex

FINANCIAL
REVIEW

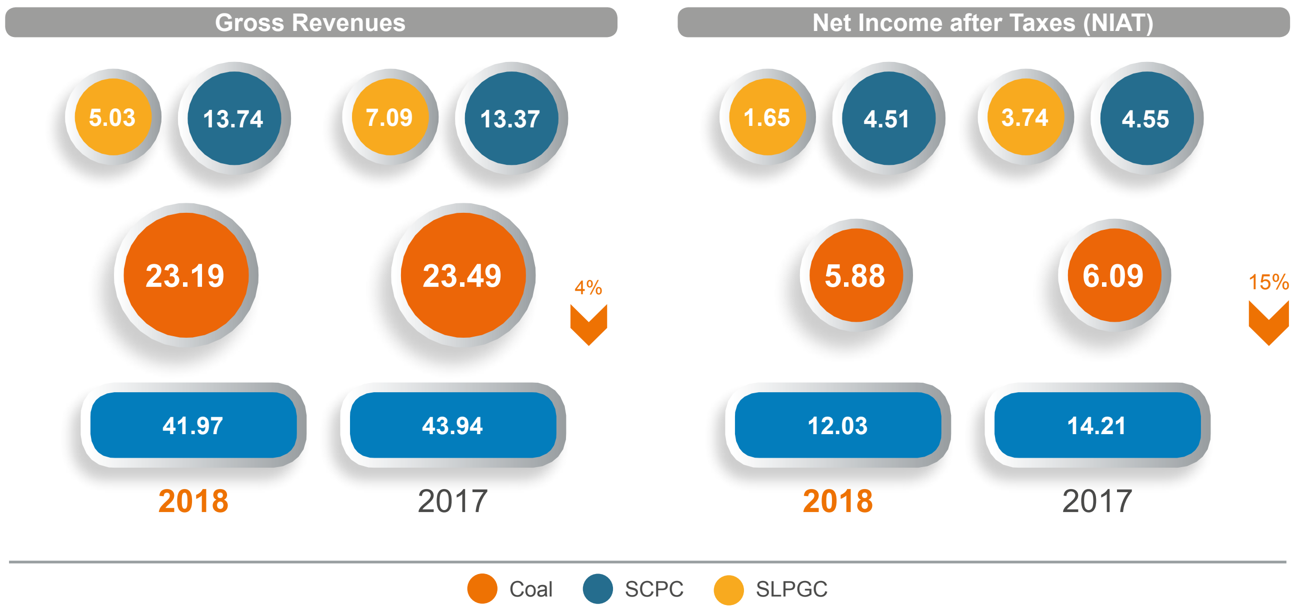
This year, we remain optimistic in our strong financial metrics despite a few revenue obstacles, bringing our commitment to taking innovative measures for growth in line with our renewed commitment to more sustainable models.

This year, net income dropped by 15%, but a decrease in gross revenues YoY had been minimized to 4%.

Higher prices offset lower coal sales volume in 2018, while the prolonged outage of Unit 3 resulted in a decline in SLPG's earnings in 2018. Accelerated depreciation amounting to P1.2 billion in 2018 and P840.0 million in 2017 (before tax effect) pulled down SCPC's income.

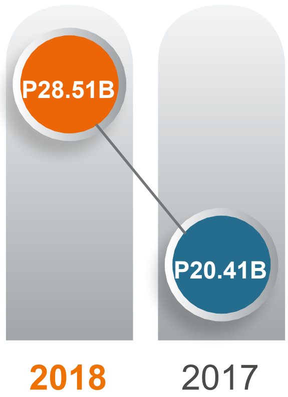
SALES AND PROFITABILITY

Consolidated in Billion Pesos



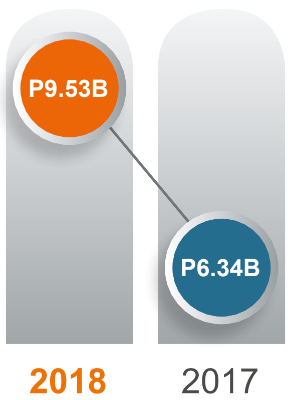
Our assets grew by 4% from P68.60 billion at the start of the year to P71.05 billion. Liabilities increased by 1% to P31.12 billion from P30.92 billion after availing of short-term debts. Earnings during the period boosted Equity by 6% to P39.93 billion from our P37.70 billion beginning balance, even after the payment of regular and special cash dividends totaling P9.57 billion.

NET DEBT



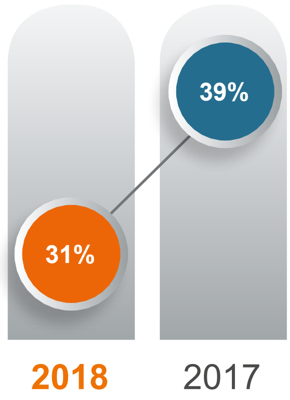
Net Debt increased by 81% to P17.3 billion from P9.6 billion in 2017.

CAPEX

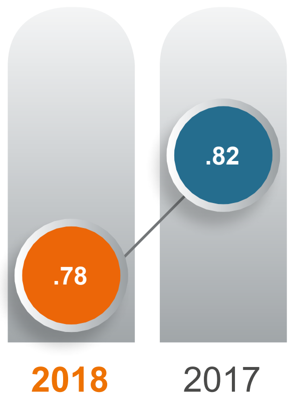


CAPEX spending increased by 50% YoY from P6.34 billion in 2017 to P9.53 billion in 2018. Our coal segment spent for maintenance CAPEX as well as equipment to accelerate the rehabilitation of South Panian. Both SCPC and SLPGC likewise spent more for plant maintenance and spare parts. In addition, SCPC started spending for CAPEX related to the scheduled Life Extension Program of the plants in 2019.

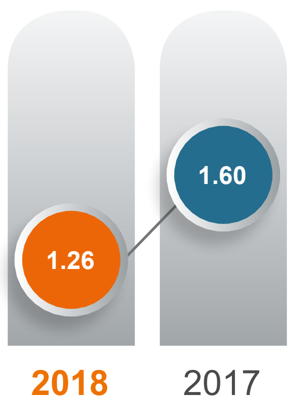
ROE



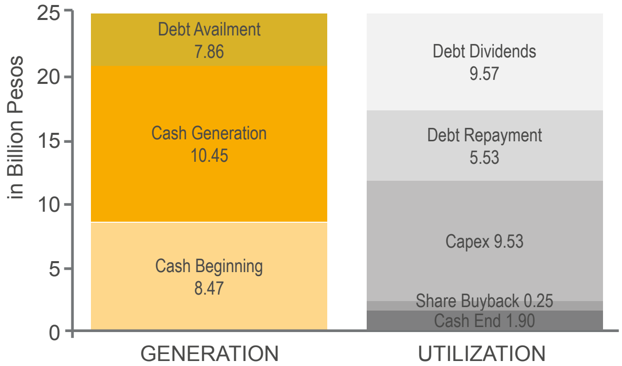
DE



CURRENT RATIO



CASH GENERATION AND UTILIZATION

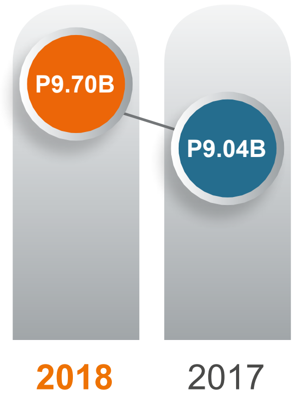


Total consolidated cash available from generation, loan availments, and beginning balance stood at P26.78 billion during the year. We spent P5.53 billion on debt payments, paid cash dividends amounting to P9.53 billion, purchased P9.57 billion worth of CAPEX, and bought back around P252 million worth. Our ending cash closed at P1.90 billion.

RESULTS OF OPERATIONS

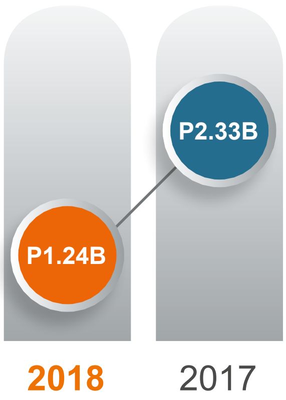
Consolidated Net Income After Tax (NIAT) decreased by 15% YoY to P12.03 billion from P14.21 billion in 2017, while consolidated EPS is at P2.83, down by 15% from last year's P3.33. The net contributions to the bottom line by the coal segment, SCPC, and Southwest Luzon Power Generation Corporation (SLPGC), after eliminations, are P5.88 billion, P4.51 billion, and P1.65 billion, respectively.

COAL CORE NIAT



Before eliminations, the coal segment's core NIAT of P9.70 billion posted an 7% increase from P9.04 billion in 2017. This is after taking into account P3.57 billion in government royalties. Better coal profitability in 2018 was primarily driven by increased ASP.

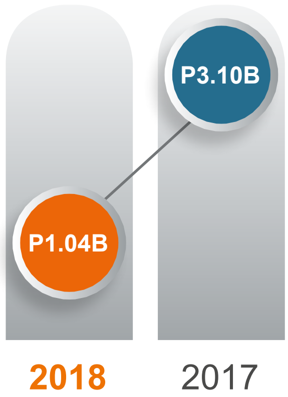
SCPC NIAT



On a stand-alone basis, SCPC posted NIAT of P1.24 billion, down by 47% from last year's P2.33 billion.

6% ↓ in volume sold due to lower plant availability; 10% ↑ in ASP due to higher global coal prices; 24% ↑ in generation cost due to higher coal prices; 43% ↑ in accelerated depreciation attributed to Life Extension Program.

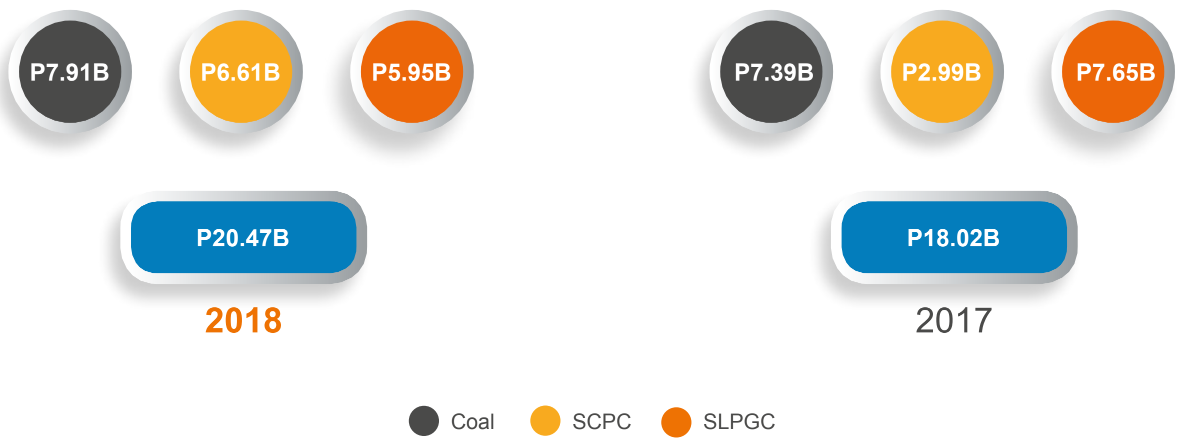
SLPGC NIAT



SLPGC's 2x150MW plants recorded stand-alone NIAT of P1.04 billion this year, down by 67% from 2017's P3.10 billion.

20% ↓ in volume sold due to lower availability of Unit 3; 11% ↓ in ASP due to expiration of higher-priced PSA and lower fixed price contract; 20% ↑ in generation cost due to higher coal prices.

INTEREST BEARING LOAN

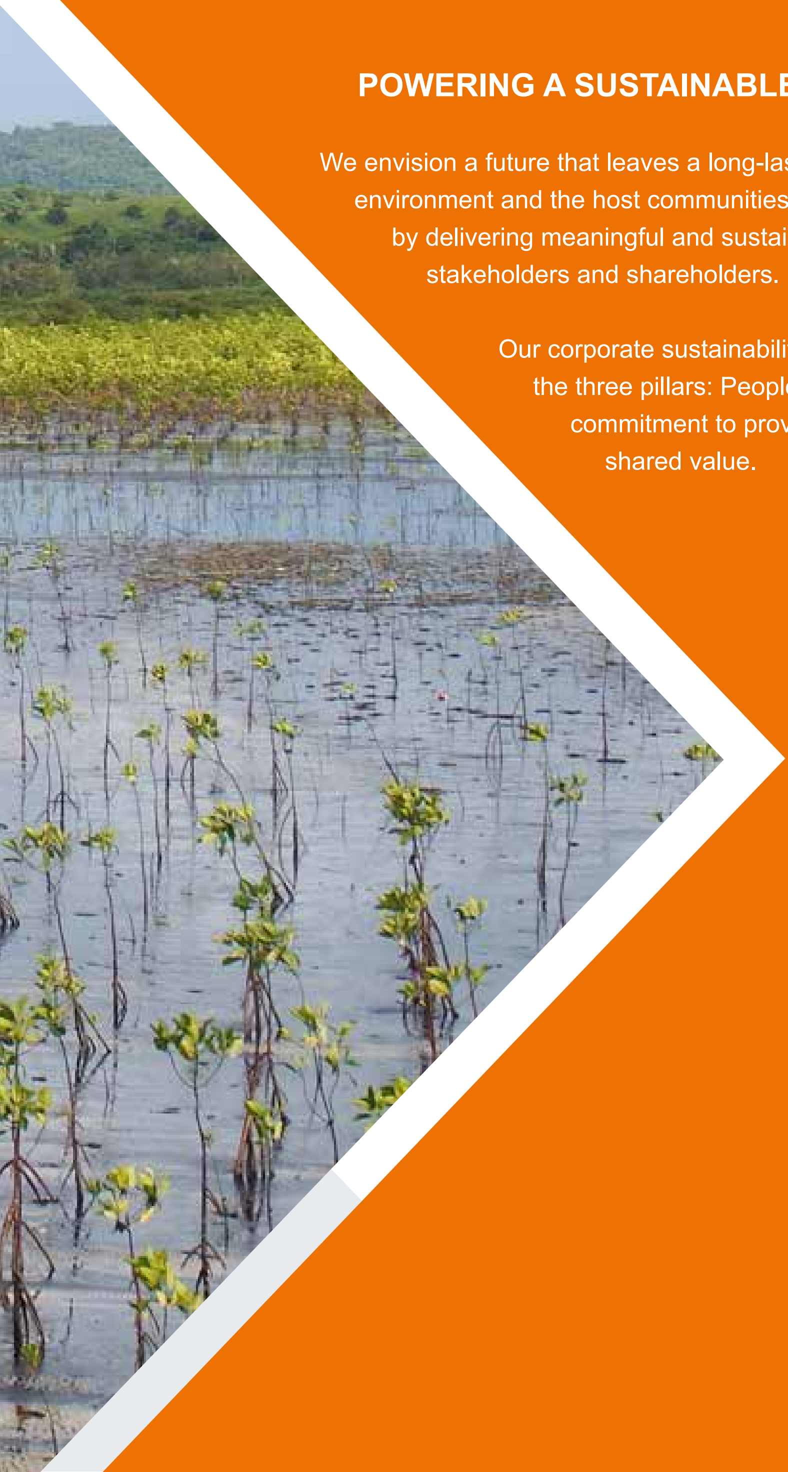


SCPC's interest bearing loans increased after availing of P2.35 billion of debt. Total loans closed at P5.35 billion as at the end of the period.

SLPGC's outstanding loan continues to decline as it continues to service its amortization schedule of its project finance debt.

As a result of acquiring more equipment to increase capacity, coal's interest-bearing loans increased by 7%. Coal's USD loans stood at USD 44.22 million, while peso liabilities closed at P5.65 billion.

OUR CORPORATE SUSTAINABILITY
AND SOCIAL RESPONSIBILITY



POWERING A SUSTAINABLE FUTURE

We envision a future that leaves a long-lasting positive impact on the environment and the host communities where we do our business, by delivering meaningful and sustainable initiatives that benefit our stakeholders and shareholders.

Our corporate sustainability philosophy is powered and guided by the three pillars: People, Planet, and Progress – underscoring our commitment to providing long-term solutions that create and drive shared value.

- UN Sustainable Development Goals
- People
- Planet
- Progress

SUSTAINABLE DEVELOPMENT GOALS

Powering our passion for long-term growth, our social responsibility and sustainability efforts are aligned with global standards set by the United Nations Sustainable Development Goals (SDGs). By strengthening relations within our partner-communities and stakeholders, we create lasting partnerships that improve the quality of life for all.

1 NO POVERTY

P3.57 billion in royalty payments were remitted to the Department of Energy; P2.14 billion went to the national government and P1.43 billion to the LGUs hosting SMPC operations.

Poverty incidence in Barangay Semirara is at 5.79% per latest data (2015) from the municipal Social Welfare and Development against 26% of Antique Province per latest survey (2015) of the Philippine Statistics Authority.

2 ZERO HUNGER

Continuous support for Gulayan sa Paaralan, DepEd's school-based feeding program. Produce from the program culminated in the feeding of around 200 malnourished students of Dacanlao National High School, Dacanlao Elementary School, Gregorio Paradero Elementary School, and Balayan West Central School.

3 GOOD HEALTH AND WELL-BEING

Operates the only private DOH-licensed 15-bed infirmary in Semirara island; and offers complete ancillary services such as laboratory, X-ray, dental, and pharmacy.

In 2018, the infirmary provided medical consultation and services to 26,529 patients from the Company (50.23%) and its host community (49.76%).

Various medical missions and clinics were mounted at Barangay Dacanlao in Calaca and Barangay Navotas in Balayan.

4 QUALITY EDUCATION

Partners with the Divine Word School of Semirara Island, Inc. to offer free Masters program for interested private and public school teachers in Semirara, Sibay, and Caluya islands.

Balik-Eskwela program for out-of-school youths (OSY) and SMPC employees aims to give opportunity to high school dropouts to continue their education and earn a high school diploma.

Continues to grant scholarships to outstanding students in its host communities, with 127 SMPC scholars and counting.

5 GENDER EQUALITY

Women comprise 40% of our Board of Directors, with Maria Cristina C. Gotianun at the helm as SMPC Executive Vice President and Officer in Charge.

Cooperative development and livelihood trainings specific for women were conducted through the Samahang Kababaihan of Barangay Dacanlao in Calaca and Barangay Baclaran in Balayan.

6 CLEAN WATER AND SANITATION

Two river and three coastal clean-ups were arranged around its power operations in 2018.

Own desalination plant supplies clean water for SMPC's industrial requirements and household use of employees based in its company housing. Indirectly, the host communities around also benefit as the Company no longer competes with their clean water source.

7 AFFORDABLE AND CLEAN ENERGY

Continues to subsidize the cost of consumption to provide its host communities with an affordable and reliable source of electricity. At P5/kwh, electricity rate in Semirara island is one of the lowest in the country.

Incorporates the circulating fluidized bed (CFB) technology which is highly efficient in limiting greenhouse gas emissions. Through the CFB, up to 95% of pollutants can be absorbed before being emitted to the atmosphere.

8 DECENT WORK AND ECONOMIC GROWTH

Single biggest employer in Semirara island and its nearby areas, providing jobs to over 3,300 individuals and reporting P1.48 billion of payroll in 2018.

Employs a total of 4,813 individuals for its corporate office, coal operations, and power operations combined; demonstrating our commitment to high-value employment.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Uses a PR03-B Advanced Equipment Simulator in our coal operations to allow our excavator and dump truck drivers to train and hone their skills before driving the real thing. 823 employees have completed over 2,300 hours of training on the state-of-the-art simulator.

Partners with Globe Telecom to upgrade the current telecommunication services and infrastructure in Semirara island, helping the host community better connect to the rest of the world.

59 classrooms were constructed for the municipalities of Calaca and Balayan to date. School buildings, multi-purpose gymnasiums, bridges, and footbridges were also built to help improve the living conditions in the said municipalities.

10 REDUCED INEQUALITIES

Municipality of Caluya maintains its 1st class municipality status, owing to our economic contributions and opportunities for its residents.

Promotes equal access to opportunities for all our employees, regardless of gender, age, religion, or ethnicity.

Enrollment to Semirara Training Center, Inc. (STCI), a TESDA-accredited vocational school, is open to residents of Semirara island with the fees for tuition and technical materials waived. Produced 1,146 graduates to date, 516 of which work in SMPC.

11 SUSTAINABLE CITIES AND COMMUNITIES

Integrates our operations with sustainability practices, driving for our host community's self-sufficiency.

Partners with the LGUs hosting our operations to help their environmental protection and emergency preparedness and response efforts.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Remains to be committed to global standards on environment and social responsibility, as proven by its ISO status.

Around 200 members of the Concrete Hollow Block program for Barangay Dacanlao in Calaca maximize the bottom and fly ash produced by the power plants into hollow blocks for livelihood, to date.

Practices "soft" form of communication and documentation to minimize paper and ink usage and wastage.

13 CLIMATE ACTION

Protects over 300 hectares of naturally grown mangroves and planted 673,439 mangroves in 196 hectares of coastal area for carbon sequestration and disaster risk reduction in Semirara island.

Rehabilitation of Panian pit from the original 10-year plan was accelerated to two years.

Practices waste segregation to reprocess recyclable and reusable waste. Implements a "lights off" scheme during office breaks to conserve energy.

14 LIFE BELOW WATER

Semirara Marine Hatchery has bred 163,267 giant clams to date. 80,146 of which have been reseeded and 1,000 corals transplanted in the waters of Semirara island.

Around 50 giant clams from the hatchery spawned along the shoreline of our power operations in the municipality of Calaca.

15 LIFE ON LAND

Continues the reforestation in Semirara island and planted a total of 1,772,166 endemic, ornamental, and fruit-bearing trees to date. 856,037 of which within our coal operations and 916,129 outside.

Participates in tree planting activities and seedling distribution around the area of our power operations.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Employees commit and adhere to the company Code of Conduct and Business Ethics that promotes ethical behavior and human rights.

Conducted public consultations and provided relocation areas including housing and resource support to land occupants affected by our coal operations.

17 PARTNERSHIPS FOR THE GOALS

Partners with the LGUs hosting SMPC operations, the Department of Energy (DOE), and Department of Environment and Natural Resources (DENR) to leverage our vast resources and power forward our host communities.

PEOPLE

The cornerstone of our continued growth and success lies in the many individuals, employees, families, and communities that empower us. Thus, we ensure our core engagement platforms and initiatives provide sustainable benefits and value.

POWERING SUSTAINABLE COMMUNITIES

We create inclusive growth by providing support programs and initiatives aimed at improving quality of life, ultimately leading to independent and self-sufficient communities.

MINING ROYALTIES

In 2018, SMPC turned over P3.57 billion in royalty payments to the national government, from 2017's P4.3 billion. Approximately P1.43 billion went to the local government units where SMPC operates:

P285.52 million went to the province of Antique, P642.42 million to the Municipality of Caluya, and P499.66 million to Barangay Semirara.

Since the DMCI group acquired SMPC in 1997, accumulated royalty payments from operations in Panian have reached P21.40 billion.

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

ELECTRIFICATION

We continue to provide our host communities in Semirara island an affordable and stable supply of electricity – a vital resource which has allowed households and local businesses to thrive over the years. We started the energization of Semirara island in July 1999, where we provided infrastructure necessary for hardware and installation of transmission lines for rural electrification, in cooperation with the Antique Electric Cooperative (ANTECO). By 2005, the whole Semirara island is fully energized.

Since 1999, we have provided the cheapest electricity rates nationwide. Present generation cost per kilowatt hour is P7.50. ANTECO's charge to consumers ranges from P4.00 to P6.00 per kilowatt hour, which is at least P3.00 lower than the country's highest electricity rate. In October 2014, an additional 1x15 MW coal-fired power plant was commissioned. Units 1 and 2 have mitigating measures such as the rehabilitation of its electrostatic precipitators that capture particulate matters in its air emissions.

Units 3 and 4 utilizes circulating fluidized bed (CFB) technology, or "clean-coal" technology, which is highly efficient in limiting greenhouse gases in its air emissions. Through CFB, up to 95% of pollutants can be absorbed before being emitted to the atmosphere.

PRESENT POWER SOURCE AND CAPACITY*	
Old Power Plant	2 x 7.5 MW
New Power Plant	1 x 15 MW
Diesel Power Plant	8 MW
Portable Generator	1 MW
Available Power	34 MW

*in Semirara island

LED STREETLIGHTS IN CALACA

The implementation of the solar streetlights project started in 2015 in Calaca, Batangas with the installation of 38 units at Barangay Baclaran, Balayan which was funded under Energy Regulations 1-94. Another 34 units were installed in Barangay Dacanlao the following year.

This year, the installation of 36 units of solar streetlights is completed at Barangay San Rafael, Calaca, another host barangay.

These projects generate savings for the recipient-barangays in the amount of P60,000/year per barangay.

4 QUALITY EDUCATION

EDUCATION

Scholarships

With the aim to help produce responsible and competent leaders for the community, SMPC extends support to aspiring students of their host communities through financial assistance for higher education. Financial assistance will cover the full tuition per semester plus P2,000 allowance per month. Students are allowed to enroll in any public or private school of their choosing.

The program has been running since 2008 up to present. To date, there has been 127 scholars, 23 of which are still active. Total spend for this program is at P18,192,521.44.

Masters Education for Teachers

We aim to raise the overall standard of education in our host communities, and it starts with empowering the educators. In partnership with the Department of Education (DepEd) Division of Caluya and Commission on Higher Education (CHEd), free Masters program (Master of Arts in Education) is offered to interested private and public school teachers in Semirara island, including those from Sibay and Caluya islands.

Divine Word School of Semirara Island, Inc (DWSSII) managed the program in cooperation with Divine Word of College of Calapan (DWCC), who provided professors that come to the island at least once a month and conducted other activities online. To aid their research, SMPC allowed the use of the public Library Hub which features academic books and computers with internet connections. Classes are conducted in DWSSII school facilities and also at the Library Hub.

The program commenced from July to December 2018 for the first semester, and from January to April 2019 for the second semester. For the first semester, 87 teachers enrolled in the program, and 67 completed the semester. Total spend for this program for the first semester is at P969,674.52.

Balik-Eskwela Program

Aimed at out-of-school-youths (OSY) and SMPC workers, the Balik-Eskwela program gives opportunities for them to earn a High School diploma.

Classes were conducted every Saturday. Superiors of workers who participated in the program were requested to allow their staff to take Saturday as their rest day, to allow them to attend the classes.

Students were taught basic subjects such as Math, Science, English, and Computer. A certain number of hours is required before being awarded with a High School diploma. Classes were conducted at the classrooms, computer room, and laboratories of DWSSII.

The program ran from June 2018 to March 2019. To date, 17 out-of-school youths and 8 SMPC employees participated in the program.

2 ZERO HUNGER

GULAYAN SA PAARALAN

Since 2011, we have been supporting the Department of Education's (DepEd) School-Based Feeding Program (SBFP) through the Gulayan sa Paaralan Program (GPP).

We have provided various vegetable seedlings, used drums as receptacles or water containers, and compost materials to the participating schools. Vegetable produce from this program are then fed to around 200 schoolchildren of Dacanlao National High School, Dacanlao Elementary School, Gregorio Paradero Elementary School, and Balayan West Central School.

Under the DepEd's supervision, GPP aims to become a source of ingredients for the SPFP and encourage the families of beneficiaries to have their own home garden for continuous nutritional improvement at home. The program also aspires to boost classroom attendance by as much as 85%, as well as to improve children's health, nutritional values and behavior. Total spend since 2015 is at P200,000.

A Bookworm's Camp

Launched in 2015, A Bookworm's Camp (ABC) is a multimedia reading summer camp for children aged 3 to 7 years old. This year, the third ABC is held island-wide from April 16 to May 12, where 239 children enrolled in the camp, and 185 took the post-assessment test.

Vocational and Skills Training

Skill training is also one of integral to the Company's educational efforts for its host community residents. The Semirara Training Center (STCI), a TESDA-accredited, non-stock, non-profit corporation that aims to provide residents with quality vocational training and marketable trade skills, has produced 1,092 graduates since 2006. Since 2006, the Semirara Training Center, Inc. (STCI) has been providing free access to quality vocational education. Courses offered include Automative Servicing, Computer Hardware Servicing, Machine Shop, and Welding, among others.

Enrollment is open not only to local residents of Semirara island, but also to residents from nearby islands, such as Caluya and Sibay.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

INFRASTRUCTURE SUPPORT IN CALACA

We have initiated and saw to the development and construction of school buildings, multi-purpose gymnasiums, bridges, and footbridges to help improve the living conditions in Calaca and Balayan.

To date, a total of 59 classrooms were constructed – 50 classrooms for the Municipality of Calaca and 9 for the Municipality of Balayan. Total spend is around P110 million.

3 GOOD HEALTH AND WELL-BEING

HEALTH AND WELFARE

Semirara Infirmary

The Semirara Infirmary, the only Department of Health (DOH)-licensed infirmary health facility in the island, caters to patients in need of minor care and supervision. It serves the medical needs of SMPC employees, their dependents, and the residents in the municipality of Caluya.

The facility has 31 medical personnel that serves the Company's employees and their dependents, and the rest of the host community. It offers complete ancillary services such as laboratory, X-ray, dental, and pharmacy.

FREE CONSULTATIONS

	2014	2015	2016	2017	**2018**
Employees	3,321	4,073	3,989	10,146	7,714
Dependent	2,164	4,419	3,936	5,866	4,177
Community Member	5,324	4,679	3,691	5,008	4,657
Total	10,827	13,171	11,616	21,020	16,247

HOSPITAL PERSONNEL

1 Medical Director
1 Assistant Medical Administrator
1 Administrator
4 Doctors (Retainers)
2 Dentist (Retainers)
14 Nurses (12 Licensed)
1 Midwife (Licensed)
1 Radiologic Technician (Licensed)
1 X-Ray Technician
3 Medical Technologist (Licensed)
1 Pharma Assistant
1 Cashier
3 Janitors
1 Record

3 GOOD HEALTH AND WELL-BEING

BARANGAY HEALTH WORKERS

We help mobilize the community in increasing awareness and driving initiatives for health and wellness. 90 Barangay Health Workers were trained by three doctors from the Philippine General Hospital (PGH) with basic diagnostic and triage skills.

These health workers can perform a variety of activities for the health centers, mainly: pre-natal check-ups, immunization, deworming, 4 Ps consultation, and family planning, among others.

TOTAL CLIENTS ACCOMMODATED: 4,108

1041	1453	1641
Barangay Alegria	*Barangay Tinogboc*	*Barangay Semirara*

Period: January to August 2018

MEDICAL MISSIONS FOR IMPACT BARANGAYS

We continue to provide free medical consultation and medicine to our host community in Barangay Dacanlao in Calaca and Barangay Navotas in Balayan.

In 2018, 3 joint medical missions and 8 free clinics were conducted, with expenses amounting to P230,000 and P40,000, respectively.

SPORTS DEVELOPMENT AND AMENITIES

Part of our commitment to health and wellness is to provide venues and platforms where people can be empowered to live a healthy lifestyle. Semirara island is fully equipped with sports amenities for various sports-related activities for employees and residents.
We have developed outdoor and covered tennis courts, volleyball, and badminton courts. Employees and residents can also enjoy our new Olympic-sized swimming pool, and an expansive grandstand and oval rubber track.

EMPOWERING SUSTAINABLE LEADERSHIP

We foster a culture of empowerment for our partner employees, where we focus on engagement and leadership platforms where they are given opportunities for career growth and advancement.

EMPLOYMENT

Our commitment to high-value employment remains steadfast as SMPC remains the single biggest employer on the island, providing jobs to around 3,358 individuals in 2018, a 1.8% increase from last year.

We have also partnered with 1,288 third-party contractors from our host community and nearby areas in 2018. Jobs vary from construction and maintenance of buildings, roads, housing units, sports and recreation facilities, landscaping, steelwork and food services, among others. Our total operating workforce, consolidating employee data from our Semirara mine site, Makati site and Calaca Power Units, comes to a total of 4,813 persons.

Semirara mine site employees account for the majority of the total workforce at 80% or 3,083 persons. Of the registered numbers from Western Visayas, 1,576 are from Semirara island and/or the Municipality of Caluya, accounting for 51% of the mining workforce. Payroll at the mine site alone reached P1.2 billion in 2018.

LIST OF BENEFITS FOR FULL-TIME EMPLOYEES - COAL SEGMENT

GOVERNMENT MANDATED BENEFITS

- SSS
- Pag-ibig (HDMF) Contribution
- PhilHealth
- 13th Month Pay
- Maternity Leave (60 days for normal delivery and 78 days for ceasarean delivery)
- 7 days Paternity Leave
- 7 days Solo Parent Leave
- Magna Carta for Women (maximum of 2 months)
- 10 days Leave for Anti Violence Against Women and Children
- Retirement Benefit (RA 7641)

ADDITIONAL COMPANY BENEFITS

- Life and Accident Insurance
- HMO
- 15 days Sick Leave after 1 year of continuous employment
- 15 days Vacation Leave after 1 year of continuous employment
- 4 days Bereavement Leave for death of immediate family member
- Free primary services - including basic dental service to minesite workers and their dependents
- Medicine Allowance Mine site - Jr. to Sr. staff subsidized by hospital if OPD or Hospitalization
- Free Housing - mine site employees
- Free Power allocation R&F: 300mw/month Jr. Staff: 600mw/month Sr. Staff: 800mw/month and water utilities for mine site employees
- Free Education for dependents of minesite employees
- Dormitory for employees residing more than 36kms away from Calaca Plant
- In-House Health Care Clinic for Calaca Plant
- Home leave of up to 60 days for Jr. and Sr. Staff

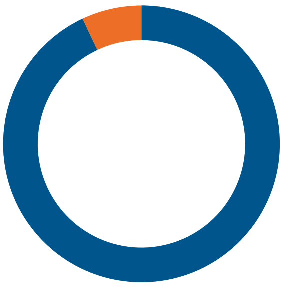
COST BENEFIT ANALYSIS

- In-House Health Care (R&F)
- Rice Allowance every 2 months (R&F)
- Service Award (R&F) depends on years of service (5,10,15 and 20 years)
- Bereavement Financial Assistance for immediate family
- 4 days Emergency Leave
- Medicine Allowance upon anniversary (R&F)
- Relocation Allowance (upon retirement)

Coal segment employees enjoy free housing and support for water and power utilities, free primary up to senior high school education for their dependents at the Divine Word School of Semirara Island, Inc. (DWSSII) and transportation to and from their place of work.

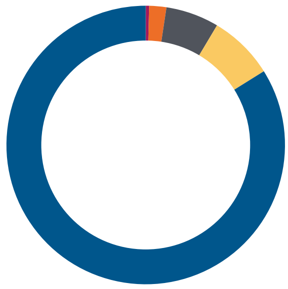
Meanwhile, the power segment in Calaca, Batangas is home to 407 regular employees; around 952 are contractual employees hired by sub-contractors during the annual plant overhauling. Most of these contractuals are employed three months on the average, and majority reside in the impact barangays.

TOTAL OPERATING WORKFORCE: 4,813



BY GENDER

- 93% Male
- 7% Female



BY LEVEL

- 0.4% Executive
- 2% Managerial
- 6.20% Supervisor
- 7.6% Professional/ Technical
- 84.30% Rank & File

BY AGE

- 17.8% 24 and below (GenZ 1995 and up)
- 50.2% 38 to 35 years old (Millennial - 1981 to 1994)
- 26.5% 39 to 54 years old (Gen X - 1980 to 1965)
- 5.5% 55 to 73 years old (Baby Boomers - 1964 to 1946)

BY ORIGIN

- 10% Calabarzon
- 14.6% NCR
- 51.2% Antique
- 24.2% Others

CORPORATE OFFICE

BY GENDER

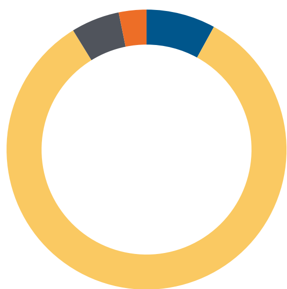
- 61.6% Male
- 38.4% Female

BY LEVEL

- 11.2% Executive
- 10.4% Managerial
- 12.8% Supervisor
- 15.2% Professional/ Technical
- 50% Rank & File

BY AGE

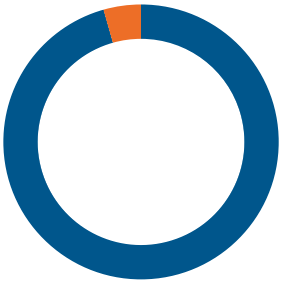
- 14.4% 24 and below (GenZ 1995 and up)
- 56% 38 to 35 years old (Millennial - 1981 to 1994)
- 20% 39 to 54 years old (Gen X - 1980 to 1965)
- 9.6% 55 to 73 years old (Baby Boomers - 1964 to 1946)



BY ORIGIN

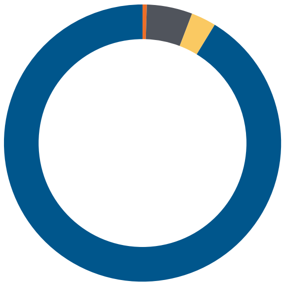
- 8% Calabarzon
- 83.3% NCR
- 5.6% Antique
- 3.2% Others

COAL SEGMENT



BY GENDER

- 95.6% Male
- 4.4% Female



BY LEVEL

- 0.0% Executive
- 0.5% Managerial
- 5.3% Supervisor
- 2.9% Professional/ Technical
- 91% Rank & File

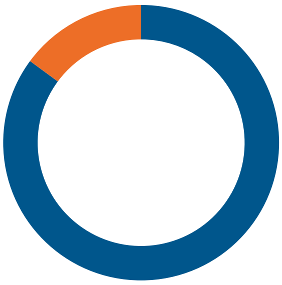
BY AGE

- 18% 24 and below (GenZ 1995 and up)
- 51.4% 38 to 35 years old (Millennial - 1981 to 1994)
- 25.9% 39 to 54 years old (Gen X - 1980 to 1965)
- 4.7% 55 to 73 years old (Baby Boomers - 1964 to 1946)

BY ORIGIN

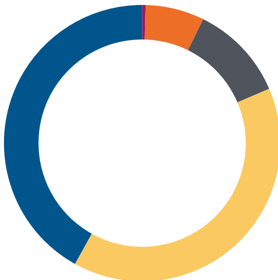
- 13.3% NCR
- 58.5% Antique
- 28.3% Others

POWER SEGMENT



BY GENDER

- 85.1% Male
- 14.9% Female

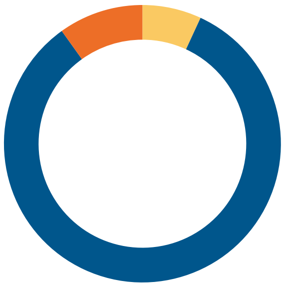


BY LEVEL

- 0.4% Executive
- 6.9% Managerial
- 11.3% Supervisor
- 39.6% Professional/ Technical
- 42% Rank & File

BY AGE

- 17.4% 24 and below (GenZ 1995 and up)
- 39.8% 38 to 35 years old (Millennial - 1981 to 1994)
- 32.9% 39 to 54 years old (Gen X - 1980 to 1965)
- 9.9% 55 to 73 years old (Baby Boomers - 1964 to 1946)



BY ORIGIN

- 6.9% NCR
- 83.2% Calaca
- 9.9% Others

EMPLOYEE TRAINING

Our employees are given opportunities for advancement through continuous training and career growth programs. These programs target areas for improvement, ensuring that our employees are properly equipped with the skills to deliver results and advance in their respective careers.

A total of 104,248 training hours were recorded, with employees trained from the mine site, corporate office and the Calaca power plant.

SMPC Consolidated Workforce 2018 Training Hours Per Category and Per Workforce Level.

2018 HR MILESTONES

- Compliance to DOLE General Labor Standards
- Installation of the Succession Management Planning Program
- Implementation of the Employee Service Portal
- Implementation of Key Talent Reviews for succession
- Institutionalization of the Management Development Program
- Moving towards competency-based HR Management systems
- Strengthening Employee Engagement Program
- Participation in Market Compensation Study to determine market position of the Company across the industry
- Conduct of Organizational Climate Survey to plan strategic HR programs
- Strengthening the alignment of Performance Management to Strategic and Operational Plans
- Continued Capacity Building Programs in the areas of Safety, Risk Management, and IMS

CORPORATE OFFICE					
Training Category	**Executives**	**Managers**	**Supervisors**	**Rank & file**	**Total**
Environment, Health, & Safety	96	120	344	1128	1688
Quality Management Systems	56	32	16	40	144
Leadership	512	952	824	52	2840
Behavioral	80	272	184	2160	2696
Professional & Technical	232	112	448	1216	2008
Total Training Hours	**976**	**1488**	**1816**	**5096**	**9376**
% of Training Hours/ Job Level	10.41%	15.87%	19.37%	54.4%	100%
No. of Workforce	14	13	16	82	125
Total 2018 Training Spend (Capitalized and Expensed)					P3,745,198.59M
Average Training Cost per Workforce					29,961.89

COAL SEGMENT					
Training Category	**Executives**	**Managers**	**Supervisors**	**Rank & file**	**Total**
Environment, Health, & Safety	0	0	269	4,654	4,923
Quality Management Systems	0	0	66	1,063	1,129
Leadership	0	9	78	17	104
Behavioral	0	3	81	2,375	2,459
Professional & Technical	0	1	70	764	835
Total Training Hours	**0**	**169**	**5702**	**49582**	**555453**
% of Training Hours/ Job Level	0%	0.72%	10.28%	89%	100%
No. of Workforce	1	17	192	3433	3643
Total 2018 Training Spend (Capitalized and Expensed)					P1,945,712M
Average Training Cost per Workforce					534.09

POWER SEGMENT					
Training Category	**Executives**	**Managers**	**Supervisors**	**Rank & file**	**Total**
Environment, Health, & Safety	88	262	450	8266	9066
Quality Management Systems	16	296	476	3700	4488
Leadership	33	894	336	249	1512
Behavioral	0	456	992	7148	8596
Professional & Technical	88	2176	2586	10898	15748
Total Training Hours	**225**	**4084**	**4084**	**30261**	**39419**
% of Training Hours/ Job Level	1%	10%	12%	77%	100%
No. of Workforce	2	35	57	411	505
Total 2018 Training Spend (Capitalized and Expensed)					P5,546,978.92M
Average Training Cost per Workforce					10,984.117

SUSTAINABLE AND EMPOWERED WORKFORCE

We power it forward to the people who work with us. In engaging our workforce, we build relationships based on trust, integrity, two-way commitment and communication.

Our employee engagement programs encourage employee pride and loyalty, and in turn, they are motivated to deliver results. With an empowered and engaged culture, our employees now become the greatest advocates of the business to our clients, users, and customers.

Our Human Resources Philosophy

Our employees are our most valuable asset. Thus, we focus our human resources strategies towards developing our people to lead, excel, and deliver. We aim to attract, develop, retain, and optimize our workforce through our organization development programs and initiatives.

We maintain our employee value proposition of offering careers and opportunities for growth and development in our organization, as well as competitive rewards and benefits that are aligned with individual performance and strategic business performance.

Talent Attraction

An effective hiring process builds the foundation for a competent workforce. This means attracting exceptional talents. By bringing onboard the right talents, we ensure achievement of business targets. We define the "right" talent as an individual who not only match the job requirements, but also has the right attitude and proves to be a good fit for our culture.

We ensure equal employment opportunities, and do not discriminate on the basis of gender, race, age, religion, and physical abilities.

Talent Development

We have embarked on a Competency Development project which aims to build the Competency Map per department and section, as well as capture the Competency Profiles of each of the existing positions. This serves as the foundation of our Learning and Development interventions and programs. This tool helps us plot the careers of our people, establish targeted selections, targeted performance management and targeted behavioral modifications, aligned with the Company's business direction.

Employee Engagement

We define Employee Engagement as the level of commitment and passion that employees bring to work. We believe that employees who are highly engaged are more productive, motivated, and committed to the organization.

Our HR Department has implemented sound HR practices as exhibited by the Talent Management Program which was launched on 2016. The program's goal is to retain top talents and fully engage them so that they feel their contributions to the business are valuable, and appreciated.

At the Corporate Level, we engage our leaders through regular monthly managers' meetings and the one-on-one managers' meeting with the top management. A Consultant also serves as an Executive Coach for our leaders at the corporate office to boost their effectiveness as managers and leaders.

At the Plant level, the continuing Town Hall Meetings communicates organizational programs and updates, and orients employees towards the Company's direction and business targets. One of the major activities is the Journey to Excellence of Calaca Power Plant employees which envisions to steer the Calaca organization towards a culture of excellence.

At the Mine Site level, our employees actively participated in HR programs geared towards a holistic development. These programs cover personal development, social awareness, health and wellness, community assistance, and environmental protection.

PLANET

Our advocacy for sustainability in every level of our business is rooted in our sense of responsibility towards our communities and their environments. We advocate for the minimization of our Company's environmental impact, and we address these challenges by collaborating with the government and our stakeholders to make sure that our natural resources are conserved and protected.

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

POWERING ENVIRONMENT SUSTAINABILITY

The preservation and cultivation of our natural terrain, waters, and air in our host communities place high in our priorities as part of our commitment to responsible stewardship of our environment.

