EMPOWERING CONNECTIONS

2017 INTEGRATED ANNUAL REPORT

SEMIRARA MINING & POWER CORPORATION

ABOUT THE COVER

As an integrated energy company, Semirara Mining Power and Corporation (SMPC) is in the business of powering and transforming lives. Through our power generation efforts, we help shape the lives around us. By channeling our positive energy to various sectors, from producers to end users, we empower our partners, our communities, and our stakeholders.

The cover reflects our continued commitment to empowerment as we strive to produce the energy that powers homes, enriches connections, and improves the lives of Filipino families.

THIS YEAR'S THEME:
20 YEARS OF EMPOWERING CONNECTIONS

Our 20-year milestone is marked not only by celebrating our company's continued growth and success, but also a renewal of our commitment to ensure that our business establishes and maintains strong connections with our partners and stakeholders that add value and meaning to their lives. This annual report is our own unique story: our past hopes translated into reality in the present as we look towards the future with a shared vision for progress.

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SEMIRARA MINING AND POWER CORPORATION: 20 YEARS OF EMPOWERING CONNECTIONS

SMPC initially began as Semirara Coal Corporation (SCC), an operation spanning coal exploration, extraction, and development of the coal resources in the island bearing its namesake, Semirara Island, located in the Antique Province. Following DMCI's entry into the energy business in 1997, SMPC has successfully transitioned from a coal company to the only vertically integrated coal-fired power plant business in the Philippines.

Fast forward to twenty years, and today, SMPC is the dominant local source of the country's coal requirements, supplying coal to power plants, cement plants, and other small boilers. As an emerging key player in the Philippine power industry, we are committed to providing affordable and reliable power to customers and to the rest of the country.

More than just an energy company, we have integrated efforts of mitigating the effects of coal to the environment in our core business operations through our environmental stewardship programs. We continuously seek ways to enrich the lives of the people through our social and community development programs.

SEMIRARA MINING AND POWER CORPORATION: 20 YEARS OF EMPOWERING CONNECTIONS

As an integrated energy company, Semirara Mining Power and Corporation (SMPC) is in the business of powering and transforming lives. Through our power generation efforts, we help shape the lives around us. By channeling our positive energy to various sectors, from producers to end users, we empower our partners, our communities, and our stakeholders.

On our twentieth year under DMCI-HI control, we look back to the many milestones and groundbreaking achievements of our rich and storied past, and forge new and lasting connections with the future.

1997

- DMCI Holdings, Inc. (DMCI-HI) acquires 40% stake in SCC through Voest Alpine shares purchase

1999

- DMCI-HI takes over management of SCC and mine operations with annual production capacity of 700,000 MT
- Starts electrification project through local electric cooperative at subsidized rate

2000

- Reforestation and inland rehabilitation of Unong Mine begins
- Founding of Semirara Fishing Association (SEMFA)

2003

- Divine Word School of Semirara Island, Inc. (DWSSII) established
- All-weather roads of Brgys. Semirara and Alegria upgraded
- "O Ilaw" electrification project in Semirara Island switched on

2004

- Divine Word School of Semirara Island, Inc. (DWSSII) High School opens

2005

- Second public offering of 89.9M shares
- 12-classroom building constructed for Semirara National High School

2006

- 150 giant clams are reseeded along the Semirara Island coastline
- SMPC begins partnership with Semirara Training Center, Inc. (STCI), a TESDA-accredited vocational institution
- Humic acid production for soil conditioning of reforestation projects
- Launches planting program for 1M trees and 250 ha. mangroves by 2012
- Constructs 25-tonner ice plant to support local fishing livelihood
- Brick production from clay overburden for construction

2007

- The Municipality of Caluya becomes a 1st class municipality.

2008

- Coal segment receives ISO certification 9001:2000, 14001:2004 and OHSAS 18001:2007
- Villaresis Fishermen's Associations 1&2 and Bagong Barrio Association are organized
- Sponsors local teachers' training under SEAMEO-INNOTECH's APEX program
- Unong Mine reforestation completed

2009

- Acquisition of 2x300 MW Calaca Power Plants
- 90 barangay health workers complete training with UP-PGH
- Professional Development for Science and Math teachers with UP NISMED

2010

- Starts major rehabilitation of Calaca Units 1 & 2
- Stock rights offering of 59.375 million shares
- Semirara Marine Hatchery Laboratory spearheads marine rehabilitation efforts
- Purchased bio-reactor to produce organic fertilizer from solid waste
- Completed new public market building in Barangay Semirara

2011

- Signed 7-year PSA with Meralco for 420 MW
- Investment in additional power capacity of 2x150 MW CFB power plants
- Giant clams spawning and reseeding

2012

- Financial close of PhP 11.5B project debt facility.
- Begins construction on 2x150 MW CFB Power Plant
- BOI registration of Narra mine under non-pioneer status
- Achieves 1.2 million trees planted in Semirara Island

2013

- Incorporated 2 new subsidiaries for power capacity expansion
- Kick-off succession management program

2014

- SCC changes its name to Semirara Mining and Power Corporation (SMPC)
- Coral transplantation initiative undertaken by SMHL
- Completed 196.4 ha. of mangrove plantation around Semirara Island

2015

- Record-high energy generation of Units 1 & 2 of 3,959 GWh
- Assists in installation of solar LED streetlights in Brgy. Baclaran, Calaca
- Establishes the corporate unversity of the group

2016

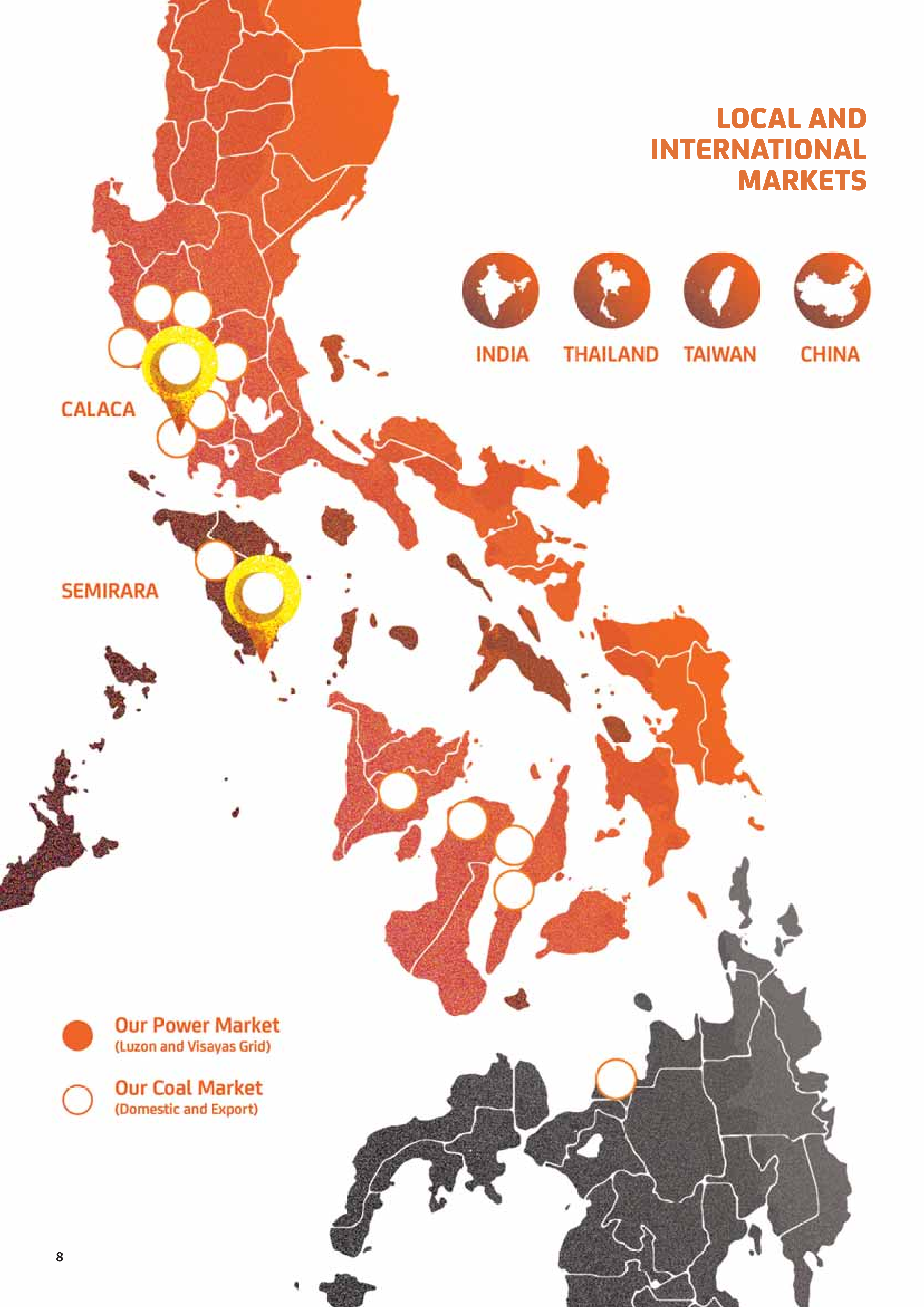
- SLPGC commences commercial operations of 2x150 MW CFB coal-fired power plants
- Built 203 classrooms for host communities in Semirara and Calaca to date

2017

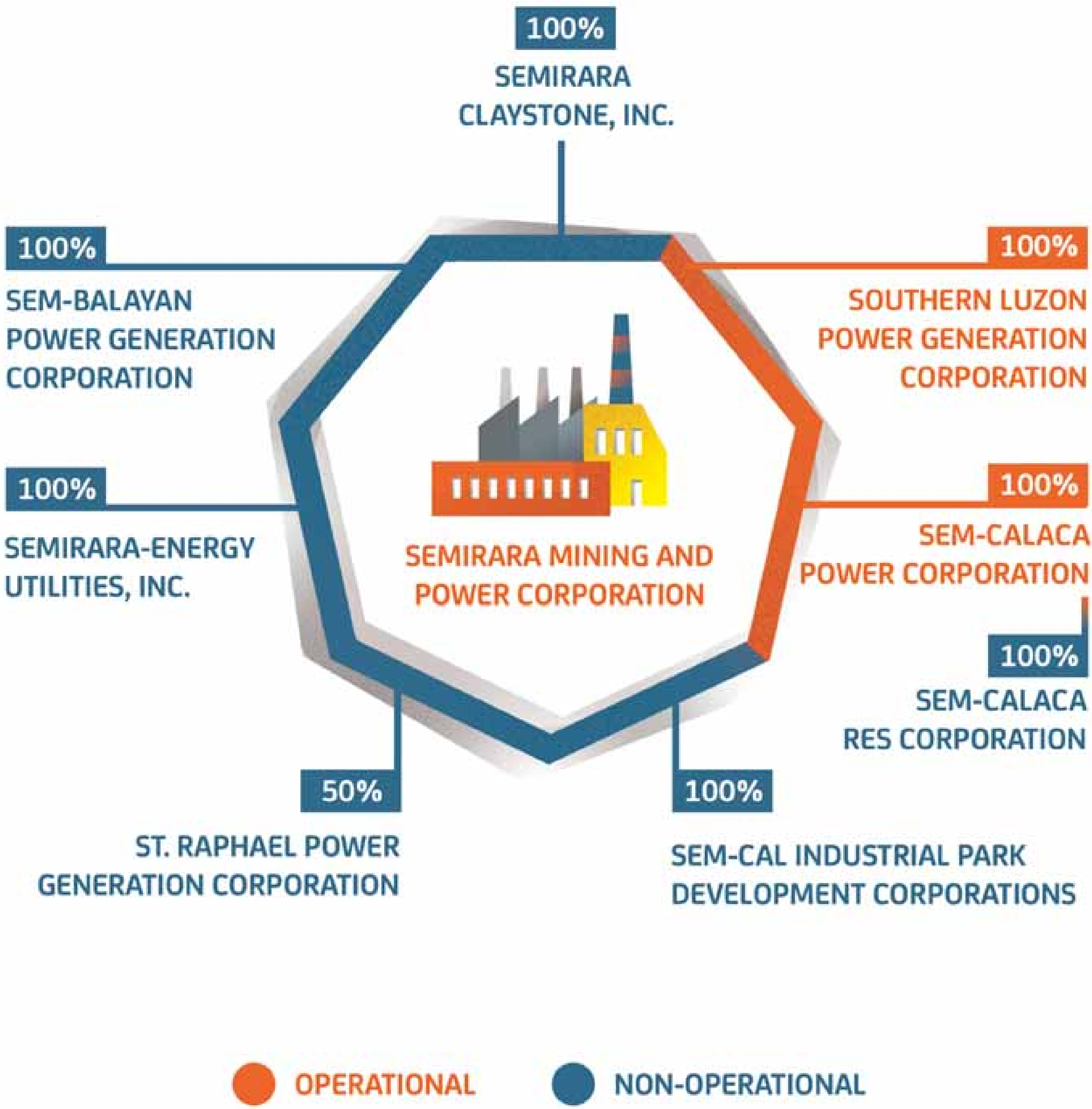
- Sem-Calaca RES Corporation (SCRC) gets license to operate from ERC
- 12th, Top 100 Philippine Publicly- Listed Companies by Market Capitalization Ranking, 2017 ASEAN Corporate Governance Scorecard (ACGS) Run
- Achieved record-high consolidated NIAT of PhP 14.2B; coal production of 13.2M MT and coal sales of 13.1M MT
- PhP 17.8B total royalties from 1997 to date; 98.8% from start of commercial operations in 1983
- 122,341 surviving giant clams
- 1.7M trees planted over 1000 ha. reforested land on Semirara Island
- Serves over 5M kwh of host community power demand on Semirara Island

Operational | Environmental | Social and Economic | Corporate Governance

LOCAL AND INTERNATIONAL MARKETS



OUR COMPANY STRUCTURE



VALUE CREATION, BUSINESS MODEL, AND STRATEGY

Bridging Progress

The continuing rise of energy demands to power an ever-growing local economy has motivated us to meet the challenge head-on. Energy is considered the life-blood of the economy and indispensable in sustaining the economic growth and progress of the nation. Our Company operates from the interplay of different tangible and intangible factors in the economic value chain. Our expansion of operations and investments led to the creation and multiplication of shared benefits for various stakeholders and in the communities in which we operate.

Creating Long-Term Value Connections

Our business model is hinged on strong and long-lasting connections to deliver long-term value to all aspects of our business.

The interconnectivity of all aspects of our business help us move as one strong and cohesive unit.

Guided by our strong foundation in Corporate Governance policies, and led by our leadership stalwarts, the Board of Directors and management, we provide quality product and service to our partners, sustainable solutions for our communities, and long-term value to our stakeholders. Our Company's business model and growth strategy are founded by its strategic objective of Value Maximization and Sustainability.

Connections with Partners

Our Company's investments and capital requirements are provided by investors, creditors, and suppliers. Through financial resources (i.e. bank loans and issuance of new shares) and manufactured resource (equipment and materials), their continued support ensures the continuity of operations and growth.

Connections with Communities

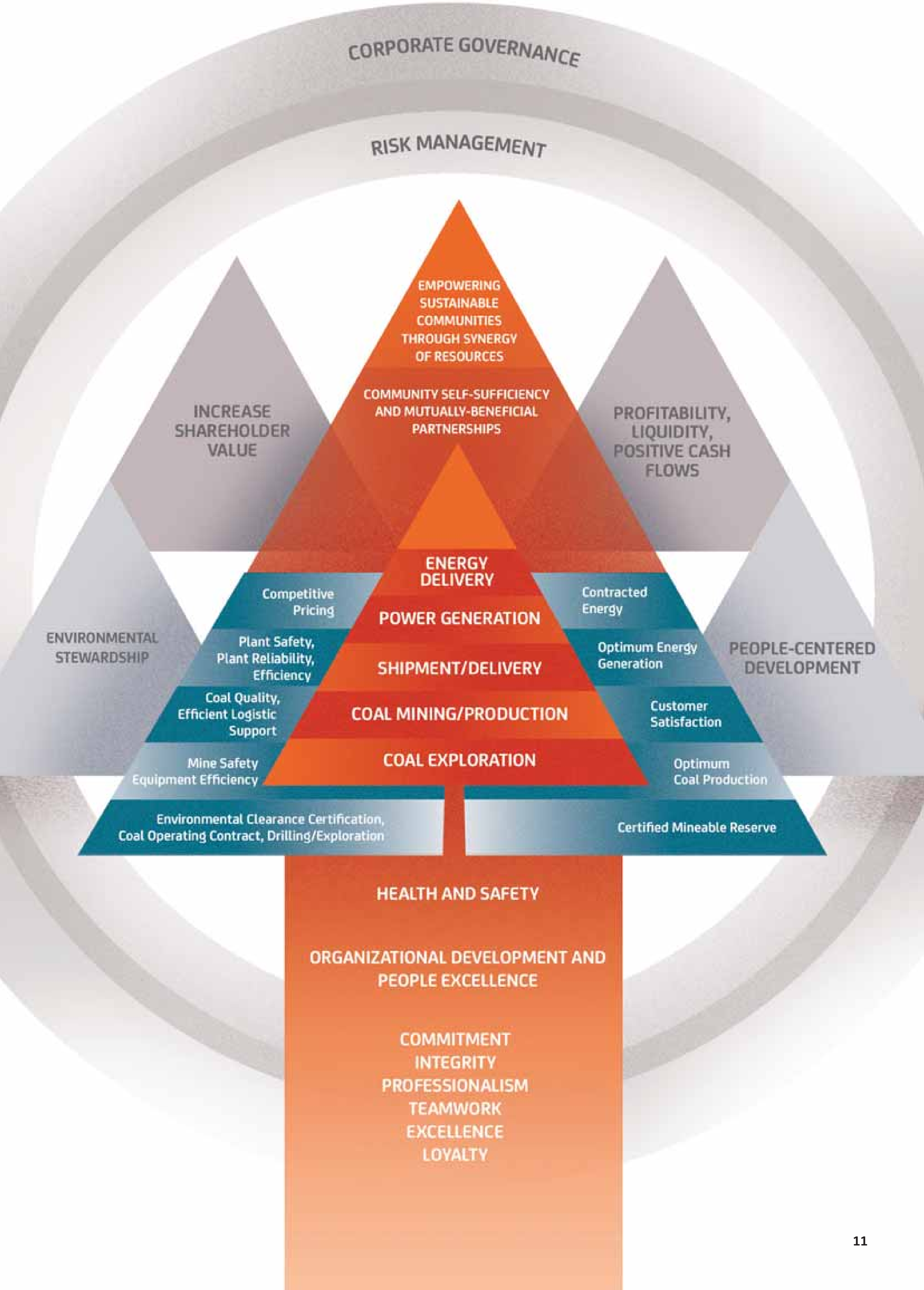
Where we operate, we help our partner and host communities rise and thrive with us.

Our continued investment in community sustainability drives local enterprises and endeavors forward.

As financial capacities of families working directly or indirectly with the Company improves, young people have access to better education and skills development. This enables them to aim and achieve for a brighter future outside Semirara Island. Our connection with them and their support are key factors in achieving overall growth for the people, the community, and in turn, the nation.

Connections with Nature

Environmental stewardship is integral in our business operations; our governance policies, risk management, our corporate social responsibility programs are strongly hinged on mitigating the impact of our business on the environment, finding sustainable solutions, and implementing value-driven action plans in our operations as well as host communities. Ultimately, we look towards seeing our corporate vision of empowering sustainable communities through synergy of resources in the following years.



CORPORATE GOVERNANCE
RISK MANAGEMENT
EMPOWERING SUSTAINABLE COMMUNITIES THROUGH SYNERGY OF RESOURCES
COMMUNITY SELF-SUFFICIENCY AND MUTUALLY-BENEFICIAL PARTNERSHIPS
INCREASE SHAREHOLDER VALUE
PROFITABILITY, LIQUIDITY, POSITIVE CASH FLOWS
ENERGY DELIVERY
POWER GENERATION
SHIPMENT/DELIVERY
COAL MINING/PRODUCTION
COAL EXPLORATION
Competitive Pricing
Plant Safety, Plant Reliability, Efficiency
Coal Quality, Efficient Logistic Support
Mine Safety Equipment Efficiency
Environmental Clearance Certification, Coal Operating Contract, Drilling/Exploration
Contracted Energy
Optimum Energy Generation
Customer Satisfaction
Optimum Coal Production
Certified Mineable Reserve
ENVIRONMENTAL STEWARDSHIP
PEOPLE-CENTERED DEVELOPMENT
HEALTH AND SAFETY
ORGANIZATIONAL DEVELOPMENT AND PEOPLE EXCELLENCE
COMMITMENT
INTEGRITY
PROFESSIONALISM
TEAMWORK
EXCELLENCE
LOYALTY

MESSAGE TO SHAREHOLDERS

Our Valued Shareholders,

From a coal mining company to a fully integrated energy enterprise, from lighting homes and streets to powering a nation, we owe the feats we have achieved to the many people, partners, investors, and communities that continue to support, inspire, and empower us. For twenty years, we stand by our responsibility to our shareholders and stakeholders - that we continue to improve the performance, stability and sustainability of our operations, that we continue to nurture and strengthen our relationships with them.

Our journey continues in creating added value in the economic value chain and finding synergies in the things we do as we co-exist with the people we serve.

2017: Strong Economic Performance

Backed by the strength of our 20-year strong industry leadership, we are pleased to report that we have achieved another year of record highs and achievements.

Our coal segment reached an all-time high production and sales of 13.2 million tons and 13.1 million tons, respectively. We capitalized on opportunities brought by improvement in global coal prices and increase in coal capacities.

Energy generation increased 21% to 5,202 MWh. This is attributable to the augmented capacity of Unit 1, higher availability of Unit 2, and full commercial operation of the 2x 150MW CFB power units.

We hurdled a lot of operational challenges, while favorable coal market condition lifted the company's performance higher. We ended the year with consolidated net income of P14.2 B, again another record high, or 18% growth from last year, despite a number of non-recurring charges and hefty royalty to the government amounting to P4.3 B.

SMPC stands for the energy that powers homes, empowering opportunities and ultimately, enriching the lives of Filipinos.

Our Company ended with a strong cash position of P8.47 B, as well as a low D/E ratio of 0.82. Overall, 2017 was an excellent year, allowing us to refocus on our core strategies.

TOTAL ROYALTIES PAID TO GOVERNMENT
P18.1B

TOTAL FX INFLOWS AND FX SAVINGS
USD 299M

NET INCOME AFTER TAX (NIAT)
P14.2B

CASH POSITION
P8.8B

DEBT-TO-EQUITY RATIO
0.82

STOCKS DIVIDENDS ISSUED
2.7M

2017 SHARE REPURCHASE
300%

DIVIDEND PAYOUT
106%

MARKET CAPITALIZATION
P156.7B

2017: STRONG ECONOMIC PERFORMANCE

Retained Earnings Distributed. Regular cash dividends payment increased by 25% from P1.00/share last year to P1.25/share this year based on adjusted post- stock dividend outstanding shares. A special cash dividend of P1.25/share was also declared. The payout ratio in 2017 is at 106%. This year, we declared and issued 300% stock dividends, equivalent to 3,195,859,290 shares at P1.00 par value per share or effectively three (3) shares for every one common share held from our unrestricted retained earnings.

Shareholder Value Support. In 2017, our Company repurchased 2,735,100 treasury shares at P100,372,510 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 P156.71B.

Power Assets. As the company moves forward, we are optimistic in our continued growth as we further expand our coal production and power capacities. On July 5, 2017, final turnover of the two (2) 150MW CFB coal-fired power plants was completed under our subsidiary Southwest Luzon Power Generation Corporation. These new additions increased our total rated capacity to 900MW. Low-grade coal, once seen as a waste material of mining operations, is now utilized for fuel to generate energy by our SLPGC plants, proof of our tireless efforts in streamlining our operations and driving overall value for the Company.

CONNECTIONS TO THE FUTURE

We look to the future with an unwavering vision of progress, understanding that the country's rising energy demand brings with it an opportunity for unprecedented growth. We rise to meet the challenges head-on, as we continue to expand our mining and power businesses while ensuring the continued sustainability of our operations.

Power Plant Rehabilitation. This year, we launched the rehabilitation and refurbishing plan of SCPC's 2x300MW plants in 2019. The plants were built in 1984 and 1995, respectively. This full rehabilitation will extend their lifespans, improve reliability, and help in increasing our power outputs. The estimated budget for the rehabilitation now stands at USD 200M from the initial estimate of USD 160M.

Cementing Progress. Our mining concession do not only contain coal, but also other minerals like silica and limestone - two basic components for the production of cement. Limestone deposit in Semirara Island is estimated at 1.2 billion tons, mainly situated at the Himalian site. The development of this resources is synergistic in our value chain and it creates a seamless connection and opportunities for growth. The company has yet to hurdle regulatory challenges which we believe in the long run can be addressed.

POWER PLANT REHABILITATION PROJECT ESTIMATED BUDGET

USD 200M

LIMESTONE AND SILICA DEPOSITS IN SEMIRARA ISLAND

1.2B TONS

CONNECTED AND EMPOWERED GOVERNANCE

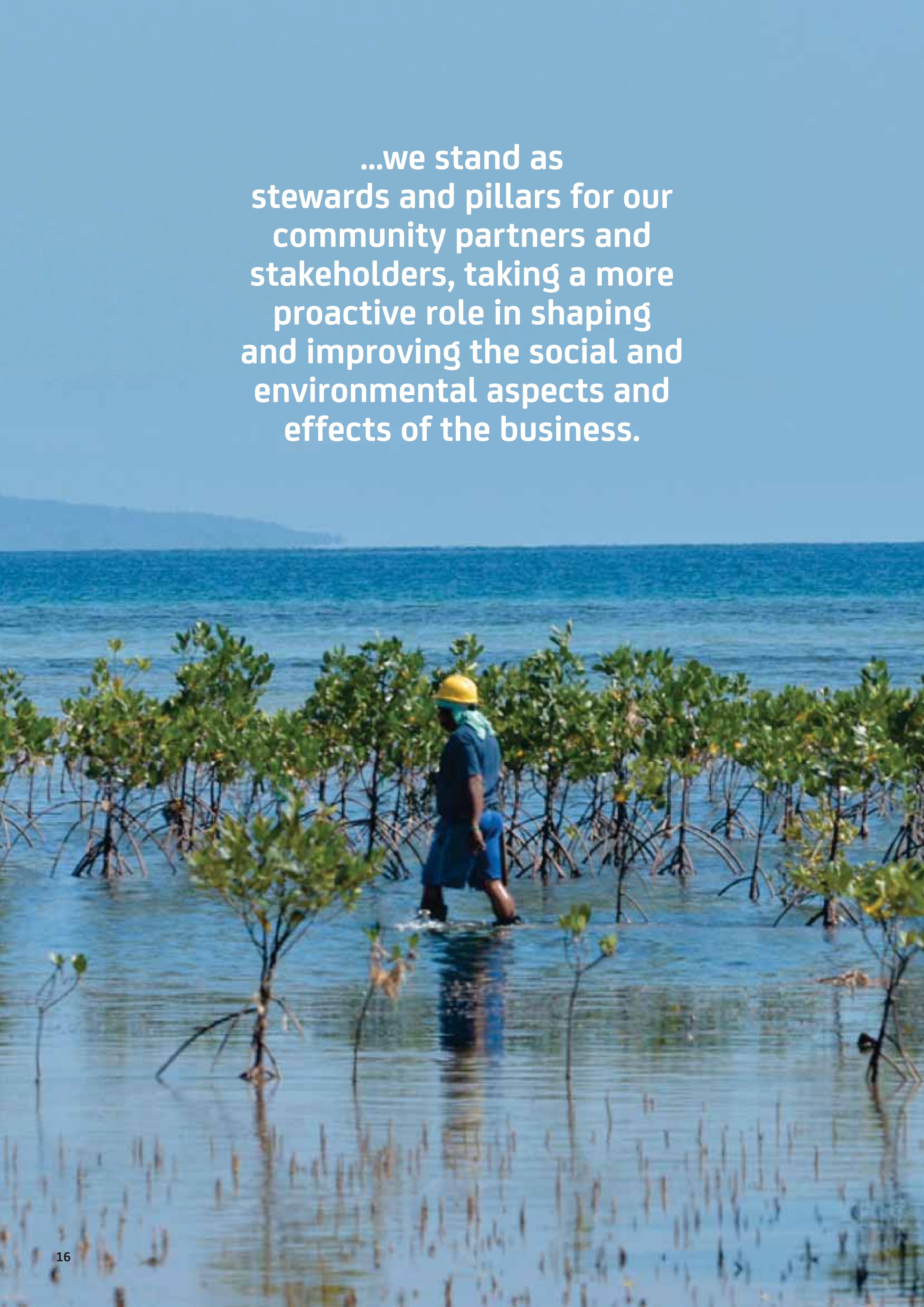
We fulfill our economic, legal and social obligations to our stakeholders and to the communities where we do our business. Good governance is the cornerstone of our corporate philosophy. This 2017, our governance framework is guided by the new Code of Corporate Governance set for Publicly-Listed Companies by the Securities and Exchange Commission. 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, and effective governance.

Our renewed corporate vision underscores the importance of empowering sustainable communities through synergy of our resources.