ENVIRONMENTAL MONITORING

AIR QUALITY MANAGEMENT – COAL SEGMENT

POWER PLANT

- Installation of Continuous Emission Monitoring System (CEMS) of 15 MW Power Plant
- Installation of Dust Precipitator
- Installation of closed-circuit television camera of 15 MW Plant
- Installation of Limestone
- Monitoring equipment for ambient air quality for Particulate Matter (PM) 10. PM 2.5 and Total Suspended Particles (TSP)
- Desulfurization
- Monitoring equipment for flue gas quality of diesel plants and 2x7.5 MW Plant
- Control of Flue Gas Temperature
- Installation of Multi-cyclone Dust Separator
- Control of combustion

COAL OPERATIONS

- Water spraying (coal stockpile, coal conveyors, haul roads)
- Compacting stockpile

AIR QUALITY MANAGEMENT – POWER SEGMENT

SCPC

- Covered converyor lines
- Covered coal yard and windbreak fence
- Water spraying during Coal Handling operation
- Coal compaction during stockpiling
- Coal stockpile temperature monitoring
- First-in, first-out (FIFO) coal utilization

21 days

- Limitation of coal stockpile to 21 days for local coal

10 meters

- Limitation of coal stockpile height to 10 meters for local coal
- Utilization of low sulfur and ash content fuel
- Tangential Firing System for Unit 1 and low Nox burners for Unit 2

120 meters

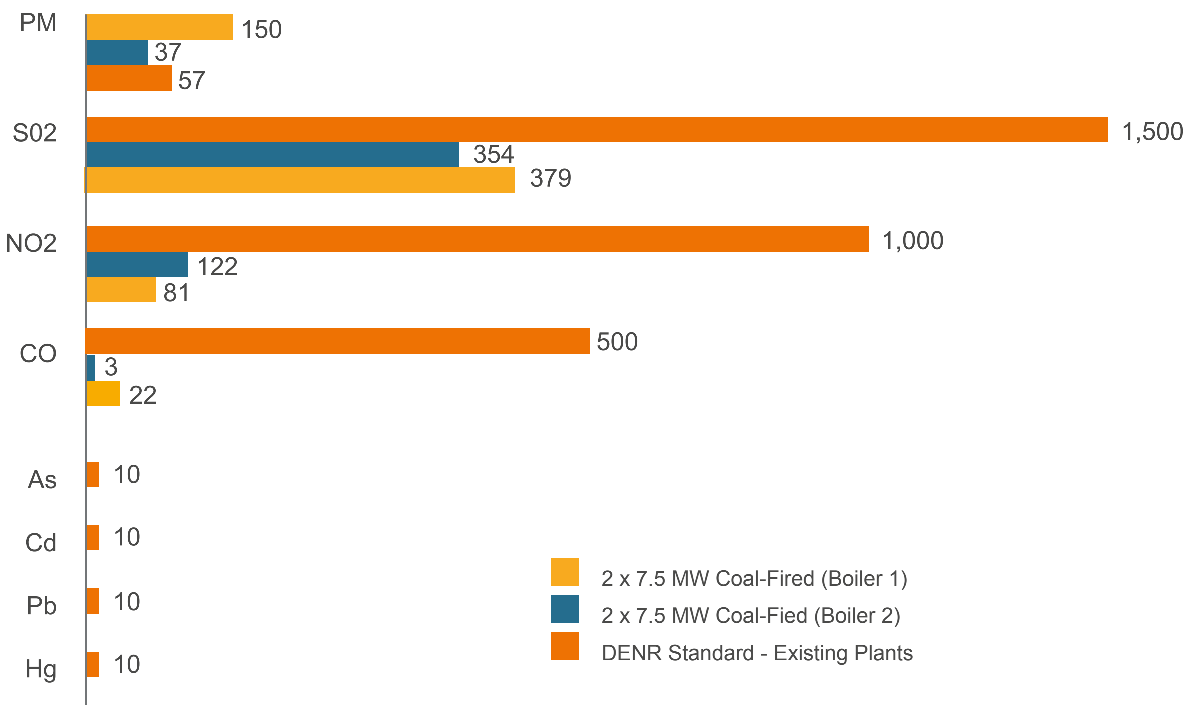
- Stock height of 120 meters for Unit 1 and 150 meters for Unit 2
- Electrostatic precipitator

SLPGC

- Covered conveyor lines
- Transfer towers with dust collectors
- Covered coal yard and windbreak fence
- Water spraying during Coal
- Coal compaction during stockpiling
- Coal stockpile temperature monitoring
- First-in, first-out (FIFO) coal utilization
- Enclosed coarse crusher house and fine crusher house
- Use of low furnace temperature

POWER PLANT (SOURCE EMISSION)

	HG	Pb	Cd	As	CO	CO^2	SO^2	PM	Cd
2 x 7.5 MW Coal-Fired (Boiler 1)	0	0	0	0	22	81	379	57	0
2 x 7.5 MW Coal-Fired (Boiler 2)	0	0	0	0	3	122		37	0
						100	150		1
DENR Standard - Existing Plants	10	10	10	10	500	0	0	150	0
1 x 15 MW Coal-Fired	*	*	*	*	8.1	213	6	*	
DENR Standard - New Plants					500	500	700	150	
5.7 MW Wartsila Diesel Power Plant	**	**	**	**	22.1	998	3	73.9	
4.2 MW Mirrlees Diesel Power Plant	**	**	**	**	3.7	766	7	43.8	
Standard Diesel					500	2000	1500	150.0	



AVERAGE EMISSION MONITORING

1x15 MW Coal-Fired Power Plant (CEMS-Continuous Emission Monitoring System)

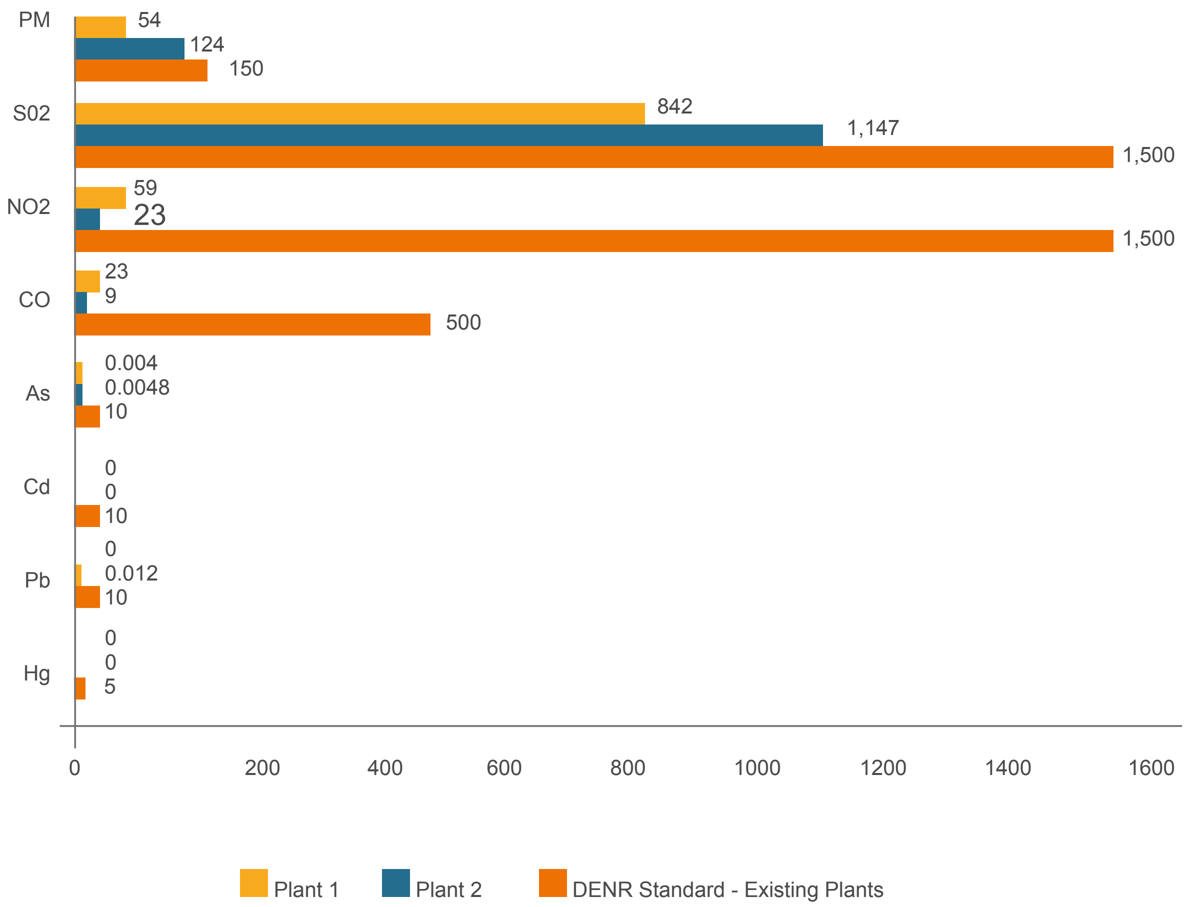
	Standard	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
PM	150	17	16	16	15	16	17	16	5	7	10	8	8
SO2	700	123	39	50	37	34	47	171	209	255	189	250	179
NO	500	158	89	26	21	11	15	84	161	165	170	212	199
CO	500	5	3	5	5	4	3	11	24	36	19	8	10

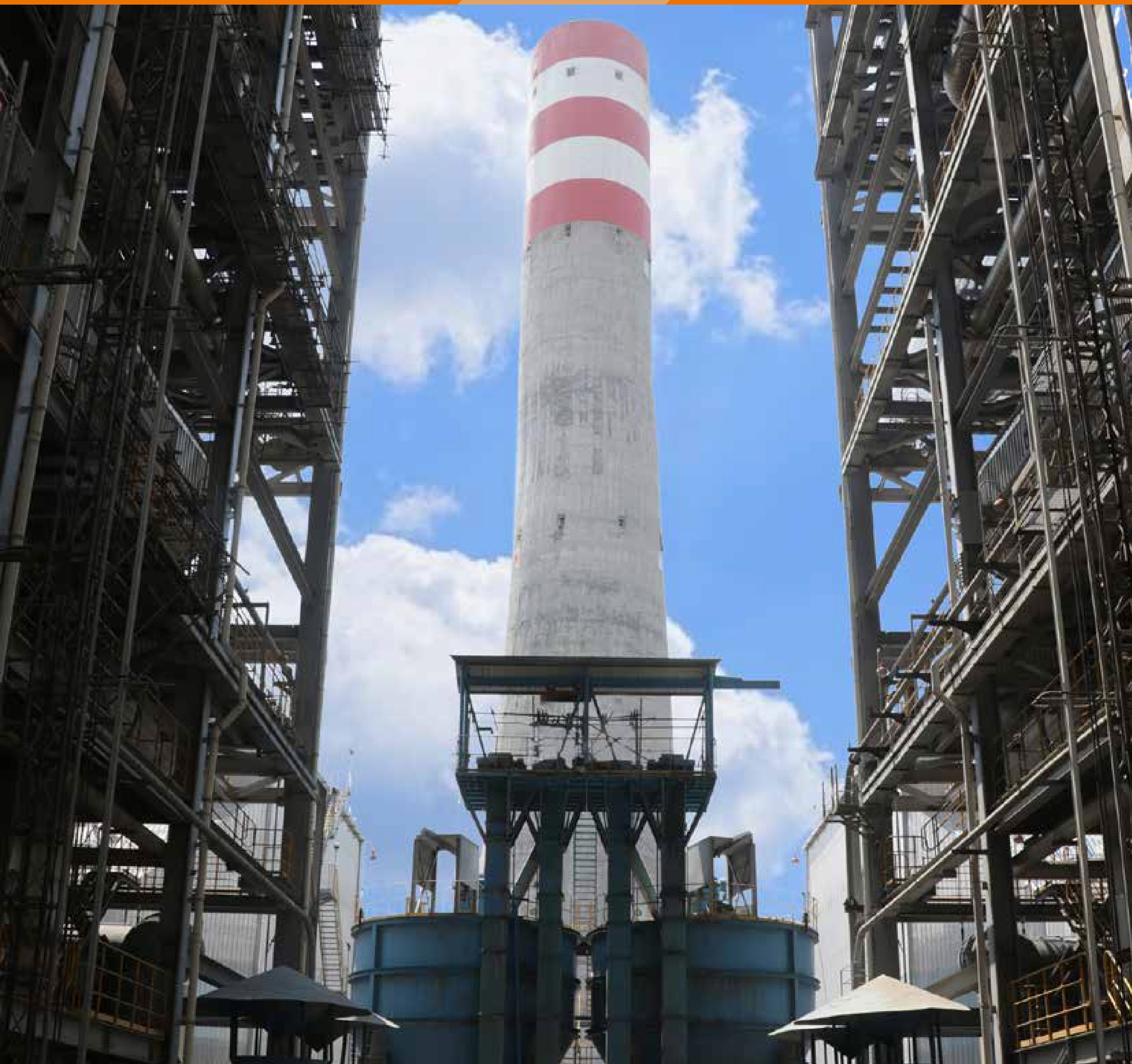
AMBIENT AIR MONITORING

	TSP						SO^2						NO^2					
	Q1	Q2	Q3	OCT	NOV	DEC	Q1	Q2	Q3	OCT	NOV	DEC	Q1	Q2	Q3	OCT	NOV	DEC
DMCI	24.16	30.19	24.39	21.63	14.61	16.15	<18.62	38.98	67.8	76.8	74.38	<18.47	<5.16	<5.16	5.94	<4.86	<4.86	61.61
MOLAVE PHASE 1	14.58	11.43	20.86	29.86	13.15	18.79	<18.75	38.23	61.56	85.46	77.91	<18.39	<5.16	10.32	8.64	<4.86	8.11	8.11
STCI	26.96	15.96	21.64	28.54	36.40	46.83	<18.68	38.55	75.42	102.86	96.43	<18.33	<5.16	<5.16	7.02	<4.86	<4.86	11.35
SITIO VILLARESIS	40.47	42.72	25.32	35.33	38.33	36.14	<18.79	43.06	61.13	86.8	95.27	<18.32	<5.16	<5.16	8.64	<4.86	<4.86	22.70
SITIO SUJA	31.50	36.39	38.31	16.23	37.71	38.81	<18.64	40.32	64.64	81.47	96.00	<18.29	<5.16	<5.16	5.94	<4.86	<4.86	9.73
STANDARD	300	300	300	300	300	300	340	340	340	340	340	340	260	260	260	260	260	260

PM^{10}				AS				CD				PB			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-	35.35	<13	<13	<0.01	<0.01	<0.01	0.02	<0.02	<0.02	<0.02	<0.03	<0.33	<0.33	<0.32	<0.54
-	53.00	15	<13	<0.01	<0.01	<0.01	<0.01	<0.02	<0.02	<0.02	<0.03	<0.34	<0.34	<0.32	<0.54
-	27.00	<13	<13	<0.01	<0.01	<0.01	<0.01	<0.02	<0.02	<0.02	<0.03	<0.33	<0.33	<0.32	<0.54
-	61.00	<13	<13	<0.01	<0.01	<0.01	<0.01	<0.02	<0.02	<0.02	<0.03	<0.34	<0.34	<0.32	<0.54
-	55.00	<13	<13	<0.01	<0.01	<0.01	<0.01	<0.02	<0.02	<0.02	<0.03	<0.33	<0.33	<0.32	<0.54
200	200	200	200	20	20	20	20	10	10	10	10	20	20	20	20

	Hg	Pb	Cd	As	CO	NO^2	SO^2	PM
Plant 1	0	0	0	0.004	23	59	842	54
Plant 2	0	0.012	0	0.0048	9	23	1,147	124
DENR Standard - Existing Plants	5	10	10	10	500	1,500	1,500	150





MINE REHABILITATION

> P2.92 billion was dedicated in 2018 to accelerate the rehabilitation of the southern portion of the Panian pit

SEMIRARA SUSTAINS

SMPC spent P2.92 billion in 2018 to accelerate the rehabilitation of the southern portion of its Panian pit in Semirara Island.

Of the total amount, P1.83 billion was used to acquire dump trucks, excavators, and other support equipment to ramp up the Company's stripping and hauling operations. Over P1 billion was spent on fuel, labor, and other cash costs.

In December 2017, the Department of Energy (DOE) directed the Company to expedite the backfilling of Panian pit (south portion) to serve as a model for open pit mine rehabilitation in the Philippines.

A year later, the Company has unloaded 120 million bank cubic meters (BCM) of overburden materials into the southern portion of Panian pit, bringing the current elevation to 0 meters, a dramatic improvement from its starting elevation of -260 meters.

260 meters is roughly the height of a 78-story building.

Once the pit has been completely filled in; humic acid, compost, and other materials will be put in to restore soil nutrients in the area before proceeding with reforestation. The Company will then plant tree species that are endemic in the area.

Panian pit was shut down in September 2016 following the depletion of its mineable coal reserves, as certified by DOE. Since then, the Company has moved its operations to the Molave and Narra pits.

0m elevation, October 2018

13 CLIMATE ACTION 14 LIFE BELOW WATER 15 LIFE ON LAND

PROGRESSIVE REHABILITATION AND MANGROVE REFORESTATION

We are proud of our efforts to preserve the natural ecosystem of Semirara island through our reforestation and rehabilitation initiatives.

Mangrove Reforestation Project Accomplishment as of December 2018 (Sum per Location)			
Location	Area (Has)	Total Hills Planted as of Year 2014	Total Number of Hills Survived as of December 2018
Airport/Eastdike/Banua	40.98	182,163	154,770
Bantayan	0.23	1,040	957
Bigo	2.24	10,750	675
Casay	2.05	9,112	8,201
Kaylongo	1.19	5,289	4,495
Sigayan	0.68	3,022	115
Spring/Myrna/Aroma	10.11	44,983	27,093
Suja	74.56	331,379	323,403
Tinogboc And Sabang	57.32	254,757	127,334
Torpido	2.25	10,000	8,138
Villaresis/Pinagpala/Puntod	4.64	20,624	18,258
TOTAL	**196.43**	**873,070**	**673,439**

Over 300 hectares of mangrove are protected by SMPC. Our mangrove reforestation project now covers 196 hectares of coastal area for carbon sequestration and island protection, with a total number of 673,439 hills survived as of December 2018, a 23.03% increase from the previous.

Rehabilitation Project within Mining Complex Accomplishment		
No	Location	Total Population as of 2018
1	Airstip (Westside)	32,656
2	MS 5/Pottery	10,504
3	Narra East Side	54,453
4	Narra North Side	46,871
5	Narra Northeast Side	6,790
6	Narra Southeast Side	30,100
7	Panian	73,904
8	Panian 1	245,901
9	Panian 2	148, 663
10	Panian 3	99,057
11	Panian Pit/Bench Slope	62,930
12	Semirara Dike	17,400
13	South Panian Slope (MS 7 to HRD)	8,089
14	Southeast Panian (HRD to Bantayan)	2,417
15	Tungao	16,302
GRAND TOTAL		**856,037**

REHABILITATION PROJECT OUTSIDE MINING COMPLEX ACCOMPLISHMENT AS OF DECEMBER 2018 (SUM PER LOCATION		
NO	LOCATION	TOTAL POPULATION AS OF 2018
1	Aroma	567
2	Bagong Barrio	12,055
3	Bagong Barrio Palawan	10,800
4	Bantayan	116,797
5	Bakatal	10,829
6	Bigo	7,107
7	Buena Swerte	4,691
8	Bunlao	17,537
9	Cabitin	15,447
10	Capis-Capis	48,956
11	Casay	76,614
12	Cooling Area	1,575
13	DMCI Village	169
14	Cozar	570
15	Grotto	1,215
16	Hangar Tambak-West Aistrip	1,509
17	Himalian	1,640
18	Ilugad	3,772
19	K2	1,258
20	K3 Line	177
21	Kaburilan	62,033
22	Kalamansig	7,421
23	Kaylongo	35,041
24	Lopez	1,740
25	Mambogil	17,654
26	Mangrove Drive	189
27	Mechanical Compound	181
28	Messhall	40
29	Molave	7,295
30	Myrna	1,269
31	Old Main Shop	214
32	Old Washing Plant	3,256
33	Panian	2,953
34	Phase 2	585
35	Phase 3	9,321
36	Phase 4	6,731
37	Phase 6	79
38	Power Plant	672
39	PSCA Annex	33
40	Puntod	76,753
41	Sibutong	48,249
42	Spring	1,846
43	Suja	12,383
44	Tabunan	18,235
45	Tinago	32,998
46	Torpido	119,861
47	Tubig Sanglay	66,349
48	Unong	31,495
49	Villaresis	916,219

Tree-planting activities and seedling distribution are conducted in Calaca to help rehabilitate forests in our locality. We strive to establish “green buffer” zones to further improve the environment of our host communities.

We have achieved to plant and survive 1,772,166 endemic, ornamental, and fruit-bearing trees in areas directly or indirectly by SMPC operations. In December, our rehabilitation project comprising 27 different species planted within the mining complex has a total population of 856,037 by the end of the year.

Our reforestation initiatives also include areas outside the mining complex, with rehabilitation efforts strategically covering sites with sparse vegetation, including landscaping and propagating grass species such as bamboo, ragayray, carabao grass, among others. As of December 2018, a total of 916,129 trees have been planted outside the mining complex.

Food security is also ensured with our planting of fruit-bearing trees and crops, promoting the island’s biodiversity, with areas around the island affected by the Company rehabilitated by these endemic species.

SEMIRARA MARINE HATCHERY LABORATORY

GIANT CLAM PROPAGATION IN 2018

Population Data of Giant Clams as of December 2018						
8 (Species)	Raceway Tank	Ocean around the Island	Reseeding around the Island	Broodstock	Donated Glant Clams	TOTAL
T. gigas	57,029	13,748	17,702	200	1,398	**90,077**
I. derasa	4,940	240	8.190	3	25	**15,568**
T. squamosa	300	132	28,398	44	525	**29,399**
T.maxima	0	297	857	10	0	**1,157**
T. noate	0	20	145	16	0	**181**
I. crocea	763	980	1,138	24	0	**2,925**
H. hippopus	3	0	10,348	60	80	**10,491**
H. porcellanus	0	0	12,762	3	75	**12,963**
Crossbreed	0	0	606		0	**606**
Total	**28,516**	**17,584**	**80,146**	**369**	**2,133**	**163,267**

In 2010, SMPC-led marine rehabilitation efforts by initiating the Semirara Marine Hatchery Laboratory (SMHL), developing technology that will improve Semirara island's coastal environment and long-term fishing viability. Three (3) National Scientists for Marine Biology (Dr. Edgardo Gomez, Dr. Gavino Trono, and Dr. Angel Alcala) led SMHL's efforts to become a center for rearing and reseeding eight (8) species of giant clams or Tridacna gigas, known to promote marine life and biodiversity.

Giant clams served as catalysts for improving marine biodiversity, its symbiotic relationship with corals and fishes enlivening the waters where they reside. These endangered clams are known as filter-feeders, cleaning the seawaters and attracting other marine species and rehabilitating the reefs. As of 2018, there have been 80,146 giant clams reseeded around the island, with a total of 163,267 surviving clams or an increase of 38.79% from last year. Around 50 giant clams from the hatchery in Semirara island were subsequently spawned along the shoreline of CPC.

SMHL has also undertaken coral transportation in 2014 to preserve further the balance of marine ecosystems. This rehabilitative process brings coral fragments detached from their original reefs through natural processes (such as strong waves or typhoons) and attached to new reefs such as those found around the island, repopulating the reef through asexual reproduction.

ECOLOGICAL SOLID WASTE MANAGEMENT AND ENERGY CONSERVATION

In all our business operations, we make sure that mitigating measures are observed in order to minimize our environmental impact.

Employees are encouraged to recycle used paper for internal use, and paper and ink usage are used at a minimum by transmitting documents in “soft” formats. Waste segregation is also practiced in the work place to reprocess recyclable waste, and energy conservation schemes such as the “lights-off” method are observed during lunch breaks.

SOLID WASTE MANAGEMENT

Quarter	Biodegradable	Recyclable	Residual	Grand Total
1st	12,400.00	408,000.00	30,800.00	**451,200.00**
2nd	1,800.00	268,000.00	30,200.00	**300,000.00**
3rd	10,800.00	366,000.00	42,400.00	**419,200.00**
4th	7,200.00	420,000.00	60,600.00	**487,800.00**
Grand Total	**32,200.00**	**1,462,000.00**	**164,000.00**	**1,658,200.00**

***Note: Unit used for Garbage Collection is Pounds.*
***Biodegradable** goes to composting facility for the in-house production and releasing*
***Recyclable** were given to garbage collectors and served as their incentives*
***Residual** were delivered to chute for disposal.*
Collected garbage are coming from minesite facilities

HAZARDOUS WASTE

	Used Batteries	Buster Lamps	Mercury Comwund Chloride	Sulfate	Zinc	Glass-wool	Expired Powder Pillows	Reactive Chemical Waste: Anhydrone	Wasted Oils: Used Oil	Interceptor Sludges (Bunker Sludge)	Oil Contami-nated Waste Filers	PCB Wastes	Waste Electrical & Electronic Equipment
2017	18,524	1,251	26	18	14	1	0	12	811,000	4,400	40,535	140	0
2018	18,524	1,251	26	18	14	1	2	27	1,484,000	24,000	73,380	285	1,386
% recycled or treated	83%	81%	100%	85%	81%	98%	67%	100%	100%	0%	100%	0%	0%

HOSPITAL WASTE

	Infectious	Pathological	Sharp & Pressurized Container	Pharmaceutical & Drugs	Chemical Wastes
2017	1,108	1,762	182	256	47
2018	,159	759	296	11	694
% recycled or treated	100%	77%	100%	100%	90%

COASTAL AND RIVER CLEAN-UP INITIATIVES

Apart from their contribution to marine biodiversity, the reintroduction of giant clams to our reefs also benefit the inhabitants of the island as they filter the water to manage the production of algae that deplete the oxygen in the water.

River and coastal cleanups are also conducted to mitigate our environmental impact. In 2018, three river cleanups and two coastal cleanups were held, with a total expenditure of P34,000.00 by the end of the year.

PROGRESS

We believe in the ability of our Company and our respective host communities to lift each other up and find true success through mutual progress.

We continue to provide lasting growth by ensuring inclusive and collaborative policies are observed in our operations, and by creating opportunities for each of our stakeholders.

ELEVATING THE QUALITY OF LIFE

We maintain a good balance of operational excellence with our social and economic goals. This has led to some truly remarkable growth in our host communities as we have nurtured their economic welfare through initiatives that improve their quality of life.

REDUCED POVERTY

Data from the Philippine Statistics Authority shows that the incidence of poverty has drastically reduced in the province of Antique, down from 51.7% in 2006 to 26% per the latest census.

The latest report from the Municipal Social Welfare and Development Office shows that the poverty incidence is significantly lower at 5.79% in Barangay Semirara, compared to 26.3% nationwide.

MSME GROWTH

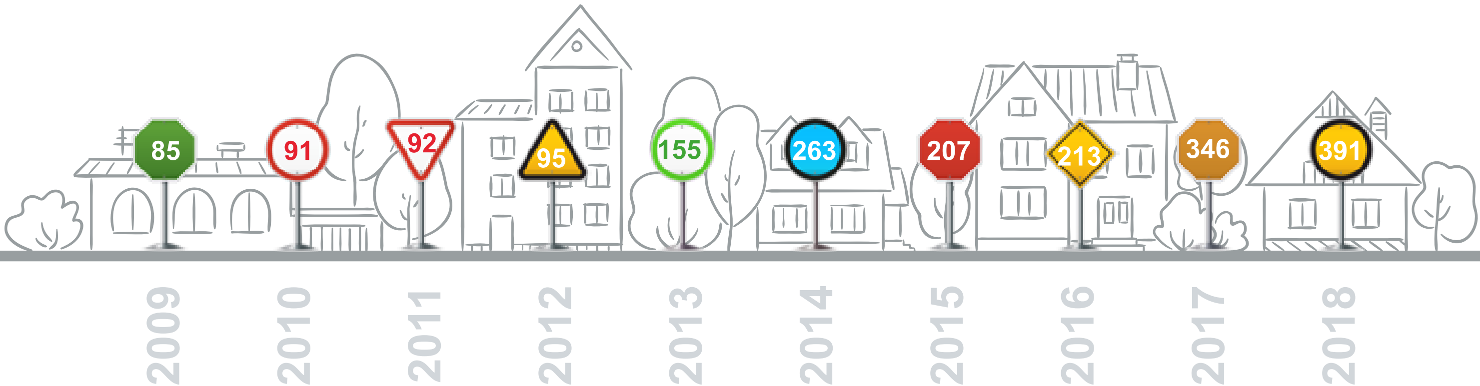
With the continuing expansion of our mining operations, we have observed that there is significant growth in the number of small business establishments in Semirara island, resulting to additional opportunities for employment and income among the residents. A total of 45 business permits were issued in 2018, a 4,423% increase from the 60 permits issued in 1999.

In 2018, the top businesses registered were sari-sari stores, motor parts/vulcanizing shops, general merchandise shops for dry goods, restaurants/bakeshops, fish dealers and boarding houses.

LIVELIHOOD SUPPORT

We continue to support and provide livelihood opportunities to local fisherfolk who are most affected by mining operations through the Semirara Fishing Association (SEMFA) and Community Relations (COMREL) fishing groups. Families of these groups were relocated to Pulang-lupa in Sitio Villaresis, and assistance in their fishing efforts have been provided in the form of two (2) deep-sea fishing boats.

Women members of our communities have also benefitted from livelihood programs for the Samahang Kababaihan, through which cooperative development and trainings are conducted at the Barangays of Baclaran and Dacanlao. Women in our host barangays are given workshops and lectures by offices such as the Provincial Cooperative and Livelihood Enterprise Development Office (PCLEDO), giving them better opportunities in employment and income generation.


85
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263
207
213
346
391
2009
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2013
2014
2015
2016
2017
2018

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

COMMUNITY INFRASTRUCTURE

In support of the improvement of the living conditions within our host communities, we have constructed new infrastructure, building on the existing facilities to advance the community forward. We find that support for local suppliers and the development of livelihood are the best ways to help achieve growth and progress, delivering lasting economic benefits for our host communities.

The construction of community infrastructure within goes beyond those that support economic growth, as we also value the importance of building on local culture and education to propel the community to more holistic progress.

A church, school buildings, a vocational school, sports facilities, an ice plant, a desalination plant, among others, are just some of the infrastructural developments that we are happy to provide Semirara island.

In Calaca, SCPC and SLPGC have supported the construction of an assortment of community-centered infrastructure like the rehabilitation of the Dacanlao Water System, the construction of footbridges, and the restoration of churches and parishes. SCPC and SLPGC have also provided continuous support to the Dacanlao-based ADHIKA Cooperative initiative called the Concrete Hollow Blocks (CHB) Making Project. This initiative utilizes the bottom ash and fly ash produced by SCPC and SLPGC to produce hollow blocks, providing additional sources of income for the residents of Calaca.

ENTERPRISE RISK MANAGEMENT

OUR ENTERPRISE RISK MANAGEMENT

As a power for change, SMPC understands and recognizes the many operational, financial, and strategic forces that influence our business, and the various upside and downside factors that emerge from it. Our risk management framework adapts to the ever-changing landscape of industry, and is premised on building a more sustainable and more resilient operational and corporate culture.

Powering Our Resiliency

Our Risk Management Performance

POWERING OUR RESILIENCY

In 2018, we saw a seismic shift in the Philippine landscape of politics, regulatory amendments, as well as a global awareness towards climate change. Along with it came challenges regarding negative public perception on coal mining and similar industries and its harmful impact on the environment.

These challenges presented are a welcome opportunities for us to grow and expand our initiatives to be more conscientious and more responsible, as we strengthen our position as the industry leader.

STRATEGIC ALIGNMENT WITH KEY RISKS

SMPC understands that any sustained failure in the energy supply system would have drastic consequences and impact to the Filipinos and the country's economy. Knowing this, SMPC consistently improves its resiliency standards based on leading practices as aligned with our strategic priorities.

BUSINESS PRINCIPLES	PEOPLE	PROFIT	PLANET	PROGRESS
Strategic Perspectives	**Safety And Health Organizational Development & People Excellence**	**Stakeholders Sustainability Operational Excellence**	**Environmental Stewardship**	**People Centered Development (Community Self-Sufficiency And Mutual Beneficial Partnership)**
KEY BUSINESS RISKS				
Safety	✓	✓		✓
Compliance & Reputation		✓	✓	✓
People & Talent	✓	✓		
Commodity Price and Supply/ Demand Balance		✓		
Asset Performance and Cost Efficiency		✓		
Natural Hazards & Physical Security	✓	✓	✓	✓
Procurement & Inventory Management		✓		
Information Technology		✓		✓
Expansion and Life-Extension Projects		✓		✓

EMERGING RISKS AND OPPORTUNITIES
(Political, Economic, Social, Technology, Environment, Legal)

OUR PROGRESS TO OUR JOURNEY

As we step into the next decade and into this new paradigm shift of sustainability, SMPC continues to adhere to our organizational commitment to a strong Enterprise Risk Culture, where we integrate and collaborate with our partners and stakeholders across the SMPC group.

ENTERPRISE RISK MANAGEMENT PILLARS

- Enterprise Risk Management Framework
- Risk Assessment, Monitoring and Reporting
- Performance Management
- Enterprise Risk Culture
- Knowledge Sharing and Benchmarking
- Business Continuity Management

OUR RISK MANAGEMENT INITIATIVES

- Stronger engagement and accountability through collaborative governance and synergy of risk interdependencies

A series of workshop and training sessions were conducted throughout the year to consistently cascade our ERM framework. Risk-based decision-making processes are integral to our day-to-day operations as these enable us to balance risk and reward scenarios.

- Knowledge management and benchmarking against business and industry peers and comparables

We recognize the value of adopting leading practices within our industry as a way to improve our risk management policies. By leveraging our internal capabilities, we can further strengthen and improve on our risk management policies to achieve our goal for a more resilient organization.

- Embedded Performance management linkage to risk management to highlight employee contributions to SMPC Group Business Principles: People, Planet, Progress, and Profit.

Risk management is deeply embedded in our strategic plans. We ensure top-down alignment and implementation across the Company, where risk management is part of our employees' competencies. With this inclusion, we believe that it will further strengthen our enterprise risk culture.

- Continual improvement of Business Continuity Management System (BCMS) to align and determine relevant risk landscaped improvements to be taken.

Owing to the high-risk nature of our operations and impact to the society, sustainability in enterprise risk management means our continued commitment to provide long-term solutions that can uphold and safeguard shareholder interest. We understand the vulnerabilities and unpredictable worst-case scenarios (e.g., climate change risk) that can affect our operations that might lead to business interruptions. With this, our business continuity and sustainability practices are continually improved based on gaps identified during our internal reviews and drills to ensure its relevance.

OUR RISK GOVERNANCE AND APPETITE

The Board sets the tone and establishes the risk appetite level for our ERM. Risks are identified, assessed, managed, monitored, and communicated per the Company's strategic and business objectives and then subsequently applied across the organization.

Our Audit and Risk Committee assists the Board in risk management oversight to ensure that an adequate and effective risk management system is in place. Risk management of significant risks, project and emerging risks are regularly reported to the Board.

Risk Management Function

Our President and COO was designated as our Chief Risk Officer (CRO) which leads the overall implementation and enhancement of our ERM framework and practices. The Risk Advisory (RA) Department provides full support to the CRO and Risk Committee in ensuring effective and integrated risk management system in place.

Monitoring and Reporting

Regular risk monitoring and reporting to our Board and Senior Management ensure timely updates on the effectiveness and adequacy of our risk management integration against business performance.

OUR ENTERPRISE RISK MANAGEMENT PROCESS

Assessing internal and external environment

Identification and assessment of top strategic business risks and opportunities regularly to adapt and respond to business development and change.

Alignment of departmental objectives to strategies and operational risk assessment

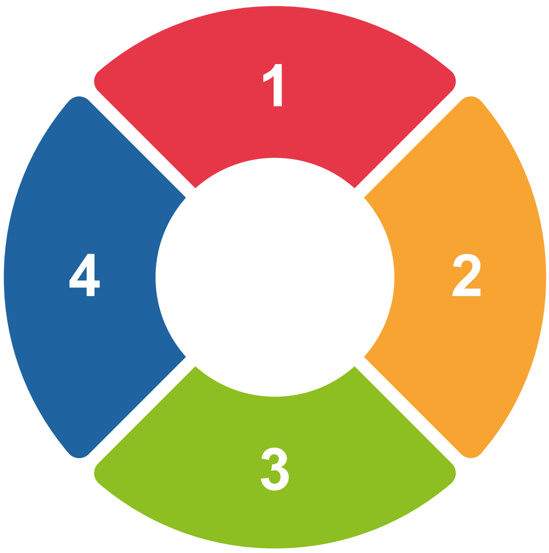
Operational objectives relate to the effective and efficient deployment of resources in achieving strategies. Objectives, Targets, & Programs (OTPs) and Quality Plans (QPs) are directly linked to a Balanced Score Card to ensure risk management is aligned with our strategic plans.

Risk interdependencies are shared and cross functional collaboration is undertaken to ensure significant risks and opportunities are adequately addressed with appropriate risk treatment and established risk appetite of the Board.

RISK IDENTIFICATION

Is the most critical part of the entire risk management process. It includes risk recognitions and its corresponding sources, causes, and impact. Emerging and significant risks are then considered against overall corporate objectives.

Upside (opportunity/positive risk) and downside (loss/negative risk) business risks are considered to determine the appropriate response or action plan as we assessed those risks.



RISK ASSESSMENT

Requires evaluating risks in quantitative and qualitative terms, from impact to likelihood of occurrence. Existing controls are identified to determine operational effectiveness.

RISK TREATMENT AND CONTROL

Involves selecting one or more options (accept, transfer, mitigate, or avoid) for addressing risks. Appropriate risk treatment or response are reviewed by the Management and the Board to determine the applicability of initiatives in light of risk appetite levels.

RISK REPORTING AND MONITORING

Are conducted at Management and Board level to regularly monitor the effectiveness of risk management activities. Regular monitoring enables SMPC to proactively address matters needing immediate action and/or attention.

OUR 2018 RISK MANAGEMENT PERFORMANCE

Targets achieved · Partially achieved / On-going · Not achieved

TOP BUSINESS RISK	MEASURES	2018	RISK MANAGEMENT
SAFETY*	• Zero Fatality • Reduced Non-Lost Time Injury Frequency • Reduction of other incidents (e.g. fire, equipment damage)	Not achieved	• Proactive hazard identification and risk reduction leading to incident reduction • Continuous calibration of occupational health & safety practices • Slope Management • Mine planning and operations management • Incident Management • Consistent practice of Industrial hygiene • Health & Wellness Program Monitoring
COMPLIANCE & REPUTATION	• Compliance with legal and community commitments	Partially achieved / On-going	• Engagement with key stakeholders • Impact assessment and implementation of new rules or regulations • Legal and compliance monitoring • Reputation management
PEOPLE & TALENT	• Attrition Rate • Succession Management	Targets achieved	• Continuously review the talent management program • Benchmarking of leading practices within industry • Regular review of succession management • Learning and development calibration to meet the needs of our people and SMPC
COMMODITY PRICE AND SUPPLY/DEMAND BALANCE	• Financial Targets	Partially achieved / On-going	• Delivery of coal quality at better prices or larger guaranteed supply volumes to achieve customer satisfaction • Set minimum contracted volume for customers with long-term supply contracts for each given period (within the contract duration) and re-pricing on a monthly basis to optimize price movement and profit margin • Diversified customer base to mitigate concentration and market risk • Competitive pricing for power segment to maximize value

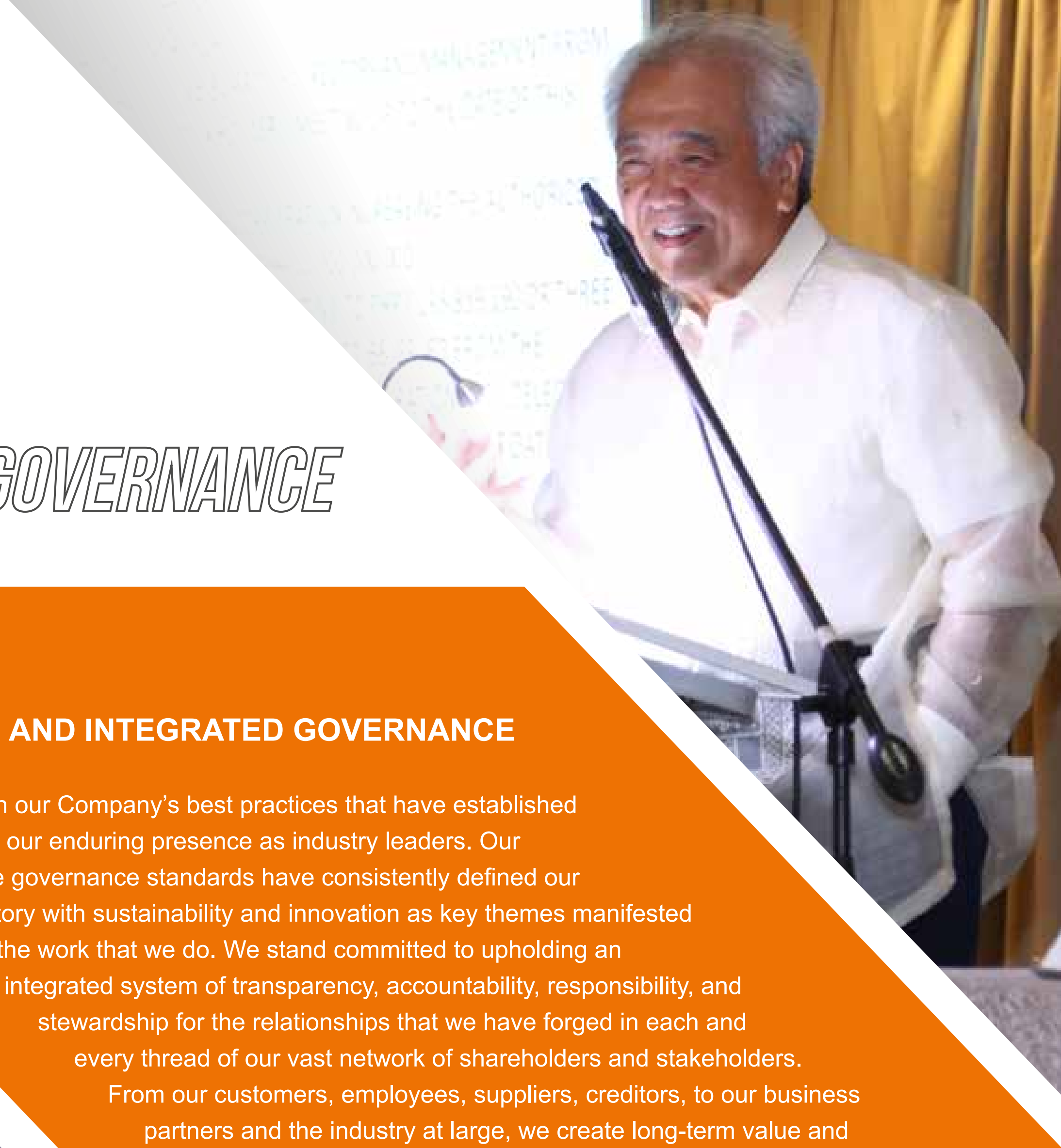
* *1 fatality in Mine Site due to a health condition;*
18 minor fire incidents from contractor activities in Calaca Power Complex

TOP BUSINESS RISK	MEASURES	2018	RISK MANAGEMENT
ASSET PERFORMANCE & PRODUCTION EFFICIENCY**	• Availability, Reliability and Utilization • Total materials moved and BCM/HR • Net Generation (Power Plant) • Cost per MT and KwH		• Asset Management Program • Continual improvement of maintenance program, desired equipment availability and reliability to achieve optimum asset performance • Fuel management and other cost savings initiatives • Close coordination with grid operator to identify potential issues that may affect our power plant operations
NATURAL CATASTROPHE & PHYSICAL SECURITY	• Major Physical Security Breach • Effectiveness of Business Continuity Practices		• Review of business continuity practices – Response, Recover, and Resume Principles • Collaborative governance with key government agencies handling peace & order and disaster management • Climate change monitoring tools (e.g. weather stations, weather bureau historical data) • Regular review of insurance adequacy coverage
PROCUREMENT & INVENTORY MANAGEMENT	• Item Purchase to Delivery • Effectiveness of Inventory Management		• Continual improvement of internal procurement processes • Collaboration and business partnering with supply and logistics partners – enhancing measures for supply chain disruption
INFORMATION TECHNOLOGY	• Zero digital operational disruption		• Continual improvement of internal procurement processes • Collaboration and business partnering with supply and logistics partners – enhancing measures for supply chain disruption
EXPANSION PROJECTS	• Project Milestone Updates		• Continual improvement of internal procurement processes • Collaboration and business partnering with supply and logistics partners – enhancing measures for supply chain disruption • Upgraded or new operational technologies • Assurance of IT governance

** *Lower plant availability - SCPC; 230 days outage - SLPGC Unit 3*


SEMIRARA
MINING & POWER
CORPORATION
ANNUAL STOCKHOLDERS' MEETING
CESAR A. BUENAVENTURA
VICTOR A. CONSUNJI
ISIDRO A. CONSUNJI
ROGELIO M. MURGA

OUR INTEGRATED
CORPORATE GOVERNANCE



SUSTAINABLE AND INTEGRATED GOVERNANCE

We take pride in our Company's best practices that have established and assured our enduring presence as industry leaders. Our corporate governance standards have consistently defined our trajectory with sustainability and innovation as key themes manifested in the work that we do. We stand committed to upholding an integrated system of transparency, accountability, responsibility, and stewardship for the relationships that we have forged in each and every thread of our vast network of shareholders and stakeholders. From our customers, employees, suppliers, creditors, to our business partners and the industry at large, we create long-term value and benefits through forward-thinking corporate responsibility programs.

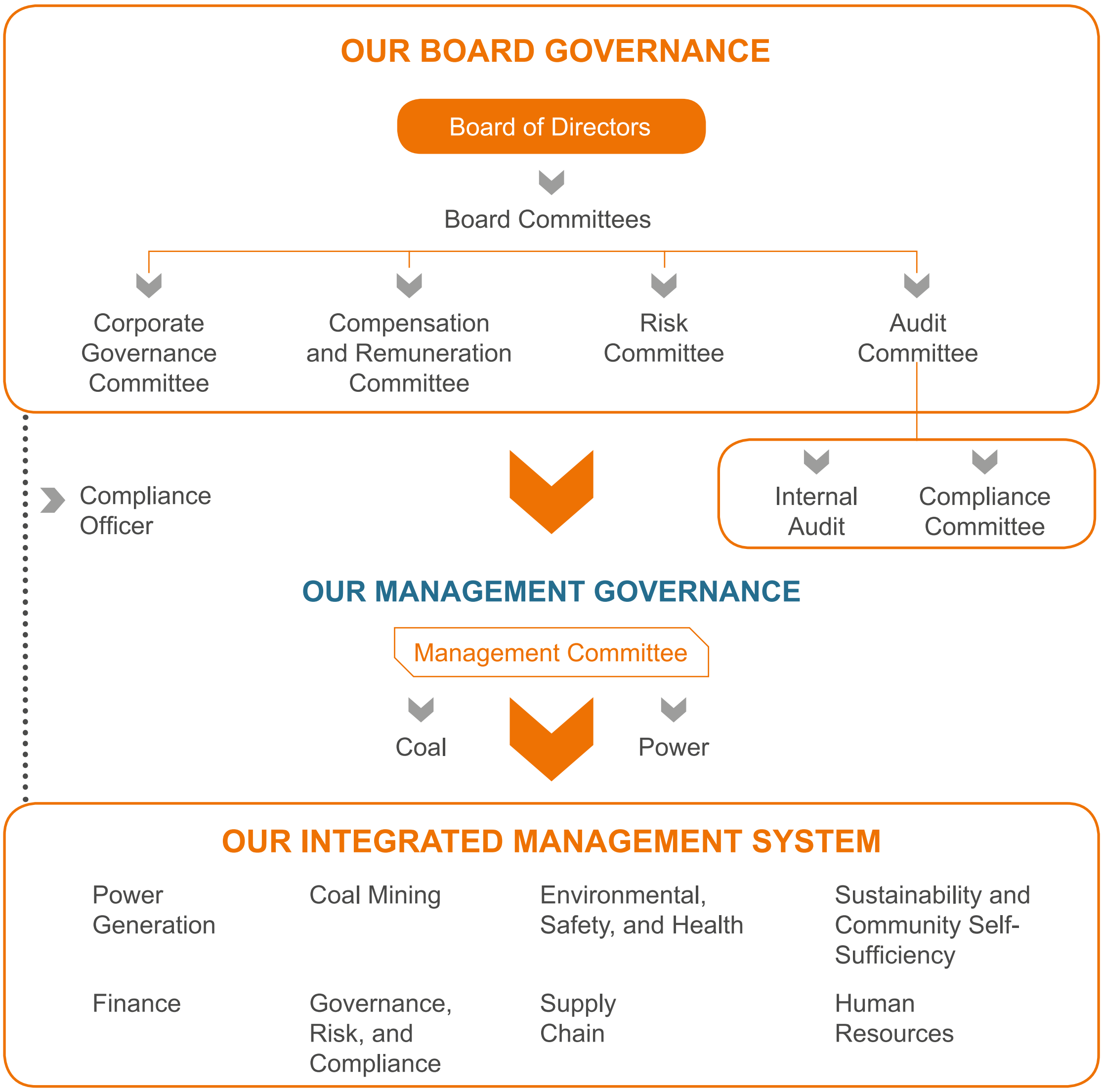
Our Governance Structure

Our Governance Performance

Our corporate governance framework is defined by our commitment to a culture of ethical conduct, optimum performance, and a system of transparency and accountability on every level.

Across our organization and subsidiaries, our principles cover the respective duties and responsibilities of our Board of Directors and Management to our stockholders and stakeholders. Our Company's Manual on Corporate Governance embodies our commitment to uphold the principles of integrity, accountability and transparency to our stakeholders. Our Company complies with the Securities and Exchange Commission's (SEC) Code of Corporate Governance for Publicly Listed Companies (PLCs) and the Philippine Stock Exchange's (PSE) Corporate Guidelines for PLCs. Non-compliances due to the organization's business strategy, size, and board structure are identified, mitigated, explained, and disclosed in our Integrated Annual Corporate Governance Report.