We stand as stewards and pillars for our community partners and stakeholders, taking a more proactive role in shaping and improving the social and environmental aspects and effects of the business.

In partnership with Department of Energy and Department of Environment and National Resources, our social development and sustainability programs are geared towards empowering communities to achieve sustainable growth and self-sufficiency.

…we stand as stewards and pillars for our community partners and stakeholders, taking a more proactive role in shaping and improving the social and environmental aspects and effects of the business.



MOVING TOWARDS RESILIENCY

We actively implement plans and take measures towards a more risk- resilient corporate culture and operations.

This year, we have successfully transitioned and received certifications to the risk- based 2015 versions of ISO 9001 and ISO 14001 on quality and environmental management systems of our coal mining and power plant operations.

Our subsidiary, SEM-Calaca Power Corporation, is also in conformance to the Quality Management System/ISO 9001:2008 since 2014.

2017 marks our improved efforts and initiatives in risk management. Our evolving ERM practices are progressing towards a favorable trajectory, moving closer to realize our goal for a RESILIENT standing.

TOWARDS OUR VISION OF EMPOWERMENT

We are in the business of power and more importantly, empowerment. SMPC stands for the energy that powers homes, empowering opportunities and ultimately, enriching the lives of Filipinos.

If there is anything to be gained and learned from the twenty years in the business, it is this: what brings us together, makes us stronger. Twenty years has given the company strength and growth through the many connections we have forged through the years.

As we step into the next era of our company's future, we renewed our corporate vision and mission that will set the tone for our next years of operation.

"Empowering sustainable communities through synergy of resources" is our new corporate vision. Over the years, we have seen how the quality of life of our host communities and people have grown with the company. The synergy comes from the forward integration of coal mining to power generation, and responsible development of other resources is our way forward to promote sustainable growth of communities.

Our corporate values are the pillars that form the strong foundation of our company as a force of empowerment, and it starts, as stronger than ever, with the empowerment of the community and the nation, and with bigger focus on the environment, health and safety of our stakeholders.

In this vein, I would like to thank our Board of Directors, our management team, our partners and our valued shareholders for your continued support, trust, and commitment in taking this journey with us. Now more than ever, we are more connected and empowered to pursue our shared goals, to be the energy that never wavers. Here's to the next twenty years of Semirara Mining and Power Corporation!

Maraming Salamat!

ISIDRO A. CONSUNJI
Chairman, and Chief Executive Officer

PRESIDENT AND COO's REPORT

Our Valued Shareholders,

This year marks Semirara Mining and Power Corporation's twentieth anniversary, and there is much to be said of the two decades that span our rich history. It all started twenty years ago on a remote island west of Antique. This island struggled in its early years: impoverished municipalities and communities lacked the necessary means to flourish; their nights marked by darkness and uncertainty. It was here where we built the foundations of the business with a clear objective in mind: a duty of care, and a responsibility to the community and environment. There was work to be done.

Since we gained control of the Company twenty years ago, we carried the island's name and pride, seeing it through to a rough transition and then to a period of growth and development. The island experienced an unprecedented scale and rate of progress as it rose above adversity and challenges.

Twenty years later, we continue to wear the mantle of its name with pride, and with it, our strong commitment to purposeful industry leadership and stewardship.

Semirara Mining and Power Corporation. A name that has become the country's leading powerhouse in energy supply and production, an unequivocal force powering the nation's march to progress.

Our name honors the island that sums up our raison d'etre - it is our continued commitment to the many families, partners, and barangays in it, where we continue to do good by them.


SEMIRARA
MINING & POWER
CORPORATION

20 YEARS OF POWERING THROUGH

Twenty years ago, we were known as Semirara Coal Corporation (SCC). Back then, the Company experienced its share of setbacks and birthing pains. After commencing commercial operations in 1988, the Company struggled through low productivity, operational inefficiencies, debt restructuring, falling coal prices, and the Philippine peso devaluation. This was our baptism by fire – the challenge to overcome and overturn circumstance, together.

Through the DMCI group, we were proactive in creating business opportunities through the acquisition of the Calaca power plants - our single biggest asset. Soon, we were able to turn the company around, grow the business, and ultimately transform our coal production segment into a fully integrated energy enterprise with the successful integration of our acquired power assets, Sem-Calaca Power Corporation (SCPC) and our expansion, Southwest Luzon Power Corporation (SLPGC).

Since then, we have adopted flexible, cost-efficient and more advanced mining techniques to increase the quantity and improve the quality of our coal production. After twenty years, we are the biggest coal producer and supplier in the Philippines, and the only vertically integrated energy company in the country, accounting for more than 98% of the total country's production, supporting the local energy industry by supplying coal to local power plants, cement plants and other small boilers.

STRONG PERFORMANCE

Coal Production. Year on year, we continue to deliver record performances. Our mining operations yielded a record high production of 13.2 million tons and sales volume of 13.1 million tons. Despite the inclement weather during the year-end, we still delivered, with only a few points short of the target 13.5 million tons. Higher global coal prices pushed Average Selling Price (ASP), as local and regional sectors are increasing their energy demands. We are looking at an upside of coal production as we optimize our coal production in the coming years to an estimated 16 million tons.

Power Subsidiaries. Last July, after a successful transition and turnover, our own teams are now running the SLPGC plants, augmenting our rated capacity to 900 MW. We have also re-contracted 420MW, bulk of our power generation for ten years, minimizing our risk of exposure to WESM price volatility. As global coal prices drive the ASP of coal, we are more than capable of leading the charge in fueling the nation's progress.

COAL PRODUCTION	COAL SALES VOLUME	COAL PRODUCTION
13.1M TONS	13.2M TONS	900MW

QUALITY, SAFETY, AND RESILIENCY

In keeping with our commitment to safety and quality, our Company and all our operating subsidiaries SCPC and SLPGC, recently received its upgraded ISO certifications, proving the company's continued compliance with global standards on environment and social responsibility.

SMPC has passed 12 audits on compliance to environmental regulations since March 2016, underscoring our commitment to environmental stewardship.

The health and safety of our workforce is another key priority for SMPC. We remain steadfast in aiming to eliminate fatalities and life-threatening injuries while striving to make continuous progress on reducing all health impacts.

SUSTAINABLE PROGRESS

Our many sustainability and community efforts are built on three pillars: People, Planet and Progress.

While these are not necessarily new, we have sharpened our focus on the stakeholders that matter most. By channeling our efforts consistently into these three areas, we believe these go a long way towards realizing our vision for sustainability.

We encourage a transparent and constructive approach to community engagement and development.

The approach came to fruition this year when the Semirara Island community was instrumental in the establishment of Marine Protected Areas (MPAs), as well as the construction and eventual installation of Fish Attracting Devices (FADs) around sites that will benefit from a revitalized marine ecosystem.

Our activities have positively contributed to the local economies of the jurisdictions in which we operate through tax, royalties and other socioeconomic benefits at the community level. To strengthen community services and support capacity building, we also work with a range of partners, including local governments. This year, our Company remitted P4.3 billion royalties to the government, wherein P1.7 billion was the share of the local government units hosting our operations. We strive to create independent and self- sufficient communities by enabling support programs aimed at improving quality of life. Out of our 4,207-strong total workforce, 38% or 1,579 are from Semirara Island and/or the Municipality of Caluya, while 16% or 679 are from the Municipality of Calaca and/or CALABARZON area, demonstrating our commitment to prioritizing the residents of our host communities for employment opportunities.

GOVERNMENT ROYALTIES
P4.3B

LOCAL GOVERNMENT ROYALTIES
P1.7B

One of the institutions we're proud to support is the Semirara Training Center, Inc. (STCI), a TESDA-accredited vocational school which teaches marketable and high-value skills. To date, STCI has already produced 1,092 graduates since 2006.

The expansion of our operations has also enabled the advancement of rural enterprises. Now, small business ownership and entrepreneurship has become a central force of economic growth and development. In 2017, a total of 346 business permits were issued, an almost 500% increase from the 60 permits issued in 1999.

Another key concern for us is providing our host communities and employees with the means to boost their capacity for disaster response. In our Calaca power plant complex, we sponsored a Rapid Earthquake Damage Assessment System (REDAS) Workshop in partnership with the Department of Science and Technology (DOST) for the coastal municipalities in Batangas. In addition, an emergency preparedness and response training was also held for the impact barangays around the power plant.

We continue our ongoing commitment to environmental performance through our environmental monitoring efforts in both our mine site and power plants. We establish and document processes to identify and manage risks and opportunities for the efficient use of energy and water, manage emissions linked with climate change and reduce waste generation to lessen the Company's environmental footprint on our host communities.

MINE SITE WORKFORCE FROM SEMIRARA ISLAND
1,579

STCI GRADUATES SINCE 2006
1,092

BUSINESS PERMITS ISSUED IN 2017
346

We encourage a transparent and constructive approach to community engagement and development.

LOOKING FORWARD

While coal prices remained volatile, supply restrictions in China together with strong demand from other countries caused prices to increase in the second half of the year. For this reason, the next few years hold significant upside potential on coal.

In light of favorable market conditions, we continue to expand our operations, leading to ultimately increase in production capacity up to 16 million tons.

The rehabilitation and life extension of SEM-Calaca Power Corporation's Units 1 and 2 in 2019 will improve plant reliability, overall performance, and efficiency needed to support our continuing commercial requirements. It looks to up the generation capacity of both plants to 600 megawatts (MW) and extends its economic life by 20 to 25 years.

We are targeting only two years (2017-2019) to completely finish the progressive rehabilitation at Panian pit to restore the topography and ecological balance of the open pit mine. Last year, almost 210,000 trees covering 83.94 hectares were planted. To date, the total land area planted is at 328.22 hectares with a total of 830,118 trees.

HECTARES COVERED
*TO DATE

328.22

SURVIVING TREES
*TO DATE

830,118

TOWARDS EMPOWERED SUSTAINABLE COMMUNITIES

Our economic success is tied to the strong connections we have made over the years with our stakeholders alongside our relationship with the communities in which we operate.

It is important that we balance the value the community receives with our operational value, delivering on our commitments to key stakeholders as we progress towards the realization of our shared vision.

I wish to thank our employees, management team, business partners, host communities and valued shareholders for your continued cooperation and invaluable support. Moving forward, we seek to nurture even stronger connections with all of you. Together, let us forge onwards towards an empowered and energized future.

Maraming Salamat!

VICTOR A. CONSUNJI
President and Chief Operating Officer

2017 PERFORMANCE HIGHLIGHTS

NET INCOME AFTER TAX
P 14.2B

CASH POSITION
P 8.5B

DEBT-TO-EQUITY RATIO
0.82

CAPITAL EXPENDITURES
P 8.1B

CASH DIVIDEND PAYOUT
P 10.7B

MARKET CAPITALIZATION
P 156.7B

COAL SHIPMENT
13.1M TONS

COAL REVENUE
P 23.5B

ENERGY REVENUE
P 20.4B

ENERGY GENERATED
5,202 GWh

ECONOMIC

Total Operating Workforce	4,207	SDP Expenditures to Date	P1.2B
Employed from Direct Host Communities	2,258	Minesite Payroll	P1.2B

ENVIRONMENTAL

Giant Clam Population	122,341	Inland Reforestation and Vegetation	1.7M trees
Thriving Mangrove Population	650,412	Land area covered at Panian Rehab	328.2 hectares

SOCIAL

Energy Shared to Host Communities	20.9 GWh	STCI Graduates	1,092
Business permits issued	346	Workforce Fatality	0

921
Technical Training Graduates (Calaca)

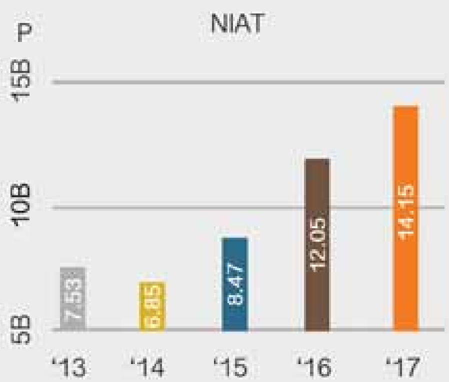
GOVERNANCE

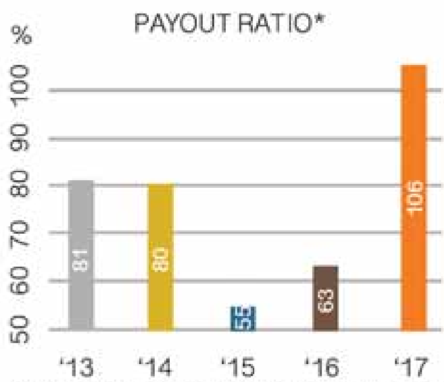
ASEAN Corporate Governance Scorecard (ACGS) Overall Score Points	97.5	Top 100 Philippine Publicly-Listed Companies by Market Capitalization ACGS Ranking	12th

FINANCIAL SCORECARD

Key Performance Indicator	Grow Income	Generate Attractive Dividend Yield
Target	Deliver consistent income growth	Strong dividend payout
Outcome	The Company posted new record profits in 2017. Consolidated Net Income After Tax increased by 17% to P14.2B in 2017 from P12.5B the previous year.	Regular cash dividends increased by 25% year-on-year to P5/share in 2017 from P4/share in 2016 (restated to P1.25 per share and P1.00 per share in 2017 and 2016, respectively, post declaration of 300% stock dividend). Moreover, the Company declared and paid special cash dividends of P5 per share or P1.25 per share post stock dividend.

Data





*computed based on previous year's earnings

We posted new record profits in 2017. As a result, our financial metrics remain strong.

Improved operational performances of all business segments, as well as higher coal prices in 2017 translated to robust earnings and healthier balance sheet.

Meanwhile, strong cash position allowed us to increase our cash dividends in 2017 by 150% from the previous year. High retained earnings also afforded us to declare 300% stock dividends.

Our historical financial performance is a testimony of our strategic goal of creating steadfast value and sustainable growth.

Exercise Financial Prudence

Maintain D/E Ratio at less than 2:1

Robust earnings, which effectively augmented Equity, sufficiently matched increase in total debts in 2017. As a result, DE improve to 0.82x from 0.92x in 2016.

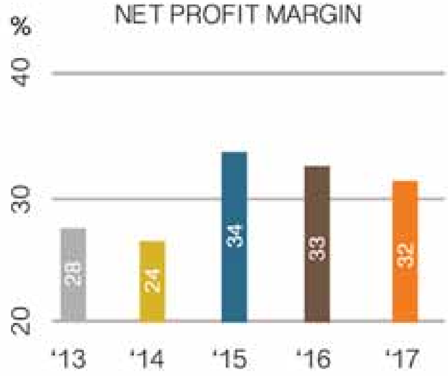
DE RATIO

Generate Strong Margins

Robust profit margins

Net profit margin remained strong at 32% with strong revenues from both coal and power businesses.

NET PROFIT MARGIN



Maintain High Liquidity

Keep Current Ratio to at least 1

Healthy cash position and drop in Accounts Payable improved Current Ratio to 1.69 at the end of the period from 1.35 in 2016.

CURRENT RATIO

LOCAL AND INTERNATIONAL RECOGNITION

12th
Top 100 Philippine Publicly-Listed Companies by Market Capitalization Ranking
2017 ASEAN Corporate Governance Scorecard Run

Best Senior Management Investor Relations Support and Most Improved Investor Relations
Southeast Asia's Corporate Institutional Investor Awards 2017
Alpha Southeast Asia
Singapore

Distinguished Bedan Awards for Business
SMPC Chairman Isidro A. Consunji
SMPC President Victor A. Consunji
San Beda College Alumni Association
February 2017
Manila, Philippines

Top 30
Highest Scoring Philippine Publicly-Listed Companies
2017 PSE Bell Awards for Corporate Governance Phase 1
Philippine Stock Exchange
Philippines

100% General Conformance External Quality Assurance with International Auditing Standards
Isla Lipana & Co./ PwC Philippines
July 2017
Makati City, Philippines

Top 1 Corporate Taxpayer 2017
Southwest Luzon Power Generation Corporation
Province of Batangas,
December 2017
Batangas City, Philippines

Top 3 Corporate Taxpayer 2017
SEM-Calaca Power Corporation
Province of Batangas,
December 2017
Batangas City, Philippines

Environmental, Social, and Corporate Governance Category Gold Award
The Asset Corporate Awards 2017
December 2017
Hong Kong (SAR)

Top 50 Philippine Publicly-Listed Companies
2015 ASEAN Corporate Governance Scorecard Country Reports and Assessments
Asian Development Bank
October 2017
Philippines

Shariah-Compliant One of Five Blue-Chip Firms under the Philippine Stock Exchange index (PSEi)
Philippine Stock Exchange
IdealRatings Inc.
October 2017
Philippines

2015 Integrated Annual Report Public Relations Tool – External Publications Gold Award
52nd Anvil Awards
March 2017
Makati City, Philippines

ISO 9001:2015* Quality Management System, ISO 14001:2015* Environmental Management System, OHSAS 18001:2007* Occupational Health and Safety Management System
United Kingdom
*issued January 2018

Integrated Management System Certification ISO 9001:2015* Quality Management System, ISO 14001:2015* Environmental Management System, OHSAS 18001:2007* Occupational Health and Safety Management System | United Kingdom | *issued October 2017
SEM-Calaca Power Corporation | Southwest Luzon Power Generation Corporation

OUR PERFORMANCE REVIEW

Creating Operational Synergies

Every year, we aim higher. Demonstrating our commitment to the best possible results, we achieved yet another record-breaking year.

The consolidated Net Income After Tax (NIAT) increased by 18% YoY to a record high P14.2 billion from P12.04 billion recorded in 2016 due to our increased coal, excavating capacities and power generation as well as favorable market conditions.

The successful capacity upgrade of SCPC's Unit 1 has boosted its gross generation by 21% to 3,515 GWh from 2,905 the previous year.

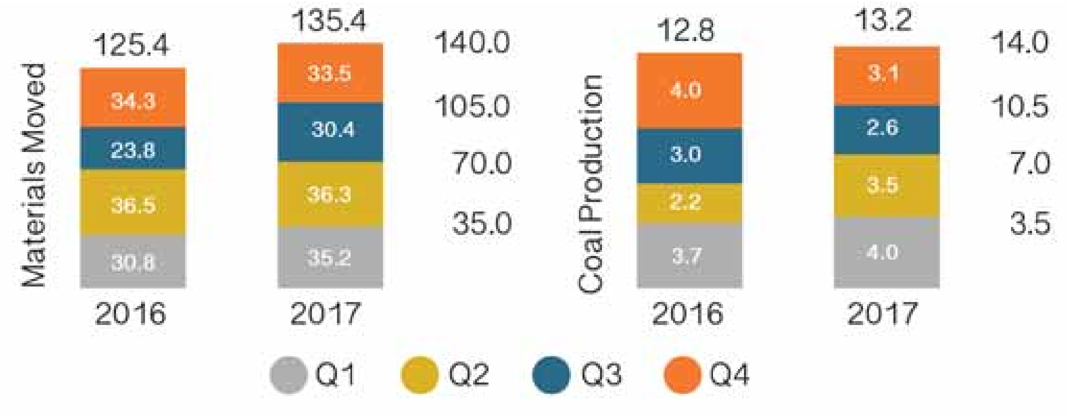
Meanwhile, SLPGC booked higher revenues in 2017 at P7.1 billion. It's gross generation also increased by 22% to 1,687 GWh compared to 1,383GWh last year.

CONTENTS

COAL SEGMENT

A record high in materials moved and an increase in production was due to the increase in excavating capacity. Strong global prices resulted in higher ASP in 2017. Coal sales achieved a record high as well due to the increase in deliveries to local customers during the year.

Production

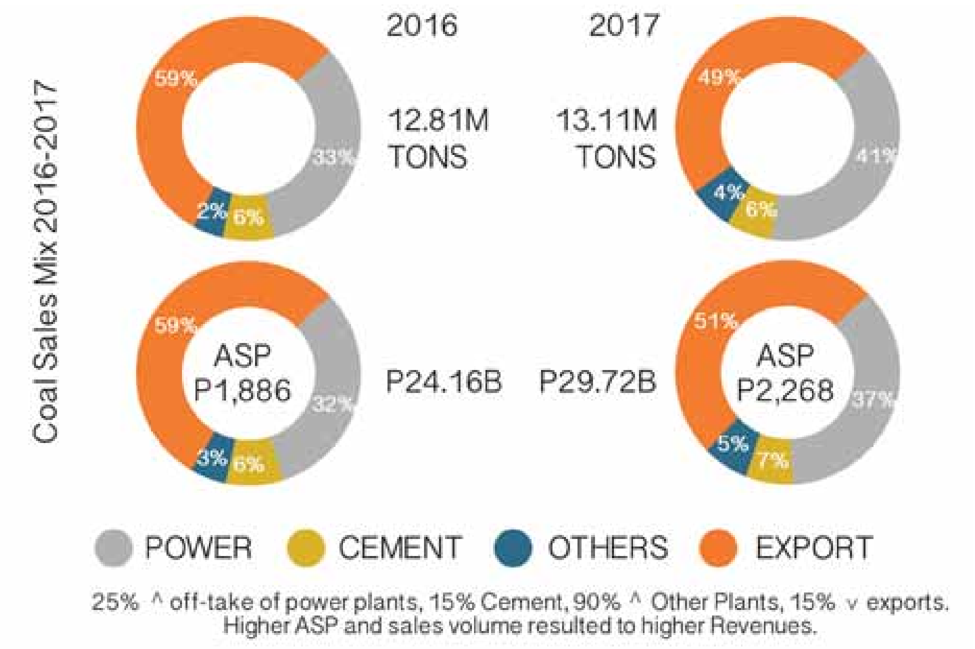


The total materials moved grew by 8% YoY, to 135M bank cubic meters (bcm) in 2017 from 125M bcm the previous year, due to the increased excavating capacity. This resulted to a corresponding increase in production by 3% YoY to 13.2M tons from 12.8M tons in 2016. Materials moved in 2016 was inclusive of 48.8M bcm pre-stripping asset of Molave and Narra mines, while coal production is inclusive of low-grade coal of 900K tons and 1.4M tons in 2016 and 2017, respectively.

Effective strip ratio in 2016 is only 5.27 since operations in the first three quarters were in Panian mine, which was already closed at the end of September. Including the pre-stripping of the Molave mine pit, total strip ratio in 2016 was 9.08. However, the pre-stripping costs of Molave and Narra were capitalized in accordance with accounting standards.

Sales

Coal volume sold grew by 2% YoY; composite Average Selling Price (ASP) increased more significantly by 20% due to higher global coal prices in 2017. The Increase in ASP and volume sold resulted to growth in Gross Revenues by 23%. The 2016 and 2017 coal sales are inclusive of low-grade coal sold to own power plants of 975 thousand tons and 1.3 million tons, respectively



The market share of export sales volume dropped to 49% from 59% in 2016. Notably, total local sales increased by 28% YoY to 6.7 million tons from 5.3 million tons in 2016.

MINE SITE MANAGEMENT

Arnel P. Jadormio	Leto T. Macli-ing	Rene C. Gonzales	Ruben P. Lozada	Janesto S. Diaz
Safety Department Head	Mining Division Head	Mobile Maintenance Department Head	Resident Manager & Vice President for Operations	Pollution Control Officer

Jose Leo S. Valdemar
Power Plant
Department Head

Mark C. Munar
Civil Works
Officer-In-Charge

Nestor A. Agapito
Material Control
Department Consultant

Rodante Q. Molina
Mechanical Services
Department Head

Edna A. Gayondato
Analab
Department Head

Mark Louis A. Bentayo
Product
Department Head

Agustin D. Gonzales
Ship Repair and
Maintenance Manager

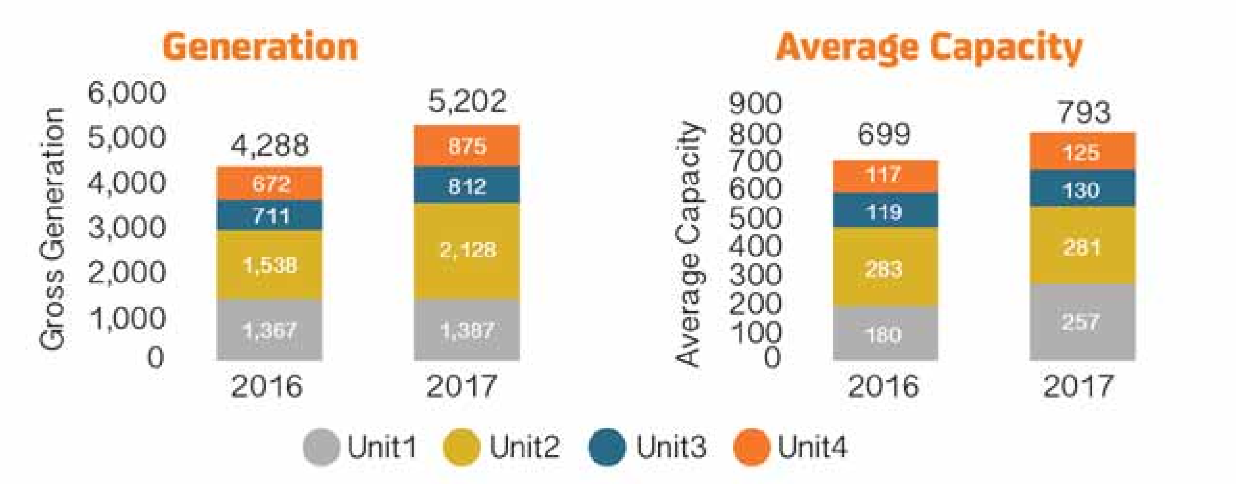
Redentor D. Macaraan
Admin Division
Head for Non-Core

Evangeline G. Gardon Admin Manager	Magno B. Villaflores Mine Site Internal Audit Manager	Jober A. Malsi Accounting Manager	Vicente Cesar V. Malig Admin Division Head for Core	Jason O. David HROD Manager

POWER SEGMENT

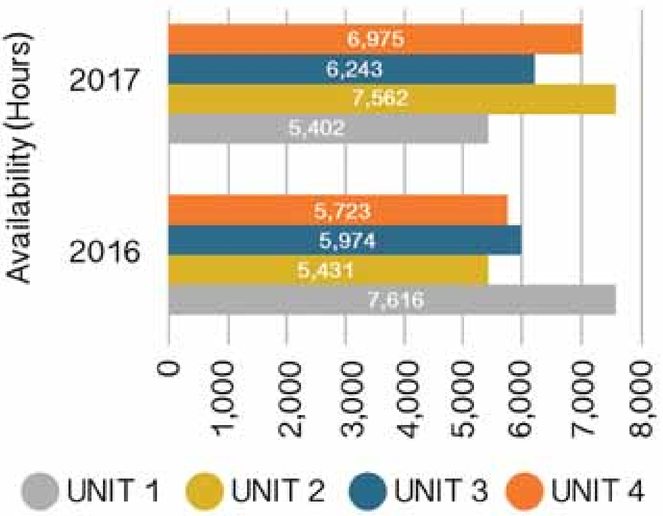
The strong performance of SCPC is due to the improved total capacity, primarily caused by marked increase in Unit 1's capacity. SLPGC's performance likewise improved with higher plant capacity and increased availability. The slack in WESM prices was offset by higher BCQ prices as the coal benchmark was higher in 2017.

Generation



Units 1 and 2 gross generation increased by 21% to 3,515 GWh from 2,905 GWh last year. With the successful upgrade of Unit 1, we were able to raise the average capacity of the plant - fully using Semirara coal - by 43% to 257 MW from 180 MW last year. Total plants' average capacity increased by 16%, while capacity factor rose by 21%.

Units 3 and 4 Gross generation increased by 22% YoY to 1,687 GWh as against 1,383 GWh last year. The plants are running more reliably in 2017 with an increased average capacity by 8% and improvement of capacity factor by 21%.



Plant Availability and Outtages

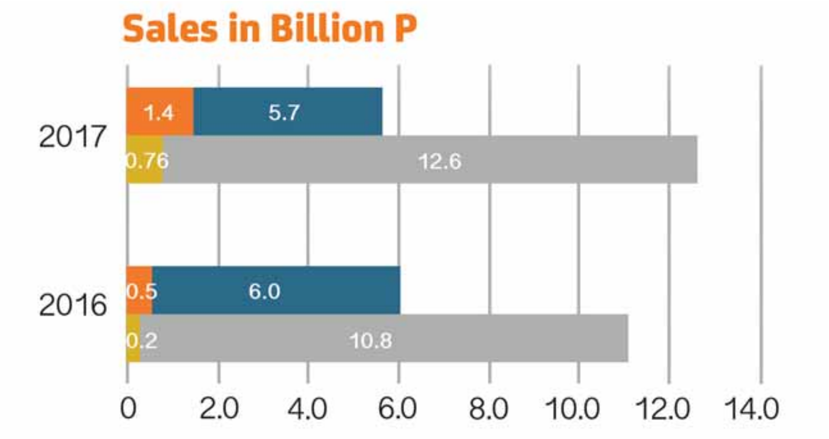
Total plant availability for Units 1 and 2 dropped slightly by 1% YoY. While there were more planned outages for Unit 1 in 2017, the total unplanned outages significantly dropped by 29%.