OUR CORPORATE GOVERNANCE STRUCTURE

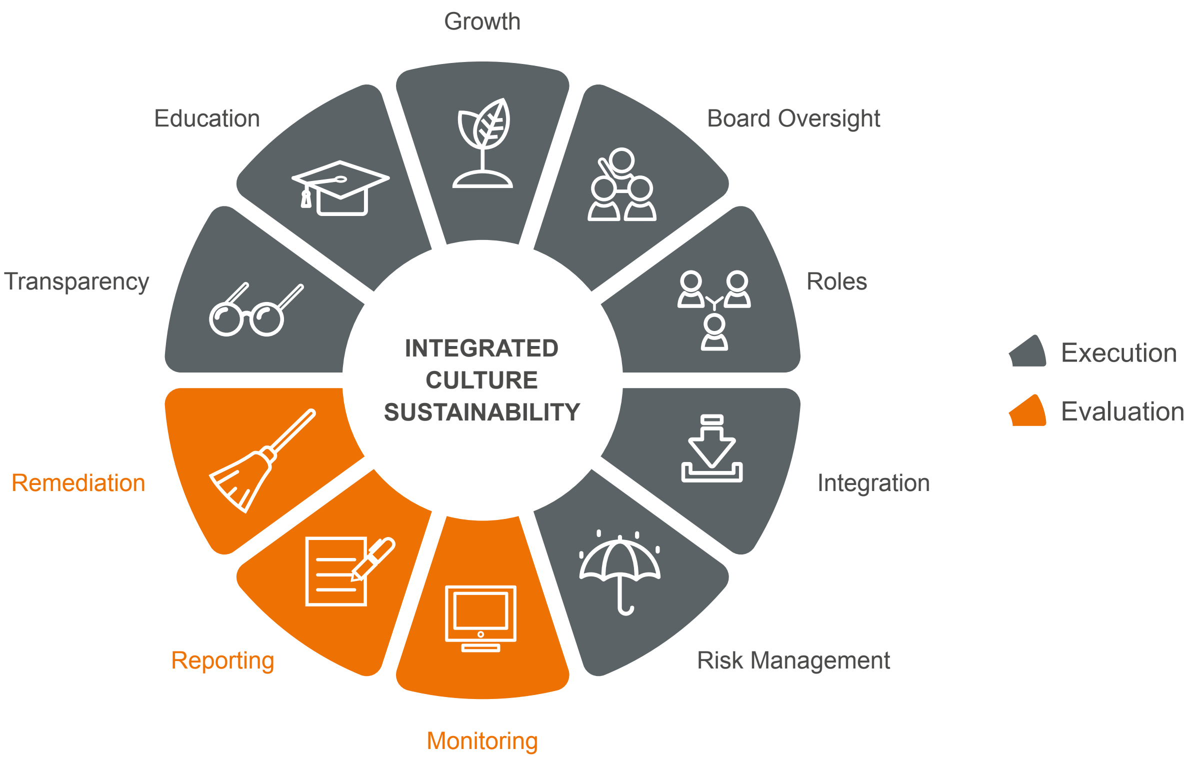


From Board to Management, all levels are integrated and aligned to enact, implement, and continually enhance our governance processes.

ENTERPRISE-WIDE GOVERNANCE, RISK AND COMPLIANCE

Competent leadership through a values-led culture is fundamental to our long-term success and sustainability. Strong enterprise compliance and effective risk management are strategic imperatives in safeguarding stakeholder interests and maximizing shareholder value.

Our Enterprise Governance, Risk, and Compliance (GRC) system is an integrated approach to support sustainable governance in a highly regulated business environment. We develop the members of our Board, our officers, and our staff through access and trainings that help them become familiar with the laws, regulations, policies, and procedures applicable to the performance of their work.



We have integrated regular monitoring and reinforcement of our governance processes to our GRC system, which involves internal controls, escalation protocols, assurance review, and reporting. Periodic dialogues and reviews with process owners and regular trainings are conducted and benchmarked against leading practices as we advocate for continual improvement.

Compliance reporting to the Senior Management, the Audit Committee and the Board covers SEC, PSE, legal, accounting and reporting standards, including environment, health, and safety. Continuous monitoring and updates on legal, regulatory developments and compliance matters, provide the Board with critical information to make informed decisions and strategic considerations.

Compliance obligations to key stakeholders are identified, monitored, and reported regularly to ensure these are met.

ENVIRONMENT, SAFETY, AND HEALTH

SMPC remains firmly committed to complying with all environmental and energy laws and regulations across our operations.

To achieve a rational and disciplined balance between socio-economic growth and environmental stewardship, we work closely with the Department of Energy and regulators, aligning our policies and processes with relevant government laws and standards. We comply with the specific measures and conditions set forth in the Environmental Compliance Certificate (ECC) issued by the Philippine Department of Environment and Natural Resources (DENR). We conduct stakeholder consultation and engagement through the Multi-Partite Monitoring Team (MMT) which consists of key stakeholder groups, LGUs, and regulators to ensure the interests of stakeholders are protected.

POWER REGULATIONS

We adhere to market rules and operate within industry standards with full transparency and compliance to regulators and key stakeholders. We accomplish this through the submission of quarterly reports to the Department of Energy and annual report to the Energy Regulatory Commission, among others.

Our comprehensive systems and procedures are in place to meet the compliance, obligatory, and reporting requirements of government agencies that oversee the environmental, health, and safety aspects of our operations.

INTERNAL AUDITS

Regular surveillance audits are conducted by internal auditors to ensure strong enterprise-wide compliance system and culture.

EXTERNAL AUDITS

External assurance parties and local regulators are invited to assess our compliance with government regulations, industry guidelines and conformance to internationally recognized standards.

INTERNAL MONITORING

Our Environmental Unit, together with concerned groups, regularly assess the effectiveness of our environmental programs, to identify areas for improvement.

MULTI-SECTORAL MONITORING

Comprised of government representatives and various stakeholder groups, a Multi-Partite Monitoring Team (MMT) oversees and evaluates the Company's compliance with ECC conditions, applicable laws, rules and regulations on a quarterly basis.

CONFORMANCE TO GLOBAL SAFETY STANDARDS AND SUSTAINABLE BEST PRACTICES

Our Coal operations have been ISO and OHSAS-certified for the past ten years, while the power operations of our subsidiaries, SEM-Calaca Power Corporation (SCPC) and Southwest Luzon Power Generation Corporation (SLPGC) are also certified to the same international standards on Quality, Environment, Safety and Health in the past two years. Our organization conforms to the 2015 versions of ISO standards requiring an embedded risk-based approach that takes into account the engagement of various key stakeholders, as well as the effective mitigation of the environmental, safety, health, and social impact of our operations on the natural environment, employees and communities.

ISO 9001:2015 is the revised international standard that demonstrates the ability of an organization to consistently provide products and services that meet customer and regulatory requirements.

ISO 14001:2015 is the revised management systems standard that responds to latest trends in identifying and managing environmental risks and impact.

OHSAS 18001:2007 is an internationally-applied British standard for sound occupational health and safety performance.

OUR GOVERNANCE PERFORMANCE

We fulfill our economic, legal, and social obligations to our stakeholders and to communities where we do our business. Guided by the Code of Corporate Governance for Publicly-Listed Companies set by the Securities and Exchange Commission (SEC), our governance framework is marked by compliant and responsible governance as its cornerstone. We continue to raise our corporate governance protocols to be at par with regional and global standards, as we strive to create a more holistic, inclusive, effective, and sustainable governance.

Good Governance Recognition

Our Company has consistently ranked as among the top 100 Philippine publicly-listed companies in the ASEAN Corporate Governance Scorecard (ACGS) assessment since 2015. The ACGS rating assessment is based on the five OECD Principles of Corporate Governance and leading governance practices.

In the 2018 ACGS run, our Company scored 100.35 points and ranked 15th out of 246 listed companies assessed.

PRINCIPLES OF CORPORATE GOVERNANCE

- **Responsibilities of the Board**
- **Disclosure and Transparency**
- **Equitable Treatment of Shareholders**
- **Rights of Shareholders**
- **Role of Stakeholders**

BOARD RESPONSIBILITIES

Sustainable governance is rooted in the fostering of a culture of openness, connectivity, and responsibility among the Board, management and all individuals that work towards the long-term benefits of the Company's shareholders and stakeholders.

PRINCIPLE 1

A competent, working board fosters the long-term success of the organization in a manner consistent with its corporate objectives and the long-term best interests of its shareholders and other stakeholders.

COMPETENT, DIVERSE, AND EFFECTIVE LEADERSHIP

Our Board is comprised of eleven (11) highly-qualified individuals, with stature and experience in related fields of competencies: coal and energy industries, finance sector, government service, and business operations.

Two of our non-executive Directors have extensive prior work experience in the coal mining and/or energy industries. Majority of our Directors possess organizational development and financial management core competencies aligned with our group's strategy of vertical integration of our coal energy business and expansion activities.

BOARD STRUCTURE AND COMPOSITION

Nomination and Election

All directors are evaluated and nominated by the Corporate Governance Committee as having met the criteria and qualifications for membership. The Committee considers the qualifications, skills and experience aligned to the Company's strategy and accepts nominations of candidates for election as Board members and to fill Board vacancies as and when they arise. They likewise consider issues of potential conflicts of interest for such candidates.

All Non-Executive Directors and Executive Directors including the Chief Executive Officer are subject to election or re-election annually at the Annual Shareholders' Meeting (ASM).

BOARD DIVERSITY

3 Regular Executive Directors	Isidro A. Consunji Victor A. Consunji* Maria Cristina C. Gotianun
6 Regular Non-Executive Directors	Cesar A. Buenaventura Herbert M. Consunji Josefa Consuelo C. Reyes Luz Consuelo A. Consunji Jorge A. Consunji Maria Edwina C. Laperal
2 Non-Executive Independent Directors	Rogelio M. Murga Honorio O. Reyes-Lao
11 Total Board of Directors	

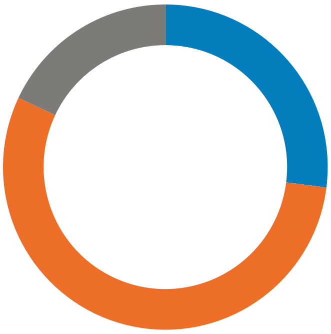
Deceased Dec. 27, 2018

BOARD AND DIRECTOR DEVELOPMENT

Our Board and Director Development program are geared towards raising the quality and standard of our Board. Continuing education, trainings, committee assignments and Board evaluations for improvements, are essential instruments to their effective leadership. New Director orientation covers our Company's and group's financial, operational, and corporate governance aspects of our business.

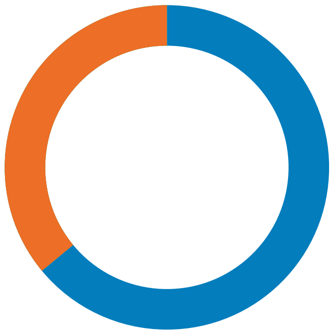
This year, all Directors have fully complied with the annual corporate governance seminars.

BOARD DIVERSITY BY INDEPENDENCE



- Regular Executive Directors 27%
- Regular Non-Executive Independent Directors 55%
- Non-Executive Independent Directors 18%

BOARD DIVERSITY BY GENDER

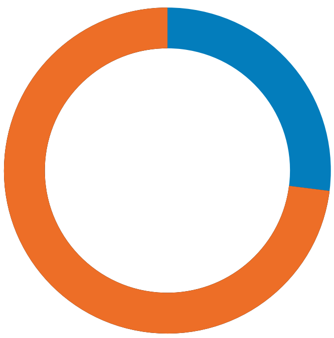


- Male 64%
- Female 36%

BOARD DIVERSITY BY EXPERTISE

- Public Governance 10%
- Mining & Engineering 19%
- Coal Energy/Power 19%
- Organizational and Financial Management 52%

BOARD DIVERSITY BY AGE



- 51-65 27%
- Over 65 73%

PRINCIPLE 2

The fiduciary roles, responsibilities, and accountabilities of the Board are clearly made known to all directors, to stockholders, and to other stakeholders.

Our Board is responsible for the overall performance of the Company. It jointly directs and oversees the affairs of the Company, while delivering the associated interests of investors and other stakeholders. The Board also follows clear and specific guidelines on internal Board processes and types of decisions requiring their approval.

STRATEGY AND OVERSIGHT

Our Board establishes and approves the vision, mission, strategic objectives and key policies of the Company. It oversees and monitors the implementation of the Company's business objectives and strategies. Regular reporting and monitoring of objectives, targets, and performance by management are ensured through Quarterly Board Meetings and similar measures.

Our Board also establishes decision-making authority policies, levels, limits, and guidelines for Management, according to its risk appetite level and required Board approvals for governance matters including, but not limited to: debt commitment, capital expenditures, equity investment, divestitures, change in share capital, and asset mortgage.

Decisions requiring Board approvals such as the audited financial statements, nominees for directorship, buybacks and declaration of cash dividends, among others, are disclosed in the SEC 20-IS Definitive Information Statement.

TOWARDS SMPC'S VISION OF SUSTAINABLE GOVERNANCE

SMPC regularly reviews its core corporate vision and mission that will set the tone for our next years of operation. Our firm commitment to sustainable corporate governance ensures long-lasting and sustainable value for them.

Our Board regularly affirms our Vision and Mission Statement, at least every two years. Both were approved on November 7, 2017, and subsequently amended on March 1, 2019.

Our annual strategic planning exercise includes an understanding and review of the achievement of the Vision, Mission, corporate values, goals, and objectives across the organization.

"Through integrated open channels and top-down communication, we send a clear and strong message of openness and unity of our vision and mission across all levels of the organization."

BOARD CHARTER

Our Board Charter on Good Governance Guidelines for Directors provides governance policies and leading practices regarding directorship tenure, service in other company boards, conflict of interest, continuing education, among others.

DIRECTOR AND EXECUTIVE REMUNERATION

Our Board aligns the remuneration of board members and key officers with the long-term interests of the Company.

The remuneration of the Board of Directors consists of an annual retainer fee, per diem, reimbursement of allowances and, when appropriate, short-term cash incentive for regular Executive Directors.

The retainer fee of the Independent Directors (IDs) and Non-Executive Directors (NEDs) was approved by the shareholders at the May 2015 ASM.

EXECUTIVE DIRECTOR

Remuneration Summary

- Fixed Retainer Fee
  P240,000 per annum*

- Fixed Meeting Per Diem
  P20,000/Committee Meeting attended*

* *Date of Shareholder approval - May 4, 2009*

NON-EXECUTIVE DIRECTOR AND INDEPENDENT DIRECTOR

Remuneration Summary

- Fixed Retainer Fee
  P150,000/month (or P1,800,000 per annum)**

- Fixed Meeting Per Diem
  P20,000/Committee Meeting attended*

* *Date of Shareholder approval - May 4, 2009*
** *Date of Shareholder approval - May 4, 2015; previously*

Director compensation is disclosed in relevant sections of our SEC 20-IS (Information Statement) and Form 17-A (Annual Report).

Our Amended By-Laws prescribe a limit on the aggregate amount of Director bonuses, which shall not exceed two percent (2%) of the Company's profit before tax during the previous year.

The limit to total yearly compensation package of Directors, including bonuses, shall not exceed ten percent (10%) of the Company's net income before tax during the previous year.

The 2018 aggregate amount of cash bonus variable pay related to the preceding year's financial performance and total compensation package received by executive and non-executive Directors, including Independent Directors and the CEO, did not exceed the mentioned limits set by the Company's Amended By-Laws.

CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER PERFORMANCE APPRAISAL

The Board conducts annual performance reviews of the CEO and the COO based on a Board-approved Balanced Scorecard covering key result areas with financial and non-financial performance metrics linked to strategic and business objectives.

FINANCIAL METRICS

- Financial Growth and Value
- Operational Efficiency

NON-FINANCIAL METRICS

- Safety
- Risk Management
- Internal Controls and Processes
- Business Development
- Ethics
- Environmental, Social, and Governance

EXECUTIVE SUCCESSION PLANNING

Our Board-approved Executive Succession Plan policy ensures the assessment of leadership needs and preparation for an eventual permanent leadership change. It outlines succession procedures and protocols to ensure leadership continuity at key positions in the Company.

Our leadership program sees to the development of a pool of candidates and the professional advancement of our current employees, by identifying leadership gaps and assessing potential candidates based on their strengths, developmental needs and readiness for the position. Moreover, we equip them with the training and support they need to assume more challenging roles in the organization.

PRINCIPLE 3

Board committees ensure and support the effective performance of the Board's functions.

BOARD COMMITTEES

The Committees are guided by Board-approved Charters in the discharge of their roles and oversight responsibilities.

COMMITTEE PERFORMANCE

The Board Committees annually review their respective Charters for effectiveness, and endorse changes, if any, to the Board for approval.

BOARD OF DIRECTORS

The Board of Directors (Board) is responsible for the overall performance of the Company. It jointly directs and oversees the affairs of the Company, while delivering the associated interests of investors and other stakeholders.

Our Manual on Corporate Governance defines the roles, duties, and responsibilities of our Board, in accordance with relevant Philippine laws, rules, and regulations.

The Board also follows clear and specific guidelines on internal Board processes and types of decisions requiring their approval.

CORPORATE GOVERNANCE COMMITTEE	COMPENSATION & REMUNERATION COMMITTEE	RISK COMMITTEE	AUDIT COMMITTEE
Chairman: **ROGELIO M. MURGA** *Independent Director* Members: **HONORIO O. REYES-LAO** *Independent Director* **HERBERT M. CONSUNJI*** *Non-Executive Director* **Effective May 10, 2018*	Chairman: **ROGELIO M. MURGA** *Independent Director* Members: **HONORIO O. REYES-LAO** *Independent Director* **MARIA CRISTINA C. GOTIANUN** *Executive Director*	Chairman: **ROGELIO M. MURGA** *Independent Director* Members: **HONORIO O. REYES-LAO** *Independent Director* **ISIDRO A. CONSUNJI** *Executive Director*	Chairman: **HONORIO O. REYES-LAO** *Independent Director* Members: **ROGELIO M. MURGA** *Independent Director* **VICTOR A. CONSUNJI*** *Executive Director* **HERBERT M. CONSUNJI**** *Non-Executive Director* **passed away on Dec. 27, 2018* ***until May 10, 2018*
MAIN OVERSIGHT AREAS • Nomination and selection process and criteria for directorship • Independence of directors • Board and Director performance and development • Board and executive succession planning • Key officers appointment and movement • Corporate governance	**MAIN OVERSIGHT AREAS** • Compensation philosophy and policies consistent with the Company's culture, strategy, and control environment • Remuneration framework of directors and executives • CEO and COO performance appraisal	**MAIN OVERSIGHT AREAS** • Enterprise-wide risk management framework • Risk governance • Risk management practices and policies	**MAIN OVERSIGHT AREAS** • Financial reporting process and integrity of the financial statements • Internal control environment • External audit performance • Internal audit performance • Compliance with legal and regulatory requirements

To support the performance of its fiduciary functions, the Board established four (4) good governance Committees: Corporate Governance Committee, Compensation and Remuneration Committee, Risk Committee, and Audit Committee. The Corporate Secretary and the Chief Governance Officer provide full support to the Board and good governance committees.

AUDIT COMMITTEE

Qualifications

The Audit Committee is comprised of three (3) Board Members, two of whom are Independent Directors. An Independent Director heads the committee. All members have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance and meet the experience and other qualification requirements of the Securities and Exchange Commission (SEC).

The Management Committee, Chief Governance Officer, Finance, Legal, Internal Audit, Risk Advisory and external auditor SGV & Co. are invited to the Committee Meetings to discuss updates on legal and regulatory matters, financial reporting, taxation, and compliance.

The Committee Chair attended the Annual Shareholders' Meeting on May 7, 2018, to address possible shareholder queries on Committee matters.

The Committee reviewed and discussed the financial performance, annual budget, strategic issues, equity investments, risk management, conflict-of-interest, related party accounts, tax planning, equity issues, and market/industry developments of the Company.

Written agenda and materials are distributed in advance to facilitate meaningful review and discussion during meetings.

Work Done and Issues Addressed:

FINANCIAL REPORTING PROCESS AND FINANCIAL STATEMENTS	EXTERNAL AUDIT	INTERNAL AUDIT
Reviewed and discussed with Management and SGV & Co. the quarterly unaudited and annual audited consolidated financial statements of Semirara Mining and Power Corporation and Subsidiaries (SMPC Group) as of and for the year ended December 31, 2018.	Recommended to the Board the re-appointment of SGV & Co. as the Company's independent external auditor for 2019 based on SGV's performance, independence, qualifications, and due regard of Management feedback.	Discussed and approved in private session without the presence of Management SMPC Group's risk-based annual audit plan and year-end internal audit (IA) report, among others. It discussed results of IA assurance work and ensured Management provided adequate resources and people talent to support the function and maintain its independence.
These activities were done in the context that Management has the primary responsibility for the financial statements and the reporting process, and that SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards	Reviewed and approved SGV & Co.'s overall audit plan, audit and non-audit services, fees and terms of engagements. It held a private session with the SGV Partner without the presence of Management, to discuss financial reporting, related party accounts, SGV performance and fraud, if any.	Evaluated the effectiveness of the internal audit function, including review of the performance of the Chief Audit Executive (CAE) and endorsed to the Board her re-appointment as CAE.
	Reviewed and approved the Management representation letter before submission to SGV & Co. to ensure all representations are in line with the understanding of the Committee.	

RELATED PARTY TRANSACTIONS	COMPLIANCE, RISK, AND GOVERNANCE	INTERNAL CONTROL
The Committee's Independent Directors exercised oversight and review of related party transactions (RPTs) that meet the threshold level stipulated per SEC regulations and requirements of material RPTs, to determine whether they are in the best interests of the Company and shareholders.	Reviewed and discussed with the Management and the Compliance Committee the significant updates on SEC, PSE, legal, tax, claims, environmental, safety, and other regulatory matters. The oversight is done in the context that Management has the responsibility and accountability for compliance with legal and regulatory matters. Reviewed its Charter, assessed and disclosed its performance which indicated an overall compliance level in consonance with SEC's Audit Committee performance assessment guidelines for PLCs. Exercised oversight of the administration of the Code of Conduct and Business Ethics and compliance reporting of its governance practices.	Reviewed and discussed with the Management, SGV & Co., and Internal Audit the adequacy of internal control and ensured Management responded appropriately for the continual improvement of controls. The oversight is done in the context that Management has the responsibility and accountability for addressing internal control.

The 2018 Audit Committee Annual Report to the Board of Directors is included in the Consolidated Financial Statements section.

Corporate Governance Committee

The Corporate Governance Committee ("Committee") assists the Board of Directors ("Board") in fulfilling its responsibilities relating to the Board's corporate governance responsibilities. The Committee reviews each Director's continuation on the Board every year, taking into account meeting performance, participation, and contribution to the Board. Its roles and responsibilities are guided by a Board-approved Corporate Governance Committee Charter. The Committee which is chaired by an Independent Director, is comprised of three (3) Members of the Board, two of whom are Independent Directors.

Work Done and Issues Addressed:

NOMINATION AND SELECTION	SUCCESSION PLANNING AND LEADERSHIP	BOARD PERFORMANCE AND DEVELOPMENT
Reviewed with the Corporate Secretary the nomination process, criteria, qualifications, and final selection of Board nominees for directorship as stated in the Amended By-Laws, Manual on Corporate Governance and pertinent SEC rules, and ensuring that they meet the requisite qualifications and taking into account their experience, knowledge, and expertise meet the needs of the Board and are aligned to SMPC Group's strategy.	Reviewed and discussed, jointly with the Compensation and Remuneration Committee and the senior management, the design and implementation of compensation benefits and organizational development programs, succession, and leadership needs of SMPC Group, including the appointment/promotion of officers. Reviewed and endorsed changes in the membership of the Board Committees	Exercised oversight of the continuing professional development of Board Directors and key officers through leadership programs, affiliation with or memberships in professional organizations, and participation in corporate governance and sustainability summit, seminars and conferences, among others. Exercised oversight of the annual self-assessment of the full Board, Board Committees, and individual Director performance for continual improvement and effectiveness.

CORPORATE GOVERNANCE

Exercised oversight of the Company's corporate governance practices and ranking score on the ASEAN Corporate Governance Scorecard Philippine Results 2017.

Endorsed the Company's membership in the Shareholders' Association of the Philippines (SharePHIL) as a stakeholder engagement and commitment in promoting a positive corporate governance regime.

Reviewed the Committee Charter and assessed the Committee's performance for effectiveness and continual improvement.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee ("Committee") assists the Board of Directors ("Board") in fulfilling its responsibilities relating to compensation and remuneration plans, policies, and programs of the Company's Directors, officers, and key employees. The Committee's roles and responsibilities are guided by a Board-approved Compensation and Remuneration Committee Charter. The Committee, which is chaired by an Independent Director, is comprised of three (3) Members of the Board, two of whom are Independent Directors.

Work Done and Issues Addressed:

BOARD AND EXECUTIVE REMUNERATION	CEO & COO PERFORMANCE APPRAISAL	CORPORATE GOVERNANCE
Discussed and benchmarked the organization's compensation philosophy, and overall compensation structure of Directors and key officers Discussed a comparative review of SMPC and Mercer's Market Compensation Study Report 2017, a third party compensation report. Discussed with Management the organization's performance management system, Balanced Scorecard, and incentive pay based on company and individual performance that support corporate strategies and meet short-term and long-term shareholder interests. Reviewed and discussed the design and implementation of compensation benefits and organizational development programs, including succession planning and management, to ensure alignment to the Company's and Group's compensation strategy. Assessed potential risks that arise from the Company's compensation practices, and mitigate such risks as necessary.	Reviewed the results of the Board's evaluations of the CEO's and COO's performance for the past year based on Board-approved Balanced Scorecard and key result areas.	Reviewed the Committee Charter and assessed the Committee's performance for effectiveness. Endorsed the revised Conflict of Interest Disclosure Form to reinforce transparency and accountability.

Risk Committee

The Risk Committee ("Committee") oversees, on behalf of the Board of Directors ("Board"), the risk management function as defined in its Board-approved Risk Committee Charter. The Committee, which is chaired by an Independent Director, is comprised of three (3) Members of the Board, two of whom are independent directors. All members have the relevant technical and financial expertise in risk disciplines.

Our Company's Risk Advisory function provides regular risk monitoring and reporting assurance to the Risk Committee and Senior Management.

WORK DONE AND ISSUES ADDRESSED

Exercised oversight of the risk management of SMPC Group's strategic and top business risks, i.e. mining, and power operations risks, supply chain risk, succession, and talent risks.

Reviewed and discussed with Management the effectiveness of risk management treatment and allocation of resources to support risk management efforts and/or mitigation.

Reviewed and discussed with Management SMPC Group's enterprise-wide risk management (ERM) framework and roadmap implementation towards a resilient risk management maturity level.

Reviewed the Risk Committee Charter for continual improvement and effectiveness.

PRINCIPLE 4

Directors devote the time and attention necessary to properly and effectively perform their duties and responsibilities.

BOARD AND COMMITTEE MEETING PERFORMANCE

Board and Board Committee meetings are open and candid, with independent views given due consideration. All Directors fully complied with the SEC minimum Board meeting attendance requirement of 50%.

Our amended By-Laws require a Board attendance quorum requirement from majority as per regulatory requirement to two-thirds (2/3).

DIRECTOR	BOARD & ORGANIZATIONAL MEETINGS	AUDIT COMMITTEE	COMPENSATION & REMUNERATION COMMITTEE	RISK COMMITTEE	CORPORATE GOVERNANCE COMMITTEE	ASM
ISIDRO A. CONSUNJI *Chairman and CEO Executive Director*	9/9			1/2	2/2	1/1
MARIA CRISTINA C. GOTIANUN *Exec. Vice President Executive Director*	8/9		2/2			1/1
ROGELIO M. MURGA *Independent Director*	7/9	6/7	2/2	2/2	4/4	0/1
HONORIO O. REYES-LAO *Independent Director*	9/9	7/7	2/2	2/2	4/4	1/1
JORGE A. CONSUNJI *Non-Executive Director*	8/9					1/1
CESAR A. BUENAVENTURA *Non-Executive Director*	9/9					1/1
HERBERT M. CONSUNJI *Non-Executive Director*	9/9	3/3(1)			2/2	1/1
MA. EDWINA C. LAPERAL *Non-Executive Director*	7/9					1/1
JOSEFA CONSUELO C. REYES *Non-Executive Director*	7/9					1/1
LUZ CONSUELO A. CONSUNJI *Non-Executive Director*	9/9					1/1
VICTOR A. CONSUNJI(3) *President and COO Executive Director*	9/9	3/4(2)				1/1

(1) End of Appointment May 10, 2018
(2) Appointment eff. May 10, 2018
(3) Deceased December 27, 2018

Directorships in Other Boards

Acknowledging the negative impact of competing time commitments when directors serve on multiple boards, Directors are encouraged to limit the number of other boards (excluding non-profit) on which they serve, taking into account the potential impact on attendance, participation and effectiveness with respect to the Company's Board.

Our Board Charter provides that an Independent Director can be elected as such to only five (5) companies within the DMCI Group conglomerate. Non-executive directors shall concurrently serve as directors to a maximum of five (5) publicly-listed companies to ensure that they are able to commit themselves to performing their roles and responsibilities and oversee the long-term strategy of the Company.

In 2018, no individual Director nor Independent Director has simultaneously served in more than five (5) boards of publicly listed companies. Moreover, our executive directors do not serve on more than two (2) boards of listed companies outside of our parent company, DMCI Holdings Inc.

Our Board profile with concurrent directorships held are fully disclosed in the SEC 20-IS (Definitive Information Statement) and 17-A Annual Report.

PRINCIPLE 5

The Board endeavors to exercise objective and independent judgment.

INDEPENDENT DIRECTORS

An Independent Director (ID) embodies objectivity and an autonomous mindset, particularly during Board deliberations and discussions.

Our Company's IDs are nominated by a non-controlling shareholder during the nomination process, and are independent of Management and major shareholders of the Company.

SMPC currently has two (2) IDs, and their cumulative tenure complies with the SEC's prescribed nine (9) year-limit for Independent Directors (reckoned from 2012), and their election as such in no more than five (5) companies in each conglomerate. They have also been elected as IDs to the Boards of our Company's wholly-owned subsidiaries, SEM-Calaca Power Corporation and Southwest Luzon Power Generation Corporation.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)

The Chairman and CEO roles are unified and strategic to ensure cohesive leadership in meeting the challenges and expansion opportunities affecting our Company's operations and sustainability as a vertically integrated energy enterprise.

Our Company's governance structure ensures check and balance of power and accountability through defined roles and responsibilities of the Board, CEO, and Management in our Amended By-Laws and Manual on Corporate Governance, good governance framework, annual Board and CEO performance evaluation process, among others.

PRINCIPLE 6

The Board maintains its effectiveness through a regular appraisal process.

BOARD PERFORMANCE ASSESSMENT

The annual performance evaluation process of the Board covers the full Board, Board Committee, and individual director self-assessments. Assessment results are provided to the Corporate Governance Committee and reported to the Board for disposition and continual improvement of effective Board, Committee, and individual performance. Feedback to enhance management support to the Board are likewise communicated to the management team for appropriate action.

The formal questionnaire for the full Board self-assessment criteria includes the Board and Board Committee responsibilities, structure, meetings, processes, and management support.

On the other hand, the individual director performance evaluation areas take into account one's leadership, interpersonal skills, strategic thinking, and participation in Board meetings and committee assignments.

In 2018, full Board and director performance assessments administered by the Chief Governance Officer were undertaken by the Chairman and the Board Directors.

PRINCIPLE 7

Board members are duty-bound to uphold high ethical standards in the interests of all stakeholders.

CODE OF CONDUCT AND BUSINESS ETHICS

Our Code of Conduct and Business Ethics (Code) reflects our commitment to conduct business according to the highest ethical standards, and in accordance with applicable laws, rules and regulations. It covers provisions on conflict of interest, gifts, insider trading, financial reporting, influencing external auditor, fair dealings, confidentiality, and stakeholder obligations, among others. It is implemented with a Code of Discipline with the appropriate sanctions and penalties.

Alleged breaches of conduct are investigated and due process is observed. Code violations are taken seriously and may result to disciplinary action, up to and including termination of employment and possible legal action, including referral to law enforcement.

Our ethics program includes the orientation of the Code and corporate values during the onboarding of new Directors and employees, and require the adherence and integrity commitment through the annual certification process.

ANTI-CORRUPTION AND ETHICS PROGRAM

Ethics is a core requirement among our employees and is embedded in their job responsibilities and performance evaluation.

We promote the highest standards of openness, probity, and accountability throughout the organization through our ethics-related policies, soft controls, and assurance activities. Every year, corruption and fraud risks are assessed according to risk levels, as part of the Risk Assessment process under our Enterprise Risk Management.

In 2018, all business units were assessed as to their vulnerability. Risk assessments are embedded in our integrated management system. Risk review results are evaluated by the Internal Audit (IA) and considered in the annual audit plan, and subsequently reported to the Audit Committee and the Risk Committee.

DISCLOSURE AND TRANSPARENCY

We value open communication in matters that affect our shareholders and stakeholders. Our disclosure policies emphasize the importance of timely, relevant, and accurate disclosure of material information, connecting our Company to various platforms and channels.

We commit to a system of timely disclosure of material information regarding our financial performance, ownership and business updates.

Our integrated annual report, annual corporate governance report, disclosures, regulatory filings, and corporate website provide full details regarding our governance structure, objectives, key risks, financial, and non-financial performance indicators, systems, and policies.

PRINCIPLE 8

The Company sets corporate disclosure policies and procedures in accordance with best practices and regulatory expectations.

Securities Reporting

We strictly comply with the regulatory and reportorial requirements as set by the SEC and the PSE.

Disclosures

Structured and non-structured reports and material information about the Company are promptly disclosed to protect our shareholders and contribute to the development of the Philippine capital market.

Full disclosures and reportorial requirements are provided on transactions involving the trading of the Company's shares by our Directors and key officers within the prescribed reporting period.

Protecting Minority Shareholders

The principal risks to minority shareholders associated with the identity of our Company's controlling shareholders are mitigated by our corporate governance framework that effectively protects and ensures the rights and equitable treatment of all shareholders, including minority and foreign shareholders. Basic shareholder rights, such as the right to information and shareholder participation in key company decisions and fundamental issues, disclosures of control structures and voting rights, and threshold approvals of related party transactions, among others, are upheld by our governance policies.

SCOPE OF COMPANY DISCLOSURES

Board Attendance and Changes

Quarterly Financial Reports

List of Top Stockholders

Compliance Report on Corporate Governance

Changes in Shareholdings of Directors, Principal Officers and Beneficial Owners

All Directors, Officers, and employees are advised upon and oriented accordingly of their respective duties as per SEC and PSE regulations.

Insider Trading

Our Insider Trading policy explicitly prohibits insider trading to prevent conflict of interest and individuals and/or parties benefiting from insider information or knowledge not available to the general public.

Our policy requires all Directors and Key Officers to report their trades within three (3) business days to the Legal Department, for eventual reporting to the PSE and SEC. Our Company requires a prior Stock-Trading reporting protocol for Directors and Key Officers to notify, call, or clear with the Legal Department at least one day before a planned stock trading of the Company's shares.

Related Party Transactions (RPTs)

Our group-wide RPT Policy requires a Director, Officer, or key management personnel to promptly notify the Audit Committee or the Company's Corporate Counsel of any interest an immediate family member had, has, or may have in an RPT. Moreover, all material information concerning the RPT shall be disclosed.

RPTs shall be arms-length and at terms generally available to an unaffiliated third party under the same or similar circumstances. There must be a compelling business reason to enter into such an RPT, taking into account factors like expertise of related party, cost efficiency, among others.

To determine that material/significant RPTs are in the best interests of the Company and Shareholders, our Independent Directors are required to review material/significant RPTs that meet the threshold levels stipulated by regulatory rules and requirements.

Our Audit Committee also assists in the Board's oversight of RPTs. Our quarterly and annual review of the financial statements includes related party accounts and disclosures to the investing public.

Our Board Charter on Good Governance Guidelines does not allow personal loans or extensions of credit to Directors unless approved by the Board.

CRITERIA FOR REVIEW OF RELATED PARTY TRANSACTIONS

- Fairness
- Materiality
- Commercial reasonableness of the terms
- Extent of conflict of interest (actual or apparent) of the related party

DIRECTORS AND SENIOR MANAGEMENT	NUMBER OF SHARES AS OF JAN 1, 2018	ACQUIRED	DISPOSED	NATURE OF OWNERSHIP	NUMBER OF SHARES AS OF DEC 31, 2018
ISIDRO A. CONSUNJI *Executive Director, Chairman, and Chief Executive Officer*	6,036	18,108	-	Direct	24,144
	1,169,918	3.509,754	-	Indirect	4,679,672
JORGE A. CONSUNJI *Non-Executive Director*	500,144	-	-	Direct	500,144
	1,914,956	-	-	Indirect	1,914,956
HERBERT M. CONSUNJI *Non-Executive Director*	141,120	-	-	Direct	141,120
	-	-	-	Indirect	-
CESAR A. BUENAVENTURA *Non-Executive Director*	72,120	-	-	Direct	72,120
	-	-	-	Indirect	-
JOSEFA CONSUELO C. REYES *Non-Executive Director*	412,400	-	-	Direct	412,400
	1,913,600	-	-	Indirect	1,913,600
MARIA CRISTINA C. GOTIANUN *Executive Director Executive Vice President*	1,428	1,071	-	Direct	1,428
	8,528,212	2,789,677	-	Indirect	11,317,889
MA. EDWINA C. LAPERAL *Non-Executive Director*	4,188	-	-	Direct	4,188
	6,069,528	1,349,556	-	Indirect	7,419,084
LUZ CONSUELO A. CONSUNJI *Non-Executive Director*	40	45,000	-	Direct	45,040
	-	-	-	Indirect	-
ROGELIO M. MURGA *Independent Director*	40,040	-	-	Direct	40,040
	-	-	-	Indirect	-
HONORIO O. REYES-LAO *Independent Director*	1,236,040	-	-	Direct	1,236,040
	562,480	-	-	Indirect	562,480

OTHER KEY OFFICERS	NUMBER OF SHARES AS OF JAN 1, 2018	ACQUIRED	DISPOSED	NATURE OF OWNERSHIP	NUMBER OF SHARES AS OF DEC 31, 2018
JOHN R. SADULLO *Vice President* *Legal & Corporate Secretary*	-	-	-	Direct	-
	-	-	-	Indirect	-
JUNALINA S. TABOR *Vice President* *Chief Finance Officer*	-	-	-	Direct	-
	-	-	-	Indirect	-
JAIME B. GARCIA *Vice President* *Procurement & Logistics*	576,432	-	-	Direct	576,432
	-	-	-	Indirect	-
NENA D. ARENAS *Vice President* *Chief Governance Officer &* *Compliance Officer*	16,000	-	-	Direct	16,000
	-	-	-	Indirect	-
ANTONIO R. DELOS SANTOS *Vice President* *Treasury*	60,000	50,000	-	Direct	110,000
	-	-	-	Indirect	-
JOSE ANTHONY T. VILLANUEVA *Vice President* *Marketing for Coal*	3,000	-	-	Direct	3,000
	55,560	-	-	Indirect	55,560
ANDREO O. ESTRELLADO *Vice President* *Power Market & Commercial Operations*	-	-	-	Direct	-
	-	-	-	Indirect	-
CARLA CRISTINA T. LEVINA *Vice President* *Chief Audit Executive*	-	-	-	Direct	-
	-	-	-	Indirect	-
SHARADE E. PADILLA *Assistant Vice President* *Investor & Banking Relations*	21,000	1,500	-	Direct	22,500
	1,080	-	-	Indirect	1,080
RUBEN P. LOZADA *Vice President* *Mining Operations &* *Resident Manager*	475,200	-	-	Direct	475,200
	-	-	-	Indirect	-
KARMINE ANDREA B. SAN JUAN *Assistant Vice President* *Corporate Planning Power*	120	-	-	Direct	120
	-	-	-	Indirect	-
JOJO L. TANDOC *VP-Human Resources &* *Organizational Development*	400	-	-	Direct	400
	-	-	-	Indirect	-

OUR GROUP RELATED PARTY TRANSACTION (RPT) POLICY

Our Board-approved policy on related party transactions for SMPC & Subsidiaries:

- Specifies the guidelines, de minimis transactions, categories, and thresholds requiring review, disclosure, and prior approval by the Board of Directors or Shareholders of such transactions.
- Defines related party transactions deemed to be pre-approved by the Board.
- Requires Independent Directors to review material/significant RPTs to determine whether they are in the best interests of the Company and Shareholders.
- Requires that all RPTs be disclosed to the Board. All RPTs are also disclosed in the related Notes to Consolidated Financial Statements of the Company's audited accounts and in required SEC filings.

2018 RELATED PARTY TRANSACTIONS

in Million Pesos

PARENT/SUBSIDIARIES/ AFFILIATES	COAL & FREIGHT	RENTAL & OTHERS	COAL HANDLING	DRILLING	DREDGING	AVIATION	OPERATION & MANAGEMENT	TRANSFER OF ASSET	CONS-TRUCTION
Within the Group:									
Sem-Calaca Power Corporation	6,301								
Southwest Luzon Power Generation Corporation	1,616								
With Affiliates:									
DMCI Power Corporation	-	-	-	-	-	-	324	-	-
D.M. Consunji, Inc.	-							99	244
DMC Construction Equipment and Resources, Inc.	327	39	-	121	74	-	138	-	-
Royal Star Aviation	-	-	-	-	-	61	-	-	-
St. John Bulk Handlers, Inc.	-	-	190	-	-	-	-	-	-

In 2018, our Independent Directors and the Audit Committee ensured that such RPTs are ordinary in the course of our business, under reasonable terms, and did not include financial assistance or loans to Board Directors, affiliates or related entities, which are not wholly-owned subsidiaries.

Disclosure of Interest

Our conflict of interest policy and provisions of our Code of Conduct and Business Ethics, require all Directors, officers, and employees to submit an annual Disclosure Statement or as a "single transaction" disclosure statement, the latter due before potential conflict of interest arises, of any financial or non-financial interest that constitutes a possible or potential conflict of interest.

PRINCIPLE 9

The Company establishes the appropriate selection and appointment of an external auditor and exercises effective oversight of his independence and audit quality.

EXTERNAL AUDIT

An external auditor provides reasonable assurance that our financial statements meet government and regulatory requirements and standards.

Our Audit Committee oversees the external audit function on behalf of the Board. Its oversight covers the review and approval of the appointment, reappointment or replacement of external auditor, audit work engagement, scope and related fees, among others.

It also reviews and approves non-audit services and fees, including any potential conflict of interest situations which could be viewed as impairing the external auditor's objectivity.

Our external auditor is SyCip, Gorres, Velayo & Co. (SGV). In compliance with SEC regulatory policy requiring audit partner rotation every five years to ensure independence, our appointed Assurance Partner-In-Charge is Dhonabee Billi Señeres in 2018.

No Director or Key Officer is a former employee or partner of the current external auditor in the past two years.

AUDIT FEE	NON-AUDIT FEE
P5.8 M Inclusive of subsidiaries' audit fees of P3.2 M	P184,800 for assurance engagement as an independent party to count and/or validate the votes by poll cast at the 2018 Annual Stockholders' Meeting.

Total fees for audit and non-audit services approved by the Audit Committee and paid to our external auditor in 2018.

PRINCIPLE **10** Material and reportable non-financial and sustainability issues are disclosed.

INFORMATION POLICY

We keep our investment partners updated and abreast with the latest developments with timely, relevant, and accurate information about our financial performance, operating highlights, strategic direction, growth prospects, and potential risks, including material and reportable non-financial and sustainability issues.

COMMUNICATION PLATFORMS

ANNOUNCEMENTS AND UPDATES

Official releases of announcements on material business developments and updates, as needed.

PERIODIC REPORTING

Timely issuance of quarterly and annual structured reports, including financial statements in accordance with financial reporting and accounting standards.

INVESTOR RELATIONS

Organization and participation in investor relations activities such as analyst briefings, investor conferences, among others.

OFFICIAL COMPANY FACEBOOK CSR PAGE

Our Facebook CSR Page (facebook.com/SMPEmpowering Others/) share our latest CSR initiatives, from health and safety, environmental programs, community programs, and employee empowerment and engagement efforts.

COMPANY WEBSITE

www.semiraramining.com provides up-to-date financial and business information on the results of our business operations, organization structure, corporate governance documents and policies, disclosures, among others.

PRINCIPLE 11

The Company maintains a comprehensive and cost-efficient communication channel for disseminating relevant information for informed decision-making by investors, stakeholders, and other interested users.

INVESTOR RELATIONS

Our Board established an Investor Relations (IR) unit to ensure constant engagement with our partner-investors. Our Assistant Vice President- Investor and Banking Relations Officer attended the Annual Shareholders' Meeting on May 7, 2018, to address possible shareholder queries.

OUR IR CONTACT INFORMATION:

MS. SHARADE E. PADILLA
AVP - Investor and Banking Relations
E-mail: sepadilla@semirarampc.com
T +632 888-3644
F +632 888-3553

Investor Engagement Platforms
We actively engage with institutional and prospective investors, investment analysts, fund managers, and the financial community through various platforms and engagement activities.

INVESTOR ENGAGEMENT PLATFORMS

REGIONAL/INTERNATIONAL CONFERENCES

JP Morgan Philippines
1x1 Forum 2018
23 January 2018
Makati City, Philippines

17th Annual dbAccess Philippines
Corporate Day
8-9 February 2018, Singapore

PHILIPPINE CONFERENCES

UBC Philippines CEO/CFO
Forum 2018
1 March 2018
Makati City, Philippines

ANALYST-MEDIA BRIEFINGS

- Reverse Roadshow
- Regional Investor Conferences
- Mine Site and Power Plant Visits for Institutional Investors

Q4 2017 Investor Briefing
26 Feb 2018
Makati City, Philippines

Joint Quarterly DMC/SCC Briefing
16 May, 15 Aug, & 12 Nov 2018
Makati City, Philippines
Investors/Creditors visits at
Operational Site

REGIONAL INVESTOR CONFERENCES

- Mine Site and Power Plant Visits for Institutional Investors

Investors/Creditors visits at operational sites

REINFORCING ASSURANCE

We continue to uphold the integrity of our internal control systems through constant implementation and improvement of our internal audit and risk management protocols. Our seamless integration with our quality assurance, risk and governance committees pave the way for stringent, responsible, and reliable governance.

PRINCIPLE 12

The Company has a strong and effective internal control system and enterprise risk management framework to ensure the integrity, transparency, and proper governance of its affairs.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

Our Board is responsible for the internal controls and risk management systems of our Company. Our Audit Committee assists in the oversight of the internal controls, financial reporting process, internal audit, external audit, and compliance functions, while our Risk Committee assists in the oversight of the risk management process.

BOARD'S STATEMENT ON ADEQUACY OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

Based on the assurance work performed by the internal and external auditors and the oversight duties performed by the Board's Audit Committee and Risk Committee, the Board is of the opinion that the Company's internal controls and risk management systems are adequate and effective.

Our risk governance structure adopts the globally-recognized Institute of Internal Auditors' Three Lines of Defense Model in Effective Risk Management and Control, which focuses on risk ownership, controls, compliance, and assurance activities. Our ERM framework and practices are further described in the Enterprise Risk Management section.

The Board, through its Risk and Audit Committees, conducted a review of the Company's material internal controls (including compliance, operational, and financial controls) and risk management systems.

The 2018 Board Statement on the adequacy and effectiveness of internal controls and risk management systems is included in the Consolidated Financial Statements section.

INTERNAL AUDIT

Our Internal Audit (IA) provides the Board and Management with independent and objective assurance and consulting services on the business processes, controls, governance, and risk management practices of SMPC and its subsidiaries.

Our IA is guided by a Board-approved Internal Audit Charter and adopts a risk-based audit approach aligned with the professional auditing standards set by the Institute of Internal Auditors (IIA). It functionally reports to the Audit Committee and is led by a qualified Chief Audit Executive, Carla Cristina T. Levina.

IA Team Competency Mix

Our IA team consists of high performing professionals with backgrounds and experiences on business, technical, risk, and operational aspects to complement our organization's assurance requirements.

IA Quality Performance

IA's Quality Assurance and Improvement Program (QAIP) aims to provide assurance on the audit quality and value-added services to its stakeholders and on the operating efficiency and effectiveness of its organization and resources. Formal IA policies and procedures ensure adherence to the IIA Standards.

IA and CEO Attestation

Based on the results of risk-based assurance review, our Chief Audit Executive and Chief Executive Officer reported to the Board through a written attestation that a sound internal audit, risk management, control, and compliance system is in place and working effectively in 2018. Our IA continuously monitors management action plans and regularly reports status updates to the Audit Committee.

INTERNAL AUDIT
QUALITY SERVICE PROGRAM

Assurance and Improvement Program
Internal Quality Assessment
- Quality Client survey after audit engagement
- Quality plan monitoring
- Periodic internal assessment
- External quality assessment

Enterprise-wide Integrated Management System (IMS)
- Semi-annual IMS internal audit review
- Semi-annual review of IMS internal audit
- Semi-annual surveillance audit and external certification audit

Annual review of Internal Control System

CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS

Fair and equitable treatment of our shareholders is anchored on our principles of openness and equality, and our Company delivers that promise of promoting and upholding shareholder welfare. We provide our minority shareholders with necessary safeguards, pertinent information, and opportunities to exercise their rights as well as to effectively manage their investments. By building on our relationships with our partner-investors, we are able to develop long-term and sustainable partnerships over time.