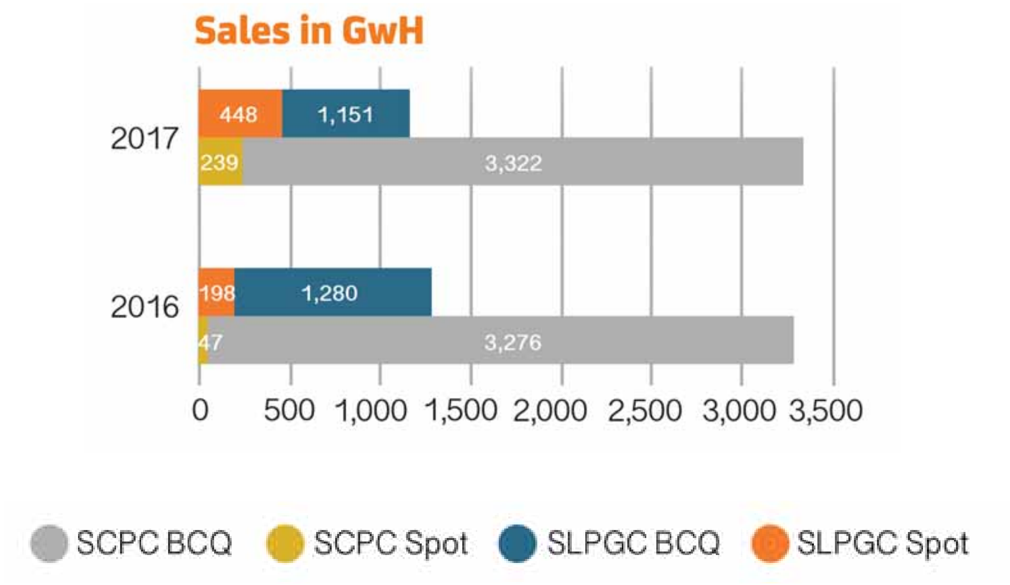
Units 3 & 4 combined operating hours increased by 13% YoY. There are remarkably less unplanned outages 2017 compared to the previous year.

Sales

SCPC's total energy sold increased by 7% to 3,560 GWh from 3,322 GWh in 2016. Composite average price per kwh also increased by 14% at P3.75 from P3.31 last year. As a result, total revenues grew by 22% at P13.4 billion versus P11 billion last year.

SLPGC generated P7.1 billion in revenues in 2017 for 1,599 GWh of energy sold at a composite average price of P4.43/KWh. BCQ and spot ASPs are higher in 2017 compared to the previous year.





POWER PLANT MANAGEMENT

Karmine Andrea B. San Juan	Frederico S. Delmendo	Edgardo V. Araya	Edgardo S. Lagman	Henry V. Alcalde	Denel C. Mateo
AVP Corporate Planning	AVP Procurement	Sr. HR Manager	AVP Facilities	VP Calaca Power Complex	AVP & Plant Manager, SCPC

Gil D. Enamno Maintenance Manager, SLPGC	Bayani Q. San Pedro Electrical Maintenance Superintendent, SLPGC	Eduardo S. Dungca Instrumentation & Control Superintendent, SLPGC	Noel N. Salamat Operations Manager, SLPGC

Clodualdo G. Bala, Jr. Shift Operations Superintendent, SLPGC	Richard V. Endaya Planning & Scheduling Superintendent, SLPGC	Fred F. Fajarillo, Jr. Performance and Efficiency Superintendent, SLPGC	Danilo P. Reyes Mechanical Maintenance Superintendent, SLPGC	Rene N. Cordero Engineering and Asset Manager, Calaca Power Complex

Hermenegilda N. Mayor Chemical Operations Superintendent, SLPGC	Rossini B. Marasigan Learning and Development Manager, Calaca Power Complex	Pedro R. De Padua Environmental Superintendent, Calaca Power Complex	Edlor Ruf V. Rodriguez OSH Superintendent, Calaca Power Complex	Edgar C. Mariano Materials and Control Department Superintendent, SLPGC

Charlie V. Robles
Plant Manager, SLPGC

Vermond Paulo D. Lainez
Acting Plant Engineering Superintendent,
Calaca Power Complex

Jim C. Jayme, Jr.
Materials & Control Department
Superintendent, SCPC

Ed Lawrence D. Florindo
Acting Planning & Scheduling
Superintendent, SCPC

Constantino B. Tumbaga
Mechanical Maintenance
Superintendent, SCPC

Procopio T. Panuncillon, Jr.
Electrical Maintenance
Superintendent, SCPC

Randy C. Torres
Instrumentation & Control
Superintendent, SCPC

Jesus G. Villavicencio, Jr.
Energy Trading
Manager, Calaca
Power Complex

Felix T. Occena
Coal Handling
Manager,
SJBHI

Divino C. Vergara
Chemical Operations
Superintendent,
SCPC

Bernard I. Carpio
Acting Manager,
Asset Management,
Calaca Power Complex

Reynaldo C. Severino
Coal Handling
Operations Manager,
SJBHI

Adolfo M. Mendoza
Acting Operations
Manager,
SCPC

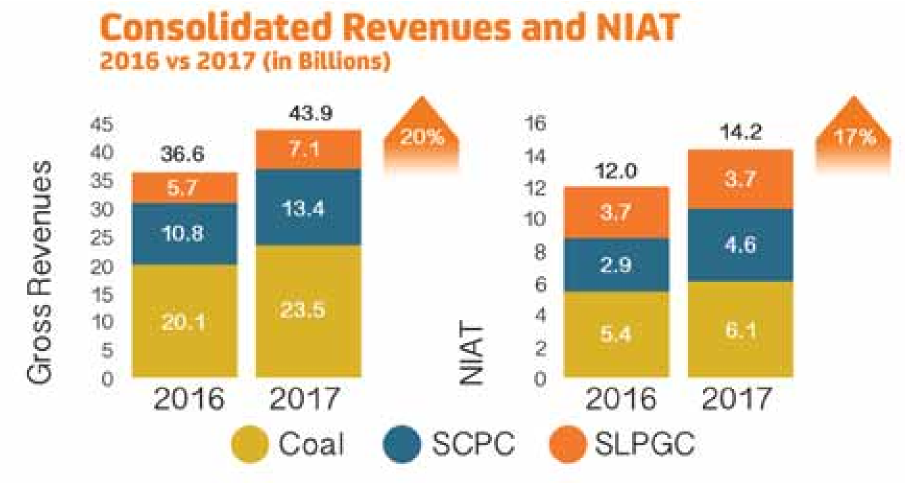
Josephine G. Olarte
Finance and Accounting Head,
SLPGC

Marcela D. Ellao
Controller, SCPC

FINANCIAL REVIEW

Our financial metrics remained strong and continue to improve on the back of improving coal prices and our expanding operational capacities.

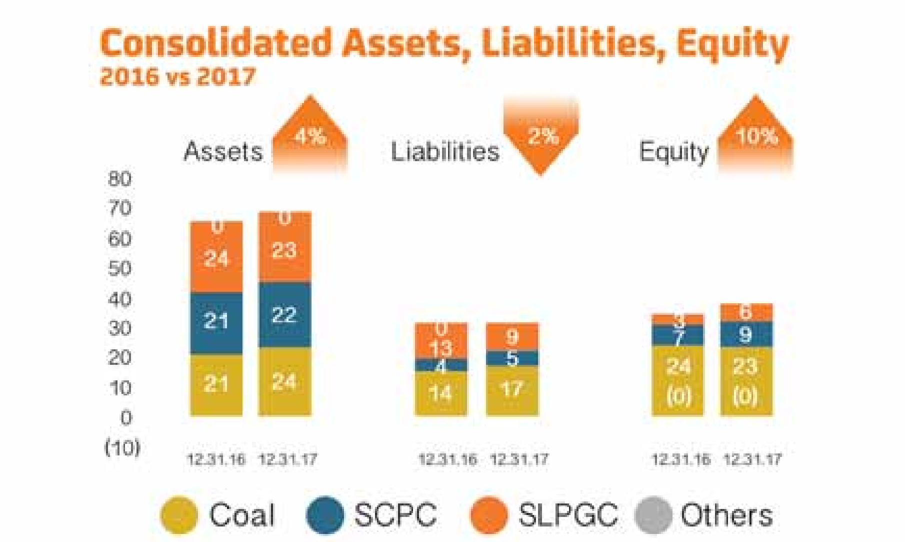
Sales and Profitability



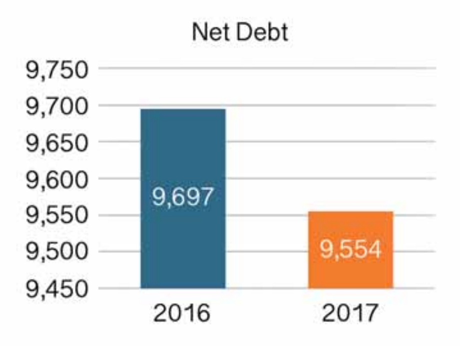
Gross revenues increased by 20% YoY, while net income grew by 17%. Coal's strong performance was driven by higher sales volume and increased ASP. SCPC also recorded improvement with increased generation as total capacity went up in 2017. ASP was also higher as a result of increase in coal price index.

Meanwhile, although SLPGC booked higher revenues, NIAT was lower due to full charging of depreciation, interest expenses, and RPT in 2017. These costs were still capitalized in Q1 206 while the plants were on commissioning status.

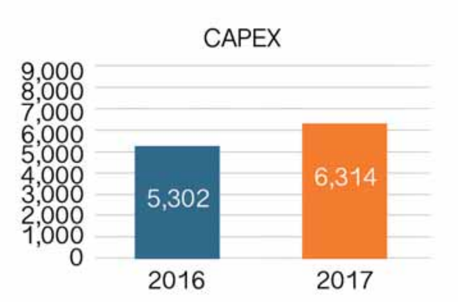
Assets, Liabilities, and Equity



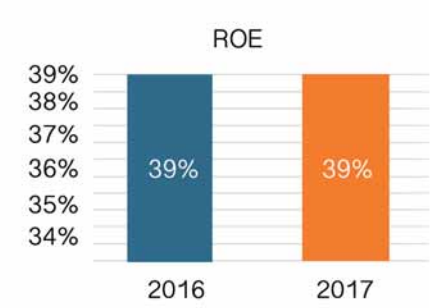
Assets slightly grew to P68.6 billion from P65.8 billion at the start of the year. Conversely, liabilities dropped by 2% to P30.9 billion from P31.5 billion after debt repayments. Healthy earnings during the period boosted Equity by 10% to P37.7 billion from P34.3 billion beginning balance, even after payment of regular and special cash dividends totaling P10.7 billion.



Net Debt slightly dropped by 1% to P9.6 billion from P9.7 billion in 2016.

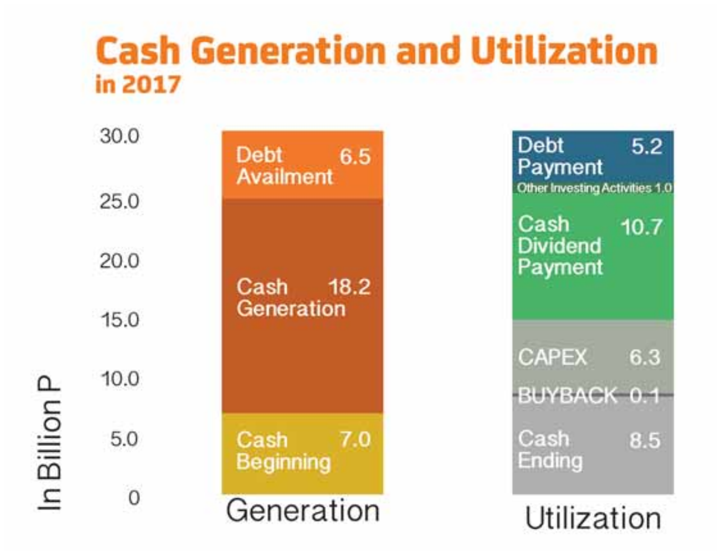


CAPEX spending increased by 19% YoY from P5.3 billion in 2016 to P6.3 billion in 2017. The coal segment brought more mining equipment to increase excavation capacity; both SCPC and SLPGC also spent more for plant maintenance as well as for spare parts.



ROE remained at 39%. Our DE ratio further dropped to 0.82, while Current ratio improved to 1.78x

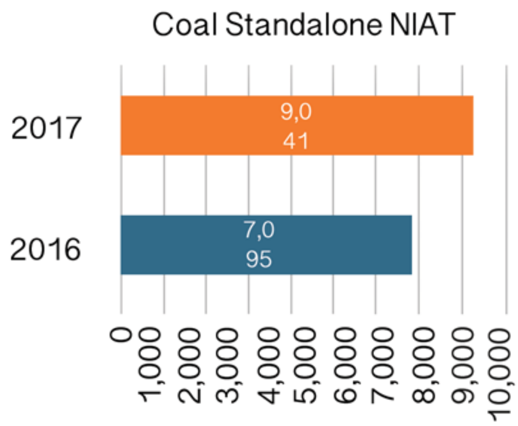
Cash Generation and Utilization



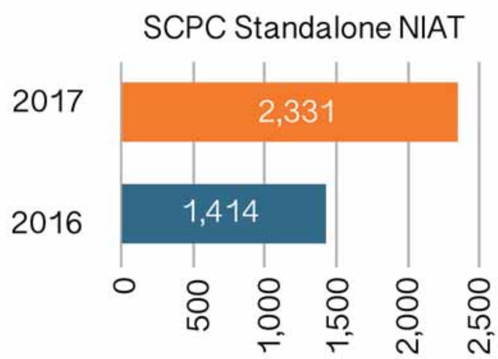
Total consolidated cash available from generation, loan availments, and beginning balance stood at P31.9 billion during the year. We spent P5.2 billion on debt payments, paid cash dividends amounting to P10.7 billion, purchased P6.3 billion worth of Capex, and bought back 2.7 million shares worth P100 million. Our ending cash closed at P8.5 billion.

Standalone NIAT

Consolidated Net Income After Tax (NIAT) increased by 17% YoY to P14.14 billion from P12.04 billion in 2016. Consolidated EPS is at P3.33, up by 17% from P2.82 last year. The net contributions to the bottom line by the coal segment, SCPC), and Southwest Luzon Power Generation Corporation (SLPGC), after eliminations, are P6.08 billion, P4.55 billion, and PhP3.74 billion, respectively.