PRINCIPLE 13

The Company treats all shareholders fairly and equitably.

EQUITABLE TREATMENT OF SHAREHOLDERS

1 COMMON SHARE
VOTE

Proportionate Voting

A share structure of "one vote per one common share" is practiced. Our Company has no current practice that has led us to award disproportionate voting rights to select shareholders.

In the event that extraordinary circumstances necessitate special arrangements where we issue special cases of shares that result in disproportionate claim on voting rights, we shall issue a full disclosure and detailed justification of such action.

Prior to taking such an extraordinary action, we shall seek the requisite approval from our shareholders.

SHAREHOLDER RIGHTS

ALL SHARES HAVE EQUAL VOTING RIGHTS

DISPROPORTIONATE VOTING RIGHTS

We do not practice the following:

- Shareholders' agreements
- Voting caps
- Multiple voting rights for certain shares

Share Repurchase

All shareholders are treated equally and fairly regarding share repurchases.

In 2018, our Company repurchased through the buyback program 7,863,000 treasury shares at P251,607,140 through the Exchange at prevailing market prices. Our share buyback program was undertaken to enhance shareholder value. By year end, our market capitalization was valued at P97.98B.

Our Company maintains an open, welcoming, and enabling environment for our shareholders and prospective investors, and we deliver to give them the full benefits of our shared partnership.

It is our policy to keep our openly traded shares above the 10% minimum public float requirement of the Philippine Stock Exchange.

Institutional Investors

We recognize our role in the development of the Philippine capital market and the advantages of having well-resourced, professional shareholders, and institutional investors by facilitating their entry, participation and fair treatment.

Entry. Institutional investors holding more than 5% of Company shares (as per PSE Disclosure 17-12 Top 100 Stockholders List) are provided with sufficient rights and access to information.

Participation. Investors and shareholders are invited to our Annual Shareholders' Meeting (ASM). They are duly informed of the ASM with sufficient lead time, and it is held at a venue that is easily accessible to retail and institutional investors.

Fair Treatment. We observe the principle of fair treatment of all shareholders on all matters of importance to all investors, particularly institutional investors. Decisions related to mergers and acquisition are all disclosed to all pertinent parties.

Voting Rights

We uphold our shareholders' right to be informed, to participate, and to vote on important matters during our ASM.

MATTERS OF FUNDAMENTAL IMPORTANCE

- Amendments to the Company's constitution and similar governing documents
- Appointment and re-appointment of external auditor
- Authorization of additional shares
- Election of Directors, done individually
- Extraordinary transactions, including transfer or sale of all or substantially all of the Company's assets, sale of a business unit or subsidiary that accounts for a majority portion of the Company's assets
- Nomination by non-controlling shareholders of candidates for Board Directors
- Remuneration (per diem, fees) of Directors

At least twenty-one (21) business days before our ASM, shareholders are given a formal notice (Notice of Annual Shareholders' Meeting) and an accompanying SEC Form 20-IS (Information Statement), outlining the details of the ASM: date, location, agenda, rules, and voting procedures.

Our Company provides non-controlling shareholders the right to nominate candidates for board directorships as part of the nomination process and procedures. In 2018, nomination for Independent Directors by a minority shareholder was disclosed in our Company's SEC 20-IS.

EMPOWERING VALUE

We owe our continued success in our business to the people that support us. We value the partnerships we've forged with our shareholders and stakeholders, and together we benefit mutual long-term growth.

DIVIDEND - RIGHT TO PARTICIPATE IN THE PROFITS

Shareholders have the primary financial right to participate in our profits, and we uphold this right by providing them reasonable economic return on their stock investments.

Since our domestic and international shares offering in 2005, we have consistently exceeded our dividend policy of 20% of the preceding year's Net Income (NI), making us one of the best dividend-paying companies in the Philippines.

Semirara Mining and Power Corporation's Dividend Policy:

Minimum of 20% of Net Profit after Taxes starting from December 31, 2005, provided that the Board of Directors shall have the option to declare more than 20% if there is excess cash, and less than 20% if no sufficient cash is available.

CASH DIVIDENDS DECLARED AND PAID IN 2018:

a) Regular dividends of P1.25 on February 22, 2018 with Record Date, March 8 and paid on March 22, 2018.

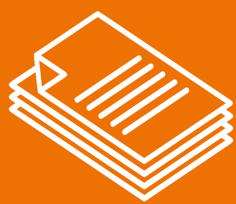
b) Special dividends of P1.00 on November 7, 2018 with Record Date, November 21 and paid on December 14, 2018.

OTHER SHAREHOLDER RIGHTS

We respect other shareholder rights, as provided for in the Corporation Code of the Philippines.

The Right to Inspection

Shareholders are entitled to inspect the corporate books and records to determine the financial condition of the Company, and to understand how the corporate affairs are being managed. Thus, they can take the appropriate measures to protect their investment.



The Right to Information

Shareholders have the right to receive periodic reports which disclose personal and professional information about the Directors, officers, and certain other matters such as: their shareholdings in the Company; material transactions with the Company; relationship with other Directors and Officers; and the aggregate compensation of Directors and Officers.

Appraisal Right

Shareholders have the right to dissent and demand payment of the fair value of their stocks, subject to the instances provided for in the Corporation Code.

ANNUAL STOCKHOLDERS' MEETING

The Annual Shareholder's Meeting (ASM) is one of our key engagement platforms, allowing us to connect, and interact with our corporate partners and investors, to share with them our continuous growth, and to give back their trust and support in our Company.

Notice of the 2018 ASM was given on February 22, 2018, along with Proxy Forms.

On March 22, 2018, we disclosed our SEC 20-IS (Definitive Information Statement) with a detailed agenda and relevant information for shareholders' consideration. Both documents were issued more than twenty-one (21) days before the regular ASM on May 3, 2018.

Per Company By-Laws, the Board has the authority to declare cash dividends, and the dividend policy information was disclosed in the Notice of 2018 ASM and in Part II(A) (3), Securities of the Registrant section of the Management Report accompanying the Notice of 2018 ASM.

Our ASM is held on the first Monday of May of each year. This is when we report on the Company's performance and provide our shareholders a venue for open dialogue with the Board for updates or clarifications on certain issues.

The Chairman of the Board and Chief Executive Officer, Board Directors, Chief Operating Officer, Chief Finance Officer, Corporate Secretary, other Key Officers and external auditor SGV & Co. attended the most recent annual meeting to answer questions from shareholders.

2018 ASM

AGENDA

- Approval of the minutes of the previous year's ASM held on May 2, 2017 and rationale thereof
- Approval of Management Report and rationale thereof
- Ratification of the acts of the Board and Management during the period and rationale thereof
- Re-appointment of independent external auditor, with details of name, qualification, and details thereof
- Election of Board Directors individually, with information on individual profile of nominees for election to the Board with the following details: age, education, experience, position, type of directorship, other directorships in listed and non-listed companies, Board Committee memberships, beneficial share ownership and Board meetings attended
- Other matters

VOTING IN PERSON OR IN ABSENTIA

We respect the rights of our shareholders to participate and vote in our ASM.

Whether made in person or in absentia, their votes carry equal effect.

We allow voting in absentia via proxy to give a shareholder who is unable to attend our ASM, the opportunity to participate and vote.

The following Poll Voting procedures were observed during the 2018 ASM:

- Poll voting was conducted as opposed to show of hands for all resolutions
- Appointment of SGV & Co. as independent body to count and validate the votes by poll cast by the shareholders for items stated in the agenda requiring approval and/or ratification
- Votes were cast and counted for each agenda item
- Voting results were presented for each agenda item during the meeting to inform the participants of such outcome

Disclosure

Tally and results of shareholder votes (approving, dissenting and/or abstaining) taken for all resolutions are publicly disclosed to the SEC and PSE by the next working day. The same information was posted on our Company website on the same day of disclosure.

The list of Board Directors who attended the 2018 ASM are reported and disclosed in a certification of attendance to PSE and SEC and Company website.

Minutes of the 2018 ASM were disclosed and posted on our company website.

Shareholders participation

After discussion of the Management Report, the shareholders and other attendees were given an opportunity to raise any question and/or clarification on the performance and prospects of the Company. Questions raised and answers accorded by our Chairman and CEO were duly recorded in the Minutes of the 2018 ASM.

Venue

The venue, Manila Polo Club, Inc., Forbes Park, Makati City, is an accessible meeting location to the shareholders, as per policy.

DUTIES TO STAKEHOLDERS

We acknowledge our duties to our stakeholders and their roles and contributions towards our Company's sustainability. Therefore we continue to uphold their rights and interests, as defined by the law or through mutual agreements. Through our corporate governance process, we enact stakeholder engagement as a medium for improving our performance, decision-making processes, and accountability.

PRINCIPLE **14**

The rights of stakeholders established by law, by contractual relations and through voluntary commitments, must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.

SUSTAINABILITY

SMPC Group's commitment to integrate sustainability practices in its business goes beyond compliance. Our programs that matter most to our key stakeholders are geared towards mitigating the negative impact and enhancing our positive contributions in the economic and social aspects of out operations.

In 2018, we conducted an organization-wide Sustainability Summit for our Board, Management, and leaders to embrace a shared mindset and to calibrate our sustainability strategy setting. We pursued stakeholder inclusiveness through a stakeholder consultation process that is aligned to the Global Reporting Initiative (GRI) Guidelines, which are recognized global standards for sustainability reporting on a range of economic, environmental, and social (EES) impacts. Our adoption of a GRI-based sustainability reporting framework further guides us in raising the bar on stakeholder engagement and reporting.

PRINCIPLE **15**

A mechanism for employee participation should be developed to create a symbiotic environment, realize the Company's goals and participate in its corporate governance processes.

EMPLOYEES

Our organizational policies are geared towards promoting the growth and protecting the welfare and rights of our employees. We continue to uphold a culture of excellence, by priming key accounts and assets for leadership, ensuring overall business sustainability.

Culture

We empower our employees by creating a culture of integrity and excellence where they can prosper and achieve their full potential through our talent development programs and performance management mechanisms aligned with our corporate values and business strategy.

Remuneration

Our Company's remuneration philosophy and policy aims to ensure an overall compensation structure that is closely linked to individual performance, company performance, and shareholder value.

Our remuneration and benefits packages are set at levels to attract and retain executives and employee talent of sufficient caliber to support the Company's objectives.

Performance and Rewards

The Company's strategic and operational plans are defined through a Board-approved Balanced Scorecard (BSC) which is cascaded to all levels throughout the organization. Business Key Performance Indicators (KPIs) and behavioral KPIs such as team effectiveness, ethics, governance and commitment to Environment, Safety and Health (ESH) are integrated in our performance evaluation process.

Results of regular performance assessment ensure that talent and contributions to the Company are recognized and rewarded accordingly, and talent development needs are addressed proactively. Appropriate compensation levels and rewards are based on individual employee performance and company performance.

Equality

We foster the fair treatment of employees and do not tolerate unlawful discrimination and harassment of any nature on the basis of sex, race, religion, age, color, or disability.

Our Anti-Corruption and Ethics Program is a robust system of policies, processes and controls, while our whistleblowing platform provides a confidential venue for employees to raise valid, fact-based ethical concerns.

Whistleblowers may report such concerns through our website or dedicated integrity hotline email address to hotline@semirarampc.com.

Safety and Health

Our Safety and Health Policy ensures a safe and healthy workplace for our employees and all working partners on our behalf, including our visitors and stakeholders, to protect our Company's best assets and maximize their potential.

Our Safety and Health policies, processes, and employee trainings are aligned with relevant government regulations. We also utilize modern infrastructure and advanced equipment to further enhance the level and efficacy of our safety and health programs.

CUSTOMERS

Customer Welfare

Our Customer Welfare Policy requires that we meet our customers' quality standards in a mutually fair and satisfactory manner without compromising the Company's business ethics. It advocates fairness and transparency in our business dealings, as well as protection of our customer safety and welfare through adherence to the relevant laws, rules, and regulations set by the Philippine government as well as International Standards.

We provide quality coal that meets our customers' stringent specifications. Effective implementation of policies, procedures, and practices has allowed us to serve some of the biggest coal consumers in the country.

Our successful transition and subsequent certification to the new ISO 9001:2015 version on Quality Management System affirms our continual improvement of risk-based business processes in key performance areas.

RESPONSIBLE MARKETING	TRANSPARENCY	CUSTOMER SATISFACTION
• Strict adherence to Codes of Conduct on fair dealings and confidentiality in all transactions and business information, such as customer data	• Our power business is guided by a nominations and declarations protocol and a billing and settlement procedure to ensure that customer transactions are orderly and transparent. All relevant information is sent to our customers for their verification and confirmation.	• Timely resolution of concerns and complaints
• Customer Data Privacy Violation Complaint in 2018	• Customer visits at our mine site provide access to our coal handling, testing, and loading operations so they can inspect and monitor their orders.	• Our team of energy market experts commits to the general satisfaction of our customers through three (3) aspects: 1) a reliable supply of electricity 2) strict compliance with power supply agreements 3) proper business ethics and professionalism in our communications

Quality

Our Quality Policy aims to keep on improving our customers' satisfaction and our stakeholders' confidence through our highly-trained workforce and the production of globally-competitive coal that exceed their expectations.

Customer Service

Quality control is the main driver of our best customer service efforts. Our customers play a significant role in our Company; thus, we make sure to deal with them in a fair, professional and responsive manner.

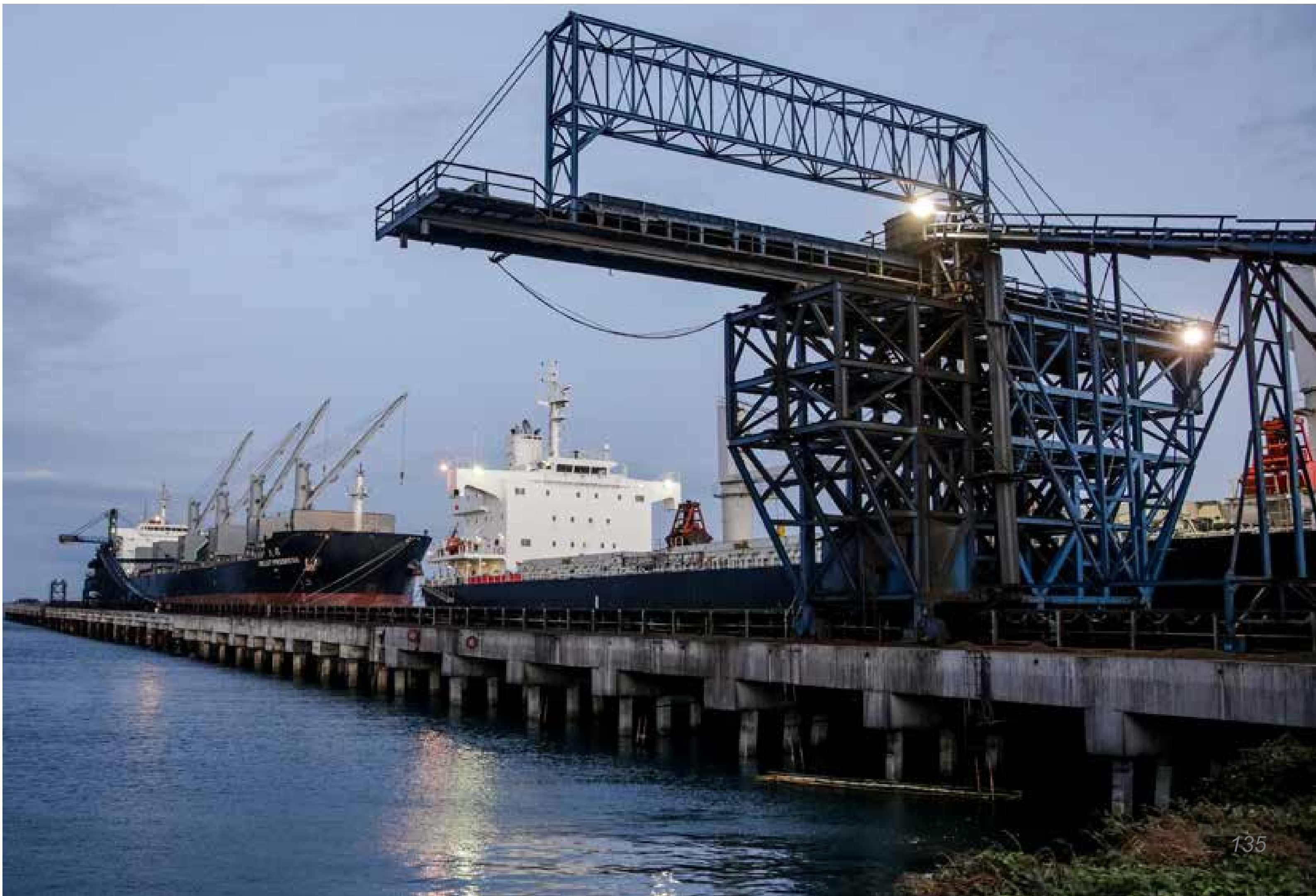
We conduct our operations with the end goal of safely delivering the coal based on the agreed quality and lifting schedule.

Product Delivery

We recognize the unique demands of our customers, and we make sure to fully deliver their requisite coal supply to optimize their plant's performance.

OUR PRODUCT DELIVERY SYSTEM

MEASUREMENT	TESTING	INSPECTION AND SAFETY	PRODUCT RELIABILITY	FEEDBACK
We continuously measure the characteristics of our coal to ensure that customer requirements are clearly determined and understood. Any significant changes with regard to the coal order are communicated to the customer in a timely manner, before effecting any such change.	To establish conformity with the coal requirements of the customer, we conduct the necessary tests and document the pertinent results prior to the scheduled appointment. Coal shall not be loaded and shipped until all the tests are completed and all results pass the agreed specification.	Customers are given access to our operations so they can inspect our facilities, monitor our coal quality, and witness the actual loading of the coal. During such visits, we require the strict observance of safety procedures by our customers to ensure their safety while on the mine site.	We are capable of continuously supplying the agreed upon energy requirements of our customers.	Periodic customer satisfaction surveys are undertaken to gain client feedback and insights. The surveys are done at least annually to determine customer assessments of our supply delivery, product quality, client responsiveness, and technical support. Customer concerns, if any, are addressed and resolved through corrective action and after-sales settlement guidelines.



Suppliers and Contractors

We establish and nurture our strategic partnerships with suppliers and other business partners by honoring our contractual commitments and issuing timely payments for delivered products and services.

Our Code of Conduct & Business Ethics promotes fair dealings with business partners, including the confidential handling of proprietary, non-public information, such as, but not limited to, contract terms or bids.

We formally communicate our Expectations of Suppliers, Contractors and Business Partners and our commitment to Quality and ESH leading practices to our suppliers and business partners through our mutual commitment and agreement to adhere to workplace standards in our business interactions. We also require affirmation of their commitment to responsible and ethical business practices in our dealings.

Quality Procurement

Our Quality Policy for Procurement activities ensure competitive sourcing and pricing of high-quality goods and services.

Procedures on accreditation, evaluation of new suppliers, and re-evaluation of performance of accredited suppliers of critical materials every twelve (12) months are detailed for consistent quality of purchased products and services.

Sustainable Procurement

We have integrated green initiatives and sustainable practices in our accreditation procedures.

We screen suppliers based on environmental criteria (waste management, environmental and/or regulatory compliance certificates) and human rights criteria (labor practices in supply chain covering child labor, forced labor; and the like).

Our supply chain management system considers the impact and influence of our procurement practices on raw material inputs and natural resource utilization.

Controls and procedures for receiving, storing, and handling hazardous materials have been established to help protect the environment and our employees, based on applicable laws, regulations and ISO standards.

SUPPLIER REVIEW AND SELECTION

Suppliers are selected and evaluated based on their track record, price, payment terms, product quality, response to problems, and delivery.

Canvassing procedures ensure competitive pricing, favorable terms and value-added services without compromising quality.

Creditors and Business Partners

We value the contributions of our creditors to the growth, development and sustainability of the Company. Increasing our value means establishing relationships and strengthening rapport with our creditors.

To ensure the timely repayment of our loans and compliance to the covenant terms of our loan agreements, we employ a capital management strategy that safeguards our strong credit rating and healthy capital ratios.

This strategy allows us to support our business operations, while protecting the legal rights and interests of our creditors.

Government

Our partnerships with Philippine government regulators, local government units, and key sectoral groups have resulted in the availability of affordable energy to millions of Filipinos.

Moreover, our royalty and other tax payments to various government agencies provide significant and stable revenues to support the socio-economic programs in the country.

PRINCIPLE 16

The Company should be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

ENVIRONMENT AND COMMUNITY

Environmental Management

Our Environmental Management Policy commits to mitigate the impact of our operations and activities through the implementation of best practices in environmental monitoring and reporting for both our coal and power segments.

Pollution control facilities are installed and operated to ensure that our emissions and effluents are within applicable standards. Waste is managed appropriately, in partnership with government accredited service providers.

We strive to improve our competencies and capabilities to conduct internal testing through our in-house laboratories and environmental monitoring equipment.

Social Development

Our Social Development Policy aims to provide lasting and positive contribution to our host communities. We form interconnected web of public and private partnerships that aim to uplift the lives of people within and outside our area of influence.

We engage our regulators and local leaders in planning and implementing social development programs that contribute towards community self-sufficiency and sustainability.

Our Sustainability Development Programs (SDP) and activities are further discussed in the Corporate Sustainability & Responsibility section.

Continual Improvement

Our Company integrates value chain processes that minimize pollution and damage to the environment through our integrated Environment, Safety and Health (ESH) management system.

Using relevant environmental and social responsibility performance standards, we developed a Risk Assessment process (e.g. Hazard & Operability/HAZOP, ESH Risk Assessment, Awareness and Preparedness for Emergencies at Local Level/APELL) that helps ensure that the environmental impacts of our coal mining activity, power generation, products, and services are properly identified and evaluated.

Our close partnerships with local government units and key sectors have also resulted in community-based emergency preparedness initiatives such as disaster and risk reduction management workshops and drills.

ENVIRONMENTAL STEWARDSHIP AND SUSTAINABILITY IN OUR VALUE CHAIN

LAND RESOURCES MANAGEMENT

- Reforestation
- Rehabilitation of depleted Unong
- Accelerated rehabilitation of the South Panian Mine

WATER RESOURCES MANAGEMENT

- Desalination Plant for industrial and domestic use of employees in company housing
- Freshwater and seawater monitoring
- Construction of pocket sumps along conveyor lines to control siltation
- Settling ponds around the mine pit to impound water runoff and control siltation
- Potable Water Monitoring
- Effluent Quality Monitoring
  - i. Neutralization Pond
  - ii. Waste storage Pond
  - iii. Oil/Water Separator Pond
  - iv. Coal Sedimentation Pond

WASTE MANAGEMENT

- Waste Segregation at source
- Material Recovery Facility for recyclable materials
- Bioreactor/ Composting Facility for biodegradable waste
- Hazardous Waste Storage Facility
- Secondary Containment for stored chemicals (i.e., diesel, lubes, and oil)
- Conducting Emergency Preparedness and Response (EPR) Trainings and Drills
- Spill Prevention and Response Equipment

ENVIRONMENTAL STEWARDSHIP

- Mangrove Propagation
- Marine Hatchery and Laboratory
- Conducting of Terrestrial Ecology Assessment
- Conducting of Marine Ecology Assessment
- Establishment of Marine Protected Areas
- Greenhouse Gas (GHG) Accounting

Improving the quality of life in our host communities and exercising judicious use of natural resources remain our priority towards the self-sufficiency of our host communities and sustainability of the environment.

AIR QUALITY MANAGEMENT

- Installation of air pollution monitoring and control facilities of the Mine Site and Calaca power plants

    i. Control of SO2 on plant emission through limestone injection or dozing methods to regulate allowable limit in the flue gas.
    ii. Control of NOx emission through use of low NOx burners and Tangential Firing System for Boiler.
    iii. Control of Dust Particulate from plant emission through Electrostatic Precipitator and Bag Filters
    iv. Control of Dust from the coal feeding lines through installation of dust collectors at every coal transfer point
    v. Monitoring of Flue Gas Emission by installation of a Continuous Emission Monitoring System (CEMS)
    vi. Control of dust through water scrubber and mechanical dust separator

- Prevention of spontaneous combustion on Coal Stockpiles through stockpile temperature monitoring and coal compaction
- Ambient air quality monitoring
- Regular water spraying during product transfers
- Use of Euro 4 fuel for mobile equipment to reduce SO2 emission
- Covered conveyor lines coal yard and windbreak fence
- Enclosed limestone unloading area
- Greenhouse Gas (GHG) Accounting

CLIMATE CHANGE

Our Climate Change Policy recognizes the significance of climate change and acknowledges that our businesses have a direct impact on the environment.

OUR COMMITMENT

- Environmental sustainability initiatives: reforestation, disaster risk reduction, and emergency response
- Capacity building on climate change adaptation and mitigation with of internal and external stakeholders
- Development and implementation of environmental stewardship programs in host communities in partnerships with subsidiary companies and business partners
- Adopting energy-efficient technologies and energy conservation practices across the SMPC group
- Stakeholder partnerships to advance our climate change initiatives

COMMITMENT TO OUR STAKEHOLDERS

To achieve long-term sustainability and strength, we will strengthen engagement of our internal and external stakeholders through our programs and policies.

Our participation in industry associations is strategic to our collaborative role in the inclusive growth and stakeholder sustainability. We lead, support and actively engage in the promotion, development and growth of the local coal mining industry and ASEAN coal energy cooperation in the country and in the region, through our memberships in the Philippine Chamber of Coal Mines, Inc. and the AFOC National Committee of the Philippines.

Our Power subsidiary, SEM-Calaca Power Corporation, is a member of the Philippine Independent Power Producers Association which aims to advance public policies, legislation, and information on governing issues beneficial to providing adequate, reliable and affordable energy in the country.

In 2018, we partnered with the University of Asia and the Pacific's Center for Social Responsibility in the preparation of our GRI Sustainability Report and technical assistance in the GRI Guidelines as part of our sustainability roadmap.

Whistleblowing

Our Integrity Hotline provides a secure reporting channel for employees, customers, suppliers, and other stakeholders. They can raise and communicate valid complaints and confidential concerns on questionable and unethical transactions in good faith.

We expressly prohibit retaliation, intimidation, harassment, or adverse employment consequences against a reporter who raises a concern or complaint. Any such report shall be treated with due care and utmost confidentiality. Any concern of reprisal and harassment brought to our attention shall be addressed accordingly and duly investigated.

Whistleblowing reporting procedures include the use of a Hotline Report Form to guide the reporter in providing adequate information and basis to enable the Company to effectively investigate, evaluate and resolve the reported matter.

The whistleblowing mechanism is accessible through our website www.semiraramining.com or our dedicated email address hotline@semirarampc.com.

BOARD OF DIRECTORS

L-R

ROGELIO M. MURGA
Independent Director and Lead Director

JOSEFA CONSUELO C. REYES
Non-Executive Director

HERBERT M. CONSUNJI
Non-Executive Director

CESAR A. BUENAVENTURA
Non-Executive Director

ISIDRO A. CONSUNJI
Executive Director
Chairman and Chief Executive Officer

L-R

MARIA CRISTINA C. GOTIANUN
Executive Director
Executive Vice President

JORGE A. CONSUNJI
Non-Executive Director

MA. EDWINA C. LAPERAL
Non-Executive Director

HONORIO O. REYES-LAO
Independent Director

LUZ CONSUELO A. CONSUNJI
Non-Executive Director

VICTOR A. CONSUNJI*
Executive Director
Vice Chairman, President and Chief Operating Officer

**deceased December 27, 2018*

KEY OFFICERS

L-R

SHARADE E. PADILLA
Assistant Vice President
Investor & Banking Relations

CARLA CRISTINA T. LEVINA
Vice President
Chief Audit Executive

JOJO L. TANDOC
Vice President
Human Resources and
Organizational Development

JOSE ANTHONY T. VILLANUEVA
Vice President
Marketing for Coal

NENA D. ARENAS
Vice President
Chief Governance Officer
& Compliance Officer

JAIME B. GARCIA
Vice President
Procurement & Logistics

ISIDRO A. CONSUNJI
Executive Director
Chairman and Chief Executive Officer

L-R

MARIA CRISTINA C. GOTIANUN
Executive Vice President
and Chief Information Officer

JUNALINA S. TABOR
Vice President
Chief Finance Officer

JOHN R. SADULLO
Vice President
Legal & Corporate Secretary

ANTONIO R. DELOS SANTOS
Vice President
Treasury

ANDREO O. ESTRELLADO
Vice President
Power Market & Commercial Operations

KARMINE ANDREA B. SAN JUAN
Assistant Vice President
Corporate Planning Power

VICTOR A. CONSUNJI*
President
Chief Operating Officer
and Chief Risk Officer

**deceased December 27, 2018*

OTHER OFFICERS

KRISTIAN ANDERSON R. SANTOS
Manager and Officer-in-Charge Corporate Communications

TERESITA B. ALVAREZ
Consultant, Information and Communications Technology

ANTONIO C. JAYME
Consultant, Group Accounts

LEANDRO D. COSTALES, JR.
Head – Accounting and Controllership

RANDEE M. DELOS REYES
Accounting Manager

LEAH M. AGDUYENG
Manager – Internal Audit

JOSEPH D. SUSA
Manager – Internal Audit

ARIS V. POLICARPIO
Manager – Power Market and Commercial Operations

JESUS G. VILLAVICENCIO JR.
Manager – Energy Trading

MA. REBECCA T. RAMOS
Assistant Manager – Import and Export

REX C. VILLARIAS
Assistant Manager – Information and Communications Technology

CHRISTIE MAE M. VILLAVICENCIO
Group Supervisor – Treasury

MELINDA V. REYES
Officer – Property Risk and Insurance

JERALPH A. NOTARTE
Officer – Risk Advisory

CHRISTOPER E. FERNANDEZ
Officer – Administration and General Services

RANDICRIS J. TIBAYAN
Officer – Environmental, Social, and Governance

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **SEMIRARA MINING AND POWER CORPORATION** 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 prescribed financial reporting framework indicated therein, and for such internal control as management determines in necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intents to liquidate the Company or the 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 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 its opinion on the fairness of presentation upon completion of such audit.

Signed this 1st day of March 2019.

ISIDRO A. CONSUNJI
Chairman of the Board &
Chief Executive Officer

JUNALINA S. TABOR
Chief Finance Officer

STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITY FOR INTERNAL CONTROLS & RISK MANAGEMENT SYSTEMS

The Board of Directors ("Board") of SEMIRARA MINING AND POWER CORPORATION is responsible for the internal controls and risk management systems. The Board's Audit Committee assists in the oversight of the internal controls, financial reporting process, internal audit, external audit and compliance functions, while the Risk Committee assists in the oversight of the risk management process.

During the year, Management has established adequate and effective internal controls and risk management systems to provide reasonable assurance that:

- financial transactions are properly authorized, recorded, and maintained to enable the preparation of financial statements that give a true, fair, and transparent view of the Company's financial position and operating results; and

- governance processes and internal controls are strengthened, and significant risks are managed to ensure the achievement of the Company's business objectives.

Based on the assurance work performed by the internal and external auditors and the oversight duties performed by the Board's Audit Committee and Risk Committee, the Board is of the opinion that the Company's internal controls and risk management systems are adequate and effective.

March 1, 2019

Isidro A. Consunji
Chairman and Chief Executive Officer

AUDIT COMMITTEE REPORT TO THE BOARD OF DIRECTORS

FOR THE YEAR ENDED DECEMBER 31, 2018

The Audit Committee ("Committee") oversees, on behalf of the Board of Directors ("Board"), the following matters as defined in its Board-approved Audit Committee Charter:

- Financial reporting process and integrity of the financial statements,
- Internal control environment,
- External audit performance,
- Internal audit performance, and
- Compliance with legal and regulatory requirements.

Members

The Committee is comprised of three (3) Board Members, two of whom are Independent Directors. It is chaired by an Independent Director. The Committee Members meet the experience and other qualification requirements of the Securities and Exchange Commission (SEC).

Meetings

In 2018, the Audit Committee had seven (7) meetings, inclusive of one (1) joint meeting with the Board Risk Committee, one (1) executive session with the Internal Audit and one (1) executive session with the external audit SGV Partner. Meetings were presided by the Committee Chairman with attendance by all its Members, except in September 24 and November 6, 2018 when said meetings were held with a quorum.

The Management Committee, Chief Governance Officer, Finance, Legal, Internal Audit, Risk Advisory and external auditor SGV & Co are invited to the Committee Meetings to discuss updates on legal and regulatory matters, financial reporting, taxation and compliance.

The Committee Chair attended the Annual Shareholders' Meeting on May 7, 2018, to address possible shareholder queries on Committee matters.

Work Done and Issues Addressed
During the year, the Audit Committee confirms that:

- The Committee reviewed and discussed with Management and SGV & Co. the quarterly unaudited and annual audited consolidated financial statements of Semirara Mining and Power Corporation and Subsidiaries (SMPC Group) as of and for the year ended December 31, 2018. These activities were done in the context that Management has the primary responsibility for the financial statements and the reporting process, and that SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards;

- The Committee's Independent Directors exercised oversight and review of related party transactions (RPTs) that meet the threshold level stipulated per SEC regulations and requirements of material RPTs, to determine whether they are in the best interests of the Company and shareholders;

- The Committee reviewed and approved the Management representation letter before submission to SGV & Co. to ensure all representations are in line with the understanding of the Committee;

- The Committee reviewed and approved SGV & Co.'s overall audit plan, audit and non-audit services, fees and terms of engagements. It discussed with the SGV Partner without the presence of Management the related party accounts, SGV performance and fraud, if any, in a private session. It recommended to the Board the re-appointment of SGV & Co. as the Company's independent external auditor for 2019 based on SGV's performance, independence, qualifications and due regard of Management feedback;

- The Committee discussed and approved in private session without the presence of Management SMPC Group's risk-based annual audit plan and year-end internal audit (IA) report, among others. It discussed results of IA assurance work and ensured Management provided adequate resources and people talent to support the function and maintain its independence. It evaluated the effectiveness of the internal audit function; reviewed the performance and remuneration of the Chief Audit Executive (CAE) and endorsed to the Board her re-appointment as CAE;

- The Committee reviewed and discussed with the Management, SGV & Co., and Internal Audit the adequacy of internal control and ensured Management responded appropriately for the continual improvement of controls. The oversight is done in the context that Management has the responsibility and accountability for addressing internal control;

- The Committee reviewed and discussed with the Management and the Compliance Committee the significant updates on SEC, PSE, legal, tax, claims, environmental, safety and other regulatory matters. The oversight is done in the context that Management has the responsibility and accountability for compliance with legal and regulatory matters;

- The Committee conducted oversight of the Company's corporate governance framework, administration of the Code of Conduct and Business Ethics and compliance reporting of its governance practices; and

- The Committee reviewed its Charter, assessed and disclosed its performance which indicated an overall compliance level in consonance with SEC's Audit Committee performance assessment guidelines for PLCs.

Based on the reviews and discussions referred to above, and subject to the limitations on the Committee's roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors the inclusion of the Company's audited consolidated financial statements as of and for the year ended December 31, 2018 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

March 1, 2019

Honorio O. Reyes-Lao
Committee Chairman
Independent Director

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Semirara Mining and Power Corporation
2/F DMCI Plaza
2281 Don Chino Roces Avenue
Makati City

Opinion

We have audited the consolidated financial statements of Semirara Mining and Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the 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 Group 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 Group 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.

Estimation of Decommissioning and Site Rehabilitation Costs

The Group's recognized provision for decommissioning and site rehabilitation for the open pit mines of its coal mining activities amounted to ₱402.48 million as of December 31, 2018. This matter is important to our audit because the amount involved is material and the estimation of the provision requires the exercise of significant management judgment and estimation, including the use of assumptions, such as the costs of backfilling, reforestation, rehabilitation activities on marine and rainwater conservation and maintenance of the rehabilitated area, inflation rate, and discount rate.

Relevant information on the provision for decommissioning and site rehabilitation costs are disclosed in Notes 3 and 16 to the consolidated financial statements.

Audit response

We obtained an understanding of management's processes and controls in the estimation of future decommissioning and site rehabilitation costs, which involved the Group's engineers. We evaluated the competence, capabilities and objectivity of the engineers and reviewed the relevant comprehensive mine rehabilitation plans prepared by the Group's Environmental Department. We obtained an understanding from the mine site engineers about their bases for identifying and estimating the costs for various mine rehabilitation and closure activities, such as backfilling, reforestation and maintenance of the rehabilitated area. We compared the cost estimates to billings, invoices and official receipts. We also evaluated the discount and inflation rates used by comparing these to market data.

Estimation of Mineable Ore Reserves

The Group's coal mining properties totaling to ₱4,341.36 million as of December 31, 2018 are amortized using the units-of-production method. Under this method, management is required to estimate the volume of mineable ore reserves for the remaining life of the mine which is a key input to the amortization of the coal mining properties. This matter is significant to our audit because the estimation of the mineable ore reserves for the remaining life of the Group's Narra and Molave mines requires use of assumptions and significant estimation from management's specialists.

The related information on the estimation of mineable ore reserves and related coal mining properties are discussed in Notes 3 and 10 to the consolidated financial statements.

Audit response

We obtained an understanding of and performed test of controls on management's processes and controls in the estimation of mineable ore reserves. We evaluated the competence, capabilities and objectivity of management's specialists, both internal and external, engaged by the Group to perform an assessment of the ore reserves. We reviewed the internal and external specialists' report and obtained an understanding of the nature, scope and objectives of their work and basis of estimates, including the changes in the reserves during the year. We also tested the application of the estimated ore reserves in the amortization of mining properties.

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, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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 Dhonabee B. Señeres.

SYCIP GORRES VELAYO & CO.

Dhonabee B. Señeres

Dhonabee B. Señeres
Partner
CPA Certificate No. 97133
SEC Accreditation No. 1196-AR-2 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 201-959-816
BIR Accreditation No. 08-001998-98-2018,
February 2, 2018, valid until February 1, 2021
PTR No. 7332614, January 3, 2019, Makati City

March 1, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 30, 31 and 32)	**₱1,902,951,523**	₱8,470,908,677
Receivables (Notes 5, 19, 30 and 31)	**7,300,895,192**	6,475,048,571
Inventories (Notes 7, 10 and 21)	**12,363,382,880**	5,914,112,470
Investment in joint venture (Note 8)	**51,112,153**	50,731,694
Other current assets (Notes 6, 9 and 29)	**4,120,881,022**	2,087,453,059
Total Current Assets	**25,739,222,770**	22,998,254,471
Noncurrent Assets		
Property, plant and equipment (Notes 10 and 12)	**43,519,724,033**	43,014,048,021
Deferred tax assets - net (Note 26)	**435,083,927**	450,223,386
Other noncurrent assets (Notes 6, 9, 12, 30 and 31)	**1,354,907,494**	2,133,879,811
Total Noncurrent Assets	**45,309,715,454**	45,598,151,218
	₱71,048,938,224	₱68,596,405,689
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 15, 19, 30 and 31)	**₱9,946,029,822**	₱10,851,312,129
Short-term loans (Notes 13, 30 and 31)	**5,872,231,984**	–
Current portion of long-term debt (Notes 14, 30 and 31)	**4,553,841,941**	3,555,960,317
Total Current Liabilities	**20,372,103,747**	14,407,272,446
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 30 and 31)	**10,042,954,442**	14,468,517,855
Provision for decommissioning and site rehabilitation (Notes 3 and 16)	**423,397,560**	1,705,802,078
Pension liabilities (Note 20)	**215,999,554**	234,211,910
Deferred tax liability - net (Note 26)	**61,796,317**	54,990,685
Other noncurrent liabilities (Notes 12 and 19)	**–**	46,231,575
Total Noncurrent Liabilities	**10,744,147,873**	16,509,754,103
Total Liabilities	**31,116,251,620**	30,917,026,549
Equity		
Capital stock (Notes 17 and 30)	**4,264,609,290**	4,264,609,290
Additional paid-in capital (Note 30)	**6,675,527,411**	6,675,527,411
Retained earnings (Notes 18 and 30):		
Unappropriated	**20,468,072,403**	18,013,400,740
Appropriated	**9,300,000,000**	9,300,000,000
Net remeasurement losses on pension plan (Notes 20 and 30)	**(35,995,822)**	(86,238,763)
Treasury shares (Notes 17 and 30)	**(739,526,678)**	(487,919,538)
Total Equity	**39,932,686,604**	37,679,379,140
	₱71,048,938,224	₱68,596,405,689

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUE FROM CONTRACTS WITH CUSTOMERS (Note 33)			
Coal	**₱23,185,658,133**	₱23,489,590,552	₱20,079,462,056
Power	**18,782,854,690**	20,453,898,667	16,504,913,084
	41,968,512,823	43,943,489,219	36,584,375,140
COSTS OF SALES (Notes 21 and 33)			
Coal	**12,262,084,112**	11,910,436,213	11,013,499,805
Power	**8,582,086,177**	8,423,045,908	7,687,521,521
	20,844,170,289	20,333,482,121	18,701,021,326
GROSS PROFIT	**21,124,342,534**	23,610,007,098	17,883,353,814
OPERATING EXPENSES (Notes 22 and 33)	**(7,775,795,327)**	(8,207,029,328)	(4,998,866,240)
INCOME FROM OPERATIONS	**13,348,547,207**	15,402,977,770	12,884,487,574
OTHER INCOME (CHARGES) - Net			
Finance income (Notes 24 and 33)	**129,168,367**	96,396,798	83,238,696
Finance costs (Notes 23 and 33)	**(942,934,975)**	(718,068,456)	(598,992,706)
Foreign exchange losses - net (Note 33)	**(388,310,437)**	(392,452,957)	(403,425,989)
Other income - net (Notes 25 and 33)	**608,411,854**	1,075,615,087	938,441,998
	(593,665,191)	61,490,472	19,261,999
INCOME BEFORE INCOME TAX	**12,754,882,016**	15,464,468,242	12,903,749,573
PROVISION FOR INCOME TAX (Notes 26 and 33)	**729,500,958**	1,255,328,423	863,079,585
NET INCOME	**12,025,381,058**	14,209,139,819	12,040,669,988
OTHER COMPREHENSIVE INCOME (LOSS)			
Item not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on pension plan (Note 20)	**71,775,630**	(89,764,454)	10,151,614
Income tax effect	**(21,532,689)**	26,929,336	(3,045,484)
	50,242,941	(62,835,118)	7,106,130
TOTAL COMPREHENSIVE INCOME	**₱12,075,623,999**	₱14,146,304,701	₱12,047,776,118
Basic/Diluted Earnings per Share (Note 27)	**₱2.83**	₱3.33	₱2.82

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 17)	Additional Paid-in Capital
Balances as of January 1, 2018	**₱4,264,609,290**	**₱6,675,527,411**
Acquisition of treasury shares	–	–
Comprehensive income		
Net income	–	–
Other comprehensive income	–	–
Total comprehensive income	–	–
Cash dividends declared	–	–
Balances as of December 31, 2018	**₱4,264,609,290**	**₱6,675,527,411**
Balances as of January 1, 2017	₱1,068,750,000	₱6,675,527,411
Acquisition of treasury shares	–	–
Comprehensive income		
Net income	–	–
Other comprehensive income	–	–
Total comprehensive income	–	–
Stock dividends declared	3,195,859,290	–
Cash dividends declared	–	–
Reversal of appropriations	–	–
Appropriations	–	–
Balances as of December 31, 2017	₱4,264,609,290	₱6,675,527,411
Balances as of January 1, 2016	₱1,068,750,000	₱6,675,527,411
Acquisition of treasury shares	–	–
Comprehensive income		
Net income	–	–
Other comprehensive income	–	–
Total comprehensive income	–	–
Cash dividends declared	–	–
Appropriations	–	–
Balances as of December 31, 2016	₱1,068,750,000	₱6,675,527,411

See accompanying Notes to Consolidated Financial Statements.

Retained Earnings Unappropriated (Note 18)	Retained Earnings Appropriated (Note 18)	Remeasurement Gains (Losses) on Pension Plan (Note 20)	Treasury Shares (Note 17)	Total
For the Year Ended December 31, 2018				
₱18,013,400,740	**₱9,300,000,000**	**(₱86,238,763)**	**(₱487,919,538)**	**₱37,679,379,140**
–	**–**	**–**	**(251,607,140)**	**(251,607,140)**
12,025,381,058	**–**	**–**	**–**	**12,025,381,058**
–	**–**	**50,242,941**	**–**	**50,242,941**
12,025,381,058	**–**	**50,242,941**	**–**	**12,075,623,999**
(9,570,709,395)	**–**	**–**	**–**	**(9,570,709,395)**
₱20,468,072,403	**₱9,300,000,000**	**(₱35,995,822)**	**(₱739,526,678)**	**₱39,932,686,604**
For the Year Ended December 31, 2017				
₱19,152,984,511	₱7,800,000,000	(₱23,403,645)	(₱387,547,028)	₱34,286,311,249
–	–	–	(100,372,510)	(100,372,510)
14,209,139,819	–	–	–	14,209,139,819
–	–	(62,835,118)	–	(62,835,118)
14,209,139,819	–	(62,835,118)	–	14,146,304,701
(3,195,859,290)	–	–	–	–
(10,652,864,300)	–	–	–	(10,652,864,300)
3,000,000,000	(3,000,000,000)	–	–	–
(4,500,000,000)	4,500,000,000	–	–	–
₱18,013,400,740	₱9,300,000,000	(₱86,238,763)	(₱487,919,538)	₱37,679,379,140
For the Year Ended December 31, 2016				
₱13,887,314,523	₱5,300,000,000	(₱30,509,775)	₱–	₱26,901,082,159
–	–	–	(387,547,028)	(387,547,028)
12,040,669,988	–	–	–	12,040,669,988
–	–	7,106,130	–	7,106,130
12,040,669,988	–	7,106,130	–	12,047,776,118
(4,275,000,000)	–	–	–	(4,275,000,000)
(2,500,000,000)	2,500,000,000	–	–	–
₱19,152,984,511	₱7,800,000,000	(₱23,403,645)	(₱387,547,028)	₱34,286,311,249

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱12,754,882,016**	₱15,464,468,242	₱12,903,749,573
Adjustments for:			
Depreciation and amortization (Notes 10, 12, 21 and 22)	**7,784,475,344**	6,570,624,945	3,680,181,127
Finance costs (Note 23)	**942,934,975**	718,068,456	598,992,706
Provision for decommissioning and site rehabilitation (Note 21)	**436,522,946**	147,269,942	1,089,423,459
Pension expense (Note 20)	**60,980,688**	51,148,930	45,927,827
Net unrealized foreign exchange gains	**53,699,446**	(52,477,164)	(47,305,303)
Equity in net loss (earnings) of joint venture	**(380,459)**	1,653,360	–
Loss (gain) on sale of equipment (Notes 10 and 25)	**(22,683,475)**	(126,227,184)	174,667
Unrealized gain on financial assets at FVPL (Note 6)	**(25,775,773)**	(219,668,003)	–
Finance income (Note 24)	**(129,168,367)**	(96,396,798)	(83,238,696)
Provision for impairment loss (Note 22)	**–**	156,068,023	–
Operating income before changes in operating assets and liabilities	**21,855,487,341**	22,614,532,749	18,187,905,360
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(825,846,621)**	(789,466,973)	(2,904,811,237)
Other current assets	**(2,033,777,003)**	880,693,342	(258,648,262)
Inventories	**(5,557,602,875)**	144,000,773	(1,935,968,016)
Increase (decrease) in trade and other payables and provision for decommissioning and site rehabilitation	**(2,486,077,110)**	(1,443,682,694)	5,608,306,910
Cash generated from operations	**10,952,183,732**	21,406,077,197	18,696,784,755
Interest received	**129,168,367**	96,396,798	83,238,696
Income taxes paid	**(729,088,556)**	(1,303,057,213)	(790,821,132)
Interest paid	**(841,687,302)**	(604,901,388)	(696,337,575)
Pension settlement (Note 20)	**(7,417,415)**	(20,736,252)	(8,724,213)
Net cash provided by operating activities	**9,503,158,826**	19,573,779,142	17,284,140,531
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (including borrowing cost) (Notes 10 and 32)	**(9,528,471,843)**	(6,340,889,728)	(6,166,270,591)
Exploration and evaluation asset (Notes 10 and 12)	**–**	–	(1,932,281,360)
Investment in joint venture (Note 8)	**–**	–	(52,385,054)
Computer software (Note 12)	**(10,640,402)**	(9,948,827)	(7,220,424)
Proceeds from sale of equipment (Note 10)	**158,610,324**	126,227,184	3,000,000
Decrease (increase) in:			
Investment in sinking fund (Note 11)	**–**	68,716,379	391,517,638
Other noncurrent assets (Note 12)	**808,263,986**	(1,398,416,767)	1,039,651,801
Decrease in other noncurrent liabilities (Note 12)	**–**	(1,094,351,764)	(829,158,729)
Net cash used in investing activities	**(8,572,237,935)**	(8,648,663,523)	(7,553,146,719)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 13, 14 and 32)	**7,859,848,705**	6,535,000,000	10,823,782,102
Acquisition of treasury shares (Notes 17 and 32)	**(251,607,140)**	(100,372,510)	(387,547,028)
Payments of:			
Loans (Notes 13, 14 and 32)	**(5,526,691,188)**	(5,223,502,036)	(13,478,092,863)
Dividends (Notes 18 and 32)	**(9,571,357,480)**	(10,651,501,099)	(4,275,000,000)
Net cash used in financing activities	**(7,489,807,103)**	(9,440,375,645)	(7,316,857,789)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(9,070,942)**	(6,871,147)	(166,704,552)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(6,567,957,154)**	1,477,868,827	2,247,431,471
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**8,470,908,677**	6,993,039,850	4,745,608,379
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,902,951,523**	₱8,470,908,677	₱6,993,039,850

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Semirara Mining and Power Corporation (SMPC or the Parent Company) is a corporation incorporated in the Philippines on February 26, 1980 with a corporate life of 50 years from the date of incorporation. The Parent Company's registered and principal office address is at 2/F DMCI Plaza, 2281 Don Chino Roces Avenue, Makati City. The Parent Company's shares of stock are listed and currently traded at the Philippine Stock Exchange (PSE). The Parent Company is a 56.65%-owned subsidiary of DMCI Holdings, Inc. (DMCI-HI), a publicly-listed entity in the Philippines and its ultimate parent company.