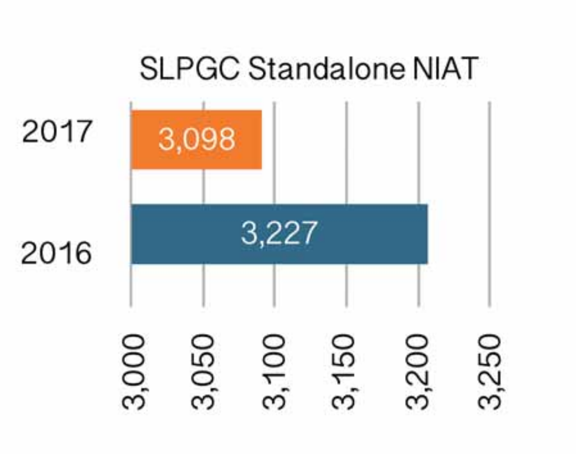


Before eliminations, the coal segment's core NIAT of P9.04 billion, posted a 21% increase from P7.50 billion in 2016. This is after accounting of P4.3 billion in government royalties, the highest we've recorded to date. This is also inclusive of the dividend income of P2.5 billion in 2016 from SCPC and P1 billion each in 2017 from SCPC and SLPGC. Better coal profitability in 2017 was driven by increased ASP and slight increase in volume sold.



On a stand-alone basis, SCPC posted NIAT of P2.33 billion, up by 65% from last year's P1.41 billion. Higher generation and higher average price per KWh from capacity fee payments as total downtime is lower this year, to the advantage of SCPC. Increased generation was a result of improvement of average load, particularly of Unit 1. Meanwhile, the increase in ASP can be attributed to a confluence of higher New Castle index and increased fixed capacity fee and O&M payments.

There were two significant non-recurring transactions in 2017 that had impact on profitability: (1) partial recognition of income from disputed receivables from Power Sector Assets and Liabilities Management Corporation (PSALM) amounting to P330 million, and (2) recording of accelerated depreciation amounting to P840 million relative to the life extension project of Units 1& 2 which will commence in the later part of 2018.



SLPGC's 2x150MW plants recorded stand-alone NIAT of P3.10 billion this year, slightly down by 4% from 2016's P3.22 billion. The NIAT for 2017 includes unrealized revenue of P219 million from fair market value gain relative to the company's financial contract with a customer and net settlement income of P133 million after the final turnover of the power plants. Since the plants are already in full commercial operation, full depreciation, interest expenses and RPT are now charged to operations.

INTEREST-BEARING LOANS

SEGMENT	2016	2017
Total Coal (PhP)	5,618	7,400
SCPC (PhP)	1,728	3,000
SLPGC (PhP)	9,344	7,640
TOTAL (PhP)	16,690	18,040

As a result of acquiring more equipment to increase capacity, interest-bearing loans increased by 32%. Coal's USD loans stood at USD 68.2 million, while peso liabilities closed at almost P3.4 billion.

SCPC's interest bearing loans increased after availing of long-term debt. Total loans closed at P3 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.

HEAD OFFICE MANAGEMENT

Karmine Andrea B. San Juan	John R. Sadullo	Andreo O. Estrellado	Carla Cristina T. Levina	Jose Anthony T. Villanueva
Assistant Vice President, Corporate Planning	Vice President, Legal; Corporate Secretary	Vice President, Marketing for Power	Vice President, Chief Audit Executive	Vice President, Marketing for Coal

OTHER OFFICERS

Teresita B. Alvarez
Consultant, ICT

Leah Anne A. Agduyeng
Internal Audit Manager

Camille-Christine I. Consunji
Corporate Communications Officer, Minesite

Leandro D. Costales
Comptroller

Antonio C. Jayme
Consultant, Group Accounts Audit

Jaime B. Garcia	Nena D. Arenas	Junalina S. Tabor	Sharade E. Padilla	Antonio R. Delos Santos
Vice President, Procurement and Logistics	Vice President, Chief Governance Officer	Vice President, Chief Finance Officer	Assistant Vice President, Investor and Banking Relations	Vice President, Treasury

OTHER OFFICERS

Joanne Marie C. Gotianun	Ernesto P. Paculan	Melinda V. Reyes	Crisgundy D. Sabado	Joseph D. Susa	Randee M. Delos Santos
Special Projects Manager	Consultant, Logistics	Risk and Insurance Officer	Risk Advisory Manager	Internal Audit Manager	SCPC Accounting Manager

OUR CORPORATE SUSTAINABILITY AND RESPONSIBILITY

Forging Connections Towards a Sustainable Future

Our sustainability philosophy is deeply embedded in our corporate strategy. The creation of shared value is one of our primary drivers of growth and innovation, so we strive to create shared value for our stakeholders through projects that create long-term solutions.

CONTENTS

SUSTAINABLE DEVELOPMENT GOALS

We have aligned our integrated and inclusive CSR efforts on the global standards set by the United Nations Sustainable Development Goals (SDGs) to improve life in a sustainable way for our host communities.

1 NO POVERTY

A total of P4.3 B in royalty payments to the Department of Energy (DOE) for 2017; P2.5 B goes to the national government and P1.7 B to the local government units hosting SMPC operations

In Barangay Semirara, poverty incidence stands at 5.79% per 2015 data from the Municipal Social Welfare & Development against 26% of Antique Province per 2015 survey of the Philippine Statistics Authority

2 ZERO HUNGER

Since 2011, vegetable seedlings, garden soil and other planting tools are given to schools in Calaca, Batangas in view of DepEd's Gulayan sa Paaralan program, a school-based feeding program

Supports deep-sea fishing operations of SEMFA (Semirara Fishing Association) & COMREL (Community Relation) to ice plant operations and maintenance to boost community's livelihood and supply

3 GOOD HEALTH AND WELL-BEING

Maintains the Semirara Island Hospital, the only private DOH-licensed 15-bed infirmary in Semirara Island, complete with 31 medical personnel and ancilliary services

In Calaca, Batangas, 540 blood bags in total have been donated by employees for the entire year

4 QUALITY EDUCATION

Spent P7.2 million to support the vocational training of Semirara Training Center, Inc. (STCI) scholars. STCI is a non-stock, non-profit corporation in Semirara Island that aims to provide local residents with marketable trade skills

Total number of graduates to date is 1,092

5 GENDER EQUALITY

Women comprise 23% of our executive management in 2017 compared to 9% in 2016

6 CLEAN WATER AND SANITATION

Continuously conducts river and coastal clean-ups along the coastlines of Barangays Baclaran, San Rafael and Sampaga in Calaca, Batangas

7 AFFORDABLE AND CLEAN ENERGY

Continues to subsidize the cost of consumption by P2.50/kwh to provide host communities with an affordable and reliable source of electricity.

The Province of Batangas is 99% electrified. Part of the funds for electrification was funded under Energy Regulations 1-94.

Assisted in the installation of 72 solar-powered LED streetlights along the roads of Barangays Baclaran and Dacanlao in Calaca

8 DECENT WORK AND ECONOMIC GROWTH

Remains the single biggest employer in Semirara Island, with mine site workforce amounting to 18% of Semirara Island's population

Total workforce for the Semirara mine site, Calaca power plant and Makati office combined is at 4,207, demonstrating our commitment to high-value employment

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Installed an automated weather station (AWS) in Calaca and Semirara Island in partnership with Weather Philippines

Installed a training simulator in our Semirara mine site to allow our excavator and dump truck drivers to sharpen their skills before driving heavy equipment

SCPC's Unit 2 power plant is undergoing boiler refurbishing and electric precipitator (EP) capacity improvement to attain 99% collection efficency of hazardous air pollutants using static electricity

10 REDUCED INEQUALITIES

Boosted the Munipality of Caluya's status from a 4th class municipality in 2004 to a 1st class municipality in 200 – and maintained it to this day

11 SUSTAINABLE CITIES AND COMMUNITIES

Integrating environmental parameters into business operations by controlling solid waste and emissions

Conducting progressive rehabilitation and reforestation of mined out areas for sustainable land use

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

SMPC, SCPC and SLPGC received its upgraded ISO certifications, namely ISO 9001:2015 (Quality Management System), ISO 14001:2015 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health Safety Management System), proving the company's commitment to global standards on environment and social responsibility

13 CLIMATE ACTION

Protecting over 300 hectares of naturally grown mangroves and planting about 197 hectares of additional mangroves for carbon sequestration and disaster risk reduction

14 LIFE BELOW WATER

Over 122,000 surviving giant clams from induced spawning to improve marine biodiversity in and around Semirara Island through the Semirara Marine Hatchery Laboratory (SMHL)

Initiated the implementation of Marine Protected Areas (MPAs) within Barangays Semirara, Alegria and Tinogboc to gradually increase fish volume

Constructed 30 payaos or Fish Aggregating Devices (FADs) to be installed near and around the MPAs to provide fishermen with a greater fish catch

15 LIFE ON LAND

Planted 236,500 trees, shrubs and plants all over Semirara island in 2017, bringing the total to more than 1.7 million to date

13.6% of the total island area has been reforested by SMPC

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Full commitment and adherence to the Company Code of Conduct and Business Ethics, which was published as a handbook in 2017

Conducted public consultations and provided relocation areas, including housing and resource support, to land occupants affected by mining operations

17 PARTNERSHIPS FOR THE GOALS

In partnership with LGUs, the Department of Energy (DOE) and Department of Environment and Natural Resources (DENR), we leverage our vast resources to create lasting growth for our host communities

PEOPLE

We believe in putting prime importance on the people that empower our company inside and out.

We strive to encourage the personal and professional growth of our employees by ensuring that the work environment allows them to thrive and stay motivated.

In the same vein, we work to give the residents of our host communities the tools they need to improve their quality of life: high-value education, marketable trade skills through vocational training, gainful employment, and a safe and healthy environment.

Empowering Communities

Our success is deeply intertwined with the well-being and prosperity of our host communities. We create inclusive growth by providing enabling support programs and initiatives aimed at improving quality of life, ultimately leading to independent and self-sufficient communities.

MINING ROYALTIES

In 2017, SMPC turned over P4.3 billion in royalty payments over to the national government, which is nearly 60% higher than the previous year's P2.65 billion paid. Of this amount, approximately P1.7 billion went to the local government units where SMPC operates: P341 million went to the province of Antique, P767.4 million to the Municipality of Caluya, and P596.9 million to Barangay Semirara.

Since the DMCI group acquired SMPC in 1997, accumulated royalty payments to the national government have reached P17.7 billion.

The surge in SMPC's government remittances was driven by its increased production and expanding operations.

"Our continued partnership with DOE allows us to create and deliver shared value to the government and our host communities. With the increased royalty payments, they can undertake more programs and projects for our countrymen," said SMPC President and COO Victor A. Consunji.

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. Since 1999, we have established various infrastructure – including power distribution lines, among others - for rural electrification, in cooperation with the Antique Electric Cooperative (ANTECO).

Since 1999, we have provided the cheapest electricity rates nationwide at P5.60 per kilowatt hour, which is at least P3.00 lower than the country's highest electricity rate. In 2017 alone, we shared 20.9 million kilowatt hours of electricity to the Semirara community.

The gradual rise in rural electrification has affected education rates in our host community, not only by improving the quality of schools island-wide resulting from their use of electricity-dependent equipment but also by increasing time allocation for studying remotely or at home.

LED STREETLIGHTS IN CALACA

In Calaca, Batangas, the implementation of the solar streetlights project started in 2015 with the installation of 38 units in Barangay Baclaran, Balayan which was funded under Energy Regulations 1-94. In 2016, 34 units were installed in Barangay Dacanlao, which was also funded under ER 1-94. Currently, the installation of 36 units of solar streetlights is pending for approval with the DOE for Barangay San Rafael, Calaca, another host barangay.

Once approved, all three host barangays will have benefitted from the solar streetlights project. These projects generate savings for the recipient-barangays in the amount of Php60,000/year per barangay.

EDUCATION

As the government's K-12 program aims to equip the Filipino youth with the appropriate skills, creativity and intelligence, so too does SMPC, in partnership with the Department of Education (DOE), seek to provide in the necessary infrastructure that is conducive to learning and development. In 2017, six (6) public schools around Semirara Island received more than a 144 new classrooms, which benefited thousands of students.

The Divine Word School of Semirara Island, Inc. (DWSSII), the first and only private school in Semirara island, has had around 10,000 enrollees ever since its establishment in 2003 and up to the implementation of the K-12 program. Dependents of SMPC mine site employees receive free primary and secondary education at the school. About 5% of the student population are scholars from indigent families in the island.

To date, DWSSII has...

626* child daycare graduates

578* grade school graduates

608* high school graduates

*consolidated 2005-2017 figures

Through the Semirara Training Center Inc. (STCI), SMPC implements a 24-month on-the-job-training (OJT) program that teaches high-value skills to Semirara Island residents. The training leads to employment in our mobile department as a Level 2 automotive employee.

We are proud to share that most of SMPC's skilled technicians and junior supervisors are graduates of this program.

GULAYAN SA PAARALAN

Since 2011, Sem-Calaca Power Corporation (SCPC) and Southwest Luzon Power Corporation (SLPGC) supports the Department of Education's (DepEd) School-Based Feeding Program (SBFP) for SY 2016-2017 through the Gulayan sa Paaralan Program (GPP) implemented in Dacanlao Gregorio Agoncillo National High School and Gregorio Paradero Elementary School.

SCPC and SLPGC provide the schools with vegetable seedlings and vermiworms which are used in vermicomposting, a method which uses organic waste as food for fertilizer-producing vermiworms. Used steel drums are also provided to the schools which are to be used receptacles for the vegetables.

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 improve children's health, nutritional values and behavior.

EDUCATION SUPPORT FOR CALACA SCHOOLS

SCPC and SLPGC has funded and supported the construction of 59 classrooms in 12 schools in the Municipalities of Calaca and Balayan. A multi-purpose gymnasium was also constructed for the St. Raphael Archangel Parochial School.

We sponsored the implementation of an automated ID system with SMS feature for Dacanlao Agoncillo National High School, wherein upon entrance or exit of a student, his or her parents will be notified through SMS message. Important announcements regarding postponement of classes and other reminders may also be sent through the system.

In addition to this, we have donated equipment and facilities to assist education programs in various public and private schools in the province. Books, computers, music equipment and science and speech laboratories were all donated last year to boost the capacities of both teachers and students.

SKILLS TRAINING

Skill training is also one of integral to the company's educational efforts for its host community residents. When residents are skilled and ready to take on jobs or start their own businesses, it pushes the community forward to become a hub for economic growth.

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.

Of the more than 3,000+ people who work in SMPC's mining operations, 561 persons are skilled workers locally sourced from STCI.

Enrollment is open to residents of Semirara Island and residents of nearby islands such as Caluya and Sibay. Tuition and other school fees for technical materials are waived. Scholars from Mindanao are also provided with accommodation and meals for their entire stay.