The Parent Company and its subsidiaries are collectively referred to herein as "the Group".

The Group's primary purpose is to search for, prospect, explore, dig and drill, mine, exploit, extract, produce, mill, purchase or otherwise acquire, store, hold transport, use experiment with, market, distribute, exchange, sell and otherwise dispose of, import, export and handle, trade, and generally deal in, ship coal, coke, and other coal products of all grades, kinds, forms, descriptions and combinations and in general the products and by-products which may be derived, produced, prepared, developed, compounded, made or manufactured there; to acquire, own, maintain and exercise the rights and privileges under the coal operating contract within the purview of Presidential Decree No. 972, *"The Coal Development Act of 1976"*, and any amendments thereto and to acquire, expand, rehabilitate and maintain power generating plants, develop fuel for generation of electricity and sell electricity to any person or entity through electricity markets, among others.

The consolidated financial statements as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were authorized for issue by the Board of Directors (BOD) on March 1, 2019.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The Parent Company's functional currency and the Group's presentation currency is the Philippine Peso (₱). All amounts are rounded-off the nearest Peso, except when otherwise indicated.

<u>Statement of Compliance</u>
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries (which are all incorporated in the Philippines) as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018:

	Effective Rates of Ownership		
	2018	2017	2016
Sem-Calaca Power Corporation (SCPC)	**100.00 %**	100.00 %	100.00 %
Sem-Calaca RES Corporation (SCRC)[1]	**100.00**	100.00	100.00
Southwest Luzon Power Generation Corporation (SLPGC)	**100.00**	100.00	100.00
SEM-Cal Industrial Park Developers, Inc. (SIPDI)	**100.00**	100.00	100.00
Semirara Claystone, Inc. (SCI)	**100.00**	100.00	100.00
Semirara Energy Utilities, Inc. (SEUI)	**100.00**	100.00	100.00
Southeast Luzon Power Generation Corporation (SELPGC)[2]	**100.00**	100.00	100.00

1. Wholly-owned subsidiary of SCPC. Started commercial operations on August 29, 2018.
2. Formerly SEM-Balayan Power Generation Corporation (SBPGC).

Except for SCPC, SLPGC and SCRC, the other subsidiaries have not yet started commercial operations as of December 31, 2018.

In 2016, St. Rafael Power Generation Corporation (SRPGC) became a joint venture when Meralco PowerGen Corporation (MGen) subscribed to the remaining unissued capital stock of SRPGC (see Note 8).

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intra-group assets and liabilities, equity, income, expenses, dividends and cash flows relating to transactions between components of the Group are eliminated in full on consolidation.

Consolidation of a subsidiary begins when the entity obtains control over the subsidiary and ceases when the entity loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of financial position and consolidated statement of comprehensive income from the date the Group gains control until the date the entity ceases to control the subsidiary.

Control is achieved when the entity 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 entity controls an investee if and only if the entity has the following element:

- 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.

Generally, there is a presumption that a majority of voting rights results in control. To support the presumption and when the entity has less than a majority of the voting or similar rights of an investee, the entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting and potential voting rights

The entity re-assesses 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. If the entity loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity, while any resulting in gain or loss is recognized in profit or loss. Any investment retained is measured at fair value.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. 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 noncontrolling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed in the consolidated statement of comprehensive income.

When the Group 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, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments* is measured at fair value with the changes in fair value recognized in the consolidated statement of profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests 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 Group 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 recognised 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 recognised in profit or loss.

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 Group's cash-generating units 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 cash-generating unit (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 cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of comprehensive income.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill or profit or loss is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended standards and improvements which the Group has adopted starting January 1, 2018.

New and Amended Standards and Interpretations

The Group applied PFRS 15 and PFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

- 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 its 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 extensive disclosures.

  The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under the modified retrospective 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 cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information is not restated and continues to be reported under PAS 18 and related Interpretations. The Group elected to apply the standard only to those contracts not completed as at January 1, 2018.

The Group's revenue from contracts with customers comprises two main sales streams: coal and power. The Group undertook an analysis of the impact of the new revenue standard based on a review of the contractual terms of its revenue streams, with the primary focus being to understand whether the timing and amount of revenue recognised could differ under PFRS 15. For the Group's revenue streams, the nature and timing of satisfaction of the performance obligations, and, hence, the amount and timing of revenue recognized under PFRS 15, is the same as that under PAS 18 (i.e., point in time for sale of coal and over time for the sale of power).

The adoption of PFRS 15 did not have a significant impact on the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of comprehensive income and cash flows for each of the three years in the period ended December 31, 2018. The adoption did not also have a material impact on OCI or the Group's operating, investing and financing cash flows.

- PFRS 9, *Financial Instruments*
  PFRS 9, replaces PAS 39, *Financial Instruments*: *Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Group applied PFRS 9 using the modified retrospective approach, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. Any differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.

  The impact of adoption of PFRS 9 are described below:

  (a) Classification and measurement
  Under PFRS 9, debt instruments are subsequently measured at FVPL, at amortized cost, or at fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

  The assessment of the Group's business model was made as of the date of initial application at January 1, 2018, and then applied retrospectively to these financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

  The classification and measurement requirements of PFRS 9 did not have a significant impact on the Group. The following are the changes in the classification of the Group's financial assets and liabilities:

  - Cash and cash equivalents, receivables and environmental guarantee fund previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost.

  - Trade and other payables and long term debt previously classified as other financial liabilities are now classified and measured as financial liabilities at amortized cost. The Group has not designated any financial liabilities as at fair value through profit or loss.

There are no changes in classification and measurement of the Group's derivative instrument classified as financial asset at FVPL.

(b) *Impairment*
The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to record an allowance for expected credit losses for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For 'trade receivables' presented under receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group 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 cash and cash equivalents and environmental guarantee fund, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard & Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

There were no adjustments on other items of the primary financial statements such as deferred taxes, income tax expense, and retained earnings upon adoption of PFRS 9.

- Philippine Interpretations Committee (PIC) Q&A 2018-15, PAS 1, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Noncurrent starting January 1, 2018*
This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (e.g., inventory, investment property, property plant and equipment).

  As a result of adoption, advances to contractors and suppliers amounting to ₱1,335.39 million previously presented under current assets as of December 31, 2017, representing prepayments for the acquisition and construction of property, plant and equipment was reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based on the timing of application of these advances against billings and timing of delivery of goods and services (see Notes 9 and 12).

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment

transaction changes its classification from cash settled to equity settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the consolidated financial statements.

- 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)
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss (FVPL). They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The amendments are not applicable to the Group as the Group does not measure its investments at FVPL.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*s
The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

Since the Group's current practice is in line with the clarifications issued, the adoption of the interpretation did not have significant impact to the consolidated financial statements.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  The adoption of these amendments did not have any impact on the consolidated financial statements.

Standards Issued But Not Yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements 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.

  These amendments are not expected to have any impact on the consolidated financial statements of the Group.

- 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 be also 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.

Early application is permitted, but not before an entity applies PFRS 15. 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 Group expects the standard to impact its operating lease arrangements for land which will require recognition of right of use asset and its related liability in the consolidated financial statements. The Group does not expect significant impact of the standard to its lease arrangements as lessor.

- 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.

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

  Since the Group currently does not have such long-term interests in its associate and joint venture, the amendments are not expected to have any impact on its consolidated financial statements.

- 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; and,
  - 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 uncertain tax treatments. The approach that better predicts the resolution of uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

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.

  These amendments are currently not applicable to the Group but may apply to future transactions.

- 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. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- 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.

The Group has yet to evaluate the impact on its consolidated financial statements of the adoption of these amendments.

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 Group.

- 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.

Deferred effectivity

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

  On January 13, 2016, the Financial Reporting Standards Council 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.

  The Group is currently assessing the impact of these amendments.

Significant Accounting Policies and Disclosures

Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statement of financial position comprise cash in banks and on hand and short-term deposits with an original maturity of three (3) months or less, but excludes any restricted cash that is not available for use by the Group and therefore is not considered highly liquid.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Fair Value Measurement

The Group measures financial assets at FVPL at fair value and discloses the fair value of financial instruments measured at amortized cost at each reporting date. 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 to by the Group.

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group 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 date.

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Deferred Financing Costs
Deferred financing costs represent debt issue costs arising from the fees incurred to obtain project financing. This is included in the initial measurement of the related debt. The deferred financing costs are treated as a discount on the related debt and are amortized using the effective interest rate (EIR) method over the term of the related debt.

Recognition and Measurement of Financial Instruments (Effective January 1, 2018)
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through OCI and FVPL.

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under PFRS 15 (refer to the accounting policies in *Revenue from contracts with customers*).

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 Group commits to purchase or sell the asset.

As of December 31, 2018, the Group's financial assets compromise of financial assets at amortized cost and financial assets at FVTPL.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- the asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash and cash equivalents, receivables and environmental guarantee fund presented under other noncurrent assets.

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
(a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
(b) Selling and 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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statements of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group has no debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. 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. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at

amortized cost or at fair value through OCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

This category includes derivatives arising from contracts for differences entered with a third party as disclosed in Note 6 to consolidated financial statements and is included under 'Other current and noncurrent assets' in the consolidated statement of financial position.

A derivative embedded in a hybrid contract, with a financial liability or nonfinancial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or,
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group 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 Group could be required to repay.

Impairment of financial assets
The Group recognizes an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original

EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group 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.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities are trade and other payables (except statutory payables), short-term loans and long-term debt.

Subsequent measurement

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

Financial liabilities at FVPL

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. 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 comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at FVPL.

Loans and borrowings (Financial liabilities at amortized cost)
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss 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 as finance costs in consolidated comprehensive income.

This category generally applies to trade and other payables, short-term loans and long-term debt.

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

Offsetting of financial instruments
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.

Recognition and Measurement of Financial Instruments (Prior to Adoption of PFRS 9)

Financial Assets and Financial Liabilities
Date of recognition
The Group recognizes a financial asset or a financial liability on the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at FVPL. Financial assets in the scope of PAS 39, *Financial Instruments: Recognition and Measurement,* are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets, or available-for-sale (AFS) financial assets, as appropriate.

Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities.

The Group's financial assets and financial liabilities are of the nature of loans and receivables, financial assets at FVPL, and other financial liabilities.

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

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within 12 months from reporting date otherwise, these are classified as noncurrent assets. This accounting policy relates to the consolidated statement of financial position accounts 'Cash and cash equivalents', 'Receivables', and 'Environmental guarantee fund' under other noncurrent assets.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR and transaction costs. The amortization is included in 'Finance income' in the consolidated statement of comprehensive income.

Gains and losses are recognized in the consolidated statement of comprehensive income when the financial assets at fair value at through profit or loss, loans and receivables are derecognized or impaired as well as through amortization process.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. 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. The Group has not designated any financial assets at FVPL. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as 'Gain on financial assets at FVPL' under 'Other income' in the consolidated statement of comprehensive income.

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 fair value through profit or loss. These embedded derivatives are measured at fair value with changes in FVPL. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL category.

Financial assets at FVPL relates to derivatives arising from contracts for differences entered with a third party as disclosed in Note 6 to consolidated financial statements and is included under 'Other current and noncurrent assets' in the consolidated statement of financial position.

Other financial liabilities
Other financial liabilities pertain to issued financial instruments that are not classified or designated as financial liabilities at FVPL and contain contractual obligations to deliver cash or other financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include trade and other payables, short-term loans and long-term debt. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, trade and other payables (except for output VAT payable), short-term loans and long-term debts are subsequently measured at amortized cost using the EIR method. Gains or losses are recognized in consolidated statement of comprehensive income when liabilities are derecognized, as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized under the 'Foreign exchange losses (gains)' in consolidated statement of comprehensive income.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) 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 borrower or a group of borrowers 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 where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for 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 assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income during the period in which it arises. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery has been realized and all collateral has been realized or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Instruments

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 Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group 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 Group has retained.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

<u>Offsetting of Financial Instruments</u>
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 set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right to 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 Group and all of the counterparties.

<u>Inventories</u>
Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale for coal inventory or replacement cost for spare parts and supplies. Cost is determined using the weighted average production cost method for coal inventory and the moving average method for spare parts and supplies.

The cost of extracted coal includes stripping costs and other mine-related costs incurred during the period and allocated on per metric ton basis by dividing the total production cost with total volume of coal produced. Except for shiploading cost, which is a period cost, all other production related costs are charged to production cost. Spare parts and supplies are usually carried as inventories and are recognized in the consolidated statement of comprehensive income when consumed.

Inventories transferred to property, plant and equipment are used as a component of self-constructed property, plant and equipment and are recognized as expense during useful life of that asset. Transfers of inventories to property, plant and equipment do not change the carrying amount of the inventories.

<u>Exploration and Evaluation Asset</u>
Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity includes:

- Researching and analyzing historical exploration data
- Gathering exploration data through geophysical studies
- Exploratory drilling and sampling
- Determining and examining the volume and grade of the resource
- Surveying transportation and infrastructure requirements
- Conducting market and finance studies

License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortized over the term of the permit. Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to consolidated statement of comprehensive income as incurred, unless the Group's management concludes that a future economic benefit is more likely than not to be realized. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating whether the expenditures meet the criteria to be capitalized, several different sources of information are used. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Expenditure is transferred from 'Exploration and evaluation asset' to 'Mine properties, mining tools and other equipment' which is included under 'Property, plant and equipment' once the work completed to date supports the future development of the property and such development receives appropriate approvals.

After transfer of the exploration and evaluation asset, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized in 'Mine properties, mining tools and other equipment'.

Stripping Costs

As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalized as part of the cost of mine properties and subsequently amortized over its useful life using the units-of-production method over the mine life. The capitalization of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

After the commencement of production further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The costs of such stripping are accounted for in the same way as development stripping (as discussed above). Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the coal body to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a noncurrent asset, referred to as a stripping activity asset, if the following criteria are met:

- Future economic benefits (being improved access to the coal body) are probable;
- The component of the coal body for which access will be improved can be accurately identified; and,
- The costs associated with the improved access can be reliably measured.

If all of the criteria are not met, the production stripping costs are charged to the consolidated statement of comprehensive income as operating costs as they are incurred.

In identifying components of the coal body, the Group works closely with the mining operations department for each mining operation to analyze each of the mine plans. Generally, a component will be a subset of the total coal body, and a mine may have several components. The mine plans, and therefore the identification of components, can vary between mines for a number of reasons. These include, but are not limited to: the type of commodity, the geological characteristics of the coal body, the geographical location, and/or financial considerations.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of coal body, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the inventory produced and the stripping activity asset are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the coal body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is included as part of 'Mine properties, mining tools and other equipment' under 'Property, plant and equipment' in the consolidated statement of financial position. This forms part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

The stripping activity asset is subsequently depreciated using the units-of-production method over the life of the identified component of the coal body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the coal body. The stripping activity asset is then carried at cost less amortization and any impairment losses.

Mineable Ore Reserves

Mineable ore reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its mineable ore reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and require complex geological judgments to interpret the data. The estimate on the mineable ore reserve are determined based on the information obtained from activities such as drilling, core logging or geophysical logging, coal sampling, sample database encoding, coal seam correlation and geological modelling. The Group will then estimate the recoverable reserves based upon factors such as estimates of commodity prices, future capital requirements, foreign currency exchange rates, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact the amortization of mine properties included as part of 'Mine properties, mining tools and other equipment' under 'Property, plant and equipment'.

Property, Plant and Equipment

Upon completion of exploration, evaluation and development of the mine, the capitalized assets are transferred into property, plant and equipment. Items of property, plant and equipment except land, equipment in transit and construction in progress are carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment also comprises its purchase price or construction cost, including non-refundable import duties, taxes, borrowing costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the year when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, and the costs of these items can be measured reliably, the expenditures are capitalized as an additional cost of the property, plant and equipment. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Equipment in transit and construction in progress, included in property, plant and equipment, are stated at cost. Construction in progress includes the cost of the construction of property, plant and equipment and, for qualifying assets, borrowing cost. Equipment in transit includes the acquisition cost of mining equipment and other direct costs.

Mine properties consists of stripping activity asset and expenditures transferred from 'Exploration and evaluation asset' once the work completed supports the future development of the property. Mine properties are depreciated or amortized on a units-of-production basis over the economically mineable reserves of the mine concerned. Mine properties are included as part of 'Mine properties, mining tools and other equipment' under 'Property, plant and equipment' in the consolidated statement of financial position.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation of property, plant and equipment commences once the assets are put into operational use.

Depreciation of property, plant and equipment are computed on a straight-line basis over the estimated useful lives (EUL) of the respective assets or over the remaining life of the mine, whichever is shorter, as follows:

	Years
Mining tools and other equipment	2 to 3
Power plant and buildings	10 to 25
Roads and bridges	17

The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Land is stated at historical cost less any accumulated impairment losses. Historical cost includes the purchase price and directly attributable costs.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. When assets are retired, or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year the item is derecognized.

<u>Intangible Assets</u>
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 comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting date. Changes in the 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 comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 comprehensive income when the asset is derecognized.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales of the consolidated statement of income. During the period of development, the asset is tested for impairment annually.

Input Value-Added Taxes (VAT)
Input tax represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is applied against output VAT. The balance, net of the related allowance, is recoverable in future periods. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability.

Input tax is recorded under current and noncurrent assets in the consolidated statement of financial position.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Investment in Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in joint venture is accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized and is not tested for impairment individually.

Other Assets

Other assets pertain to all other resources controlled by the Group as a result of past events and from which future economic benefits are probable to flow to the Group.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets (investment in joint venture, intangible asset, input VAT, and property, plant and equipment) may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

Investment in joint venture

The Group determines at each reporting date whether there is any objective evidence that the investment in joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount (i. e. higher between fair value less cost to sell and value in use) and the carrying value of the investee company and recognizes the difference in the consolidated statement of comprehensive income.

Property, plant and equipment

An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

For property, plant and equipment, reversal is recognized in the consolidated statement of comprehensive income, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Current and Noncurrent Classification</u>
The Group presents assets and liabilities in consolidated statement of financial position based on current/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 12 months after reporting date; or
- cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.

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 12 months after reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent.

<u>Revenue Recognition (Effective January 1, 2018)</u>

Revenue from Contracts with Customers
The Group primarily derives its revenue from the sale of coal and power. Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for

those goods or services. The Group has generally concluded that it is acting as principal in all of its significant revenue arrangements since it is the primary obligor in these revenue arrangements.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Sale of coal
Revenue is recognized when control passes to the customer, which occurs at a point in time when the coal is physically transferred onto a vessel or other delivery mechanism. The revenue is measured at the amount to which the Group expects to be entitled, being the price expected to be received upon final billing, and a corresponding trade receivable is recognized.

Revenue from local and export coal sales are denominated in Philippine Peso and US Dollar (US$), respectively.

Contract energy sales
Revenue from contract energy sales are derived from providing and selling electricity to customers of the generated and purchased electricity. The Group recognizes revenue from contract energy sales over time, using an output method measured principally on actual energy delivered each month.

Spot electricity sales
Revenue from spot electricity sales are derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market, also known as Wholesale Electricity Spot Market (WESM), the market where electricity is traded, as mandated by Republic Act (RA) No. 9136 of the Department of Energy (DOE). Revenue from spot electricity sales is recognized over time using an output method measured principally on actual excess generation delivered to WESM.

Under PFRS 15, the Group has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power. In this case, any fixed capacity payments for the entire contract period is determined at contract inception and is recognized over time. The Group has concluded that revenue should be recognized over time and will continue to recognize revenue based on amounts billed.

The adoption of PFRS 15 has no impact to the consolidated balance sheets, statements of income, statements of comprehensive income and statements of cash flows.

Revenue Recognition (Prior to Adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its significant revenue arrangements since it is the primary obligor in these revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of coal
Revenue from coal sales is recognized upon acceptance of the goods delivered when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from local and export coal sales are denominated in Philippine Peso and US$, respectively.

Contract energy sales
Revenue from contract energy sales are derived from providing and selling electricity to customers of the generated and purchased electricity. Revenue is recognized based on the actual energy received or actual energy nominated by the customer, net of adjustments, as agreed upon between parties.

Spot electricity sales
Revenue from spot electricity sales are derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market, also known as WESM, the market where electricity is traded, as mandated by RA No. 9136 of the DOE. Revenue is recognized based on the actual excess generation delivered to the WESM.

<u>Cost of Sales</u>
Cost of coal
Cost of coal includes directly related production costs such as materials and supplies, fuel and lubricants, outside services, depreciation and amortization, provision for decommissioning and site rehabilitation, direct labor and other related production overhead. These costs are recognized when the related revenue is recognized.

Cost of power
Cost of power includes costs directly related to the production and sale of electricity such as cost of coal, coal handling expenses, bunker, lube, diesel, depreciation and other related production overhead costs. Cost of power are recognized at the time the related coal, bunker, lube and diesel inventories are consumed for the production of electricity. Cost of power also includes electricity purchased from the spot market and its related market fees. These costs are recognized when the Group receives the electricity and simultaneously sells to its customers.

<u>Contract balances</u>
Trade receivables
Trade receivables represent the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract fulfillment costs
The Group incurs shiploading costs for each coal delivery made under its contracts with customers. The Group has elected to apply the optional practical expedient for costs to fulfill a contract which allows the Group to immediately expense shiploading costs (presented as part of cost of sales under 'Hauling and shiploading costs') because the amortization period of the asset that the Group otherwise would have used is one (1) year or less.

Finance income
Finance income is recognized as it accrues (using the EIR method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets).

Other income
Other income is recognized when receipts of economic benefits are virtually certain and comes in the form of inflows or enhancements of assets or decreases of liabilities that results in increases in equity, other than from those relating to contributions from equity participants.

Operating Expenses
Operating expenses are expenses that arise in the course of the ordinary operations of the Group. These usually take the form of an outflow or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distribution to equity participants. Expenses are recognized in the consolidated statement of comprehensive income as incurred.

Borrowing Costs
Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short term, out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

Pension Cost
The Group has a noncontributory defined benefit plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit liability at the end of reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated statement of comprehensive income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related liabilities). If the fair value of the plan assets is higher than the present value of the defined benefit liability, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly within 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of reporting date.

<u>Income Tax</u>
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 Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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 tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred 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 profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Provisions

Provisions are recognized only when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Provision for decommissioning and site rehabilitation

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes closure of plants, dismantling and removing of structures, backfilling, reforestation, rehabilitation activities on marine and rainwater conservation and maintenance of rehabilitated area.

The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets and restoration of power plant sites. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. It requires consideration as to whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of 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 a substantial change to the asset.

Where a 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) and at the date of the renewal or extension period for scenario (b).

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership. Operating lease payments are recognized in 'Outside services' under 'Cost of coal sales' in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Foreign Currency-denominated Transactions and Translation
The consolidated financial statements are presented in Philippine Peso, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate at reporting date. All differences are taken to the consolidated statement of comprehensive income.

Equity
The Group records common stocks at par value and amount of contribution in excess of par value is accounted for as an additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings represent accumulated earnings of the Group less dividends declared, if any. Dividends on common stocks are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after reporting date are dealt with as an event after reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Earnings per Share (EPS)
Basic EPS is computed by dividing the consolidated net income for the year attributable to common shareholders (net income less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Treasury Shares
Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued, and to retained earnings for the remaining balance.

Operating Segments
The Group'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 and serves different markets. The Group generally accounts for intersegment revenues and expenses at agreed transfer prices. Income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of income after taxes. Financial information on operating segments is presented in Note 33 to the consolidated financial statements.

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

Events after Reporting Date
Post year-end events up to the date of the auditors' report that provides additional information about the Group's position at reporting date (adjusting events) are reflected in the consolidated financial statements. Any post year-end event that is not an adjusting event is disclosed when material to the consolidated financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgment
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations which have the most significant effect on the amounts recognized in the consolidated financial statements:

a. *Revenue recognition effective January 1, 2018*
The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Revenue recognition method and measure of progress*
  The Group concluded that revenue from coal sales is to be recognized at a point in time as the control transfers to customers at the date of shipment, which is consistent with the point in time when risk and rewards passed under PAS 18.

  On the other hand, the Group's revenue from power sales (both contract energy and spot electricity sales) is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the delivery of power that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits as the Group performs its obligation.

  The Group has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance of its obligation to its customers, since the customer obtains the benefit from the Group's performance based on actual energy delivered each month.

b. *Determination of components of ore bodies and allocation measures for stripping cost*
The Group has identified that each of its two active minesites, Narra and Molave, is a one whole ore body and cannot be further subdivided into smaller components due to the nature of the coal seam orientation and mine plan.

Judgment is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the coal body (i.e., stripping ratio) is the most suitable production measure. The Group recognizes stripping activity asset by comparing the actual stripping ratio during the year for each component and the component's mine life stripping ratio.

c. *Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently believes that these proceedings will not have a material adverse effect on its current financial position and results of operations. It is possible, however, that future results of operations and financial position could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 29).

Management's Use of Estimates and Assumptions
The key assumptions concerning the future and other sources of estimation uncertainty at reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. *Estimating mineable ore reserves*
The Group uses the mineable ore reserve in the determination of the amount of amortization of mine properties using units-of-production method. The Group estimates its mineable ore reserves based on the assessment performed by the external and internal specialist engaged by the Group, who are professionally qualified mining engineers and geologists. These estimates on the mineable ore resource and reserves are determined based on the information obtained from activities such as drilling, core logging or geophysical logging, coal sampling, sample database encoding, coal seam correlation and geological modelling.

The carrying values of mine properties included as part of 'Mine properties, mining tools and other equipment' under 'Property, plant and equipment' amounted to ₱4,341.36 million and ₱4,957.33 million as of December 31, 2018 and 2017, respectively (see Note 10).

b. *Estimating provision for expected credit losses of trade and other receivables*
The Group uses a provision matrix to calculate ECLs for 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 customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as inflation and foreign exchange rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The information about the ECLs on the Group's trade receivables is disclosed in Note 5.

c. *Estimating stock pile inventory quantities*
The Group estimates the coal stock pile inventory by conducting a topographic survey which is performed by in-house surveyors and third-party surveyors. The survey is conducted on a monthly basis. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus five percent (5%). Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the cost of sales for the year.

The amount of coal pile inventory is disclosed in Note 7.

d. *Estimating allowance for obsolescence in spare parts and supplies*
The Group provides 100% allowance for obsolescence on items that are specifically identified as obsolete. The amount of recorded inventory obsolescence for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for inventory obsolescence would increase the Group's recorded operating expenses and decrease its current assets.

The carrying amount of spare parts and supplies is disclosed in Note 7.

e. *Estimating recoverability of capitalized development costs*
Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

The information about the estimation of recoverability of capitalized development costs is discussed in Note 12.

f. *Estimating decommissioning and site rehabilitation costs*
The Group is legally required to fulfill certain obligations under its Department of Environment and Natural Resources (DENR) issued Environmental Compliance Certificate when its activities end in the depleted mine pits. The Group also provides for decommissioning cost for the future clean-up of its Power Plant (PP) under Section 8 of the Land Lease Agreement (LLA) upon its termination or cancellation. Significant estimates and assumptions are made in determining the provision for decommissioning and site rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities given the approved decommissioning and site rehabilitation plan, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. An increase in decommissioning and site rehabilitation costs would increase the carrying amount of the related assets and increase noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

The estimated provision for decommissioning and site rehabilitation is disclosed in Note 16.

g. *Estimating useful lives of depreciable property, plant and equipment*
The Group estimated the useful lives of its property, plant and equipment (except land, equipment in transit and construction in progress) based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, and technological changes, environmental and anticipated use of the assets.

In 2017, the BOD approved the rehabilitation of the Group's Units 1 and 2 coal-fired thermal power plant. This resulted to the scheduled replacement of the significant components of the power plant over the next three years which resulted to the accelerated recognition of depreciation expense amounting to ₱1,210.10 million and ₱840.08 million in 2018 and 2017, respectively. The Group did not expect any salvage values for the parts to be replaced.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The carrying values and movements in property, plant and equipment are disclosed in Note 10.

h. *Deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods and in reference to its income tax holiday status in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at reporting date could be impacted.

Total deductible temporary differences and NOLCO for which deferred tax assets are not recognized are disclosed in Note 26.

i. *Estimating pension and other employee benefits*
The cost of defined benefit pension plan and the present value of the pension liabilities are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These assumptions are described in Note 20 and include among others, the determination of the discount rates and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit liabilities are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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 liability.

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 management's assumption aligned with the future inflation rates.

j. *Fair value measurement of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, fair value is measured using valuation techniques using the market data approach (i.e., Monte Carlo simulation). The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. The assumptions for the fair valuation of derivatives are disclosed in Note 6.

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks	**₱1,715,872,034**	₱2,509,307,762
Cash equivalents	**187,079,489**	5,961,600,915
	₱1,902,951,523	₱8,470,908,677

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at the respective prevailing short-term placement rates ranging from 1.10% to 7.50%,1.10% to 4.10% and 0.25% to 2.50% in 2018, 2017 and 2016, respectively.

In 2018, 2017 and 2016, total interest income earned from cash and cash equivalents amounted to ₱128.65 million, ₱95.32 million and ₱78.49 million, respectively (see Note 24).

5. Receivables

This account consists of:

	2018	2017
Trade receivables - outside parties	**₱8,585,908,091**	₱7,661,303,437
Trade receivables - related parties (Note 19)	**47,521,278**	241,052,373
Others (Note 25)	**237,720,264**	117,616,237
	8,871,149,633	8,019,972,047
Less allowance for expected credit losses	**1,570,254,441**	1,544,923,476
	₱7,300,895,192	₱6,475,048,571

Trade receivables - outside parties
These are receivables from electricity sales and coal sales.

Receivables from electricity sales are claims from power distribution utilities, spot market operator and other customers for the sale of contracted energy and spot sales transactions. This also includes advances to Philippine Electricity Market Corporation (PEMC) for the adjustment of bills amounting to ₱674.00 million as of December 31, 2018 and 2017 (see Note 29). These are generally on a 30-day credit term and are carried at original invoice amounts less discounts and rebates.

Receivables from coal sales are noninterest-bearing and generally have 30 to 45 days credit terms. These receivables arise from export sales for coal sold to international market which are priced in (US$) and local sales for coal sold to domestic market which are priced in Philippine Peso.

As of December 31, 2018, and 2017, trade receivables from outside parties also include claims from Power Sector Assets and Liabilities Management (PSALM) and National Power Corporation (NPC) for the recovery of amounts charged and withheld by PSALM for spot purchases of the Group in connection with NPC's over nomination of bilateral contracted capacity to a distribution utility company for the period January to June 2010. The claim was recognized by the Group as income in 2017 after the Supreme Court has issued an Entry of Judgement in favor of the Group (see Notes 25 and 29).

On November 26, 2018, SCPC entered into a Receivable Purchase Agreement with a local bank for the sale of receivables with recourse amounting to ₱1,272.23 million. Accordingly, a Master Deed of Assignment was executed by both parties on December 11, 2018 to transfer the rights over these receivables from SCPC to the local bank; however, in the event of default by SCPC's customer, the local bank has the right to collect from SCPC. Proceeds from the financing amounted to ₱1,268.03 million. Discount arising from this agreement was recognized as 'Finance cost' in the consolidated statement comprehensive income.

As of December 31, 2018, the carrying values of the assigned receivables and short-term loan amounted to ₱1,272.23 million (see Note 13). The Group has collected the assigned receivables and paid the short-term loan on January 2, 2019 and January 3, 2019, respectively.

Trade receivables - related parties
Receivables from related parties are noninterest-bearing and due and demandable. These are generally settled in cash.

Others
Others include advances to officers, employees and receivables from sale of fly ashes. These are generally noninterest-bearing. Advances to officers and employees are recovered through salary deduction and receivables from sale of fly ash is generally settled within the 30 to 45 days credit terms.

Movements in the allowance for expected credit losses are as follows:

	2018		
	Trade receivables - outside parties	**Others**	**Total**
At January 1	**₱1,539,108,117**	**₱5,815,359**	**₱1,544,923,476**
Provision (Note 22)	**25,330,965**	**–**	**25,330,965**
At December 31	**₱1,564,439,082**	**₱5,815,359**	**₱1,570,254,441**

	2017		
	Trade receivables - outside parties	Others	Total
At January 1	₱1,538,956,231	₱5,815,359	₱1,544,771,590
Provision (Note 22)	151,886	–	151,886
At December 31	₱1,539,108,117	₱5,815,359	₱1,544,923,476

As discussed in Note 2, the Group determined the provision for credit losses using ECL model upon adoption of PFRS 9 beginning January 1, 2018. Previously credit losses are determined using the incurred loss model.

6. Financial Assets at Fair Value through Profit or Loss

In February 2017, the Group entered into a five-year option agreement (until December 2021) with a retail electricity supplier (RES) with respect to its exposure to the WESM, which agreement does not constitute the supply of power by the Group to the RES. The option agreement stipulates the rights and obligations of the Group which includes the right to receive a fixed 'Exposure Guarantee Fee' and the obligation to pay a variable 'Exposure Adjustment', depending on the behavior of the electricity spot price in the WESM against the agreed 'Strike Price', adjusted by the various indices and rates, as determined on a monthly basis. This qualified as a derivative but was not designated as a hedging instrument against the Group's exposure in the WESM.

Significant inputs to the valuation are as follows:

	2018	2017
WESM prices per kilowatt hour (kwH)	**₱2.63 to ₱3.63**	₱2.67 to ₱3.58
Philippine Peso to US$ exchange rate	**₱45.92 to ₱54.35**	₱43.28 to ₱51.80
Consumer price and coal price index	**3-year**	4-year
as of December 31	**BVAL***	PDST-R2**

*Bloomberg Valuation Service (BVAL)
**Philippine Dealing System Treasury Reference Rate (PDST - R2)

The fair value of the derivative was determined using the market data approach, Monte Carlo simulation valuation, which is categorized within Level 3 of the fair value hierarchy. Because of the complexities in the option agreement such as the optionality of the payoff and variability of strike price, the MCS methodology is deemed appropriate for the valuation. Management uses published PDST - R2 by the Philippine Dealing and Exchange Corp (PDS) in interpolation of discount rate. In October 2018, PDST reference rates was decommissioned and was replaced by BVAL reference rates hich was administered by the Bankers Association of the Philippines (BAP).

Related balances are as follows:

	2018	2017
As of December 31:		
Derivative assets	**₱245,443,777**	₱219,668,003
Less current portion (Note 9)	**81,814,592**	82,163,633
Noncurrent portion	**₱163,629,185**	₱137,504,370
For the year ended December 31:		
Realized gain (Note 25)	**₱65,817,775**	₱36,601,153
Unrealized gain (Note 25)	**25,775,773**	219,668,003

7. Inventories

This account consists of:

	2018	2017
Spare parts and supplies - at NRV	**₱9,028,865,036**	₱4,590,347,389
Coal pile inventory - at cost	**3,334,517,844**	1,323,765,081
	₱12,363,382,880	₱5,914,112,470

Coal pile inventory are stated at cost, which is lower than NRV. The cost of coal inventories recognized as 'Cost of coal sales' in the consolidated statements of comprehensive income amounted to ₱12,238.21 million, ₱11,746.47 million and ₱10,564.12 million in 2018, 2017 and 2016, respectively (see Note 21).

Coal pile inventory at cost includes capitalized depreciation of ₱891.67 million, ₱273.41 million and ₱157.31 million in 2018, 2017 and 2016, respectively (see Note 10).

Allowance for obsolescence amounted to ₱67.39 million as of December 31, 2018 and 2017. Provision for inventory obsolescence in 2016 amounted to 1.24 million (nil in 2018 and 2017, see Note 22).

8. Investment in Joint Venture

On September 10, 2013, SRPGC was incorporated to acquire, construct, erect, assemble, rehabilitate, expand, commission, operate and maintain power-generating plants and related facilities for the generation of electricity. SRPGC is in the process of developing and constructing a proposed 2x350 MW, coal-fired power plant in Calaca, Batangas.

SRPGC has authorized capital stock of ₱50.00 million divided into 50.00 million shares with a par value of ₱1.00 per share, to which the Parent Company has subscribed 25% shares of the authorized capital stock and paid ₱3.13 million of said subscription. On October 11, 2016, SRPGC increased its authorized capital stock from 50.00 million shares with a par value of ₱1.00 per share to 1,100.00 million shares with a par value of ₱1.00 per share.

On April 27, 2016, MGen, a wholly owned subsidiary of Manila Electric Company (MERALCO), entered into a Joint Venture Agreement (JVA) with the Parent Company. The joint arrangement was structured through SRPGC. MGen obtained 50% ownership interest on SRPGC through subscription of the remaining unissued capital stock of SRPGC. This resulted to the Parent Company's loss of control on SRPGC amounted to ₱6.11 million. The management assessed that SRPGC is jointly controlled by the Parent Company and MGen and accounted for SRPGC as a joint venture as each holds a 50% ownership interest in SRPGC which clearly demonstrates joint control over SRPGC and the equal representation of the Parent Company and MGen in SRPGC's BOD further signifies that there should be a unanimous consent between the two parties in order for significant activities to be undertaken by SRPGC.

On April 28, 2016, the Parent Company paid the remaining ₱9.38 million of the previously subscribed 12.50 million shares of stock with a par value of ₱1.00 per share. On May 27, 2016, the Parent Company paid a total of ₱46.00 million as additional investment in SRPGC. As of December 31, 2016, carrying value of Parent Company's investment in SRPGC amounted to ₱52.39 million.

The Parent Company's equity in net earnings (losses) of SRPGC in 2018 and 2017 amounted to ₱0.38 million and ₱1.65 million, respectively.

Even while in the development stage, SRPGC has signed a Power Supply Agreement ("PSA") with MERALCO for 400MW of its total capacity. Such PSA was filed for approval with the Energy Regulatory Commission ("ERC") on April 29, 2016. As at March 1, 2019, SRPGC is awaiting ERC approval of the PSA.

As of December 31, 2018, SRPGC has not yet started commercial operations.

9. Other Current Assets

This account consists of:

	2018	2017 (As restated, Note 2)
Advances to suppliers and contractors (Notes 12 and 19)	**₱2,681,952,764**	₱376,222,809
Input VAT - net	**824,672,501**	1,059,342,697
Creditable withholding tax	**450,079,945**	532,950,076
Financial assets at FVPL (Notes 6 and 12)	**81,814,592**	82,163,633
Prepaid insurance	**17,102,319**	8,440,713
Prepaid rent (Notes 12 and 29)	**7,499,183**	7,499,183
Others	**57,759,718**	20,833,948
	₱4,120,881,022	₱2,087,453,059

Advances to suppliers
Advances to suppliers account represent prepayments for the acquisition of materials and supplies and is expected to be realized within one year.

Input VAT
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is applied against output VAT. The balance is recoverable in future periods. Noncurrent portion of input VAT is included in 'Other noncurrent assets' (see Note 12).

Creditable withholding tax
Creditable withholding tax pertains to the amount withheld by the Group's customers from their income payment. This will be claimed as tax credit and will be used against future income tax payable.

Financial asset at FVPL
Financial asset at FVPL pertain to an option agreement entered into by the Group in 2017 and is classified as derivative that is not designated as a hedging instrument (see Note 6).

Others
Others include prepayments on real property taxes and other charges.

10. Property, Plant and Equipment

The rollforward of this account follows:

	2018					
	Land	**Mine Properties, Mining Tools and Other Equipment**	**Power Plant and Buildings**	**Roads and Bridges**	**Equipment in Transit and Construction in Progress**	**Total**
Cost						
At January 1	**₱386,884,790**	**₱27,046,920,289**	**₱40,631,356,664**	**₱825,426,050**	**₱2,166,248,988**	**₱71,056,836,781**
Additions	**–**	**4,747,700,987**	**970,251,710**	**–**	**3,810,519,146**	**9,528,471,843**
Reclassifications	**–**	**291,404,851**	**2,775,287,395**	**21,520,879**	**(3,088,213,125)**	**–**
Disposals (Note 25)	**–**	**(329,503,320)**	**(1,210,104,004)**	**–**	**–**	**(1,539,607,324)**
Adjustment (Note 16)	**–**	**(218,199,651)**	**–**	**–**	**–**	**(218,199,651)**
At December 31	**386,884,790**	**31,538,323,156**	**43,166,791,765**	**846,946,929**	**2,888,555,009**	**78,827,501,649**
Accumulated Depreciation						
At January 1	**₱–**	**₱17,875,732,159**	**₱9,649,965,459**	**₱517,091,142**	**₱–**	**₱28,042,788,760**
Depreciation and amortization (Notes 3, 7, 21 and 22)	**–**	**4,748,185,225**	**3,857,383,673**	**63,100,433**	**–**	**8,668,669,331**
Disposals (Note 25)	**–**	**(193,576,471)**	**(1,210,104,004)**	**–**	**–**	**(1,403,680,475)**
At December 31	**–**	**22,430,340,913**	**12,297,245,128**	**580,191,575**	**–**	**35,307,777,616**
Net Book Value	**₱386,884,790**	**₱9,107,982,243**	**₱30,869,546,637**	**₱266,755,354**	**₱2,888,555,009**	**₱43,519,724,033**

	2017					
	Land	Mine Properties, Mining Tools and Other Equipment	Power Plant and Buildings	Roads and Bridges	Equipment in Transit and Construction in Progress	Total
Cost						
At January 1	₱376,811,469	₱26,313,579,059	₱42,400,863,709	₱827,359,725	₱1,746,116,926	₱71,664,730,888
Additions (Note 16)	10,073,321	4,121,856,367	875,222,863	–	1,333,737,177	6,340,889,728
Reclassifications	–	58,796,207	854,808,908	–	(913,605,115)	–
Disposals (Notes 22 and 25)	–	(3,607,042,476)	(3,499,538,816)	(1,933,675)	–	(7,108,514,967)
Adjustment (Note 16)	–	159,731,132	–	–	–	159,731,132
At December 31	386,884,790	27,046,920,289	40,631,356,664	825,426,050	2,166,248,988	71,056,836,781
Accumulated Depreciation						
At January 1	–	17,918,051,090	9,930,318,066	464,195,104	–	28,312,564,260
Depreciation and amortization (Notes 3, 7, 21 and 22)	–	3,564,723,545	3,219,186,209	54,829,713	–	6,838,739,467
Disposals (Notes 22 and 25)	–	(3,607,042,476)	(3,499,538,816)	(1,933,675)	–	(7,108,514,967)
At December 31	–	17,875,732,159	9,649,965,459	517,091,142	–	28,042,788,760
Net Book Value	₱386,884,790	₱9,171,188,130	₱30,981,391,205	₱308,334,908	₱2,166,248,988	₱43,014,048,021

'Mine properties, mining tools and other equipment' include the expected cost of decommissioning and site rehabilitation of minesites and future clean-up of its power plants. The impact of annual re-estimation is shown in the rollforward as an adjustment (see Note 16).

'Mine properties, mining tools and other equipment' also includes the mining properties and stripping activity assets amounted to ₱4,341.36 million and ₱4,957.33 million as of December 31, 2018 and 2017, respectively.

In 2016, the amount of ₱4,947.75 million was reclassified from exploration and evaluation assets due to completion of development phase of Narra and Molave minesites. Both minesites have started commercial operations on the last quarter of 2016 after the full depletion of Panian minesite in September 2016.

Equipment in transit and construction in progress accounts mostly pertain to purchased mining equipment that are in transit and various buildings and structures that are under construction as of December 31, 2018 and 2017.

In 2018 and 2017, there were reclassifications from construction in progress to power plant and building in the amount of ₱2,775.29 million and ₱854.81 million, respectively, for the ongoing regular rehabilitation of the Group's coal-fired thermal power plant.

The capitalized borrowing cost included in the construction in progress account amounted to ₱112.94 million in 2016 with the average capitalization rate at 4.00% in 2016 (see Note 15). There was no capitalization of borrowing cost starting 2017 since the 2x150 MW coal-fired thermal power plant of SLPGC already started commercial operation.

In 2018, 2017 and 2016, the Group sold various equipment at a gain (loss) amounting to ₱22.68 million, ₱126.23 million and (₱0.17) million, respectively (see Notes 22 and 25).

The cost of fully depreciated assets that are still in use amounted to ₱13,521.36 million and ₱10,911.15 million as of December 31, 2018 and 2017, respectively.

As security for timely payment, discharge, observance and performance of the loan provisions, SCPC and SLPGC created, established, and constituted in favor of the Security Trustee, for the benefit of all secured parties, a first ranking real estate and chattel mortgage on present and future real assets and chattels owned by SCPC and SLPGC. On August 24, 2016, February 24, 2017 and April 12, 2017, Bank of Philippine Islands (BPI), Banco de Oro Unibank, Inc. (BDO) and Philippine National Bank (PNB), respectively, approved SCPC's release of all security arrangements. The carrying values of these mortgaged assets under SLPGC amounted to ₱18,513.63 million and ₱17,983.44 million as of December 31, 2018 and 2017, respectively. SCPC's mortgaged assets were released in 2017, hence, carrying value as at December 31, 2017 is nil.

Depreciation and amortization follow:

	2018	2017	2016
Included under:			
Inventories (Note 7)	**₱891,667,535**	₱273,405,238	₱157,309,090
Mine properties, mining tools and other equipment	**–**	–	486,097,525
Cost of coal sales (Note 21):			
Depreciation and amortization	**3,276,055,748**	2,775,248,241	1,157,006,529
Hauling and shiploading costs	**22,831,289**	57,125,284	26,830,788
Cost of power sales (Note 21):			
Cost of coal			
Depreciation and amortization	**752,611,208**	672,061,538	268,925,354
Depreciation and amortization	**2,444,928,202**	2,164,203,384	2,170,627,728
Operating expenses (Note 22)	**1,288,048,897**	901,986,496	56,790,728
	₱8,676,142,879	₱6,844,030,181	₱4,323,587,742
Depreciation and amortization of:			
Property, plant and equipment	**₱8,668,669,331**	₱6,838,739,467	₱4,320,819,574
Computer software (Note 12)	**7,473,548**	5,290,714	2,768,168
	₱8,676,142,879	₱6,844,030,181	₱4,323,587,742

Depreciation and amortization in 2016 included in the 'Mine properties, mining tools and other equipment' pertains to the depreciation and amortization capitalized during the development stage of Narra and Molave minesites which were eventually reclassified to 'Property, plant and equipment' after completion of development stage and start of commercial operations.

Depreciation and amortization of 'Property, plant and equipment' includes amortization of stripping activity asset of ₱7.27 million and ₱4.78 million in 2018 and 2017, respectively (nil in 2016).

11. Investment in Sinking Fund

In a special meeting of the BOD of SCPC held on March 9, 2010, the BOD authorized SCPC to establish, maintain, and operate trust and investment management accounts with BDO Unibank, Inc. - Trust and Investment Group. The Omnibus Agreement provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral Accounts (see Note 14). All investments made shall be in the name of the Security Trustee and for the benefit of the Collateral Accounts. BDO Unibank, Inc. - Trust and Investment Group made an investment in sinking fund amounting to ₱68.72 million as of December 31, 2017 and 2016. Such security agreement was released in 2017 as discussed in Note 14.

Interest from sinking fund amounted to ₱0.69 million and ₱4.31 million in 2017 and 2016, respectively (nil in 2018, see Note 24).

12. Other Noncurrent Assets and Other Noncurrent Liabilities

Other Noncurrent Assets
This account consists of:

	2018	2017 (As restated, Note 2)
Advances to suppliers and contractors (Notes 9 and 19)	**₱3,076,969,942**	₱1,711,614,715
Input VAT - net	**1,345,183,689**	1,443,288,075
Financial asset at FVPL (Notes 6, 30 and 31)	**245,443,777**	219,668,003
Claims for refunds and tax credits - net	**175,208,925**	175,208,925
Prepaid rent (Note 29)	**71,176,666**	75,645,101
Computer software	**17,053,476**	13,886,622
Environmental guarantee fund (Notes 30 and 31)	**3,520,000**	3,520,000
Others	**13,259,311**	13,245,944
	4,947,815,786	3,656,077,385
Less current portion of (Note 9):		
Advances to suppliers	**2,681,952,764**	376,222,809
Input VAT - net	**824,672,501**	1,059,342,697
Financial asset at FVPL (Note 6)	**81,814,592**	82,163,633
Prepaid rent	**4,468,435**	4,468,435
	3,592,908,292	1,522,197,574
	₱1,354,907,494	₱2,133,879,811

Advances to suppliers
Advances to suppliers and contractors under noncurrent assets represent prepayment for the acquisition and construction of property, plant and equipment.

Input VAT
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is applied against output VAT. The noncurrent portion of input VAT includes deferred input VAT, which is the unamortized portion of input VAT on purchase of capital goods spread evenly between the life of the capital goods or five years, whichever is shorter. The balance is recoverable in future periods.

Claims for refunds and tax credits
This amount pertain to claims for refund and issuance of tax credit certificates from BIR on erroneously withheld VAT on VAT-exempt coal sales which were ruled by the Supreme Court in favor of the Group. The balance as of December 31, 2018 and 2017 is presented net of allowance for impairment losses amounting to ₱15.29 million.

Prepaid rent
Prepaid rent under other noncurrent assets pertains to the long-term portion of rent of SCPC to PSALM starting December 2, 2009 for the 25 years lease of land. Long-term portion of the prepaid rent amounted to ₱66.71 million and ₱71.18 million as of December 31, 2018 and 2017, respectively (see Note 29).

Computer software
Movements in computer software account follow:

	2018	2017
At Cost		
At January 1	**₱53,075,630**	₱43,126,803
Additions	**10,640,402**	9,948,827
At December 31	**63,716,032**	53,075,630
Accumulated Amortization		
At January 1	**39,189,008**	33,898,294
Amortization (Note 10)	**7,473,548**	5,290,714
At December 31	**46,662,556**	39,189,008
Net Book Value	**₱17,053,476**	₱13,886,622

Environmental guarantee fund
Environmental guarantee fund represents the funds designated to cover all costs attendant to the operation of the Multi-party Monitoring Team of the Group's environmental unit.

Capitalized development costs for clay business
Development costs for goods, commodities, wares and merchandise including pottery earthenware, stoneware, bricks, tiles, roofs and other merchandise produce from clay are recognized as an intangible asset. As of December 31, 2016, total development costs recognized as intangible asset amounted to ₱156.07 million. In 2017, the Group recognized impairment loss amounting to ₱156.07 million since the Group assessed that the inflow of future economic benefit from the asset is no longer probable given the current circumstances wherein the production activities are not yet in commercial capacity (see Note 22).

Others
Others include various types of deposits and prepaid taxes which are recoverable over more than one year.

<u>Other Noncurrent Liabilities</u>
Other noncurrent liabilities pertain to the noncurrent portion of retention contract payment that is being withheld from the contractors as guaranty for any claims against them. In 2018, the balance of retention payable as of December 31, 2017 amounted to ₱46.23 million was reclassified to "Payable to suppliers and contractors" under trade and other payables (see Notes 15 and 19).

13. Short-term Loans

Short-term loans consist of the following borrowings of the Group as of December 31, 2018 and their contractual settlement dates (nil as of December 31, 2017):

Parent Company	
a. Unsecured 30-day loan obtained on December 7, 2018 with interest rate of 5.56% per annum.	₱1,500,000,000
b. Unsecured 90-day loan obtained on October 5, 2018 with interest rate of 5.90% per annum.	750,000,000
	2,250,000,000
SCPC	
c. Unsecured 147-day loan obtained on August 8, 2018 with interest rate of 4.00% per annum.	2,000,000,000
d. Loan secured by receivables obtained on December 13, 2018 with discount rate of 5.40% per annum due on January 4, 2019	1,272,231,984
e. Unsecured 7-day loan obtained on December 26, 2018 with interest rate of 7.75% per annum.	350,000,000
	3,622,231,984
	₱5,872,231,984

On March 20, 2018, the Group availed of unsecured 30-day loan with an interest rate of 2.95% amounting to ₱1,987.62 million. The short-term loan was paid in full on April 18, 2018.

On December 22, 2017, short-term loans availed in 2016 amounting to ₱1,600.00 million was paid in full.

Interest expense on these short-term loans recognized under 'Finance cost' amounted to ₱52.17 million, ₱56.97 million and ₱77.92 million in 2018, 2017 and 2016, respectively (see Note 23).

14. Long-term Debt

This account consists of long-term debt availed by the Group as follows:

	2018	2017
Mortgage payable	**₱8,940,408,146**	₱10,633,018,874
Bank loans	**5,656,388,237**	7,391,459,298
	14,596,796,383	18,024,478,172
Less current portion of:		
Mortgage payable	**1,703,703,705**	1,703,703,704
Bank loans	**2,850,138,236**	1,852,256,613
	4,553,841,941	3,555,960,317
	₱10,042,954,442	₱14,468,517,855

Mortgage Payable
SLPGC
On February 4, 2012, SLPGC entered into an ₱11,500.00 million Omnibus Loan Service Agreement with BDO Unibank, BPI and China Banking Corporation (CBC) as Lenders. As security for the Omnibus Agreement, 67% of issued and outstanding shares of SLPGC owned by the Parent Company were pledged on this loan (see Note 20). The proceeds of the loan are used for the engineering, procurement and construction of 2x150 MW coal-fired thermal power plant.

Breakdown of the original principal of project loan is as follows:

BDO	₱6,000,000,000
BPI	3,000,000,000
CBC	2,500,000,000
	₱11,500,000,000

Details of the loan follow:

a. Interest: At applicable interest rate, Philippine Dealing System Treasury-Fixing (PDST-F plus spread or BSP Overnight Rate, whichever is higher). Such interest shall accrue from and including the first day of each interest period up to the last day of such interest period. The Facility Agent shall notify all the Lenders of any adjustment in an interest payment date at least three banking days prior to the adjusted interest payment date.

b. Repayment: The principal amount shall be paid in 27 equal consecutive quarterly installments commencing on the 14th quarter from the initial borrowing date. Final repayment date is 10 years after initial borrowing which is on 2022.

As of December 31, 2018 and 2017, outstanding loan payable is ₱5,952.69 million and ₱7,647.95 million, respectively.

Rollforward of the unamortized debt issue cost follows:

	2018	2017
At January 1	**₱18,711,865**	₱26,811,361
Amortization (Note 23)	**(8,442,925)**	(8,099,496)
At December 31	**₱10,268,940**	₱18,711,865

In 2018, 2017 and 2016, SLPGC incurred interest expense on long-term debt amounting to ₱319.91 million, ₱295.72 million and ₱272.38 million, respectively (see Note 23).

In addition to the pledging of SLPGC shares, the mortgage payable by SLPGC provides, certain restrictions and requirements with respect to, among others, maintain and preserve its corporate existence, comply with all of its material obligations under the project agreements, maintain at each testing date a debt-to-equity ratio not exceeding two times, grant loans or make advances and disposal of major property. These restrictions and requirements were complied with by SLPGC as of December 31, 2018 and 2017.

The remaining borrowing facility that can be drawn as of December 31, 2018 and 2017 amounted to ₱1,100.00 million.

SCPC
On May 20, 2010, SCPC entered into a ₱9,600.00 million Omnibus Loan Security Agreement ("Agreement") with BDO, BPI and PNB as Lenders, the Parent Company as Pledgor, BDO Capital and Investment Corporation as Lead Arranger and Sole Bookrunner, BPI Capital Corporation and PNB Capital and Investment Corp. as Arrangers, and BDO Unibank, Inc., Trust and Investments Group as Security Trustee, Facility Agent and Paying Agent. The loan was fully drawn by SCPC on the same date.

Mortgage payable by SCPC was collateralized by all monies in the Collateral accounts, supply receivables, proceeds of any asset and business continuity insurance, project agreements and first-ranking mortgage on present and future real assets. Further, 67% of issued and outstanding shares in SCPC owned by the Parent Company were also pledged on this loan (see Note 20). Such security arrangement was released in 2017 (see Note 10).

Breakdown of the original principal of syndicated loan is as follows:

BDO Unibank	₱6,000,000,000
BPI	2,000,000,000
PNB	1,600,000,000
	₱9,600,000,000

The Agreement was entered into to finance the payments made to PSALM pursuant to the Asset Purchase Agreement (APA) and permanent working capital requirements.

Details of the loan follow:

a. Interest: At a floating rate per annum equivalent to the three (3) months PDST-F benchmark yield for treasury securities as published on the PDEx page of Bloomberg (or such successor electronic service provider) at approximately 11:30a.m. (Manila Time) on the banking day immediately preceding the date of initial borrowing or start of each interest period, as applicable, plus a spread of 175 basis points. Starting August 2015 amortization, interest is at floating rate per annum equivalent to three months PDST-R2 PM, plus a spread of 195 basis points.

b. Repayment: The principal amount shall be payable in 25 equal consecutive quarterly installments commencing on the 12th month from the initial borrowing date. Final repayment date is seven years after initial borrowing. The loan may be prepaid voluntarily provided the conditions in the Omnibus Agreement are satisfied. On February 29, 2016, SCPC prepaid the ₱1,600.88 million of the long-term portion of the debt. On May 30, 2017, SCPC has paid the last amortization of the Omnibus Agreement amounting to ₱128.00 million.

On December 22, 2017, SCPC entered into a ₱3,000.00 million interest-bearing Promissory Note with BDO Unibank, Inc. Interest is payable every three (3) months at a fixed annual interest rate of 4.9% per annum. The principal amount shall be payable in 16 equal consecutive quarterly installments commencing on the 39th month from the initial borrowing date. Final repayment date is seven (7) years after initial borrowing.

Rollforward of the deferred financing cost follows:

	2018	2017
At January 1	**₱14,935,928**	₱119,817
Additions	**–**	15,000,000
Amortization (Note 23)	**(2,652,110)**	(183,889)
At December 31	**₱12,283,818**	₱14,935,928

In 2018, 2017 and 2016, SCPC incurred interest expense on long-term debt amounting to ₱148.23 million, ₱1.54 million and ₱22.15 million, respectively (see Note 23).

As of December 31, 2018 and 2017, outstanding loan payable is ₱2,987.72 million and ₱2,985.07 million, respectively.

The remaining borrowing facility that can be drawn as of December 31, 2017 amounted to ₱10,000.00 million (nil as of December 31, 2018).

Bank Loans - Parent Company

Loan Type	Year of Availment	Outstanding Balance 2018	2017	Maturity	Interest Rate	Payment Terms	Covenants
Peso loan 1	2016	**₱1,181,250,000**	₱1,837,500,000	Various quarterly maturities starting 2018 until 2021	Floating rate to be repriced every 3 months based on 3-months "PDST-R2" plus a spread of one percent (1%)	Interest payable every 3 months, principal to be paid every 3 months	Current Ratio not less than 1:1 and Debt-to-Equity Ratio not to exceed 2:1
Peso loan 2	2017	**1,400,000,000**	1,400,000,000	2020	Floating rate to be repriced every 3 months based on 3-months "PDST-R2" plus a spread of one half of one percent (0.5%)	Interest payable every 3 months, principal to be paid on maturity date	Current Ratio not less than 1:1 and Debt-to-Equity Ratio not to exceed 2:1
Peso loan 3	2017	**750,000,000**	750,000,000	2020	Floating rate to be repriced every 3 months	Interest payable every 3 months, principal to be paid on maturity date	None
Dollar loan 1	2016	**1,422,670,526**	1,350,968,798	2019	Floating rate to be repriced every 3 months based on 3-months LIBOR plus a spread of 0.86%	Interest payable every 3 months, principal to be paid on maturity date	Current Ratio not less than 1:1 and Debt-to-Equity Ratio not to exceed 2:1
Dollar loan 2	2015	–	1,196,006,613	2018	Floating rate to be repriced every 3 months	Interest payable every 3 months, principal to be paid every 6 months	None
Dollar loan 3	2016	**902,467,711**	856,983,887	2019	Floating rate to be repriced every 3 months based on 3-months LIBOR plus a spread of 0.86%	Interest payable every 3 months, principal to be paid on maturity date	Debt Service Coverage Ratio not less than 1:1 and Debt-to-Equity Ratio not to exceed 2:1
		₱5,656,388,237	₱7,391,459,298				

All bank loans are clean and are compliant with loan covenants.

Interest expense on long-term debt recognized under 'Finance cost' amounted to ₱249.50 million, ₱196.71 million and ₱128.85 million in 2018, 2017 and 2016, respectively (see Note 23).

The remaining borrowing facility that can be drawn as of December 31, 2018 and 2017 amounted to ₱9,050.00 million and ₱11,300.00 million, respectively.

The principal maturities of long-term debt of the Group as of December 31, 2018 and 2017 follow:

	2018	2017
Due in:		
2018	**₱–**	₱3,555,960,317
2019	**4,553,841,940**	4,429,132,819
2020	**4,378,703,704**	4,372,889,928
2021	**2,576,531,892**	2,569,841,688
2022	**1,589,532,804**	1,598,467,377
2023	**748,700,005**	748,700,005
2024	**749,486,038**	749,486,038
	₱14,596,796,383	₱18,024,478,172

15. **Trade and Other Payables**

This account consists of:

	2018	2017
Trade:		
Payable to suppliers and contractors	**₱6,504,979,399**	₱6,226,941,975
Related parties (Note 19)	**865,029,191**	1,610,123,194
Output VAT - net	**1,053,037,929**	1,113,534,421
Payable to DOE and local government units (LGU) (Note 28)	**713,351,187**	1,542,238,865
Accrued expenses and other payables	**809,632,116**	358,473,674
	₱9,946,029,822	₱10,851,312,129

Trade payable to suppliers and contractors
Trade payable to suppliers and contractors arise from progress billings of completed work as of cut-off period. The amount include liabilities amounting to ₱2,274.18 million (US$43.32 million) and ₱739.57 million (US$14.87 million) as of December 31, 2018 and 2017, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies (see Note 30).

Trade payables are noninterest-bearing and are normally settled on 30-day to 60-day credit terms.

Output VAT payable
Output VAT pertains to the VAT due on the sale of electricity, net of input VAT.

Payable to DOE and LGU
Payable to DOE and LGU represent the share of DOE and LGU in the gross income of the Parent Company's coal production computed in accordance with the Coal Operating Contract (COC) between the Parent Company, DOE and LGU dated July 11, 1977 and as amended on January 16, 1981 (see Note 28).

Accrued expenses and other payables
Details of the accrued expenses and other payables account follow:

	2018	2017
Taxes, permits and licenses	**₱447,868,209**	₱123,395,880
Power spot purchases	**154,152,794**	–
Interest	**54,659,708**	62,200,132
Professional fees	**18,234,660**	1,782,019
Financial benefit payable	**32,474,788**	17,387,946
Salaries and wages	**13,160,826**	62,063,372
Rental	**9,976,089**	8,684,806
Others	**79,105,042**	82,959,519
	₱809,632,116	₱358,473,674

Others include accruals on contracted services, utilities, supplies and other administrative expenses. This account also includes dividends payable amounting to ₱1.33 million and ₱1.98 million as of December 31, 2018 and 2017, respectively.

Accrued expenses and other payables are noninterest-bearing and are normally settled on a 30-day to 60-day terms.

16. Provision for Decommissioning and Site Rehabilitation

The rollforward of this account follows:

	2018	2017
At January 1	**₱1,705,802,078**	₱1,606,287,759
Additions (Note 21)	**436,522,946**	147,269,942
Effect of change in estimates (Notes 10 and 21)	**(218,199,651)**	159,731,132
Usage	**(1,598,420,875)**	(293,107,253)
Accretion of interest (Note 23)	**97,693,062**	85,620,498
At December 31	**₱423,397,560**	₱1,705,802,078

The Group's provision for decommissioning and site rehabilitation relates to rehabilitation activities for the coal pits for its mining segment and dismantling and restoration activities for its power segment. Segment breakdown of provision for decommissioning and site rehabilitation follows:

	2018	2017
Mining	**₱402,476,406**	₱1,686,536,073
Power	**20,921,154**	19,266,005
	₱423,397,560	₱1,705,802,078

These provisions have been created based on the group's internal estimates. Discount rates used by the Group to compute for the present value of liability for decommissioning and site rehabilitation cost range from 7.07% to 7.27% and 4.80% to 7.50% in 2018 and 2017, respectively. Assumptions based on current economic environment have been made, which management believes are reasonable bases upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in return, will depend upon future coal prices, which are inherently uncertain.

There are currently two minesites identified with coal deposits which are currently operational, namely Molave and Narra. Panian minesite has been depleted and its operations was closed in September 2016. All minesites are located in Semirara Island in Antique Province.

Based on the latest rehabilitation plan, the Group is expecting to rehabilitate 400 hectares each for Panian, Narra and Molave minesites and 2,625 hectares in areas outside the minesites. In 2017, the previous plan to complete backfilling of Panian minesite for a period of nine (9) years was proposed to be accelerated to two (2) years, such that the entire open pit will be covered with overburden from Narra and Molave minesites. Thus, the Group recognized additional costs in 2017, representing the incremental costs of moving the overburden from Narra and Molave minesites. In 2018, considering the experience in the ongoing execution of the accelerated rehabilitation plan, management revisited certain procedures, practices and assumptions (e.g., movement of the overburden, backfill elevation level) which resulted to adjustment in the previously estimated provision for decommissioning and site rehabilitation cost.

Resulting changes in estimate pertaining to minesites which are currently operational (Narra and Molave minesites) amounted to (₱218.19 million) and ₱159.73 million (recognized as adjustment to 'Mine properties, mining tools and other equipment' under property, plant and equipment account) in 2018 and 2017, respectively (see Note 10).

17. Capital Stock

The details of the Parent Company's capital stock as of December 31, 2018 and 2017 are as follows:

	2018	
	Shares	**Amount**
Authorized - ₱1 par value		
Balance at beginning and end of year	**10,000,000,000**	**₱10,000,000,000**
Issued and outstanding		
Capital stock		
Balance at beginning and end of year	**4,264,609,290**	**₱4,264,609,290**
Treasury shares		
Balance at beginning of year	**(6,198,670)**	**(487,919,538)**
Treasury shares acquired	**(7,863,000)**	**(251,607,140)**
Balance at end of year	**(14,061,670)**	**(739,526,678)**
	4,250,547,620	**₱3,525,082,612**

	2017	
	Shares	Amount
Authorized - ₱1 par value		
Balance at beginning of year	3,000,000,000	₱3,000,000,000
Increase in authorized capital stock	7,000,000,000	7,000,000,000
Balance at end of year	10,000,000,000	₱10,000,000,000
Issued and outstanding		
Capital stock		
Balance at beginning of year	1,068,750,000	₱1,068,750,000
Stock dividends declared (Note 18)	3,195,859,290	3,195,859,290
Balance at end of year	4,264,609,290	4,264,609,290
Treasury shares		
Balance at beginning of year	(3,463,570)	(387,547,028)
Treasury shares acquired	(2,735,100)	(100,372,510)
Balance at end of year	(6,198,670)	(487,919,538)
	4,258,410,620	₱3,776,689,752

On November 28, 1983, the SEC approved the issuance and public offering of 55,000.00 million common shares of the Parent Company at an offer price of ₱0.01 per share. Additional public offering was also approved by SEC on February 4, 2005 for 46.87 million common shares at an offer price of ₱36.00 per share.

On August 18, 2014, the SEC approved the increase in authorized capital stock of the Parent Company from ₱1,000.00 million to ₱3,000.00 million divided into 3,000.00 million common shares with a par value of ₱1 per share.

On February 23, 2017, the SEC approved the increase in authorized capital stock of the Parent Company from ₱3,000.00 million to ₱10,000.00 million divided into 10,000.00 million common shares with a par value of ₱1 per share.

Treasury shares

On December 7, 2017, the BOD approved the share buy-back program wherein the Parent Company will buy-back shares at prevailing market price not exceeding 2,000 million shares (or equivalent amount of ₱2,000.00 million) beginning December 8, 2017. In 2018 and 2017, the Parent Company has bought-back a total of 7,863,000 shares for a total consideration of ₱251.61 million and 2,735,100 shares for a total consideration of ₱100.37 million, respectively. This is presented as treasury shares in the consolidated statements of financial position.

On August 15, 2016, the BOD approved the share buy-back program wherein the Parent Company will buy-back shares at prevailing market price not exceeding 20 million shares for a period of 60 days beginning August 18, 2016. As of December 31, 2016, the Parent Company has bought-back a total of 3,463,570 shares for a total consideration of ₱387.55 million. This is presented as treasury shares in the consolidated statements of financial position.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury and deferred tax asset recognized in profit or loss as of December 31, 2018 and 2017.

The Parent Company's track record of capital stock is as follows:

	Number of shares registered	Issue/offer price	Date of approval	Number of holders as of yearend
At January 1, 2001	1,630,970,000	₱1/share		
Add (deduct):				
Additional issuance	19,657,388	₱1/share	July 2, 2004	
Conversion of preferred shares to common shares	225,532	₱1/share	July 2, 2004	
Decrease in issued and outstanding common share from capital restructuring	(1,625,852,920)			
Share dividends	225,000,000	₱1/share	July 2, 2004	
Public offering additional issuance	46,875,000	₱36/share	February 4, 2005	
December 31, 2010	296,875,000			632
Add: Share rights offering	59,375,000	₱74/share	June 10, 2010	7
December 31, 2011	356,250,000			639
Add: Movement	–			24
December 31, 2012	356,250,000			663
Add: Movement	–			–
December 31, 2013	356,250,000			663
Add: Stock dividends	712,500,000		August 22, 2014	5
December 31, 2014	1,068,750,000			668
Add: Movement	–			9
December 31, 2015	1,068,750,000			677
Add: Movement	(3,463,570)		August 15, 2016	16
December 31, 2016	1,065,286,430			693
Add: Stock dividends	3,195,859,290		February 23, 2017	–
Add: Movement	(2,735,100)		December 7, 2017	1
December 31, 2017	4,258,410,620			694
Add: Movement	(7,863,000)		December 7, 2017	15
December 31, 2018	4,250,547,620			709

18. **Retained Earnings**

As of December 31, 2018 and 2017, retained earnings amounted to ₱29,768.07 million and ₱27,313.40 million, respectively. The amounts include the accumulated equity in undistributed net earnings of subsidiaries which are not available for dividends until declared by the BOD of the respective subsidiaries. The retained earnings is also restricted to the extent of the cost of the treasury shares.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to ₱8,014.77 million and ₱6,106.71, respectively.

Cash Dividends

On November 7, 2018, the Parent Company's BOD authorized the Parent Company to declare and distribute special cash dividends of ₱1.00 per share or ₱4,250.55 million to stockholders of record as of November 21, 2018. The said cash dividends were paid on December 14, 2018.

On February 22, 2018, the Parent Company's BOD authorized the Parent Company to declare and distribute regular cash dividends of ₱1.25 per share or ₱5,320.16 million to stockholders of record as of March 8, 2018. The said cash dividends were paid on March 22, 2018.

On August 9, 2017, the Parent Company's BOD authorized the Parent Company to declare and distribute cash dividends of ₱5.00 per share or ₱5,326.43 million to stockholders of record as of April 11, 2017. The said cash dividends were paid on September 8, 2017.

On March 27, 2017, the Parent Company's BOD authorized the Parent Company to declare and distribute cash dividends of ₱5.00 per share or ₱5,326.43 million to stockholders of record as of August 25, 2017. The said cash dividends were paid on April 25, 2017.

On April 29, 2016, the Parent Company's BOD authorized the Parent Company to declare and distribute cash dividends of ₱4.00 per share or ₱4,275.00 million to stockholders of record as of May 17, 2016. The said cash dividends were paid on May 27, 2016.

Stock Dividends

On February 23, 2017, the stockholders of the Parent Company approved the 300% stock dividends amounting to ₱3,195.86 million, divided into 3,195.86 million shares at the par value of ₱1.00 per share, or three common shares for every one common share held, from the unrestricted retained earnings of the Parent Company as of December 31, 2016, and to be issued from the increase in the authorized capital stock of the Parent Company. On August 30, 2017, SEC approved and fixed the record date on September 15, 2017.

Appropriations

As of December 31, 2017, the 2013 appropriations of ₱1,600.00 million and ₱700.00 million for the power generation and coal mining operations, respectively, are retained for the continuing capital expenditure for the power and coal mining segment.

On March 27, 2017, in relation to the completion of the 2x150 coal-fired thermal power plant of SLPGC, the BOD approved the reversal of previously appropriated retained earnings of ₱3,000.00 million.

On February 23, 2017, the BOD approved the appropriation of ₱4,500.00 million from the unappropriated retained earnings as of December 31, 2016 for other investments of the Group. This appropriation is intended for the ongoing power capacity expansion project which are expected to be completed by 2023.

On November 8, 2016, the BOD approved the appropriation of ₱2,500.00 million from the unappropriated retained earnings as of December 31, 2015 as additional capital expenditure for the Phase 2 Power Plant expansion project under SRPGC which was initially expected to be completed in 2021 but has been moved to 2023.

On November 11, 2015, the BOD approved the appropriation of ₱3,000.00 million from the unappropriated retained earnings as of December 31, 2014 to be used for 2x150 coal-fired thermal power plant expansion of SLPGC. The said power plant started commercial operations in April 2016 and was able to obtain Certificate of Compliance (COC No. 17-05-M-00107L) from ERC in 2017 and Taking-Over Certificate was issued by SLPGC (Owner) to Engineering Procurement and Construction (EPC) Contractor on July 5, 2017.

On August 8, 2013, the BOD approved the appropriation of ₱1,600.00 million from the unappropriated retained earnings as of December 31, 2012, as additional capital expenditure and investment in power expansion projects of the Group which are expected to be completed by 2021.

On March 12, 2013, the BOD of the Parent Company ratified the remaining ₱700.00 million appropriations to partially cover new capital expenditures for the Group's mine operation.

19. Related Party Transactions

The Group in its regular conduct of business has entered into transactions with related parties. Parties are considered to be related if, among others, one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making the financial and operating decisions, the parties are subject to common control or the party is an associate or a joint venture. The Group has affiliates enumerated below which are under common control of DMCI-HI and Consunji family.

Except as indicated otherwise, the outstanding accounts with other related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

The significant transactions with related parties follow:

	2018				
	Reference	**Amount/Volume**	**Receivable (Payable)**	**Terms**	**Conditions**
Trade receivables (Note 5)					
Entities under common control					
Sale of materials, services and reimbursement of shared expenses	**(a)**	**(₱193,531,095)**	**₱47,521,278**	**Noninterest-bearing, due and demandable**	**Unsecured, no impairment**
Trade payables (Note 15)					
Entities under common control					
Operation and maintenance fees	**(b)**	**(₱12,447,959)**	**(₱38,916,319)**	**30 days, noninterest-bearing**	
Coal handling services	**(c)**	**43,159,133**	**(109,915,249)**	**30 days, noninterest-bearing**	**Unsecured**

(Forward)

	2018				
	Reference	**Amount/Volume**	**Receivable (Payable)**	**Terms**	**Conditions**
Mine exploration and hauling services	**(d)**	**(₱63,705,310)**	**(₱128,505,310)**	**30 days, noninterest-bearing**	**Unsecured**
Construction and other outside services	**(e)**	**387,519,102**	**(541,158,642)**	**30 days for monthly billings and portion after expiration of, retention period, noninterest-bearing**	**Unsecured**
Retention payable		**343,952,771**	**(11,742,740)**	**30 days, noninterest-bearing**	**Unsecured**
Purchases of office supplies and refreshments	**(f)**	**(211,614)**	**(735,075)**	**30 days, noninterest-bearing**	**Unsecured**
Land and warehouse rental expenses	**(g)**	**60,257,156**	**(6,628,795)**	**30 days, noninterest-bearing**	**Unsecured**
Aviation services	**(h)**	**(13,563,622)**	**(25,805,000)**	**30 days, noninterest-bearing**	**Unsecured**
Arrastre and cargo services	**(i)**	**102,346**	**(1,620,561)**	**30 days, noninterest-bearing**	**Unsecured**
Others	**(a)**	**32,000**	**(1,500)**	**30 days, noninterest-bearing**	**Unsecured**
		₱745,094,003	**(₱865,029,191)**		

	2017				
	Reference	Amount/Volume	Receivable (Payable)	Terms	Conditions
Trade receivables (Note 5)					
Entities under common control					
Sale of materials, services and reimbursement of shared expenses	(a)	₱153,390,884	₱241,052,373	Noninterest-bearing, due and demandable	Unsecured, no impairment
Trade payables (Note 15)					
Entities under common control					
Operation and maintenance fees	(b)	₱326,525,568	(₱26,468,360)	30 days, noninterest-bearing	
Coal handling services	(c)	853,745,798	(153,074,382)	30 days, noninterest-bearing	Unsecured
Mine exploration and hauling services	(d)	64,800,000	(64,800,000)	30 days, noninterest-bearing	Unsecured
Construction and other outside services	(e)	966,832,736	(928,677,744)	30 days for monthly billings and portion after expiration of, retention period, noninterest-bearing	Unsecured
Retention payable		5,699,192	(355,695,511)	30 days, noninterest-bearing	Unsecured
Purchases of office supplies and refreshments	(f)	–	(523,461)	30 days, noninterest-bearing	Unsecured
Land and warehouse rental expenses	(g)	64,983,195	(66,885,951)	30 days, noninterest-bearing	Unsecured
Aviation services	(h)	103,559,792	(12,241,378)	30 days, noninterest-bearing	Unsecured
Arrastre and cargo services	(i)	5,685	(1,722,907)	30 days, noninterest-bearing	Unsecured
Reimbursement of shared expenses	(a)	32,000	(33,500)	30 days, noninterest-bearing	Unsecured
		₱2,386,183,966	(₱1,610,123,194)		
Other noncurrent liabilities (Note 12)					
Entities under common control					
Retention payable	(k)	₱–	(₱46,231,575)	Noninterest-bearing	Unsecured

a. This pertains to the services rendered, deliveries of goods and reimbursement of expenses advanced by the Group to its affiliates. This includes contracted services, share in rental expenses, office materials and supplies, maintenance and renewal expenses of information systems and compensation settlement from DMCI for the delay of construction of 2x150 MW coal-fired thermal power plant of SLPGC.

b. SCPC engaged DMCI Power Corporation (DMCI Power), an entity under common control of DMCI-HI, for the management, operation and maintenance of the power plant.

c. SCPC and SLPGC entered into a voyage charter agreement with DMC Construction Equipment and Resources, Inc. (DMC CERI).
SLPGC and SCPC hired St. John Bulk Handlers, Inc. (SJBHI) for its coal handling services. Cost of coal handling services provided by SJBHI to SLPGC are offset against commissioning revenue during the commissioning stage and included in the 'Cost of power sales' after start of commercial operations. While for SCPC, these are included in the 'Cost of power sales' (see Note 21).

d. DMC-CERI had transactions with the Parent Company for services rendered relating to the Parent Company's coal operations. These include services for the confirmatory drilling for coal reserve and evaluation of identified potential areas, exploratory drilling of other minerals within Semirara Island, dewatering well drilling along cut-off wall of Panian mine and fresh water well drilling for industrial and domestic supply under an agreement. Expenses incurred for said services are included in cost of sales under 'Outside services' in the consolidated statements of comprehensive income (see Note 21).

   DMC-CERI operate, maintain and manage Parent Company's marine vessel for use in shiploading and delivery of coal to its various costumer. The coal freight billing is on a per metric ton basis plus demurrage charges for delays in loading and unloading of coal cargoes. Expenses incurred for these services are included in cost of sales under 'Hauling and shiploading costs' in the consolidated statements of comprehensive income (see Note 21).

   Effective 2018, the Parent Company amended its Operations and Maintenance agreement with DMC-CERI wherein, DMC-CERI will be credited for all the despatch for the early loading and unloading of coal cargos in the Semirara Port. In addition, demurrage charges shall be charged to the account of DMC-CERI or the customer on the basis of who is at fault to cause the laytime delay.

   Furthermore, DMC-CERI provides the Parent Company labor services relating to coal operations including those services rendered by consultants. Expenses incurred for said services are included in cost of sales under 'Direct labor' in the consolidated statements of comprehensive income (see Note 21).

   Labor costs related to manpower services rendered by DMC-CERI represent actual salaries and wages covered by the period when the services were rendered to Parent Company in its coal operations. Under existing arrangements, payments of said salaries and wages are given directly to personnel concerned.

e. The Group contracted DMCI for the construction of its 1x 5 MW Power Plant located at Semirara Island and the construction of SLPGC's 2x150 MW coal-fired thermal power plants in Batangas. Other services include ongoing rehabilitation of existing power plant, and other constructions in compliance with its Corporate Social Responsibility (CSR) such as construction of covered tennis courts, track and field, perimeter fence and others.

In addition, the Group have retention payable to DMCI which represents amounts withheld from payments to contractors as guaranty for any claims against them. These are noninterest-bearing and will be remitted to contractors at the end of the contracted work.

f. The Group engaged Sirawai Plywood & Lumber Corp. and South Davao Development Corporation to supply various raw materials, office supplies and refreshments.

g. DMC Urban Property Developers, Inc. (DMC-UPDI) had transactions with the Group representing long-term lease on land, warehouse space and other transactions rendered to the Parent Company necessary for the coal operations. Land and warehouse rental expenses are included in cost of sales under 'Outside services' in the consolidated statements of comprehensive income (see Note 21).

h. Royal Star Aviation Inc. provide maintenance services and hangarage for the Parent Company's aircraft use to transport supplies, employees and visitors in and out the minesite. The related expenses are included in cost of sales under 'Production overhead' in the consolidated statements of comprehensive income (see Note 21).

i. In 2018 and 2017, Vincent Arrastre and Cargo Services, Inc. had transactions with the Parent Company for shipsiding services.

j. Certain number of issued and outstanding shares of SLPGC and SCPC held by the Parent Company were used as a security of the loan availed by SLPGC and SCPC (see Note 14).

All outstanding balances from affiliates are included in receivables under 'Trade receivables - related parties' and 'Trade payables - related parties' in the consolidated statements of financial position, except for the noncurrent portion of the retention payable which are lodged under 'Other noncurrent liabilities' in the consolidated statements of financial position (see Note 12).

Terms and conditions of transactions with related parties
There have been no guarantees and collaterals provided or received for any related party receivables or payables. These accounts are noninterest-bearing and are generally unsecured. Impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. As of December 31, 2018 and 2017, there were no impairment losses recognized on related party balances.

Compensation of key management personnel of the Group amounted to ₱255.96 million and ₱217.84 million in 2018 and 2017, respectively.

There are no other agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plan.

20. Pension Plan

The Group has a funded, noncontributory defined benefit plan covering substantially all of its regular employees. The latest actuarial valuation is for the year ended December 31, 2018.

The Group accrues retirement costs (included in 'Pension liabilities' in the consolidated statements of financial position) based on an actuarially determined amount using the projected unit credit method.

The funds are administered by a trustee bank under the supervision of the BOD of the plan. The BOD is responsible for the investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of the significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plan's objectives, benefit obligation and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The BOD delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the BOD, Vice-President for Treasury and Chief Finance Officer. The Vice-President for Treasury and Chief Finance Officer oversee the entire investment process.

Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Provisions for pension liabilities are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. The Group updates the actuarial valuation every year by hiring the services of a third party professionally qualified actuary.

There are no plan amendments, curtailments or settlements in 2018, 2017 and 2016.

The cost of defined benefit pension plans and the present value of the pension liabilities are determined using actuarial valuations.

The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension liabilities for the defined benefit plan are shown below:

	2018	2017	2016
Discount rate	**7.53% - 7.70%**	5.77% - 6.22%	5.28% - 5.87%
Salary increase rate	**3.00% - 6.00%**	3.00%	3.00%

The weighted average duration of significant defined benefit obligation per segment are as follows (average number of years) for 2018 and 2017:

	2018	2017
Mining	**4.2 years**	6.5 years
Power	**7.45 years**	10.30 years

The following table summarizes the components of pension expense in the consolidated statements of comprehensive income:

	2018	2017	2016
Current service cost	**₱47,298,034**	₱44,616,166	₱39,628,111
Interest expense related to the defined benefit liability	**17,650,257**	10,471,117	10,684,019
Interest income related to plan assets	**(3,967,603)**	(3,938,353)	(4,384,303)
	₱60,980,688	₱51,148,930	₱45,927,827

The above pension expense is included as 'Direct labor' under cost of sales and 'Personnel costs' under operating expenses in the consolidated statements of comprehensive income (see Notes 21 and 22).

The following tables provide analyses of the movement in the defined benefit liability, fair value of plan assets and pension liabilities recognized on consolidated statements of financial position:

	2018	2017
Defined benefit liability at beginning of year	**₱302,974,522**	₱185,609,013
Current service cost	**47,298,034**	44,616,166
Interest expense	**17,650,257**	10,471,117
Remeasurement of defined benefit liability:		
Arising from changes in financial assumptions	**(35,493,526)**	(4,094,013)
Experience gains (losses)	**(39,458,345)**	91,582,561
Benefits directly paid by the Group	**(7,417,414)**	(20,736,252)
Benefits paid from plan asset	–	(4,474,070)
Defined benefit liability at end of year	**₱285,553,528**	₱302,974,522

	2018	2017
Fair value of plan assets at beginning of year	**₱68,762,612**	₱71,574,235
Interest income	**3,967,603**	3,938,353
Benefits paid from plan assets	–	(4,474,070)
Remeasurement losses arising from return on plan assets	**(3,176,241)**	(2,275,906)
Fair value of plan assets at end of year	**₱69,553,974**	₱68,762,612

Net pension liability at beginning of year	**₱234,211,910**	₱114,034,778
Net pension expense	**60,980,688**	51,148,930
Actuarial losses (gains) recognized in OCI	**(71,775,630)**	89,764,454
Benefit directly paid by the Group	**(7,417,414)**	(20,736,252)
Net pension liability at end of year	**₱215,999,554**	₱234,211,910

The Group does not expect any contribution into the pension fund for the next 12 months.

The composition and fair value of plan assets as at the end of reporting date are as follows:

	2018	2017
Cash and cash equivalents	**₱3,632,656**	₱3,466,987
Equity instruments		
Financial institutions	**3,429,928**	5,000
Real estate	**4,990,000**	5,260,000
Debt instruments		
Government securities	**44,569,274**	47,067,174
Unquoted debt securities	**11,892,883**	11,941,409
Receivables	**1,039,233**	1,022,042
	₱69,553,974	₱68,762,612

Trust fee in 2018 and 2017 amounted to ₱34,103 and ₱34,059, respectively.

The composition of the fair value of the plan assets includes:

Cash and cash equivalents - include savings and time deposit with banks and special deposit account with Bangko Sentral ng Pilipinas.

Investment in equity securities - includes investment in common and preferred shares of financial institutions traded in the Philippine Stock Exchange.

Investment in debt securities - government securities - include investment in Philippine Retail Treasury Bonds and Fixed Rate Treasury Notes.

Investments in unquoted debt securities - include investment in long-term debt notes and retail bonds.

Receivables - pertain to interest and dividends receivable on the investments in the fund.

The management performs a study of how to match its existing assets versus the pension liabilities to be settled. The overall investment policy and strategy of the Group's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plan. The Group's current guiding strategic investment strategy consists of 81% and 86% of debt instruments, 12% and 5% of equity instruments and 7% and 1% of others for 2018 and 2017, respectively.

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the Defined Benefit Obligation (DBO) at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the DBO.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

	2018		2017	
	Increase (Decrease)	**Effect on Defined Benefit Liability**	Increase (Decrease)	Effect on Defined Benefit Liability
Discount rates	**+1%**	**(₱4,499,231)**	+0.5% to 1%	(₱20,425,777)
	-1%	**5,014,959**	-0.5% to 1%	23,933,523
Future salary increases	**+1%**	**5,151,066**	+1%	21,005,802
	-1%	**(4,693,554)**	-1%	(18,197,256)

Shown below is the maturity analysis of the undiscounted benefit payment up to 10 years:

	2018	2017
Less than 1 year	**₱120,876,357**	₱111,829,531
More than 1 year to 5 years	**107,789,070**	104,675,611
More than 5 years to 10 years	**169,791,029**	131,707,999
	₱398,456,456	₱348,213,141

The Group has no other transactions with the fund.

21. **Cost of Sales**

Cost of coal sales consists of:

	2018	2017	2016
Cost of coal (Note 7)			
Fuel and lubricants	**₱3,341,535,352**	₱2,653,577,777	₱1,489,016,376
Depreciation and amortization (Notes 10 and 12)	**3,276,055,748**	2,775,248,241	1,157,006,529
Materials and supplies (Note 19)	**2,754,257,594**	3,397,821,000	4,371,052,573
Production overhead (Note 19)	**1,046,686,558**	741,646,375	207,552,739
Direct labor (Notes 19 and 20)	**856,743,901**	896,317,627	700,275,846
Outside services (Note 19)	**526,404,379**	1,134,591,537	1,549,788,146
Provision for decommissioning and site rehabilitation (Note 16)	**436,522,946**	147,269,942	1,089,423,459
	12,238,206,478	11,746,472,499	10,564,115,668
Hauling and shiploading costs (Notes 10 and 19)	**23,877,634**	163,963,714	449,384,137
	₱12,262,084,112	₱11,910,436,213	₱11,013,499,805

Cost of power sales consists of:

	2018	2017	2016
Coal	**₱4,321,480,004**	₱4,399,206,475	₱2,559,889,904
Depreciation and amortization (Note 10)	**2,444,928,202**	2,164,203,384	2,170,627,728
Energy spot purchases	**1,203,199,309**	1,252,554,813	2,495,357,262
Coal handling expense (Note 19)	**278,321,004**	283,495,892	127,518,172
Diesel	**164,674,176**	133,883,247	43,426,757
Bunker	**58,678,806**	38,337,893	137,044,067
Market fees	**55,504,243**	31,173,053	28,091,496
Lube	**37,695,635**	20,471,045	42,912,606
Others	**17,604,798**	99,720,106	82,653,529
	₱8,582,086,177	₱8,423,045,908	₱7,687,521,521

The cost of coal on power sales consists of:

	2018	2017	2016
Fuel and lubricants	**₱1,373,299,507**	₱1,082,656,318	₱346,095,070
Materials and supplies (Note 19)	**1,131,940,919**	1,386,306,595	1,015,972,538
Depreciation and amortization (Notes 10 and 12)	**752,611,208**	672,061,538	268,925,354
Production overhead	**430,165,773**	362,676,714	301,458,785
Direct labor (Notes 19 and 20)	**352,103,405**	365,696,439	162,766,523
Outside services (Note 19)	**273,787,618**	462,911,887	360,220,375
Hauling and shiploading costs (Note 19)	**7,571,574**	66,896,984	104,451,259
	₱4,321,480,004	₱4,399,206,475	₱2,559,889,904

22. **Operating Expenses**

	2018	2017	2016
Government share (Note 28)	**₱3,569,015,013**	₱4,306,810,763	₱2,649,979,160
Depreciation and amortization (Notes 3 and 10)	**1,288,048,897**	901,986,496	56,790,728
Taxes and licenses	**609,610,558**	755,955,043	549,068,101
Personnel costs (Notes 19 and 20)	**476,886,202**	417,678,271	362,922,245
Operation and maintenance (Note 19)	**418,287,094**	419,748,118	411,460,868
Repairs and maintenance	**402,427,446**	435,377,879	330,609,401
Office expenses (Note 19)	**252,947,300**	286,175,538	146,989,002
Insurance and bonds	**161,958,470**	149,429,339	116,303,915
Professional fees	**91,302,820**	75,318,289	68,321,444
Entertainment, amusement and recreation	**73,506,431**	67,439,681	32,347,816
Transportation and travel	**25,685,337**	37,708,369	17,892,216
Provision for doubtful accounts (Note 5)	**25,330,965**	151,886	149,533,034
Marketing	**5,424,720**	6,919,797	1,990,558
Impairment loss (Note 12)	**–**	156,068,023	–
Others (Notes 7 and 10)	**375,364,074**	190,261,836	104,657,752
	₱7,775,795,327	₱8,207,029,328	₱4,998,866,240

Others pertain to various expenses such as advertising and utilities.

23. **Finance Costs**

	2018	2017	2016
Interest on:			
Long-term debt (Note 14)	**₱717,642,152**	₱493,971,277	₱423,378,970
Accretion of cost of decommissioning and site rehabilitation (Note 16)	**97,693,062**	85,620,498	25,219,891
Short-term loans (Note 13)	**52,168,582**	56,968,000	77,918,662
Amortization of debt issuance cost (Note 14)	**11,095,035**	8,283,385	13,596,689
Bank charges and others	**64,336,144**	73,225,296	58,878,494
	₱942,934,975	₱718,068,456	₱598,992,706

24. **Finance Income**

	2018	2017	2016
Interest on:			
Cash in banks (Note 4)	**₱27,277,723**	₱24,140,288	₱36,767,808
Cash equivalents (Note 4)	**101,375,339**	71,184,403	41,720,476
Investment in sinking fund (Note 11)	**–**	687,420	4,313,045
Others	**515,305**	384,687	437,367
	₱129,168,367	₱96,396,798	₱83,238,696

25. Other Income

	2018	2017	2016
Recoveries from insurance claims and claims from third party settlement (Notes 5 and 29)	**₱287,765,808**	₱514,088,242	₱218,030,806
Sale of fly ash	**189,761,785**	178,931,960	123,188,392
Gain on financial assets at FVPL (Note 6)	**91,593,548**	256,269,156	–
Gain on sale of equipment (Note 10)	**22,683,458**	126,227,184	–
Commissioning income	**–**	–	595,343,004
Miscellaneous	**16,607,255**	98,545	1,879,796
	₱608,411,854	₱1,075,615,087	₱938,441,998

Recoveries from insurance claims and claims from third party settlement
Recoveries from insurance claims pertain to the amount reimbursed by the insurer on insured equipment that were damaged. In 2018, the Group received insurance claims amounting to ₱476.14 million to cover the cost of repair for the unplanned shutdown of Unit 3 of SLPGC's 2x150 MW coal-fired power plant. Additional claims that are expected to be collected subsequent to December 31, 2018 amounting to ₱7.62 million were recognized as other receivables in the consolidated statements financial position (see Note 5). The amount of other income recognized from the insurance claims is net of related cost of repairs amounting to ₱250.77 million.

In 2017, the Group recognized recoveries from settlement agreement from the EPC contractor representing compensation for the delay in completion of construction 2x150 MW coal-fired thermal power plant and income from claims from PSALM and NPC as discussed in Note 5.

Gain on financial assets at FVPL
Net gain on financial assets at FVPL related to the fair value gain settle differences with a retail electricity supplier. This includes realized gain amounting to ₱65.82 million and ₱36.60 million in 2018 and 2017, respectively (see Note 6).