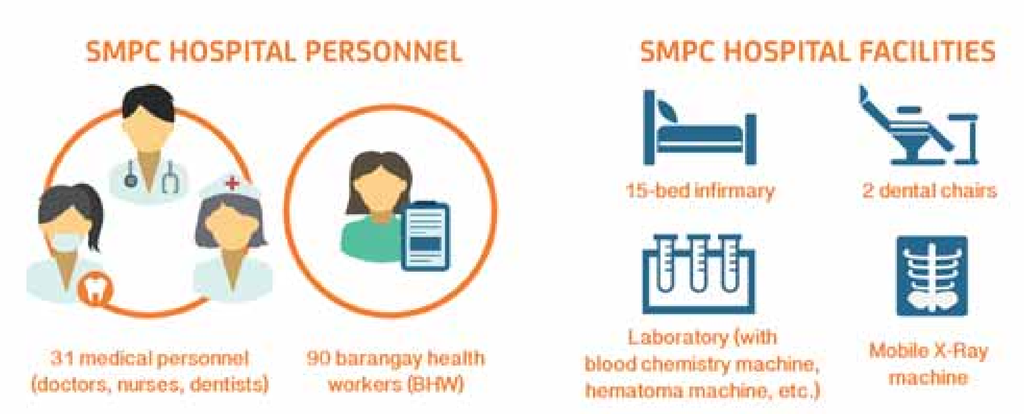
CALACA SKILLS TRAINING

In Calaca, Batangas, our Technical Skills Training Program started in 2012. Our partners are DMCI Technical Training Center and TESDA Regional Training Center 4A. The program has already produced 921 graduates, six of which were already employed as regular employees of SCPC and SLPGC; and sixty percent of which were able to find employment in the Plant's sub-contractors.

The vocational training program teaches high-value skills to students such as masonry, scaffolding erection, rigging, electrical installation and maintenance, mechatronics II, mechatronics III, machining, reinforcing steel works, pipefitting, consumer electronics, and shielded metal arc welding. Majority of these trainings are TESDA-accredited.

HEALTH AND WELFARE

The Semirara Hospital, 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. Last year, it provided medical consultation services to over 21,000 patients.



Calaca Medical Missions

Medical Mission	March 11 (Calantas)	467
Medical Mission	April 22 (Dacanlao)	444
Medical Mission	May 13 (Baclaran)	564
Medical Mission	September 9 (San Rafael)	353
Medical Mission	November 18	513
Joint Medical Mission	June 10 (San Piro)	165
Joint Medical Mission	July 24 (Taludtod)	200

CALACA BLOOD DRIVES

SCPC and SLPGC have conducted five blood donations for 2017, donating a total of 540 bags.

SCPC and SLPGC 2017 Blood Donations

Total: 540 bags
Feb 15: 68 bags
June 7: 177 bags
Oct 13: 122 bags
Oct 30: 64 bags
Nov 13: 104 bags

These blood donations were conducted inside the Calaca Power Complex as the donors were SCPC employees and employees of plant subcontractors. These donations were done in partnership with the Batangas Medical Center in Batangas City.

A few years ago, there was a shortage of blood stock in the Province of Batangas due to a dengue outbreak. We actively sought out blood donors within the workforce, and up this day, this activity is still incorporated into the Employee Engagement Program. To incentivize employees into donating, every blood donor receives an equivalent of eight (8) hours credit. Since each SCPC and SLPGC employee is required to render at least 24 hours of volunteer work, donating blood covers 1/3 of the required hours.

Calaca Free Clinics

Projects	Status (On-Going/Completed/ Target Completion Date)	Evident Benefit to Barangay
FREE CLINIC w/feeding	January 27 (Baclaran)	36 children
FREE CLINIC w/feeding	February 24 (Quizumbing)	64 children
FREE CLINIC w/feeding	March 24 (Dacanlao)	31 children
FREE CLINIC w/feeding	April 24 (Sampaga)	26 children
FREE CLINIC w/feeding	May 19 (San Rafael)	26 children
FREE CLINIC w/feeding	July 10 (postponed)	
FREE CLINIC w/feeding	August 7	26 children

TOWARDS A PROACTIVE SAFETY CULTURE

Our Company is fully committed to ensuring the safety and health of our employees, contractors, and stakeholders. We believe safety is integral to achieving overall operational excellence.

We continue to build on the momentum and positive aspects of our previous year's safety performance through the sustained implementation of safety strategies that minimize potential risks, ensure business continuity, protect our reputation, and establishment a more resilient safety culture.

In 2017, both our mining and power businesses were certified to the OHSAS 18001:2007 Occupational Health and Safety Management System, further strengthening our commitment to the safety and well-being of our people and stakeholders.

Mining Safety

2017 has been a zero-fatality year.

We have made significant progress last year on our journey towards zero-harm and achieving a resilient safety culture for our mining operations. This is attributed to our efforts in inculcating a culture of awareness and prudence through embedding safety programs and initiatives in all our activities, at all levels.

Identifying, analyzing and mitigating risks remain primary areas of focus. Our enhanced safety inspections, proactive accident reporting and handling, an intensified work permit system, and extensive trainings and emergency preparedness and response (EPR) have contributed to the improvement in our mining safety performance.

FATALITY FOR 2017
0

WORK PERMITS SERVED
1,238

INCREASE IN DRILLS CONDUCTED AS OF DEC 2017
300%

ATTENDED SAFETY TRAININGS *CORE & NON-CORE
4,616

SAFETY AWARENESS TRAININGS *CORE & NON-CORE
31

SAFETY PERFORMANCE

Mining/Core Operation
Year 2015, 2016 & 2017

Parameters	Year 2015	Year 2016	Year 2017
No. of Non-Lost Time Accidents, Non-Fatal	59	55	39
No. of Lost Time Accidents, Non-Fatal	0	4	0
No. of Lost Time Accidents, Fatal	9	1	0
Lost Work Days	54,000	6,020	0
Total Man-hours Worked	9,010,085	9,929,078	10,393,665
Lost Time Injury Rate or Frequency Rate	1	0.5	0
Severity Rate	5993.28	606.3	0

Non-Mining/Non-Core Operation
Year 2017

Parameters	Non.Core	Contractors
No. of Non-Lost Time Accidents, Non-Fatal	10	12
No. of Lost Time Accidents, Non-Fatal	1	2
No. of Lost Time Accidents, Fatal	0	0
Lost Work Days	30	8
Total Man-hours Worked	1,747,738	2,984,340
Lost Time Injury Rate or Frequency Rate	0.66	0.95
Severity Rate	17.24	2.84

Combined Operation	Man-hours
Core Operations	10,393,665
Non-Core Operaions	1,747,738
Contractors	2,984,340
TOTAL	15,125,743

Total Man-hours Worked
(Core + Non-core + Contractors)
15,125,743

The management of our contractors and employees ensures compliance to all relevant safety controls, guidelines, and procedures required for a safe working environment. Overall, our total man-hours worked is 15,125,743.

For 2018, we plan on continuing to enhance our current safety programs by investing in new mining technologies and trainings, improving our hazard identification and risk reduction strategies, and implementing better emergency response protocols.

Power Safety

A strong commitment to zero accident fuels our desire to ensure the safety of the power plant and its workforce. A proactive culture and a robust incident notification and investigation system are key elements for safe and sustainable operations.

Our power segment had no fatality recorded during the year. However, our total lost time accidents increased from two (2) incidents to three (3) and total reportable non-disabling injuries increased from 26 incidents in 2016 to 45 incidents in 2017. The increase in incident reports is due to improved data gathering and incident investigation.

The continuous monitoring of leading and lagging indicators has improved understanding of current issues that may lead to accidents and its recurrence. Emergency preparedness is also a key initiative to mitigate potential harm towards people or equipment caused by unforeseen events.

Our Power Safety Performance

	2016	2017
No. of Non-Lost Time Accidents, Non-Fatal	26*	45*
No. of Lost Time Accidents, Non-Fatal	2*	3*
No. of Lost Time Accidents, Fatal	1*	0
Lost Work Days	0	142*
Total Man-hours Worked	843,880	2,455,100*
Lost Time Injury Rate or Frequency Rate	0	1.22*
Severity Rate	0	57.83*

**including contractor incidents*

Contractor Safety

Our total workforce had zero fatality in 2017. Contractor man-hours comprise up to 70% of our total man-hours, so a robust contractor management program is imperative to minimize our exposure to occupational hazards and risks.

Several key initiatives were launched in 2017 for contractor management:

- Safety awareness and training
- Screening of contractor safety officers through pre-deployment interviews
- Weekly safety meetings
- Weekly safety walk-through
- Contractor performance monitoring
- Risk assessment trainings

EMPLOYMENT

According to the latest survey of the barangays in the island, the total population is listed at 18,000. Our commitment to high-value employment remains steadfast as SMPC remains the single biggest employer on the island.

Our total operating workforce, consolidating employee data from our Semirara mine site, Makati site and Calaca Power Units, comes to a total of 4,207 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 2017.

In August 2017, SMPC reported that it was spending around P100 million to build 200 houses for its new cadet engineers and foremen based in Semirara Island, Antique Province.

To date, SMPC has constructed nearly 1,500 housing units for its employees. Each house has a total floor area of 43 square meters and over 250 square meters of available land for backyard vegetable gardening.

List of Benefits for Full-time Employees

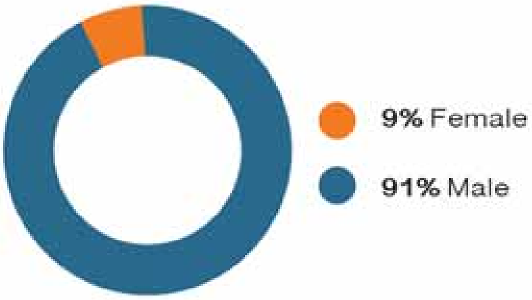
Government Mandated Benefits	Additional Company Benefits	CBA
SSS Contribution	Life and Accident insurance	In-house Health Care (R&F)
Pag-Ibig (HDMF) Contribution	Health Care Insurance	I sack milled rice every 2 months (R&F)
13th Month Pay	15 days Sick Leave after 1 year of continuous employment	Service Award (R&F) depends on years of service (5, 10, 15 and 20 years
Maternity Leave (60 days for normal delivery and 78 days for caesarian delivery)	15 days Vacation Leave after 1 year of continuous employment	Bereavement Financial Assistance
7 days Paternity Leave	4 days Bereavement Leave for death of immediate family member	4 days Emergency Leave
7 days Solo Parent Leave	Free primary medical services - including basic dental service to minesite workers and their dependents	Medicine Allowance upon anniversary (R&F)
Magna Carta for Women (maximum of 2 months)	Medicine Allowance	Relocation Allowance (upon retirement)
10 days Leave for Anti Violence Against Women and Children	Free Housing - mine site employees	
Retirement Benefit (RA 7641)	Free Power allocation R&F: 300mw/month Jr. Staff: 600mw/month Sr. Staff: 800mw/month) and water utilities for minesite 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	

Mine site employees of the company enjoy free housing and support for water and power utilities, free primary and secondary education for their dependents at the Divine Word School of Semirara Island, Inc. (DWSSII) and transportation to and from their place of work.

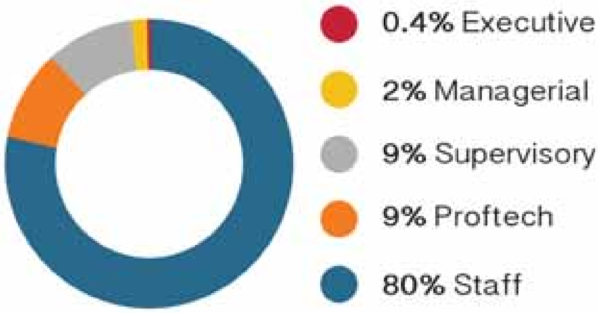
Meanwhile the SCPC and SLPGC Power Complex in Calaca, Batangas is home to 430 regular employees, around 1,000 of which are contractual employees hired by sub-contractors during the annual plant overhauling. Most of these contractuals are employed three months on the average, and majority reside in the impact barangays.

TOTAL OPERATING WORKFORCE: 4,207

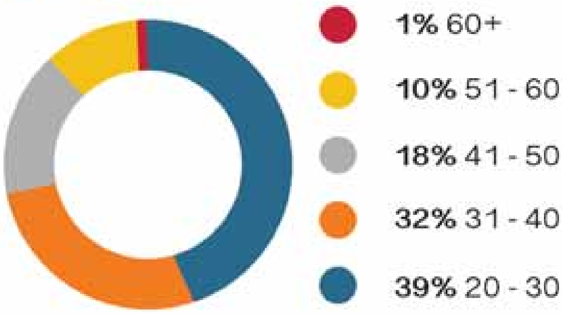
by Gender



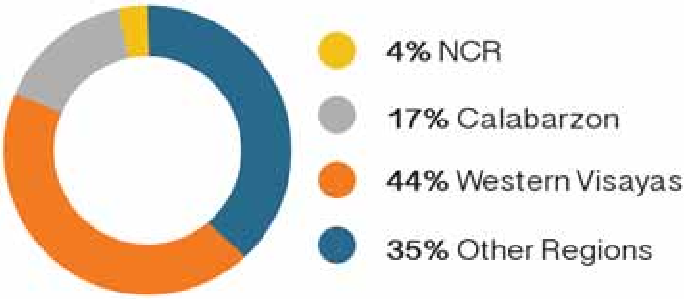
by Level



by Age



by Region



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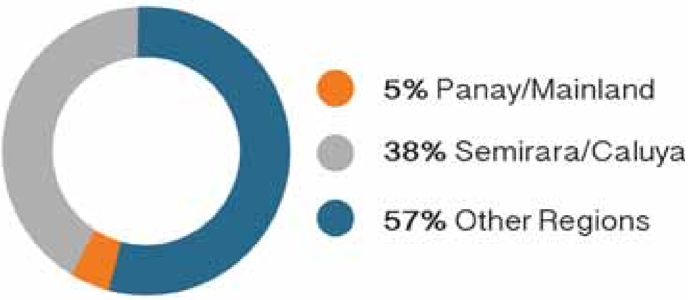
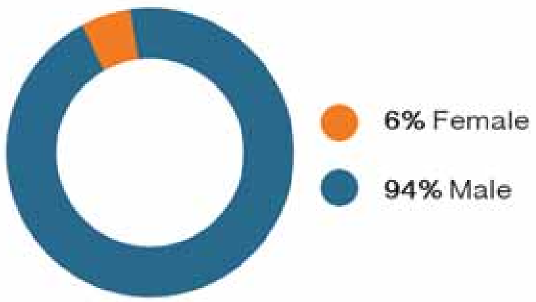