Commissioning income
Commissioning income pertains to net revenue earned by the Group from the testing phase of the 2x150 MW Circulating Fluidized Bed (CFB) coal-fired thermal power plant during the first quarter of 2016.

Miscellaneous
Miscellaneous pertains to sale of sample products for its claystone business.

26. Income Tax

The provision for income tax consists of:

	2018	2017	2016
Current	**₱704,272,857**	₱1,079,306,693	₱837,219,939
Final	**24,815,699**	19,168,305	13,884,010
Deferred	**412,402**	156,853,425	11,975,636
	₱729,500,958	₱1,255,328,423	₱863,079,585

The reconciliation of the effective statutory income tax rate to the effective income tax rate shown in the consolidated statements of comprehensive income follows:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Adjustments for:			
Nondeductible expense	**0.29**	0.16	0.18
Nondeductible interest expense	**0.02**	0.07	0.05
Movement in unrecognized deferred tax assets	**0.24**	0.48	4.36
Interest income already subject to final tax at a lower rate	**(0.11)**	(0.10)	(0.08)
Tax-exempt income	**(24.72)**	(22.49)	(27.82)
Effective income tax rate	**5.72%**	8.12%	6.69%

The components of net deferred tax assets as of December 31, 2018 and 2017 follow:

	2018	2017
Deferred tax assets (liabilities) on:		
Allowance for expected credit losses and impairment losses	**₱485,534,674**	₱477,935,385
Accrual of pension obligation	**42,367,760**	62,621,374
Allowance for inventory obsolescence	**20,218,166**	20,218,166
Provision for decommissioning and site rehabilitation	**4,080,821**	3,580,981
Unrealized foreign exchange gain - net	**(16,109,834)**	(15,743,149)
Claims from third party settlement	**(99,695,533)**	(99,023,728)
Others	**(1,312,127)**	634,357
	₱435,083,927	₱450,223,386

The components of net deferred tax liabilities as of December 31, 2018 and 2017 follow:

	2018	2017
Deferred tax assets (liabilities) on:		
Unrealized gain from financial contract	**(₱73,633,133)**	(₱65,900,403)
Accrual of pension obligation	**11,661,764**	10,909,718
Provision for decommissioning and site rehabilitation	**175,052**	–
	(₱61,796,317)	(₱54,990,685)

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used.

The Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred taxes have not been recognized:

	2018	2017
NOLCO	**₱1,809,786,446**	₱4,265,844,135
Allowance for impairment losses	**156,068,023**	156,068,023
	₱1,965,854,469	₱4,421,912,158

Rollforward analysis of the Group's NOLCO follows:

	2018	2017
Balance at beginning of year	**₱4,265,844,135**	₱9,143,865,427
Addition	**−**	418,554
Expiration	**(2,456,057,689)**	(4,878,439,846)
Balance at the end of year	**₱1,809,786,446**	₱4,265,844,135

The Group did not recognize deferred tax assets on NOLCO from the following periods:

Year Incurred	**Amount**	Expiry Year
2017	**₱418,554**	2020
2016	**1,809,367,892**	2019
	₱1,809,786,446	

Board of Investments (BOI) Incentives

Parent Company

In relation to the Parent Company's operation in Panian minesite, on September 26, 2008, the BOI issued in favor of the Parent Company a Certificate of Registration as an Expanding Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987. Pursuant thereto, the Parent Company shall be entitled to the following incentives, among others:

a. Income tax holiday (ITH) for six years from September 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. For purposes of availment of ITH, a base figure of 2,710,091 MT representing the Parent Company's average sales volume for the past three years prior to the expansion shall be used.

   The Parent Company shall initially be granted a four-year ITH. The additional two-year ITH shall be granted upon submission of completed or on-going projects in compliance with its CSR, which shall be submitted before the lapse of its initial four-year ITH. The Parent Company's ITH of six years lapsed in September 2014.

   On May 1, 2014, BOI approved the Parent Company's additional year of ITH entitlement from September 2014 to September 2015, which was extended by the BOI to September 2016.

b. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration. The president, general manager and treasurer of foreign-owned registered companies or their equivalent shall not be subject to the foregoing limitations.

Date of filing: Application shall be filed with the BOI Incentives Department before assumption to duty of newly hired foreign nationals and at least one month before expiration of existing employment for renewal of visa.

c. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

On August 19, 2009, the BOI granted the Parent Company's request for a reduced base figure from 2,710,091 MT to 1,900,000 MT representing the average sales volume for the past eight years (2000 to 2007) prior to registration with BOI.

The Parent Company's Certificate of Registration for Panian Minesite has expired on September 26, 2016 simultaneous to the full depletion of the mineable ore reserve.

On August 31, 2012 and February 24, 2016, BOI has granted the Parent Company Certificates of Registration as New Producer of Coal in accordance with the provisions of the Omnibus Investments Code of 1987 in relation to the operation in Narra Minesite (formerly Bobog) (Certificate of Registration No. 2012-183) and Molave Minesite (Certificate of Registration No. 2016-042). Pursuant thereto, the Parent Company shall be entitled to the following incentives for the two Certificate of Registrations, among others:

a. ITH for four years from January 2015 and January 2017 for Narra minesite and Molave minesite, respectively, or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

b. Income qualified for ITH availment shall not exceed by more than 10% of the projected income represented by the Parent Company in its application provided the project's actual investments and employment match the Parent Company's representation in the application.

The Parent Company availed of incentive in the form of ITH on its income under registered activities amounting to ₱2,992.59 million, ₱2,679.13 million and ₱2,747.09 million in 2018, 2017 and 2016, respectively.

SLPGC
On June 21, 2012, the application for registration of SLPGC as new operator of 300 MW (Phase 1) Batangas Coal Fired Power Plant on a Non-Pioneer Status under the Omnibus Investments Code of 1987 (Executive Order No. 226) was approved. Pursuant thereto, SLPGC shall be entitled to the following incentives, among others:

a. ITH for four years from January 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

b. For the first five years from date of registration, the enterprise shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availments as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Importation of consigned equipment for a period of 10 years from date of registration, subject to posting of re-export bond.

d. Employment of foreign nationals. This may be allowed in supervisory, technical or advisory positions for five years from date of registration.

e. Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.

On June 19, 2015, SLPGC wrote the BOI informing the latter of the delay in the start of commercial operations of Units 1 & 2 of the 2x150 MW CFB Fired Power Plant Project citing as reason the delay in the substation interconnection of the plant due to legal and commercial issues between and among the National Power Corporation, National Transmission Corporation, First Gas Power Corporation, MERALCO, PSALM and National Grid Corporation.

On July 2, 2015, the BOI replied that the BOI may grant a request for deferment of start of commercial operations with justifiable cause for a maximum of one year. The BOI may also grant a second request for deferment for six months provided that the reason for the second request is different from the first. However, failure to start commercial operations as committed in a second request shall be a ground for automatic cancellation of registration without prejudice to filing a new application for registration.

On February 16, 2016, SLPGC informed the BOI that testing and commission commenced shortly after the interconnection issue was resolved on July 16, 2015. In said letter, SLPGC formally requested the BOI for extension of the reckoning period of ITH for the six months or up to June 2016.

On June 29, 2016, the BOI granted the request for the movement of the reckoning period for the ITH incentive from January 1, 2015 to January 1, 2016 due to the delay arising from interconnection issue which is considered as an operational force majeure. In 2018 and 2017, SLPGC availed of tax incentive in the form of ITH on its income under registered activities amounting to ₱229.95 million and ₱799.28 million, respectively.

27. **Basic/Diluted Earnings Per Share**

The following table presents information necessary to calculate earnings per share:

	2018	2017	2016
Net income	**₱12,025,381,058**	₱14,209,139,819	₱12,040,669,988
Divided by the weighted average number of common shares outstanding	**4,253,177,030**	4,261,034,460	4,270,694,014
Basic/diluted earnings per share	**₱2.83**	₱3.33	₱2.82

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorization of these consolidated financial statements

28. **Coal Operating Contract with DOE**

On July 11, 1977, the Government, through its former Energy Development Board, awarded a 35-year COC to a consortium led by Vulcan Industrial & Mineral Exploration Corporation and Sulu Sea Oil Development Corporation that subsequently assigned said COC to then Semirara Coal Corporation, now the Parent Company, on April 7, 1980. On July 27, 1977, Presidential Decree (PD) 972 was amended by PD 1174: (a) increasing coal operators' maximum cost recovery from an amount not exceeding 70% to 90% of the gross proceeds from production, and (b) increasing the amount of a special allowance for Philippine corporations from an amount not exceeding 20% to 30% of the balance of the gross income, after deducting all operating expenses. As a result, the Parent Company's COC was subsequently amended on January 16, 1981 reflecting said changes.

On May 13, 2008, the DOE granted the Parent Company's request for an extension of its COC for another 15-year or until July 14, 2027.

On November 12, 2009, the COC was amended further, expanding its contract area to include Caluya and Sibay Islands, Antique, covering an additional area of 3,000 hectares and 4,200 hectares, respectively.

On August 6, 2018, the contract area in Caluya Islands was expanded and the COC was amended further to include an additional area of 13,000 hectares.

On April 29, 2013, the DOE issued a new COC to the Parent Company granting the Parent Company the exclusive right to conduct exploration, development and coal mining operations in the municipality of Bulalacao, province of Oriental Mindoro, up to a maximum of 36 years from its effective date. The COC covers two coal-bearing parcels of land covering areas of 2,000 and 5,000 hectares, respectively.

On June 7, 2013, the DOE issued a new COC to the Parent Company granting the Parent Company the exclusive right to conduct exploration, development and coal mining operations in the municipalities of Maitum and Kiamba, province of Sarangani, up to a maximum of 36 years from its effective date. The COC covers a coal-bearing parcel of land covering area of 5,000 hectares.

In return for the mining rights granted to the Parent Company, the Government is entitled to receive annual royalty payments consisting of the balance of the gross income after deducting operating expenses, operator's fee and special allowance. The Parent Company's liability for DOE's share under this contract and to the different LGU in the province of Antique, under the provisions of the Local Government Code of 1991, amounted to ₱3,569.02 million, ₱4,306.81 million and ₱2,649.98 million in 2018, 2017 and 2016, respectively, included under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 22). Payable to DOE and LGU, amounting to ₱713.35 million and ₱1,542.24 million as of December 31, 2018 and 2017 are included under the 'Trade and other payables' account in the consolidated statements of financial position (see Note 15).

The DOE, through the Energy Resources Development Bureau, approved the exclusion of coal produced and used solely by the Parent Company to feed its power plant in determining the amount due to DOE.

29. Contingencies and Commitments

SCPC

a. Provision for billing disputes

On October 20, 2010, SCPC filed a Petition for dispute resolution ("Petition") before the ERC against NPC and PSALM involving over-nominations made by NPC during the billing periods January to June 2010 beyond the 169,000 kW MERALCO allocation of SCPC, as provided under the Schedule W of the APA.

In its Petition, SCPC sought to recover the cost of energy (a) sourced by SCPC from WESM in order to meet NPC's nominations beyond the 169,000 kW MERALCO contracted demand, or (b) procured by NPC from the WESM representing energy nominated by NPC in excess of the 169,000 kW limit set in Schedule W, cost of which was charged by PSALM against SCPC. In relation to this, NPC withheld the payments of MERALCO and remitted to SCPC the collections, net of the cost of the outsourced energy.

SCPC has likewise sought to recover interest on the withheld MERALCO payments collected by PSALM that is unpaid to SCPC as of due date, to be charged at the rate of 6% computed from the date of SCPC's extrajudicial demand until full payment by PSALM.

During the preliminary conference scheduled on November 25, 2010, the ERC's hearing officer directed the parties to explore the possibility of settling the dispute amicably. As the parties failed to arrive at a compromise during the prescribed period, hearings resumed with the conduct of preliminary conference on February 23, 2011, without prejudice to the result of any further discussions between the parties for amicable settlement. The ERC set the next hearing for the presentation of witnesses on March 22 and 23, 2011.

In 2010, SCPC wrote-off the total amount withheld by NPC, which amounted to ₱383.29 million. Though a provision has already been made, SCPC has not waived its right to collect the said amount in case the outcome of the dispute resolution would be a favorable settlement for SCPC. The provision will be reversed and an income would be recognized in the 'Other income-net' account upon collection of the said receivable.

On July 6, 2011, the ERC rendered its Decision in favor of SCPC and directed the parties, among others to submit the reconciled computation of the over-nominations and other MERALCO payments withheld by PSALM during the periods January 2010 to June 2010, and for PSALM to return to SCPC the amount computed and reconciled, including the interests thereon a rate of 6% per annum. PSALM filed a Motion for Reconsideration on the Decision which was denied by ERC in an order dated February 13, 2012 for lack of merit.

On April 24, 2012, SCPC and PSALM each filed their Compliance submitting the reconciled computations of the over-nominations and other MERALCO payments withheld by PSALM, as agreed upon by the parties, in the principal amount of ₱476.00 million.

On December 4, 2013, SCPC filed a Motion for Issuance of Writ of Execution praying to direct PSALM to remit the Principal Amount, including interest of 6% per annum computed from August 4, 2010 until the date of actual payment, as well as the value added tax collected by PSALM from MERALCO, pursuant to the ERC's Decision dated July 6, 2011 and Order dated February 13, 2012.

On June 23, 2014, the ERC issued an Order granting the Writ of Execution in favor of SCPC and called a clarificatory conference on September 3, 2014 for the parties to discuss the details of the execution. PSALM filed a Motion for Reconsideration of the ERC's Order dated June 23, 2014.

On September 3, 2014 clarificatory conference, the ERC directed the parties to discuss how they could mutually carry out the execution granted by the ERC in favor of SCPC and likewise (1) granted SCPC 10 days to file its Comment/Opposition to PSALM's motion for reconsideration; and (2) ordered PSALM to file its Compliance and submit a copy of the 3rd Indorsement dated May 29, 2014 issued by the General Counsel of the Commission on Audit (COA) to PSALM.

On September 11, 2014, PSALM filed its Compliance and duly submitted the 3rd Indorsement. On September 15, 2014, SCPC filed its Opposition to PSALM's Motion for Reconsideration.

On July 18, 2017, the ERC issued an Order granting PSALM's Motion for Reconsideration (MR) and setting aside its Order dated June 23, 2014. In the said Order, the ERC stated that the grant of PSALM's motion is without prejudice to the filing of SCPC of the appropriate money claims with COA.

PSALM's Petition for Review before the Court of Appeals and Supreme Court of the Philippines
Meanwhile, PSALM filed a Petition for Review with Prayer for Temporary Restraining Order (TRO) and/or Preliminary Injunction with the Court of Appeals on March 30, 2012, questioning the ERC's decision dated July 6, 2011 and Order dated February 13, 2012. On September 4, 2012, the Court of Appeals rendered a Decision, denying PSALM's petition and affirming the related Decision and Order previously issued.

PSALM subsequently filed a Motion for Reconsideration dated September 26, 2012 and seeking the reconsideration of the Decision dated September 4, 2012. SCPC filed its Opposition to PSALM's Motion for Reconsideration on November 5, 2012. Subsequently, the Court of Appeals issued a Resolution denying the Motion for Reconsideration filed by PSALM on November 27, 2012.

On December 27, 2012, PSALM filed a Petition for Review on Certiorari with Prayer for Issuance of Temporary Restraining Order and/or Preliminary Injunction with the Supreme Court (Court).

Subsequently the Court issued a Resolution dated January 21, 2013 requiring SCPC to file a Comment to PSALM's Petition. Thus, on March 25, 2013, SCPC filed its Comment.

PSALM filed a Motion for Extension to file reply on July 25, 2013, requesting for an additional period of 10 days from July 25, 2013, or until August 4, 2013, within which to file its Reply. PSALM subsequently filed its Reply on August 2, 2013.

In a Resolution dated September 30, 2013, the Court granted PSALM's Motion for Extension to File Reply and noted the filing of PSALM's Reply.

On December 16, 2016, the Court issued a Notice of Decision and Decision dated December 5, 2016. In said Decision, the Court denied PSALM's Petition for Review on Certiorari with Prayer for issuance of Temporary Restraining Order and/or Preliminary injunction and affirmed the ruling of the Court of Appeals.

PSALM filed its Motion for Reconsideration dated January 19, 2017. On February 13, 2017, the Supreme Court rendered Decision denying with finality PSALM's Motion for Reconsideration.

On February 22, 2017, due to the denial with finality of PSALM's MR by the Supreme Court, SCPC filed with the ERC an Urgent Motion for Resolution of PSALM's Motion for Reconsideration pending with the ERC. SCPC prayed that the MR be denied and a writ of execution be issued in favor of SCPC.

Petition for Money Claim versus PSALM before the Commission on Audit (COA)
On November 27, 2017, SCPC filed before the COA a Petition for Money Claim against PSALM for the enforcement of the Decision dated July 6, 2011 and Order dated February 13, 2012 issued by the ERC in ERC Case No. 2010-058MC, as affirmed by the Court of Appeals in its Decision

dated September 4, 2012 in CA-C.R. No. 123997, and by the Supreme Court in its Decision dated December 5, 2016 in G.R. No. 204719.

On December 11, 2017, SCPC received a copy of the Order dated November 29, 2017 issued by COA directing PSALM to submit its answer to SCPC's Petition dated November 27, 2017 within 15 days from receipt thereof. Upon confirmation from the Philippine Post Office - Quezon City, PSALM received a copy of the foregoing Order on December 14, 2017. Hence, PSALM has until December 29, 2017 within which to file its answer.

As of December 31, 2017, since this case involves issues which have been settled by no less than the Supreme Court in a final and executory judgment, i.e., PSALM's liability in the principal amount of ₱476.70 million inclusive of VAT, the recovery of SCPC's money claim is certain. The filing of Petition with COA is for the purpose of executing the money judgment since the ERC refused to execute the same based on the rule that all money claims against the government must first be filed with the COA.

On February 7, 2018, SCPC filed with COA a Motion to Declare Respondent PSALM Corporation in Default in view of PSALM's failure to file Answer within the period provided by COA in the Order dated November 29, 2017. However, on February 15, 2018, SCPC received a copy of PSALM's Motion to Admit Attached Answer with Answer both dated February 12, 2018. In its Answer, PSALM confirmed that it had not made any payments in connection with the ERC Decision dated July 6, 2011 but contended that SCPC's prayer for payment of interest should be denied because allegedly, SCPC's Petition dated November 27, 2017 and the ERC decision failed to state as to when the interest should be counted from. On March 1, 2018, SCPC filed its Reply to PSALM's Answer and refuted PSALM's claim regarding imposition of interest.

On November 29, 2018, SCPC filed an Urgent Motion for Resolution with the COA praying for immediate resolution of the case. On December 14, 2018, PSALM filed its Comment to SCPC Urgent Motion for Resolution raising the same arguments raised in its Answer. On January 4, 2019, SCPC filed its Reply to PSALM's Comment to the Urgent Motion for Resolution.

To date, the case is pending for decision with the COA.

b. Operating Lease Commitment - as a Lessee

As discussed in Note 12, SCPC entered into an LLA with PSALM for the lease of land in which its plant is situated, for the period of 25 years, renewable for another 25 years, upon mutual agreement. In 2009, SCPC paid US$3.19 million or its Peso equivalent ₱150.57 million as advance rental for the 25-year land lease.

Provisions of the LLA include that SCPC has the option to buy the Option Assets upon issuance of an Option Existence Notice (OEN) by the lessor. Option assets are parcels of land that form part of the leased premises which the lessor offers for sale to the lessee.

SCPC was also required to deliver and submit to the lessor a performance security amounting to ₱34.83 million in the form of Stand-by Letter of Credits. The Performance Security shall be maintained by SCPC in full force and effect continuously without any interruption until the Performance Security expiration date. The Performance Security initially must be effective for the period of one (1) year from the date of issue, to be replaced prior to expiration every year thereafter and shall at all times remain valid.

In the event that the lessor issues an OEN and SCPC buy the option assets, the land purchase price should be equivalent to the highest of the following and/or amounts: (i) assessment of the Provincial Assessors of Batangas Province; (ii) the assessment of the Municipal or City Assessor having jurisdiction over the particular portion of the leased premises; (iii) the zonal valuation of Bureau of Internal Revenue or, (iv) 21.00 per square meter (dollar). Valuation basis for (i) to (iii) shall be based on the receipt of PSALM of the option to exercise notice.

The exchange rate to be used should be the Philippine Dealing Exchange rate at the date of receipt of PSALM of the option to exercise notice.

On July 12, 2010, PSALM issued an OEN and granted SCPC the "Option" to purchase parcels of land (Optioned Assets) that form part of the leased premises. SCPC availed of the "Option" and paid the Option Price amounting to US$0.32 million (₱14.72 million), exercisable within one year from the issuance of the OEN.

On April 28, 2011, SCPC sent a letter to PSALM requesting for the assignment of the option to purchase a lot with an area of 82,740 sqm in favor of its Parent Company. On May 5, 2011, PSALM approved the assignment. On June 1, 2011, SCPC exercised the land lease option at a purchase price of ₱292.62 million and is included as part of 'Property, plant and equipment' (see Note 10).

On October 12, 2011, SCPC reiterated its proposal to purchase the remainder of the Leased Premises not identified as Optioned Assets. One of the salient features of the proposal included the execution of Contract to Sell (CTS) between SCPC and PSALM. This included the proposal of SCPC to assign its option to purchase and sub-lease in favor of SLPGC.

On February 13, 2012, PSALM held off the approval of the proposal to purchase the portion of Calaca Leased Premises not identified as Optioned Assets, subject to further studies. On the same date, PSALM Board has approved SCPC's request to sub-lease a portion of the Calaca Leased Premises to SLPGC for the purpose of constructing and operating a power plant.

On February 14, 2014, SCPC reiterated its proposal to purchase the Calaca Leased Premises not identified as Optioned Assets.

On February 1, 2017, SCPC again reiterated to PSALM its proposal to purchase the Calaca Leased Premises.

c. Power Supply Agreement with MERALCO

On December 20, 2011, SCPC entered into a new power supply agreement with MERALCO which took effect on December 26, 2011 and shall have a term of (7) seven years, extendable upon mutual agreement by the parties for another three years. Based on this agreement, SCPC shall provide MERALCO with an initial contracted capacity of 210MW and shall be increased to 420MW upon commercial operation of the plant's Unit 1. Commercial operation of plant's Unit 1 started in June 2013. The contract upon mutual agreement was extended from December 26, 2018 to June 25, 2019 for 250MW.

SCPC will be providing MERALCO with an initial contracted capacity of 210 MW and will be increased to 420 MW upon the commercial operation of the plant's Unit 1.

On March 12, 2012, MERALCO filed an application for the *Approval of the Power Supply Agreement (PSA) between MERALCO and SCPC, with a Prayer for Provisional Authority,* docketed as ERC Case No. 2011-037 RC.

In the said application, MERALCO alleged and presented on the following: a.) the salient provisions of the PSA; b.) payment structure under the PSA; c.) the impact of the approval of the proposed generation rates on MERALCO's customers; and d.) the relevance and urgent need for the implementation of the PSA.

On December 17, 2012, the ERC issued a Decision approving the application with modification. On January 7, 2013, applicant MERALCO filed a Motion for Partial Reconsideration of the ERC Decision dated December 17, 2012 to introduce additional material evidence not available at the time of the filing of the application, in support of the reconsideration of the approved Fixed O&M (FOM) fee of ₱4,785.12/kW per year. On February 8, 2013, MERALCO filed its Supplemental Motion for Partial Reconsideration with Motion for Clarification (Supplemental Motion) to include the recovery of cost of diesel not as part of the variable O&M Fee.

On May 2, 2018, the ERC issued an Order of even date, requiring submission of documentary requirements to support its Motion for Partial Reconsideration and the Supplemental Motion. On May 23, 2018, SCPC submitted its Compliance with Motion for Early Resolution to the ERC. On May 29, 2108, SCPC received an Order from the ERC allowing recovery of the cost of diesel during Power Plant's Startup and Shutdown under Reimbursable Cost but deferred MERALCO's prayer to adjust the approved FOM fee of ₱4,785.12/kW-Year to ₱4,977.45/kW-Year.

On July 17, 2018, further to ERC Order dated May 29, 2018, SCPC issued a Debit Memo to MERALCO and MERALCO RES in the amounts of ₱1,170.44 million and ₱407.46 million, respectively.

On August 20, 2018, SCPC received a copy of MERALCO's Motion for Clarification with Manifestation seeking to clarify the details of the approved components of the FOM fee, including the amounts pertaining to diesel and bunker oil. MERALCO also sought to clarify that the ERC grant of the Power Plant's Startup and Shutdown under Reimbursable Cost refers to Component E of the Payment Structure discussed in Appendix E of the PSA to avert any erroneous/invalid billing from SCPC regarding Reimbursable Costs. On August 30, 2018 MERALCO filed with the ERC its Urgent Motion for Resolution of its earlier Motion for Clarification with Manifestation.

To date, ERC has yet to resolve the pending motions filed by MERALCO.

d. Power Supply Agreement with MERALCO RES

On May 5, 2017, SCPC entered into a new power supply agreement with MERALCO through its retail electricity supply business segment which will take effect on June 26, 2019 and shall have a term of ten years extendable upon mutual agreement by the parties for another four years. SCPC will be providing MERALCO RES with an initial contracted capacity of 170MW from June 26, 2019 until December 25, 2019 and will be increased to 420MW from December 26, 2019 until the end of the term.

e. Dispute Resolution Proceedings with MERALCO (Line Loss Rental)

On August 29, 2013, MERALCO filed a Petition for Dispute Resolution before the ERC against SCPC and other generating companies praying for refund of the amount of line loss allegedly collected by the said generating companies corresponding to 2.98% of the NPC-Time of Use (TOU) amounts paid to the generating companies as assignees of the portions of the contracted energy volume under the NPC-MERALCO Transition Supply Contract pursuant to the Orders dated March 4, 2013 and July 1, 2013 issued by the ERC in ERC Case No. 2008-083MC. The total amount claimed by MERALCO against SCPC representing line loss amounts allegedly received by SCPC beginning 2009 amounts to ₱265.54 million.

The ERC issued an Order dated September 10, 2013 for the generating companies to file comments on MERALCO's Petition and set the hearing on October 17, 2013.

On September 20, 2013, the generating companies filed a Joint Motion to Dismiss arguing that MERALCO's Petition failed to state a cause of action and the ERC has no jurisdiction over the subject matter of the case.

On September 25, 2013, the ERC directed MERALCO to file its comments on the Joint Motion to Dismiss. The ERC likewise set the hearing on the Joint Motion to Dismiss on October 14, 2013.

On October 14, 2013, during the hearing on the Joint Motion to Dismiss, ERC directed MERALCO to furnish the generating companies of its Comment and Pre-Trial Brief; granted MERALCO a period of three (3) days from receipt of the generating companies Reply within which to file a Rejoinder; granted the generating companies a period of five days from receipt of MERALCO's Rejoinder to file a Sur-Rejoinder. The ERC denied the generating companies prayer to hold in abeyance the conduct of the initial hearing on October 17, 2013 and shall proceed on said date only insofar as the jurisdictional hearing is concerned without prejudice to the ERC's resolution of the Joint Motion to Dismiss.

The generating companies' Joint Motion to Dismiss has been submitted for resolution. As of December 31, 2018, the Joint Motion to Dismiss has yet to be resolved.

f. Contract for the Fly Ash of the Power Plant

On October 20, 1987, NPC and Pozzolanic Australia Pty, Ltd. ("Pozzolanic") executed the Contract for the Purchase of Fly Ash of the Power Plant (the "Pozzolanic Contract"). Under the Pozzolanic Contract, Pozzolanic was given the right to sell, store, process, remove or otherwise dispose of all fly ash produced at the first unit of the Power Plant. It was also granted the first option to purchase fly ash, under similar terms and conditions, from the second unit of the Power Plant that NPC may construct. It may also exercise the exclusive right of first refusal to purchase fly ash from any new coal-fired power plants which will be put up by NPC.

The Pozzolanic Contract is effective for a period of five consecutive five-year terms from its signing, or a period of 25 years from October 20, 1987 or until 2012, subject to cancellation by NPC upon default or any breach of contract by Pozzolanic. At the end of each five-year term, the parties will agree to assess and evaluate the Pozzolanic Contract, and if necessary, revise, alter, modify the same upon their mutual consent.

The Philippine Government has determined the provision of the Pozzolanic Contract which grants Pozzolanic the exclusive right of first refusal to purchase fly ash from the second unit of the Power Plant and from any coal-fired power plant put up by NPC after the execution of the Pozzolanic Contract as invalid. This is the subject of a case filed by Pozzolanic and pending before the regional trial court of Quezon City as of December 31, 2011.

On April 30, 2012, SCPC, as new owner of the Power Plant and Pozzolanic sealed a new contract valid and effective for a period of 15 years beginning February 1, 2012. Pozzolanic, as agreed, shall purchase 100% percent of fly ashes produced or generated by the Power Plant.

g. Temporary Restraining Order on MERALCO

On December 23, 2013, the Supreme Court (SC) issued a temporary restraining order (TRO) to MERALCO enjoining it from increasing the generation rates it charges to its consumers arising from the increased generation costs from its suppliers for the supply month of November 2013. The said TRO also enjoined the ERC from implementing its December 9, 2013 Order authorizing MERALCO to stagger the collection of its increased generation costs for the supply month of November 2013. The TRO was for a period of 60 days from December 23, 2013 to February 21, 2014.

On January 10, 2014, the SC impleaded MERALCO's suppliers of generation costs, including PEMC, the operator of the WESM, as parties-respondents in the cases.

On February 18, 2014, the SC extended the TRO for another 60 days up to April 22, 2014.

On April 24, 2014, the SC issued a resolution and corresponding TRO, extending indefinitely the TRO issued on December 23, 2013 and February 18, 2014.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs, including PEMC.

On March 11, 2014, the ERC released its ERC Order (Case No 2014-021MC, dated March 3, 2014) voiding the Luzon WESM prices during the November and December 2013 supply months and declaring the imposition of regulated prices in lieu thereof. PEMC was hereby directed within seven days from receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned Distribution Utilities (DUs) in Luzon for the November and December 2013 supply months for their immediate settlement, except for MERALCO whose November 2013 WESM bill shall be maintained in compliance with the TRO issued by the SC.

Several generation companies and distribution companies filed their respective Motions for Reconsideration of the March 3, 2014 ERC Order. SCPC filed its Motion for Reconsideration with Motion for Deferment of implementation of the Order dated March 3, 2014 on March 31, 2014. The said Motions were set for hearing on April 28, 2014.

In the meantime, PEMC issued the adjusted WESM bills to the market participants, including SCPC. In an Order dated March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the Order within which to comply with the settlement of the adjusted WESM bills in view of the pendency of the various submissions before the ERC.

During the hearing held on April 28, 2014, the ERC directed the parties to submit their respective memoranda by May 2, 2014. In compliance with the directive, SCPC filed a Manifestation on May 2, 2014 that it is adopting its Motion for Reconsideration in lieu of filing a Memorandum. In an Order dated October 15, 2014, the ERC denied SCPC's Motion for Reconsideration.

On December 11, 2014, SCPC filed a Petition for Review with Prayer for Issuance of Temporary Restraining Order and/or Writ of Injunction with the Court of Appeals seeking reversal of the ERC Orders dated March 3, 2014 and October 15, 2014. In a resolution dated April 30, 2015, SCPC's Petition was consolidated with other related cases filed by other generation companies before the Court of Appeals. PEMC and ERC filed their respective Consolidated Comments on the consolidated Petitions to which SCPC filed its Reply.

MERALCO filed its Consolidated Motion for Leave to Intervene with Opposition to Prayers for issuance of Temporary Restraining Order and/or Writ of Injunction. SCPC filed its Comment to MERALCO's Consolidated Motion on November 2, 2015.

Pending the finality of the ERC Order dated March 3, 2014 on recalculation of the WESM prices for the November and December 2013 supply months and its effect on each generation company that trade in the WESM, SCPC estimated its exposure to the said ERC order. In relation to the ERC Order, SCPC entered into a special payment arrangement with PEMC for the payment of the customer's reimbursement, through PEMC, in excess of the regulated price for the purchases through spot market in November and December 2013. The payments are over 24 month from June 2014 to May 2016. Total payments amounted to ₱674.00 million.

In a Decision dated November 7, 2017, the Court of Appeals granted SCPC's Petition and declared the ERC's Orders dated March 3, 2014, March 27, 2014 and October 15, 2014 in ERC Case No. 2014-021 as null and void for being issued in violation of the Constitution and the applicable laws.

On December 14, 2017, we received MERALCO's and ERC's Motion for Reconsideration of the Court Appeal's Decision dated December 8, 2017 and December 12, 2017, respectively. Likewise, we received Motions for Leave to Intervene with Motion to Admit Attach Motion for Reconsideration filed by several third parties such as Mercury Drug Corporation, Riverbanks Development Corporation, Philippine Steelmakers Association and Ateneo de Manila University, seeking intervention in the instant case and reconsideration of the Court of Appeal's Decision.

On July 30, 2018, SCPC filed its Consolidated Comment on MERALCO's and ERC's Motion for Reconsideration. On November 29, 2018, the CA directed SCPC to comment on the Motion for Leave to Intervene and to Admit Motion for Reconsideration in Intervention of the CA's decision filed by movant-intervenors PRHC Property Managers Inc. and the Philippine Stock Exchange Centre Condominium Corporation. On December 2018, SCPC instead submitted a Manifestation in lieu of a comment since the grounds relied upon by the movants are similar to the grounds to the other movants already addressed by SCPC in its Consolidated Comment and duly passed upon by the CA in its Resolution dated March 22, 2018.

To date, the CA has yet to resolve ERC's and MERALCO's Motion for Reconsideration.

SLPGC

a. Construction contract

SLPGC entered into a construction contract with DMCI for the construction of its power plant. SLPGC is entitled to liquidating damages at the daily rate of 1/10 of 1% of the Contract Price which in no event shall exceed 10% of the Contract Price. In 2017, SLPGC and DMCI entered into settlement agreement which includes among others reciprocal concession, certain payments, reductions of the contract price and performance of other obligations. The settlement agreement resulted to the recognition by SLPGC of settlement income amounting to ₱133.04 million in 2017 (see Notes 19 and 25).

b. Application for Approval of the Ancillary Services Procurement Agreement (ASPA) between the National Grid Corporation of the Philippines (NGCP) and SLPGC, with Prayer for the Issuance of Provisional Authority

On July 12, 2018, SLPGC and NGCP filed an Application for approval of the Ancillary Services Procurement Agreement, with a Prayer for the Issuance of Provisional Authority, docketed as ERC Case No. 2018-074-RC, where NGCP agreed to procure and SLPGC agreed to supply Ancillary Services in the form of Regulating Reserve under a firm and non-firm arrangement and Contingency Reserve and Dispatchable Reserve under a non-firm arrangement.

Both Companies filed their Joint Pre-trial brief and filed their Compliance with the Jurisdictional Requirements before the ERC. On October 11, 2018, the case was set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing. ERC directed SLPGC and NGCP to submit additional documents to file its Formal Offer of Evidence.

On November 9, 2018, SLPGC and NGCP filed their Formal Offer of Evidence and Compliance.

As of this date, no decision or resolution from the ERC with regard to the parties' prayer for the issuance of Provisional Authority or the application was received.

SMPC

a. Operating Lease Commitment - as a Lessee

The Parent Company leases land at the minesite and building as office space.

Future minimum rental payables under operating leases follow:

	2018	2017
Within one year	**₱28,888,047**	₱26,742,800
After one year but not more than five years	**20,035,903**	44,041,525
	₱48,923,950	₱70,784,325

b. Special Order (SO) No. 2017-042, Series of 2017, *Creation of DENR Regional Team to Conduct Investigation on the Semirara Mining and Power Corporation*

On February 9, 2017, the Parent Company received a Special Order (SO) No. 2017-042, Series of 2017 from Department of Environment and Natural Resources-Environment Management Bureau (DENR-EMB) Region VI.

The DENR Team that was created through the SO conducted monitoring, inspection and investigation of the following in relation to the Parent Company's activities in Semirara Island:

- Compliance to their ECC;
- Ambient Air and Water Monitoring of Semirara Island;
- Investigation of alleged reclamation of the Parent Company; and
- Livelihood and Community Status in Semirara Island.

In accordance with the SO, the DENR Team proceeded with the investigation, monitoring and inspection on February 9 and 10, 2017. On March 13, 2017, the DENR-EMB Region 6 provided the Parent Company with the results of the investigation without adverse findings in particularly the report noted that the Parent Company was very much compliant with its ECC conditions.

c. Effectivity of Revenue Regulations (RR) 1-2018

On January 5, 2018, RR 1-2018 took effect pursuant to the effectivity of the Tax Reform for Acceleration and Inclusion (TRAIN) law beginning January 1, 2018. Among others, the new tax law raised the excise tax rates on domestic and imported coal from ₱10.0 per metric ton (MT) to ₱50.0 per MT in the first year of implementation, ₱100.0/MT in the second year, and ₱150.0/MT in the third and succeeding years. Based also on the RR, coal produced under coal operating contracts entered into by the government pursuant to PD No. 972, as well as those exempted from excise tax on mineral products under other laws, shall now be subject to the applicable rates beginning January 1, 2018.

On February 21, 2018, SMPC requested for a clarification on this with the tax bureau and submitted a supplemental letter explaining why the excise tax provisions on coal under the TRAIN law will not apply to SMPC under the terms and conditions of its Coal Operating Contract (COC) with the Department of Energy. In response, on December 17, 2018, Revenue Memorandum Circular (RMC) No. 105-2018 was issued, clarifying the payment of excise tax on domestic coal sales and specifically identifying SMPC as merely a collecting agent (SMPC collected from customers and remitted to the tax bureau). The RMC did not provide for the excise tax treatment of coal export sales (per RMC, this will be tackled in a separate revenue memorandum issuance), but management believes that SMPC is similarly not liable for this under the terms of its existing COC. Given this, management believes that both the timing and the amount of excise tax on exported coal that will be due from SMPC, if any, are uncertain as of December 31, 2018 and will only be confirmed when the said issuance will be issued by the tax bureau.

The Group

The Group is contingently liable with respect to certain taxation matters, lawsuits and other claims which are being contested by management, the outcome of which are not presently determinable. Management believes that the final resolution of these claims will not have a material effect on the consolidated financial statements. The information usually required by PAS 37 is not disclosed as it will prejudice the outcome of the lawsuits and claims.

See significant judgments and estimates disclosures in Note 3.

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30. Financial Risk Management Objectives and Policies

The Group has various financial assets such as cash and cash equivalents, receivables, and environmental guarantee fund, which arise directly from operations.

The Group’s financial liabilities comprise trade and other payables, short-term loans, long-term debt and other noncurrent liabilities. The main purpose of these financial liabilities is to raise finance for the Group’s operations. The main risks arising from the Group’s financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and approves policies for managing each of these risks which are summarized below.

The sensitivity analyses have been prepared on the following basis:
- Price risk - movement in one-year historical coal prices
- WESM price risk - movement of WESM price for energy
- Interest rate risk - market interest rate on loans
- Foreign currency risk - yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2018 and 2017.

WESM Price risk
Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The price that the Group can charge for its coal is directly and indirectly related to the price of coal in the world coal market. In addition, as the Group is not subject to domestic competition in the Philippines, the pricing of all of its coal sales is linked to the price of imported coal. World thermal coal prices are affected by numerous factors outside the Group’s control, including the demand from customers which is influenced by their overall performance and demand for electricity. Prices are also affected by changes in the world supply of coal and may be affected by the price of alternative fuel supplies, availability of shipping vessels as well as shipping costs.

As the coal price is reset on a periodic basis under coal supply agreements, this may increase its exposure to short-term coal price volatility.

There can be no assurance that world coal prices will be sustained or that domestic and international competitors will not seek to replace the Group in its relationship with its key customers by offering higher quality, better prices or larger guaranteed supply volumes, any of which would have a materially adverse effect on the Group’s profits.

To mitigate this risk, the Group continues to improve the quality of its coal and diversify its market from power industry, cement industry, other local industries and export market. This will allow flexibility in the distribution of coal to its target customers in such manner that minimum target average price of its coal sales across all its customers will still be achieved (i.e., domestic versus export). Also, in order to mitigate any negative impact resulting from price changes, it is the Group’s policy to set minimum contracted volume for customers with long-term supply contracts for each given period (within the duration of the contract) and pricing is negotiated on a monthly basis to even out the impact of any fluctuation in coal prices, thus, protecting its target margin.

The excess volumes are allocated to spot sales which may command different price than those contracted already since the latter shall follow pricing formula per contract.

Nevertheless, on certain cases temporary adjustments on coal prices with reference to customers following a certain pricing formula are requested in order to recover at least the cost of coal if the resulting price is abnormally low vis-à-vis cost of production (i.e., abnormal rise in cost of fuel, foreign exchange).

Below are the details of the Group's coal sales to the domestic market and to the export market (as a percentage of total coal sales volume):

	2018	2017
Domestic market	**43.67%**	33.51%
Export market	**56.33%**	66.49%

The following table shows the effect on income before income tax should the change in the prices of coal occur based on the inventory of the Group as of December 31, 2018 and 2017 with all other variables held constant. The change in coal prices used in the simulation assumes fluctuation from the lowest and highest price based on one-year historical price movements in 2018 and 2017.

	Effect on income before income tax Increase (decrease)	
Change in coal price	**2018**	2017
Based on ending coal inventory		
Increase by 21% in 2018 and 19% in 2017	**₱394,954,633**	₱182,728,821
Decrease by 21% in 2018 and 19% in 2017	**(394,954,633)**	(182,728,821)
Based on coal sales volume		
Increase by 21% in 2018 and 19% in 2017	**₱1,835,205,392**	₱2,814,557,292
Decrease by 21% in 2018 and 19% in 2017	**(1,835,205,392)**	(2,814,557,292)

Price Risk
This is the risk relating to the movement of WESM and its impact to the derivatives arising from the contract of differences discussed in Note 6.

The following table demonstrates the sensitivity to a reasonably possible change in WESM prices compared to the strike price of ₱3.35 and ₱4.25 in 2018 and 2017, respectively, with all variables held constant of the Group's income before taxes (amounts in thousands).

	Movement in average WESM price	Increase (decrease) in financial assets at FVPL
2018	**+2%**	**(₱481,800)**
		219,000
2017	+4%	(77,381)
		114,619

Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain a balance of Philippine Peso-denominated and US$-denominated debts.

The following table shows the information about the Group's financial instruments instrument) interest rate risks and presented by maturity profile:

	Interest	Within 1 year
Cash in banks and cash equivalents	**1.10% to 7.50%**	**₱1,897,142,279**
Foreign long-term debt at floating rate		
a. $27.06 million loan (US$)	**Floating rate to be repriced every 3 months**	**₱1,422,670,526**
b. $17.16 million loan (US$)	**Floating rate to be reprice every 3 months based on 3 months LIBOR plus a spread of 0.86%**	**902,467,711**
Peso long-term debt at floating rate		
c. ₱2,100 million loan (PHP)	**Floating rate to be repriced every 3 months based on 3-months PDST-R2 plus a spread of one percent (1%)**	**525,000,000**
d. ₱1,400.00 million loan (PHP)	**Floating rate to be repriced every 3 months**	**–**
e. ₱750.00 million loan (PHP)	**Floating rate to be repriced every 3 months**	**–**
f. ₱11,500.00 million loan (PHP)	**Floating rate to be repriced every 3 months**	**1,703,703,704**
g. ₱3,000.00 million loan (PHP)	**Fixed annual interest rate of 4.9% per annum**	**–**
		₱4,553,841,941

that are exposed to cash flow (floating rate instrument) and fair value (fixed rate

2018				
More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years	Carrying Value
₱–	₱–	₱–	₱–	₱1,897,142,279
₱–	₱–	₱–	₱–	₱1,422,670,526
–	–	–	–	902,467,711
525,000,000	131,250,000	–	–	1,181,250,000
1,400,000,000	–	–	–	1,400,000,000
750,000,000	–	–	–	750,000,000
1,700,208,102	1,700,426,794	846,338,487	–	5,950,677,087
–	741,871,802	748,115,120	1,499,744,137	2,989,731,059
₱4,375,208,102	₱2,573,548,596	₱1,594,453,607	₱1,499,744,137	₱14,596,796,383

	Interest	Within 1 year
Cash in banks and cash equivalents	`1.10% to 4.10%	₱8,465,849,568
Foreign long-term debt at floating rate		
a. $27.06 million loan (US$)	Floating rate to be repriced every 3 months	₱–
b. $23.95 million loan (US$)	Floating rate to be repriced every 3 months	1,196,006,613
c. $17.16 million loan (US$)	Floating rate to be repriced every 3 months	–
Peso long-term debt at floating rate		
d. ₱3,000.00 million loan	PDST-F benchmark yield for 3-month treasury securities + 1.75%. Starting August 2015, PDST-R2 + 1.95%	–
e. ₱2,100.00 million loan	Floating rate to be repriced every 3 months	656,250,000
f. ₱1,400.00 million loan	Floating rate to be repriced every 3 months	–
g. ₱750.00 million loan	Floating rate to be repriced every 3 months	–
h. ₱11,500.00 million loan	PDST-F + Spread or BSP Overnight Rate, whichever is higher	1,696,166,047
		₱3,548,422,660

2017				
More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years	Carrying Value
₱–	₱–	₱–	₱–	₱8,465,849,568
₱1,350,968,798	₱–	₱–	₱–	₱1,350,968,798
–	–	–	–	1,196,006,613
856,983,887	–	–	–	856,983,887
–	–	738,928,137	2,246,135,935	2,985,064,072
525,000,000	525,000,000	131,250,000	–	1,837,500,000
–	1,400,000,000	–	–	1,400,000,000
–	750,000,000	–	–	750,000,000
1,698,330,989	1,700,042,952	1,701,818,824	851,595,990	7,647,954,802
₱4,431,283,674	₱4,375,042,952	₱2,571,996,961	₱3,097,731,925	₱18,024,478,172

The following table demonstrates the sensitivity of the Group's income before income tax to a reasonably possible change in interest rates on December 31, 2018 and 2017, with all variables held constant, through the impact on floating rate borrowings:

	Effect on income before income tax Increase (decrease)	
Basis points	**2018**	2017
+100	**(₱7,287,372)**	(₱5,022,547)
-100	**7,287,372**	5,023,547

The assumed movement in basis points for interest rate sensitivity analysis is based on the Group's historical changes in market interest rates on bank loans.

There was no effect on the equity other than those affecting the income before tax.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through a mix of suppliers' credit, letters of credit, trust receipts and long-term debt, while operating expenses and working capital requirements are funded through cash collections. A significant part of the Group's financial assets that are held to meet the cash outflows include cash equivalents and trade receivables. Although trade receivables are contractually collectible on a short-term basis, the Group expects continuous cash inflows through continuous production and sale of coal and power generation. In addition, although the Group's short-term deposits are collectible at a short notice, the deposit base is stable over the long term as deposit rollovers and new deposits can offset cash outflows.

Moreover, the Group considers the following as mitigating factors for liquidity risk:
- It has available lines of credit that it can access to answer anticipated shortfall in sales and collection of receivables resulting from timing differences in programmed inflows and outflows.
- It has very diverse funding sources.
- It has internal control processes and contingency plans for managing liquidity risk. Cash flow reports and forecasts are reviewed on a weekly basis in order to quickly address liquidity concerns. Outstanding trade receivables are closely monitored.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund-raising activities may include obtaining bank loans.

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2018 and 2017 based on contractual payments:

	2018					
	Less than 6 months	More than 6 months to 12 months	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years	Total
Financial Assets						
Cash in banks and cash equivalents	**₱1,897,142,279**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,897,142,279**
Receivables						
Trade:						
Outside parties	**5,457,029,927**	–	–	–	**1,564,439,082**	**7,021,469,009**
Related parties	**47,521,278**	–	–	–	–	**47,521,278**
Others*	**219,911,886**	–	–	–	**5,815,359**	**225,727,245**
Financial asset at FVPL	–	**91,810,273**	**76,876,752**	**76,876,752**	–	**245,563,777**
Environmental guarantee fund	–	–	–	–	**3,520,000**	**3,520,000**
	7,621,605,370	**91,810,273**	–	–	**1,573,774,441**	**9,440,943,588**
Financial Liabilities						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	**6,504,979,399**	–	–	–	–	**6,504,979,399**
Related parties	**865,029,191**	–	–	–	–	**865,029,191**
Accrued expenses and other payables**	**741,811,581**	–	–	–	–	**741,811,581**
Long-term debt at floating rate* **						
$27.06 million loan (US$) with interest payable in arrears	**1,422,670,526**	–	–	–	–	**1,422,670,526**
$17.16 million loan (US$) with interest payable in arrears	**902,467,711**					**902,467,711**
₱2,100.00 million loan (PHP) with interest payable in arrears	–	**525,000,000**	**525,000,000**	**131,250,000**	–	**1,181,250,000**
₱1,400.00 million loan (PHP) with interest payable in arrears	–	–	**1,400,000,000**	–	–	**1,400,000,000**
₱750.00 million loan (PHP) with interest payable in arrears	–	–	**750,000,000**	–	–	**750,000,000**
	₱10,436,958,408	**₱525,000,000**	**₱2,675,000,000**	**₱131,250,000**	**₱–**	**₱13,768,208,408**

**excludes advances for liquidation*
***excludes statutory liabilities*
****includes interest payable*

	2017					
	Less than 6 months	More than 6 months to 12 months	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years	Total
Financial Assets						
Cash in banks and cash equivalents	₱8,465,849,568	₱–	₱–	₱–	₱–	₱8,465,849,568
Receivables						
Trade:						
Outside parties	4,008,833,101	545,381,932	–	1,564,439,082	3,541,205	6,122,195,320
Related parties	241,052,373	–	–	–	–	241,052,373
Others*	103,385,887	–	–	–	–	103,385,887
Financial asset at FVPL	30,811,362	51,352,271	51,430,195	30,535,524	55,538,651	219,668,003
Environmental guarantee fund	–	–	–	–	3,520,000	3,520,000
	12,849,932,291	596,734,203	51,430,195	1,594,974,606	62,599,856	15,155,671,151
Financial Liabilities						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	6,226,941,975	–	–	–	–	6,226,941,975
Related parties	1,610,123,194	–	–	–	–	1,610,123,194
Accrued expenses and other payables**	305,551,682	–	–	–	–	305,551,682
Other noncurrent liabilities	–	–	46,231,575	–	–	46,231,575
Long-term debt at floating rate* **						
$27.06 million loan (US$) with interest payable in arrears	11,946,842	11,946,842	1,362,915,640	–	–	1,386,809,324
$23.95 million loan (US$) with interest payable in arrears	1,203,525,518	–	–	–	–	1,203,525,518
$17.16 million loan (US$) with interest payable in arrears	6,745,035	6,745,035	864,853,094	–	–	878,343,164
₱2,100.00 million loan with interest payable in arrears	429,121,875	297,871,875	595,743,750	595,743,750	148,935,938	2,067,417,188
₱1,400.00 million loan with interest payable in arrears	22,120,000	22,120,000	44,240,000	1,407,373,333	–	1,495,853,333
₱750.00 million loan with interest payable in arrears	14,812,500	14,812,500	29,625,000	772,218,750	–	831,468,750
PDST-F benchmark yield for 3-month treasury securities + 1.75%	984,252,581	969,121,069	1,892,847,602	1,832,321,555	2,634,995,992	8,313,538,799
	₱10,815,141,202	₱1,322,617,321	₱4,836,456,661	₱4,607,657,388	₱2,783,931,930	₱24,365,804,502

**excludes advances for liquidation*
***excludes statutory liabilities*
****includes interest payable*

Foreign currency risk
Majority of the Group's revenue are generated in Philippine Peso, however, there are also significant export coal sales as well as capital expenditures which are in US$.

The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 56.33% and 66.49% of the Group's sales in 2018 and 2017, respectively, were denominated in US$ whereas approximately 15.93% and 18.98% of debts as of December 31, 2018 and 2017, respectively, were denominated in US$.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine Peso equivalents follow:

	December 31, 2018		December 31, 2017	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**$3,685,520**	**₱193,784,642**	$63,213,830	₱3,156,266,532
Trade receivables	**21,586,627**	**1,135,024,848**	16,931,380	845,383,803
Liabilities				
Trade payables	**(63,568,846)**	**(3,342,449,923)**	(11,896,169)	(593,975,718)
Long-term debt	**(44,220,963)**	**(2,325,138,235)**	(68,174,630)	(3,403,959,276)
Net exposure	**($82,517,662)**	**(₱4,338,778,668)**	$74,411	₱3,715,341

The exchange rates used were ₱52.58 to $1 and ₱49.93 to $1 in 2018 and 2017, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2018 and 2017.

Reasonably possible change in the Philippine Peso-US$ exchange rate	Increase (decrease) in income before income tax	
	2018	2017
₱2	**(₱165,035,324)**	₱148,822
(2)	**165,035,324**	(148,822)

There is no impact on the Group's equity other than those already affecting profit or loss. The movement in sensitivity analysis is derived from current observations on movement in dollar average exchange rates.

The Group recognized net foreign exchange losses (realized and unrealized) amounting to ₱388.31 million, ₱392.45 million and ₱403.43 million in 2018, 2017 and 2016, respectively, arising from the translation of the Group's cash and cash equivalents, trade receivables, trade payables, short-term loans and long-term debt.

Credit risk
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group manages and controls credit risk by doing business with recognized, creditworthy third parties, thus, there is no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group evaluates the financial condition of the local customers before deliveries are made to them.

On the other hand, export sales are covered by sight letters of credit issued by foreign banks subject for the Group's approval, hence, mitigating the risk on collection. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to doubtful accounts is not significant. The Group generally bills 80% of coal delivered payable within 30 days upon receipt of billing and the remaining 20% payable within 15 days after receipt of final billing based on final analysis of coal delivered. The Group's exposure to credit risk from trade receivables arise from the default of the counterparty with a maximum exposure equal to their carrying amounts.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, other receivables, environmental guarantee fund and investment in sinking fund, the exposure to credit risk arises from default of the counterparty with a maximum exposure to credit risk equal to the carrying amount of the financial assets as of reporting date. The Group does not hold any collateral or other credit enhancement that will mitigate credit risk exposure. The Group transacts only with institutions or banks and third parties that have proven track record in financial soundness. The management does not expect any of these institutions to fail in meeting their obligations, however, due to the regulated environment that the Group operates in, collectability of financial assets is impacted by government regulations or actions.

The credit risk is concentrated to the following markets:

	2018	2017
Trade receivables - outside parties	**96.78%**	95.53%
Trade receivables - related parties	**0.54**	3.00
Others	**2.68**	1.47
	100.00	100.00

As of December 31, 2018 and 2017, the credit quality per class of financial assets is as follows:

	2018				
	Neither Past Due nor Impaired		**Substandard**	**Past due and/or Individually**	
	Grade A	**Grade B**	**Grade**	**Impaired**	**Total**
Cash in banks and cash equivalents	**₱1,897,142,279**	**₱–**	**₱–**	**₱–**	**₱1,897,142,279**
Receivables:					
Trade receivables - outside parties	**6,268,850,376**	–	–	**2,317,057,715**	**8,585,908,091**
Trade receivables - related parties	**47,521,278**	–	–	–	**47,521,278**
Others*	**208,698,354**	–	–	**6,746,356**	**215,444,710**
Financial asset at FVPL	**245,443,777**	–	–	–	**245,443,777**
Environmental guarantee fund	**3,520,000**	–	–	–	**3,520,000**
	₱8,671,176,064	**₱–**	**₱–**	**₱2,323,804,071**	**₱10,994,980,135**

**excludes advances to contractors*

	2017				
	Neither Past Due nor Impaired		Substandard	Past due and/or Individually	
	Grade A	Grade B	Grade	Impaired	Total
Cash in banks and cash equivalents	₱8,465,849,568	₱–	₱–	₱–	₱8,465,849,568
Receivables:					
Trade receivables - outside parties	5,028,346,509	–	–	2,632,956,928	7,661,303,437
Trade receivables - related parties	222,300,706	–	–	18,751,667	241,052,373
Others*	61,290,215	–	–	5,815,359	67,105,574
Financial asset at FVPL	219,668,003				219,668,003
Environmental guarantee fund	3,520,000	–	–	–	3,520,000
	₱14,000,975,001	₱–	₱–	₱2,657,523,954	₱16,658,498,955

**excludes advances to contractors*

Cash in banks and cash equivalents are short-term placements and working cash fund placed, invested or deposited in foreign and local banks belonging to top ten banks in the Philippines in terms of resources and profitability. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency. Trade receivables - related parties are apportioned between Grade A and Past due and/or individually impaired. Environmental guarantee fund is assessed as Grade A since this is deposited in a reputable bank, which has a low probability of insolvency.

Grade A are accounts considered to be of high credit rating and are covered with coal supply and power supply contracts. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Grade B accounts are active accounts with minimal instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. The Group determines financial assets as impaired when the probability of recoverability is remote evidenced by the counterparty's financial difficulty.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. Accounts under this group show possible future loss to the Group as a result of default in payment of the counterparty despite of the regular follow-up actions and extended payment terms.

In the Group's assessment, there are no financial assets that will fall under the category substandard grade due to the following reasons:

- Receivables from electricity and local coal sales - transactions are entered with reputable and creditworthy companies.

- Receivables from export coal sales - covered by irrevocable letter of credit at sight from a reputable bank acceptable to the Group.

As of December 31, 2018 and 2017, the aging analyses of the Group's past due and/individually impaired receivables presented per class are as follows:

	2018			
	Past Due but not Impaired		**Impaired**	
	45 Days and Less	**More than 45 Days**	**Financial Assets**	**Total**
Receivables				
Trade receivables - outside parties	**₱112,305,296**	**₱640,313,337**	**₱1,564,439,082**	**₱2,317,057,715**
Trade receivables - related parties	–	–	–	–
Others	–	**930,997**	**5,815,359**	**6,746,356**
Total	**₱112,305,296**	**₱641,244,334**	**₱1,570,254,441**	**₱2,323,804,071**

	2017			
	Past Due but not Impaired		Impaired	
	45 Days and Less	More than 45 Days	Financial Assets	Total
Receivables				
Trade receivables - outside parties	₱404,573,032	₱689,275,779	₱1,539,108,117	₱2,632,956,928
Trade receivables - related parties	–	18,751,667	–	18,751,667
Others	–	–	5,815,359	5,815,359
Total	₱404,573,032	₱708,027,446	₱1,544,923,476	₱2,657,523,954

Capital management
The primary objective of the Group's capital management strategy 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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

No changes were made in the objectives, policies and processes from the previous years.

The Group manages its capital using debt-to-equity ratio, which is interest-bearing loans divided by equity, and EPS. The following table shows the Group's capital ratios as of December 31, 2018 and 2017.

	2018	2017
Interest-bearing loans	**₱20,469,028,367**	₱18,024,478,172
Total equity	**39,932,686,604**	37,679,379,140
Debt-equity ratio	**51.26%**	47.84%
EPS (Note 27)	**₱2.83**	₱3.33

The debt-to-equity ratio is carefully matched with the strength of the Group's financial position, such that when a good opportunity presents itself, the Group can afford further leverage.

The Group considers short-term loans and long-term debt as 'interest-bearing loans' in determining debt-to-equity ratio.

The following table shows the components of the Group's capital as of December 31, 2018 and 2017:

	2018	2017
Total paid-up capital	**₱10,940,136,701**	₱10,940,136,701
Acquisition of treasury shares	**(739,526,678)**	(487,919,538)
Remeasurement losses on pension plan	**(35,995,822)**	(86,238,763)
Retained earnings - unappropriated	**20,468,072,403**	18,013,400,740
Retained earnings - appropriated	**9,300,000,000**	9,300,000,000
	₱39,932,686,604	₱37,679,379,140

31. **Fair Values**

Fair Value Information
Cash and cash equivalents, receivables, environmental guarantee fund, trade payables, accrued expenses and other payables, and short-term loans carrying amounts approximate fair value. Most of these financial instruments are relatively short-term in nature.

Financial asset at FVPL
The fair value of the derivative was determined using the market data approach, Monte Carlo simulation valuation which is categorized within Level 3 of the fair value hierarchy.

Long-term debt
The carrying values approximated the fair value because of recent and regular repricing of interest rates (e.g., monthly, quarterly, semi-annual or annual basis) based on current market conditions. In 2018 and 2017, interest rate ranges from 0.50% to 5.01% and 1.26% to 4.90%, respectively.

Fair Value Hierarchy

The Group 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: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

There has been no reclassification from Level 1 to Level 2 or 3 category in 2018 and 2017.

32. Notes to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing activities follows:

	2018	2017	2016
Depreciation capitalized as coal inventory (Note 10)	**₱891,667,535**	₱273,405,238	₱157,309,090
Depreciation capitalized as mine properties, mining tools and other equipment (Note 10)	**–**	–	463,416,913
Transfer from exploration and evaluation asset to property, plant and equipment (Note 10)	**–**	–	4,947,746,319

Changes in liabilities and equity arising from financing activities in 2018 and 2017 follows:

	For the Year Ended December 31, 2018				
	January 1, 2018	**Net cash flows**	**Foreign exchange movement**	**Noncash**	**December 31, 2018**
Short-term loans (Note 13)	**₱–**	**₱5,872,231,984**	**₱–**	**₱–**	**₱5,872,231,984**
Long-term debt (Note 14)	**18,024,478,172**	**(3,539,074,467)**	**100,297,643**	**11,095,035**	**14,596,796,383**
Dividend payable (Note 15)	**1,977,388**	**(9,571,357,480)**	**–**	**9,570,709,395**	**1,329,303**
Treasury shares (Note 17)	**(487,919,538)**	**(251,607,140)**	**–**	**–**	**(739,526,678)**
	₱17,538,536,022	**(₱7,489,807,103)**	**₱100,297,643**	**₱9,581,804,430**	**₱19,730,830,992**

	For the Year Ended December 31, 2017				
	January 1, 2017	Net cash flows	Foreign exchange movement	Noncash	December 31, 2017
Short-term loans (Note 13)	₱1,600,000,000	(₱1,600,000,000)	₱–	₱–	₱–
Long-term debt (Note 14)	15,089,746,853	2,911,497,964	15,069,786	8,163,569	18,024,478,172
Dividend payable (Note 15)	614,187	(10,651,501,099)	–	10,652,864,300	1,977,388
Treasury shares (Note 17)	(387,547,028)	(100,372,510)	–	–	(487,919,538)
	₱16,302,814,012	(₱9,440,375,645)	₱15,069,786	₱10,661,027,869	₱17,538,536,022

Noncash changes in pertain to amortization of deferred financing costs and cash dividend declaration by the Parent Company.

33. Operating Segments

Segment Information

For management purposes, the Group is organized into business units based on their products and activities. Segment revenues, cost and operating expenses, profit or loss, segment assets and segment liabilities assume measurement under PFRS.

Reportable operating segments are as follows:

- Mining - engaged in surface open cut mining of thermal coal; and,
- Power - involved in generation of energy available for sale thru bilateral contracts, wholesale electricity market and trading.

No operating segments have been aggregated to form the above reportable operating segments.

The chief operating decision maker (CODM) monitors the operating results of the Group for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, operating profit and pretax income which are measured similarly in the consolidated financial statements. Transactions between operating segments are made at terms and prices agreed upon by the parties.

	2018 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱23,185,658	₱18,782,855	₱–	₱–	₱41,968,513
Inter-segment sales	7,509,845	–	–	(7,509,845)	–
	30,695,503	18,782,855	–	(7,509,845)	41,968,513
Cost of sales*	(11,704,564)	(10,025,836)	–	7,382,656	(14,347,744)
Depreciation and amortization	(4,051,498)	(2,444,928)	–	–	(6,496,426)
Gross profit	14,939,441	6,312,091	–	(127,189)	21,124,343
Operating expenses*	(4,496,082)	(1,971,473)	(20,191)	–	(6,487,746)
Depreciation	(31,955)	(1,256,094)	–	–	(1,288,049)
Operating profit	10,411,404	3,084,524	(20,191)	(127,189)	13,348,548
Other income	2,036,953	571,412	47	(2,000,000)	608,412
Finance income	63,360	65,520	288	–	129,168
Foreign exchange loss - net	(365,574)	(22,736)	–	–	(388,310)
Finance costs	(425,147)	(517,788)	–	–	(942,935)
Pretax income	11,720,996	3,180,932	(19,856)	(2,127,189)	12,754,883
Provision for income tax	(19,906)	(709,577)	(18)	–	(729,501)
Net income	₱11,701,090	₱2,471,355	(₱19,874)	(₱2,127,189)	₱12,025,382
Segment assets	₱42,354,519	₱45,908,359	₱40,201	(₱17,689,225)	₱70,613,854
Deferred tax assets	66,828	368,256	–	–	435,084
	₱42,421,347	₱46,276,615	₱40,201	(₱17,689,225)	₱71,048,938
Segment liabilities	₱8,564,551	₱8,473,182	₱199,838	(₱779,912)	₱16,457,659
Deferred tax liability	–	61,796	–	–	61,796
Long-term debt	5,656,388	8,940,409	–	–	14,596,797
	₱14,220,939	₱17,475,387	₱199,838	(₱779,912)	₱31,116,252
Cash flows arising from:					
Operating activities	₱9,192,381	₱132,620	(₱14,380)	₱192,539	9,503,160
Investing activities	(7,539,776)	945,719	14,431	(1,992,612)	(8,572,238)
Financing activities	(6,636,935)	(2,852,992)	–	2,000,120	(7,489,807)
Other disclosures					
Capital expenditures	₱6,332,006	₱3,182,035	₱14,431	₱–	₱9,528,472

Excluding depreciation and/or amortization

	2017 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱23,489,591	₱20,453,898	₱–	₱–	₱43,943,489
Inter-segment sales	6,177,652	–	–	(6,177,652)	–
	29,667,243	20,453,898	–	(6,177,652)	43,943,489
Cost of sales*	(11,636,080)	(9,125,500)	–	6,096,736	(14,664,844)
Depreciation and amortization	(3,504,435)	(2,164,203)	–	–	(5,668,638)
Gross profit	14,526,728	9,164,195	–	(80,916)	23,610,007
Operating expenses*	(4,978,463)	(2,304,386)	(22,194)	–	(7,305,043)
Depreciation	(21,721)	(880,265)	–	–	(901,986)
Operating profit	9,526,544	5,979,544	(22,194)	(80,916)	15,402,978
Other income	2,127,201	948,316	97	(2,000,000)	1,075,614
Finance income	51,469	44,697	231	–	96,397
Foreign exchange loss	(280,408)	(112,045)	–	–	(392,453)
Finance costs	(353,869)	(364,199)	–	–	(718,068)
Pretax income	11,070,937	6,496,313	(21,866)	(2,080,916)	15,464,468
Provision for income tax	(30,028)	(1,225,283)	(17)	–	(1,255,328)
Net income	₱11,040,909	₱5,271,030	(₱21,883)	(₱2,080,916)	₱14,209,140
Segment assets	₱42,104,629	₱44,887,733	₱39,884	(₱18,886,063)	₱68,146,183
Deferred tax assets	85,231	364,992	–	–	450,223
	₱42,189,860	₱45,252,725	₱39,884	(₱18,886,063)	₱68,596,406
Segment liabilities	₱8,519,709	₱6,043,241	₱180,135	(₱1,905,527)	₱12,837,558
Deferred tax liability	–	54,991	–	–	54,991
Long-term debt	7,391,459	10,633,019	–	–	18,024,478
	₱15,911,168	₱16,731,251	₱180,135	(₱1,905,527)	₱30,917,027
Cash flows arising from:					
Operating activities	₱14,362,320	₱5,375,103	(₱155,756)	(₱7,888)	₱19,573,779
Investing activities	(3,863,818)	(2,980,558)	156,069	(1,960,357)	(8,648,664)
Financing activities	(8,993,792)	(2,446,704)	31,875	1,968,245	(9,440,376)
Other disclosures					
Capital expenditures	₱4,301,913	₱2,038,977	₱–	₱–	₱6,340,890

**Excluding depreciation and/or amortization*

	2016 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	₱20,079,462	₱16,504,913	₱–	₱–	₱36,584,375
Inter-segment sales	4,077,155	–	–	(4,077,155)	–
	24,156,617	16,504,913	–	(4,077,155)	36,584,375
Cost of sales*	(11,565,489)	(7,728,597)	–	4,216,456	(15,077,630)
Depreciation and amortization	(1,452,763)	(2,170,628)	–	–	(3,623,391)
Gross profit	11,138,365	6,605,688	–	139,301	17,883,354
Operating expenses*	(3,204,037)	(1,737,740)	(300)	–	(4,942,077)
Depreciation	(20,932)	(35,858)	–	–	(56,790)
Operating profit	7,913,396	4,832,090	(300)	139,301	12,884,487
Other income	2,675,074	761,313	2,055	(2,500,000)	938,442
Finance income	40,910	42,284	45	–	83,239
Foreign exchange loss	(347,305)	(56,121)	–	–	(403,426)
Finance costs	(228,372)	(370,621)	–	–	(598,993)
	10,053,703	5,208,945	1,800	(2,360,699)	12,903,749
Benefit from (provision for) income tax	(58,214)	(804,896)	30	–	(863,080)
Net income	₱9,995,489	₱4,404,049	₱1,830	(₱2,360,699)	₱12,040,669

(Forward)

	2016 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Segment assets	₱41,131,197	₱44,531,792	₱163,763	(₱20,584,793)	₱65,241,959
Deferred tax assets	53,816	465,538	394	–	519,748
	₱41,185,013	₱44,997,330	₱164,157	(₱20,584,793)	₱65,761,707
Segment liabilities	₱9,518,662	₱10,439,221	₱157,951	(₱3,731,415)	₱16,384,419
Deferred tax liability	–	1,231	–	–	1,231
Long-term debt	5,618,308	9,471,439	–	–	15,089,747
	₱15,136,970	₱19,911,891	₱157,951	(₱3,731,415)	₱31,475,397
Cash flows arising from:					
Operating activities	₱10,448,825	₱6,811,400	₱30,031	(₱6,115)	₱17,284,141
Investing activities	(3,586,470)	(1,949,394)	(27,898)	(1,989,385)	(7,553,147)
Financing activities	(5,037,154)	(4,275,204)	–	1,995,500	(7,316,858)
Other disclosures					
Capital expenditures	₱3,134,107	₱3,032,163	₱–	₱–	₱6,166,270
Provision for inventory obsolescence	1,239	–	–	–	1,239

**Excluding depreciation and/or amortization*

Intersegment revenues, other income, cost and expenses are eliminated in the consolidation under adjustments and eliminations.

Significant noncash items charged to comprehensive income include change in rehabilitation plan in 2018, impairment of capitalized development cost for clay business in 2017, loss on property, plant and equipment write-down in 2016, and depreciation and amortization.

Segment assets exclude deferred tax assets amounting to ₱435.08 million, ₱450.22 million and ₱519.75 million in 2018, 2017 and 2016, respectively.

Capital expenditures consist of additions to property, plant and equipment, excluding reclassification of exploration and evaluation asset to 'Property, plant and equipment' in 2016.

All noncurrent assets other than financial instruments are located in the Philippines.

Disaggregation of Revenue Information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Revenues from coal sales

	2018	2017	2016
Domestic market	**₱10,125,347,705**	₱7,871,248,442	₱5,742,358,094
Export market	**13,060,310,428**	15,618,342,110	14,337,103,962
	₱23,185,658,133	₱23,489,590,552	₱20,079,462,056

Substantially all revenues from external customer are from open cut mining and sales of thermal coal. Local and export classification above is based on the geographic location of the customer. Customers on the export sales are significantly from China.

All of the Group's sales of coal are revenue from contracts with customers recognized at point in time.

Revenues from power sales

	2018	2017	2016
Bilateral contracts			
Distribution utility	**₱8,409,364,280**	₱8,769,162,155	₱8,273,775,200
RES	**7,197,606,624**	9,513,688,386	6,400,829,979
Others	**30,228,640**	19,309,747	1,227,189,061
	15,637,199,544	18,302,160,288	15,901,794,240
Spot sales			
WESM	**3,145,655,146**	2,151,738,379	603,118,844
	₱18,782,854,690	₱20,453,898,667	₱16,504,913,084

All revenues from power are derived from the Philippine market and are revenue from contracts with customers recognized over time.

Set-out below is the reconciliation of contracts with customers with the amounts disclosed in segment information:

	For the Year ended December 31, 2018				
	Domestic coal sales	**Export coal sales**	**Bilateral contracts**	**Spot sales**	**Total**
Revenue					
External customers	**₱10,125,347,705**	**₱13,060,310,428**	**₱15,637,199,544**	**₱3,145,655,146**	**₱41,968,512,823**
Inter-segment	**7,509,844,508**	**–**	**–**	**–**	**7,509,844,508**
	17,635,192,213	**13,060,310,428**	**15,637,199,544**	**3,145,655,146**	**49,478,357,331**
Inter-segment adjustments and eliminations	**(7,509,844,508)**	**–**	**–**	**–**	**(7,509,844,508)**
	₱10,125,347,705	**₱13,060,310,428**	**₱15,637,199,544**	**₱3,145,655,146**	**₱41,968,512,823**

	For the Year ended December 31, 2017				
	Domestic coal sales	Export coal sales	Bilateral contracts	Spot sales	Total
Revenue					
External customers	₱7,871,248,442	₱15,618,342,110	₱18,302,160,288	₱2,151,738,379	₱43,943,489,219
Inter-segment	6,177,652,288	–	–	–	6,177,652,288
	14,048,900,730	15,618,342,110	18,302,160,288	2,151,738,379	50,121,141,507
Inter-segment adjustments and eliminations	(6,177,652,288)	–	–	–	(6,177,652,288)
	₱7,871,248,442	₱15,618,342,110	₱18,302,160,288	₱2,151,738,379	₱43,943,489,219

34. Other Matters

a. *Electric Power Industry Reform Act (EPIRA)*
In June 2001, the Congress of the Philippines approved and passed into law R.A. No. 9136, otherwise known as the EPIRA, providing the mandate and the framework to introduce competition in the electricity market. EPIRA also provides for the privatization of the assets of NPC, including its generation and transmission assets, as well as its contract with Independent Power Producers (IPPs). EPIRA provides that competition in the retail supply of electricity and open access to the transmission and distribution systems would occur within three years from EPIRA's effective date. Prior to June 2002, concerned government agencies were to establish WESM, ensure the unbundling of transmission and distribution wheeling rates and remove existing cross subsidies provided by industrial and commercial users to residential customers. The WESM was officially launched on June 23, 2006 and began commercial operations for Luzon. The ERC has already implemented a cross subsidy removal scheme. The inter-regional

grid cross subsidy was fully phased-out in June 2002. ERC has already approved unbundled rates for Transmission Company (TRANSCO) and majority of the distribution utilities.

Under EPIRA, NPC's generation assets are to be sold through transparent, competitive public bidding, while all transmission assets are to be transferred to TRANSCO, initially a government-owned entity that was eventually being privatized. The privatization of these NPC assets has been delayed and is considerably behind the schedule set by the DOE. EPIRA also created PSALM, which is to accept transfers of all assets and assume all outstanding obligations of NPC, including its obligations to IPPs. One of PSALM's responsibilities is to manage these contracts with IPPs after NPC's privatization. PSALM is also responsible for privatizing at least 70% of the transferred generating assets and IPP contracts within three years from the effective date of EPIRA.

In August 2005, the ERC issued a resolution reiterating the statutory mandate under the EPIRA law for the generation and distribution companies, which are not publicly listed, to make an initial public offering (IPO) of at least 15% of their common shares. Provided, however, that generation companies, distribution utilities or their respective holding companies that are already listed in the Philippine Stock Exchange (PSE) are deemed in compliance. SCPC was already compliant with this requirement given that the Parent Company is a publicly listed company.

WESM

With the objective of providing competitive price of electricity, the EPIRA authorized DOE to constitute an independent entity to be represented equitably by electric power industry participants and to administer and operate WESM. WESM will provide a mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity.

In addition, the DOE was tasked to formulate the detailed rules for WESM which include the determination of electricity price in the market. The price determination methodology will consider accepted economic principles and should provide a level playing field to all electric power industry participants. The price determination methodology was subject to the approval of the ERC.

In this regard, the DOE created Philippine Electricity Market Corporation (PEMC) to act as the market operator governing the operation of WESM. On June 26, 2006, WESM became operational in the Luzon grid and adopts the model of a "gross pool, net settlement" electricity market.

In 2017, the Board of PEMC has approved the transition plan for the creation of an independent market operator (IMO), paving the way for the state firm to finally relinquish control of the WESM.

On February 4, 2018, the DOE published Department Circular No. DC2018-01-0002, "Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market". This Circular shall take effect immediately after its publication in two newspapers of general circulation and shall remain in effect until otherwise revoked. Pursuant to Section 37 and Section 30 of the EPIRA, jointly with the electric power participants, the DOE shall formulate the detailed rules for the wholesale electricity spot market. Said rules shall provide the mechanism for determining the price of electricity not covered by bilateral contracts between sellers and purchasers of electricity users. The price determination methodology contained in said rules shall be subject to the approval of ERC. Said rules shall also reflect accepted economic principles and provide a level playing field to all electric power industry participants.

b. *Clean Air Act*
On November 25, 2000, the Implementing Rules and Regulations (IRR) of the Philippine Clean Air Act (PCAA) took effect. The IRR contains provisions that have an impact on the industry as a whole and on SCPC in particular, that need to be complied within 44 months (or until July 2004) from the effectivity date, subject to the approval by DENR. The power plant of SCPC uses thermal coal and uses a facility to test and monitor gas emissions to conform with Ambient and Source Emissions Standards and other provisions of the Clean Air Act and its IRR. Based on SCPC's initial assessment of its power plant's existing facilities, SCPC believes that it is in full compliance with the applicable provisions of the IRR of the PCAA.

The Philippine Government has determined the provision of the Pozzolanic Contract which grants Pozzolanic the exclusive right of first refusal to purchase fly ash from the second unit of the Power Plant and from any coal-fired power plant put up by NPC after the execution of the Pozzolanic Contract as invalid. This is the subject of a case filed by Pozzolanic and pending before the regional trial court of Quezon City as of December 31, 2011.

On April 30, 2012, SCPC as new owner of the Power Plant and Pozzolanic sealed a new contract valid and effective for a period of 15 years beginning February 1, 2012. Pozzolanic, as agreed, shall purchase One Hundred (100 %) percent of fly ashes produced or generated by the Power Plant.

c. *Competitive Selection Process (CSP)*
On June 11, 2015, DOE Circular No. DC2015-06-0008, "Mandating All Distribution Utilities to Undergo CSP In Securing PSAs", was signed, requiring all DUs to conduct a CSP in procuring PSAs. The CSP shall be conducted by a qualified third party duly recognized by the DOE and ERC and, in the case of Electric Cooperatives (ECs), shall be recognized by the National Electrification Administration (NEA). The CSP shall conform with aggregation of DU's un-contracted demand requirement, annual conduct of CSP, and a uniform PSA Template on the terms and conditions to be issued by the ERC and DOE. The circular does not apply to PSAs with tariff rates already approved and/or have been applied for approval by the ERC before the effectivity of the circular. The DOE shall enforce and monitor compliance and the penalty provision through ERC.

On October 20, 2015, the DOE and ERC released Joint Resolution No. 1 (2015), "A Resolution Enjoining All Distribution Utilities to Conduct Competitive Selection Process (CSP) in the Procurement of Supply for Their Captive Market". The DOE and ERC recognize that CSP in the procurement of PSAs by the DUs engenders transparency, enhances security of supply, and ensure stability of electricity prices to captive electricity end-users in the long-term.

On the same day, the ERC signed Resolution No. 13, Series of 2015, "A Resolution Enjoining All Distribution Utilities to Conduct Competitive Selection Process (CSP) in the Procurement of Supply for Their Captive Market". The resolution prescribes that all PSAs shall be awarded to the winning Generation Company following a successful transparent CSP, or by Direct Negotiation in the event of two failed CSPs, and that DUs may adopt any accepted form of CSP. This resolution does not apply to PSAs already filed with the ERC as of its effectivity.

On March 15, 2016, the ERC released Resolution No. 1 Series of 2016, "A Resolution Clarifying the Effectivity of ERC Resolution No.13, series of 2015". The resolution postponed the effectivity of ERC Resolution No.13, Series of 2015 to April 30, 2016. All PSAs executed on or after the said date shall be required, without exception, to comply with the provisions of the CSP resolution. There should be at least two qualified bids for the CSP to be considered as successful and lastly, the DU shall adopt the Terms of Reference prescribed in Section 2 of ERC Resolution No. 13, Series of 2015. On PSA's with provisions on automatic renewal or extension of term, it shall apply that PSA's approved by ERC or filed before the effectivity of Resolution No. 1, may have one automatic renewal or extension for a period not exceeding one year from the end of their respective terms. There will be no automatic renewal or extension of PSAs upon effectivity of Resolution No. 1.

d. *Retail Competition and Open Access (RCOA)*
Under Section 31 of the Electric Power Industry Reform Act (EPIRA) of 2001, RCOA shall be implemented. In Retail Competition, the Contestable Market are provided electricity by Retail Suppliers through Open Access, wherein qualified Persons are allowed to use the Transmission, and/or Distribution Systems and their associated facilities. The implementation of RCOA is subject to the following conditions; a. Approval of the unbundled transmission and distribution wheeling charges; b. initial implementation of the cross subsidy removal scheme;
c. Establishment of the WESM; d. Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and e. Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators.

Upon satisfying these conditions, the ERC declared December 26, 2012 as the Open Access Date where end-users who have an average monthly peak demand for the preceding 12 months, as indicated by a single utility meter, of at least 1MW (the threshold level) qualifies as Contestable Customers (CCs) making up the Contestable Market (Phase 1). After a six-month Transition Period, on June 26, 2013, Retail Supply Contracts (RSCs) entered into by and between the Ccs and their chosen Suppliers where implemented. Phase 2 implementation was set to begin two years after Phase 1. During Phase 2, the threshold level shall be reduced to 750 kW and Aggregators shall be allowed to supply electricity to End-users whose aggregate monthly average peak demand within a Contiguous Area is at least seven hundred fifty kilowatts (750 kW). Subsequently and every year thereafter, the ERC shall evaluate the performance of the market. On the basis of such evaluation, it shall gradually reduce the threshold level until it reaches the household demand level.

On May 12, 2016, ERC Resolution No. 10 (2016), "A Resolution Adopting the Revised Rules for Contestability", was signed. These revised rules aim to clarify and establish the conditions and eligibility requirements for End-users to be part of the Contestable Market; to set the threshold level for the Contestable Market; to ensure the efficient transition towards full contestability and to ensure consumer protection and enhance the competitive operation of the retail electricity market.

The Resolution states that the Threshold Reduction Date covering End-users with an average monthly peak demand of at least 750 kW for the preceding 12 months, is set to June 26, 2016. Thus, on such date, all End-users with an average monthly peak demand of at least 1 MW (1MW Customers) and 750 kW (750 kW Customers), which have been issued Certificates of Contestability by the ERC, shall be allowed to contract with any RES on a voluntary basis. Thereafter, an End-user with an average monthly peak demand of at least 1MW is hereby mandated to enter into RSC with a RES by its mandatory contestability date of December 26, 2016 (This was moved by the ERC to February 26, 2017 through ERC Resolution No. 28 (2016), "Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, series of 2016, entitled Revised Rules for Contestability" signed on November 15, 2016. Subsequently, an End-user with an average monthly peak demand of at least 750kW is hereby mandated to enter into an

RSC with a RES by its mandatory contestability date of June 26, 2017. The lowering of the threshold to cover an end-user with an average monthly peak demand of at least 500kW is set on June 26, 2018, subject to the review of the performance of the retail market by the ERC. Corollary, in its review of the performance of the retail market, the ERC shall establish a set of criteria as basis for the lowering of the contestability threshold. Retail Aggregation shall subsequently be allowed on June 26, 2018. During this phase, suppliers of electricity shall be allowed to contract with end-users whose aggregate demand within a Contiguous Area is at least 750 kW. Retail Competition and Open Access shall be effective only in grids where the WESM is operational.

On February 21, 2017, the Supreme Court issued a Temporary Restraining Order (TRO), G.R. No. 228588, on the implementation of several ERC Resolutions and a DOE Circular concerning the RCOA. ERC Res 10 & 28, Series of 2016 were among them. In a joint advisory on February 24, 2017, the DOE, ERC and PEMC said that they are in a process of drafting a general advisory for the guidance of RCOA Stakeholders. Issues to be considered are: 1) those who have already executed RSCs and were already registered and switched shall continue to honor their respective RSCs; 2) ongoing applications for registration filed before the Central Registration Body (CRB) may proceed voluntarily; 3) applicants who wish to withdraw or defer their registration before the CRB may do so consistent with the Retail Market Rules provided that the CRB shall not be liable for any legal repercussions that may arise out of the contestable customers' contractual obligations; and 4) remaining contestable customers who have not yet secured their RSCs may continue to negotiate and exercise their power to choose.

e. *Renewable Portfolio Standards (RPS)*
The implementation of the RPS is an important development for the Renewable Energy (RE) Market, and impacts the public as a whole. Republic Act No. 9513 or the Renewable Energy Law gives both fiscal and non-fiscal incentives to investors in order to encourage the promotion and development of renewable energy in the Philippines. Toward this end, the RPS serves as a market-based policy mechanism which makes use of the RE Market to facilitate and commercialize trading in RE Certificates, the latter which are used to satisfy the RPS requirements and increases RE generation in the country.

On December 30, 2017, DOE Circular No. DC2017-12-0015, or the RPS On-Grid Rules, took effect, requiring DUs, electricity suppliers, generating companies supplying directly connected customers, and other mandated energy sector participants to source or produce a certain share of electricity from their Energy Mix from eligible RE resources. These eligible RE facilities include the following technologies: biomass, waste to energy technology, wind, solar, hydro, ocean, geothermal, and other RE technologies later identified by the DOE.

The RPS On-Grid Rules mandates energy sector participants to comply with the minimum annual RPS requirement in order to meet the aspirational target of thirty-five (35%) in the generation mix by 2030.

This minimum RE requirement, however, will not be imposed immediately but in 2020. The 2018 and 2019 years are considered transition years to help the mandated participants comply with the DOE Circular. Additionally, the RPS On-Grid Rules implements a Minimum Annual Incremental RE Percentage to be sold by mandated participants. It is initially set at a minimum of one percent (1%) and applied to net electricity sales or annual energy demand for the next ten years, and used to determine the current year's requirement for RE Certificates (RECs) of the Mandated Participant.

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES
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AND SUPPLEMENTARY SCHEDULES

SUPPLEMENTARY SCHEDULES

- Report of Independent Auditor's on supplementary schedules
- Reconciliation of retained earnings available for dividend declaration (Part 1, 4C; Annex 68-C)
- Schedule of financial soundness indicators (Part 1, 4D)
- Supplementary schedules required by Annex 68-E

  Schedule A: Financial Assets

  Schedule B: Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholder (Other Than Related Parties)

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SEMIRARA MINING AND POWER CORPORATION
SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
AS OF FOR THE YEAR ENDED DECEMBER 31, 2018

Unappropriated retained earnings, beginning		**₱6,607,645,579**
Adjustments:		
Deferred tax asset that reduced the amount of income tax expense of prior periods		**87,298,689**
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)		**(100,318,295)**
Treasury shares		**(487,919,538)**
Unappropriated retained earnings, as adjusted to available for dividend distribution, as at December 31, 2017		**6,106,706,435**
Net income actually earned/realized during the period:		
Net income during the period closed to retained earnings	**₱11,707,347,955**	
Less: Non actual/unrealized income net of tax		
Equity in net income of associate/joint venture	–	
Unrealized actuarial gain	–	
Fair value adjustment (M2M gains)	–	
Fair value adjustment of Investment Property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP-gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Deferred tax asset that increased the amount of income tax expense	**(6,258,973)**	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP-loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)	**29,289,886**	
Net income actually earned during the period	**11,730,378,868**	
Add (Less):		
Cash dividend declarations during the period	**(9,570,709,395)**	
Stock dividend declarations during the period	–	
Appropriations of retained earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	**(₱251,607,140)**	**1,908,062,333**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION		**₱8,014,768,768**

OTHER INFORMATION

FIVE-YEAR
FINANCIAL SUMMARY

IN PESOS EXCEPT RATIOS

	2018	2017	2016	2015	2014
IS Items					
Revenue	41,968,512,823.00	43,943,489,219.00	36,584,375,140.00	24,680,171,579.00	28,585,341,089.00
Costs of Sales	20,844,170,289.00	20,333,482,121.00	18,701,021,326.00	10,542,092,369.00	18,927,486,541.00
Gross Profit	21,124,342,534.00	23,610,007,098.00	17,883,353,814.00	14,138,079,210.00	9,657,854,548.00
OPEX	7,775,795,326.66	8,207,029,328.00	4,998,866,240.00	4,389,084,485.00	3,232,990,693.00
NIBT	12,754,882,017.34	15,464,468,242.00	12,903,749,573.00	9,668,993,012.00	6,308,427,349.00
Income Tax	729,500,958.00	1,255,328,423.00	863,079,585.00	1,182,083,931.00	-552,867,130.00
NIAT	12,025,381,059.34	14,209,139,819.00	12,040,669,988.00	8,486,909,081.00	6,861,294,479.00
BS Items					
Cash	1,902,951,523.00	8,470,908,677.00	6,996,039,850.00	4,745,608,389.00	3,683,125,545.00
Assets	71,048,938,285.00	68,596,405,689.00	65,760,476,502.00	57,157,037,245.00	51,901,375,694.00
Liabilities	31,116,251,680.00	30,917,026,549.00	31,474,165,253.00	30,255,955,086.00	29,195,164,178.00
Equity	39,932,686,605.00	37,679,379,140.00	34,286,311,249.00	26,901,082,159.00	22,706,211,516.00
Key Financial Ratios					
Gross Profit Margin	50%	54%	49%	57%	34%
Net Profit Margin	29%	32%	33%	34%	24%
EPS	2.83	3.33	2.82	1.99	1.61
Current Ratio	1.26	1.60	1.35	0.97	1.05
DE Ratio	0.78	0.82	0.92	1.12	1.22
Return on Assets	17%	21%	18%	15%	13%
Return on Equity	31%	39%	35%	32%	30%
Ebitda	21,353,123,969	22,656,764,845	17,099,684,710	11,631,653,128	8,574,328,186
Ebitda Margin	51%	52%	47%	47%	30%
Income before tax	12,754,882,017	15,464,468,242	12,903,749,573	9,668,993,012	6,308,427,349
Depreciation and Amortization	7,784,475,344.00	6,570,624,945.00	3,680,181,127.00	1,742,035,951.00	1,984,125,281.00
Finance Costs	942,934,975.00	718,068,456.00	598,992,706.00	278,187,914.00	323,228,324.00
Finance Income	-129,168,367.00	-96,396,798.00	-83,238,696.00	-57,563,749.00	-41,452,768.00
Ebitda	21,353,123,969.34	22,656,764,845.00	17,099,684,710.00	11,631,653,128.00	8,574,328,186.00

SHARE PRICE
SUMMARY

TOP 20
SHAREHOLDERS

COUNT	STOCKHOLDER #	STOCKHOLDER NAME	NATIONALITY	NUMBER OF SHARES	PERCENTAGE
1	201930	DMCI HOLDINGS, INC.	PH	2,407,770,396	56.65%
2	PCD Fil	PCD NOMINEE CORP	PH	793,860,152	18.68%
3	202004	DACON CORPORATION	PH	532,993,408	12.54%
4	PCD Non-Fil	PCD NOMINEE CORP	OA	209,844,848	4.94%
5	203000	PRIVATIZATION AND MANAGEMENT OFFICE	PH	145,609,296	3.43%
6	224101	DFC HOLDINGS, INC.	PH	82,364,916	1.94%
7	226041	FREDA HOLDINGS, INC.	PH	18,451,532	0.43%
8	228970	REGINA CAPITAL DEVELOPMENT CORP.	PH	10,300,000	0.24%
9	224346	FERNWOOD INVESTMENTS, INC.	PH	9,667,764	0.23%
10	225571	DOUBLE SPRING INVESTMENTS CORPORATION	PH	6,641,220	0.16%
11	240768	DACON CORPORATION	PH	6,620,520	0.16%
12	224608	GUADALUPE HOLDINGS CORPORATION	PH	6,325,656	0.15%
13	224347	BERIT HOLDINGS CORPORATION	PH	4,165,636	0.1%
14	224318	AUGUSTA HOLDINGS, INC.	PH	3,041,700	0.07%
15	226242	FERNWOOD INVESTMENTS INC.	PH	3,012,260	0.07%
16	228159	MERU HOLDINGS, INC	PH	1,387,200	0.03%
17	247017	GREAT TIMES HOLDINGS CORPORATION	PH	1,210,236	0.03%
18	228933	COBANKIAT, JOHNNY O.	PH	1,115,040	0.03%
19	225699	VENDIVEL, OLGA P.	PH	960,000	0.02%
20	226243	WINDERMERE HOLDINGS INC.	PH	762,168	0.02%

FINANCIAL CALENDAR

2015	2016	2017	2018	2019
6 March Announcement of Full Year Results 2014	23 February Announcement of Full Year Results 2015	23 February Announcement of Full Year Results 2016 Declaration of 300% stock dividends, subject to Stockholders' and SEC approval	22 February Announcement of Full Year Results 2017 Declaration of Php1.25/share cash dividends based on Unrestricted Retained Earnings for financial year ended December 31, 2017	1 March Announcement of Full Year Results 2018
		27 March Declaration of Php5/share cash dividends based on Unrestricted Retained Earnings for financial year ended December 31, 2016	22 March Payment date of cash dividends at P1.25/share declared on March 22, 2018 based on Unrestricted Retained Earnings for financial year ended December 31, 2017	18 March Declaration of Php1.25/share cash dividends based on Unrestricted Retained Earnings for financial year ended December 31, 2018
		25 April Payment date of cash dividends at P5/share declared on March 27, 2017 based on Unrestricted Retained Earnings for financial year ended December 31, 2016		26 April Payment date of cash dividends at P1.25/share declared on March 18, 2019 based on Unrestricted Retained Earnings for financial year ended December 31, 2018
4 May Annual Stockholders' Meeting	2 May Annual Stockholders' Meeting	2 May Annual Stockholders' Meeting	7 May Annual Stockholders' Meeting	
13 May Announcement of 1st quarter results 2015	4 May Announcement of 1st quarter results 2016	10 May Announcement of 1st quarter results 2017	10 May Announcement of 1st quarter results 2018	
20 May Payment date of cash dividends at Php4/share declared on April 22, 2015 based on Unrestricted Retained Earnings for financial year ended December 31, 2014 and adjusted issued and outstanding shares post stock dividend	27 May Payment date of cash dividends at Php4/share declared on April 29, 2016 based on Unrestricted Retained Earnings for financial year ended December 31, 2015			
13 August Announcement of 2nd quarter results 2015	13 August Announcement of 2nd quarter results 2016	9 August Announcement of 2nd quarter results 2017 Declaration of Php5/share special cash dividends based the Unappropriated Retained Earnings for the interim period as of June 30, 2017	9 August Announcement of 2nd quarter results 2018	
	15 August Board approval on the buyback program not to exceed 20 million shares of SMPC for a period of 60 days beginning on August 18, 2016 at the prevailing market price. SMPC used its URE as of December 31, 2015 for the buyback	18 August Approval date of Securities and Exchange Commission of Corporation's increase in authorized capital stock from 3 billion shares to 10 billion shares at par value of P1.00		
		08 September Payment date of special cash dividends at Php5/share declared on August 9, 2017 based on the unaudited consolidated financial statements ended June 30, 2017		
	15 October Board approval on the extension of buyback program for a period of 60 days beginning October 18, 2016 under same terms and conditions as approved by the board on August 15, 2016	11 October Payment or Issuance date of the 300% stock dividend or equivalent of 3,195,859,290 shares		
11 November Announcement of 3rd quarter results 2015	11 November Announcement of 3rd quarter results 2016	7 November Announcement of 3rd quarter results 2017	7 November Announcement of 3rd quarter results 2018 Declaration of Php1/share cash dividends based on Unrestricted Retained Earnings for the interim period as of September 30, 2018	
		7 December Board approval on the buyback program worth Php2 billion of SMPC shares beginning on December 8, 2017 at the prevailing market price.	14 December Payment date of cash dividends at P1/share declared on November 7, 2018 based on Unrestricted Retained Earnings for the interim period as of September 30, 2018	

CORPORATE INFORMATION

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- Acid-free
- Elemental Chlorine Free (ECF)
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- Low-carbon Made

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MINING & POWER
CORPORATION