TOTAL MINING WORKFORCE: 3,196

by Gender



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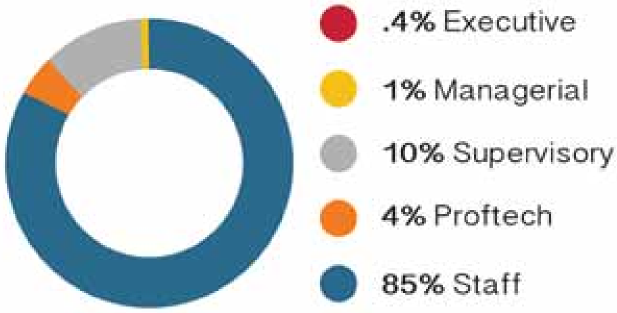
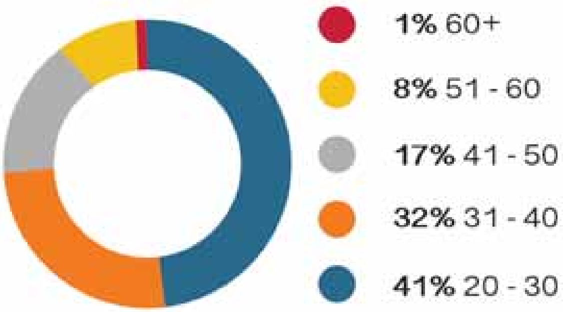
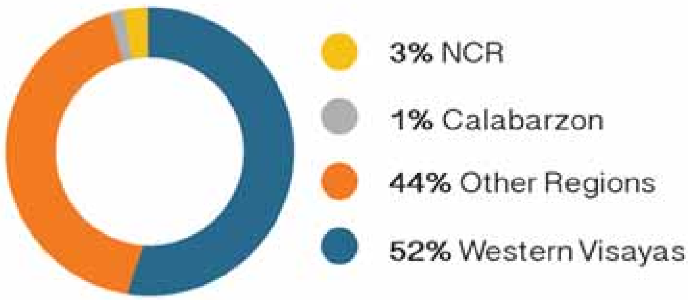


by Age



by Region



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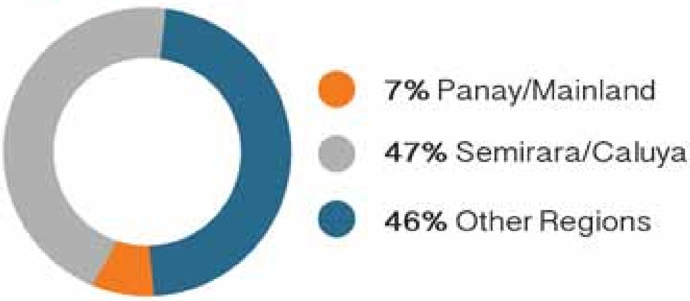
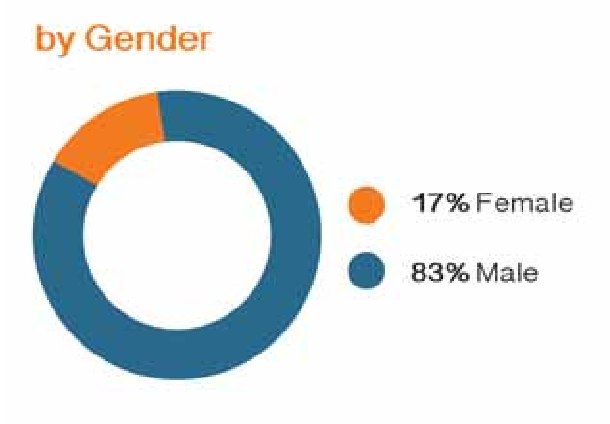
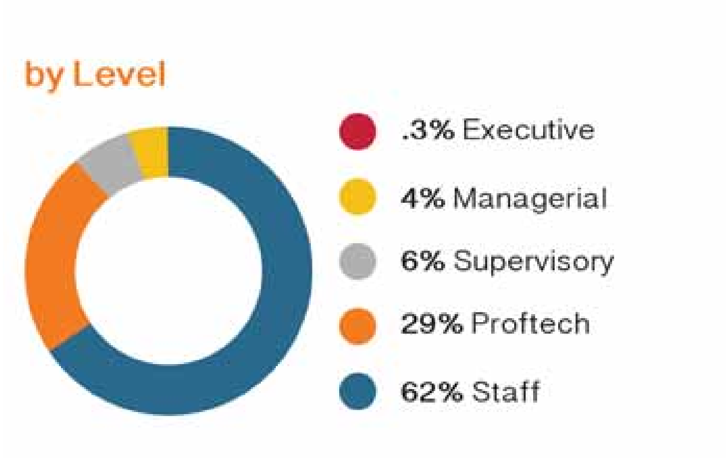
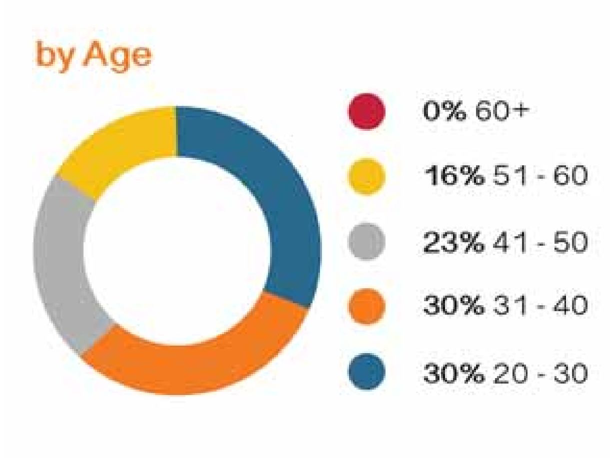
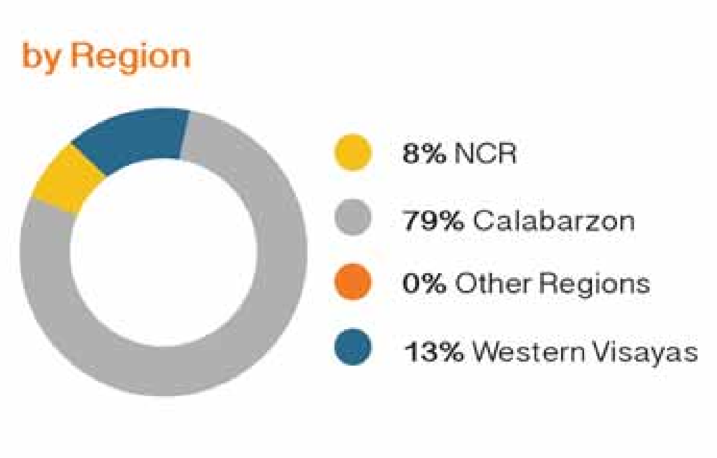


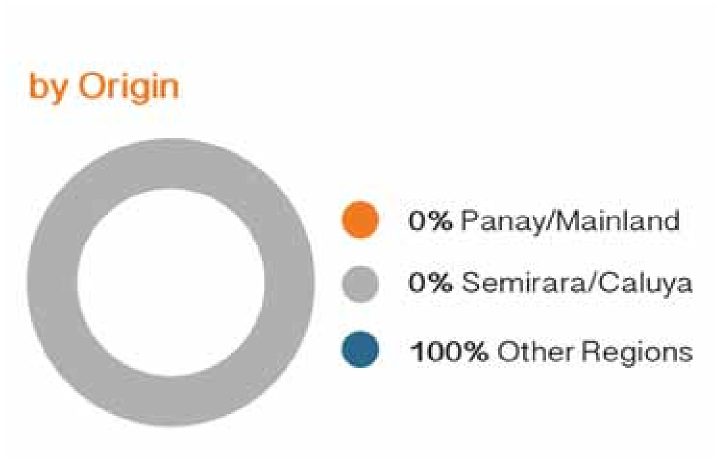
TOTAL POWER WORKFORCE: 858











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. In 2017, a total of 92,274 training hours were recorded, with employees trained from the mine site, corporate office and the Calaca power plant.

2017 MAKATI HR MILESTONES:

- **Compliance to DOLE General Labor Standards**
- **Installation of the Succession Management Planning Program**
- **Implementation of the Employee Self Service Portal**
- **Implementation of the Executive Coaching Program**
- **Institutionalization of the Management Development Program**
- **Moving towards a competency-based HR management system**
- **Strengthening Employee Engagement Programs**
- **(team building, family day, volunteerism)**
- **Began a job evaluation exercise in Calaca**
- **Intensified employee development programs per level**
- **Participated in Market Compensation Study to determine market position of the company across the industry**

SMPC CONSOLIDATED WORKFORCE 2017 TRAINING HOURS PER CATEGORY AND PER WORKFORCE LEVEL

Training Category	Executives	Managers	Supervisors	Proftech	Staff	Total
Professional & Technical Development	14	84	2,254	776	4,977	8,105
Leadership	64	37	416	200	144	861
Quality Management System	8	24	496	492	2,789	3,809
Environment, Health & Saftey	181	166	2,520	2,801	22,449	28,117
Behavioral	0	44	61	612	13,784	14,952
No. of Training Hours	267	355	6,298	4,781	44,143	55,844
Training Hours per Category %	0%	1%	11%	9%	79%	100%
Number of Mining Workforce	13	34	319	150	2,833	3,349
Average Training Hours per Level	21	10	20	32	16	17
Total 2017 Training Spend (Capitalized and Expensed)						3,625,912.91 P12.91
Average Training Cost per Mining Workforce						P1,083

CALACA POWER COMPLEX WORKFORCE 2017 TRAINING HOURS PER CATEGORY PER WORKFORCE LEVEL

Training Category	Executives	Managers	Supervisors	Staff	Total
Professional & Technical Development	40	1,630	2,253	7,183	11,106
Leadership	248	1,075	1,791	349	3,463
Quality Management System	264	1,372	1,443	5,400	8,479
Environment, Health & Saftey	101	1,026	2,605	7,527	11,259
Behavioral	3	101	217	1,802	2,123
No. of Training Hours	656	5,204	8,309	22,261	36,430
Training Hours per Category %	2%	14%	23%	61%	100%
Number of Power Workforce	3	31	49	775	858
Average Training Hours per Level	219	168	170	29	42
Total 2017 Training Spend (Capitalized and Expensed)					P7,386,866.40
Average Training Cost per Power Workforce					P8,609

COACHING HOURS

	2016		2017		Difference		% of Increase	
	Coachees	Coaching Hours	Coachees	Coaching Hours	Coachees	Coaching Hours	Coachees	Coaching Hours
Corporate Office	14	871	116	847.52	60	(23.48)	107%	-3%
Minesite								
Power	8	0	8	93	0	93.00	0%	100%
TOTAL	64	871	124	940.52	60	69.52	94%	8%
MINING	56	871	116	847.52	60	-23.48	107%	-3%
POWER	8	0	8	93	0	93.00	0%	100%
TOTAL	64	871	124	940.52	60	69.52	94%	8%

DEVELOPING AN EMPOWERED WORKFORCE

Our people are key players in attaining our objectives. In engaging our workforce, we build relationships based on trust, integrity, two-way commitment and communication. We believe this approach increases the chances of business success, contributing to organizational and individual performance, productivity and well-being.

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 their optimum potential to drive business results. 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 & opportunities for growth & development in our organization, as well as competitive rewards and benefits that are clearly 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

Capacity building is essential to our organization. We invest in our people development, mindful that they are the drivers of our growth and business performance.

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.

The HR Department has implemented sound HR practices as exhibited by the Talent Management Program launched the previous year. 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. These meetings serve as an avenue for all departments to align and seek support for ongoing programs and initiatives. A Consultant also serves as an Executive Coach for our leaders at the head 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.

Mine Site

We encourage our employees who are residents of Semirara Island to be active participants in local government activities. The company sponsored Comelec registration day/s for employees to register in time for the Sanggunian Kabataan (SK) and local barangay elections, with the hope that all new employees should be registered within Barangays Semirara, Alegria, and Tinogboc.

Family Day Program for MTSO Personnel (April – May 2017) On April-May 2017, a Family Day Program for MTSO personnel, an event which recognizes the importance of the family and the community, was implemented for our mine site. The families of our MTSO employees were invited to have a day tour in the mine site in order for our employees' loved ones to gain a deeper appreciation of their family members' working environment.

Another fun activity for our mine site employees and the community was the swimming try-outs which was open to all Semirara residents. Over 100 swimmers participated in the activity.

The Semirara Multi-Purpose Cooperative (SEMCO), together with about 150 SMPC employee volunteers, conducted their annual tree-planting activities at the Suha area this year. Around 2,000 mangroves were planted in the area.

In view of the Department of Education (DepEd)'s Department Order No. 40 requiring work immersion for Senior High School students, the mine site implemented a K-12 work immersion program for STEM 12 students to help them gain insights into possible career paths. In view of this directive, various departments in the Semirara Island mine site accommodate 42 Science, Technology, Engineering and Mathematics (STEM) students from the Divine Word School of Semirara Island, Inc. These departments including the Analytical Lab, Safety Department, Power Plant, Hospital, Water Treatment Plant and Aviation.

Our mine site held five (5) job fairs in total during the year in various locations around Western Visayas, including Mindoro, Iloilo and San Jose in Antique Province. These job fairs garnered more than 2,000 participants in total, with more than 150 persons eventually making the cut and entering the company as drivers, electricians, mechanics, operators, and office staff.

Calaca

SCPC and SLPGC joined in several medical missions throughout the year held in selected host or impact barangays. The employee-volunteers assisted the volunteer doctors from Batangas Medical Center in performing medical procedures ranging from tooth extraction, optical examination, and circumcision. The doctors also gave prescription medicines and eyeglasses for free to patients.

Employees also conducted several activities with the end goal of environmental protection and conservation. Tree planting activities in cooperation with SCPC and SLPGC's host barangays in Dacanlao and Baclaran aimed to improve the quality of natural environment. Employees also participated in coastal clean-up activities by collecting trash and organic waste along rivers, beaches, and waterways.

One of the primary engagement initiatives this year in SCPC and SLPGC was the Health and Wellness Program which included various fitness activities for employees to participate in such as hiking, biking and zumba. This particular wellness program was designed to help employees make smart and healthy choices that can reduce health care costs, increase vitality, diminish absenteeism, and boost productivity.

Employees also participated this year in the annual Calacatchara Festival in Calaca, an annual fiesta celebrating atchara, Calaca's trademark delicacy native to the town. For the fiesta, employees showcased a dance performance in collaboration with students from the Dacanlao Agoncillo National High school.

In a bid to promote a culture of giving and kindness among employees towards the less fortunate members of host communities, our employees donated toys, clothes and other items during the Christmas season. Other volunteers joined the Share-a-gift, Share-a-Joy Activity conducted in selected host barangays: Baclaran in Balayan and Quisumbing, Calantas, Sampaga, and the Aeta Community in Calaca. About 50 children in each of the 5 barangays received the gifts from our employees.

PLANET

We believe that we are stewards not just of our business but of the planet.

Our responsibility to our host communities' environment is embedded in our corporate strategies. The nature of our business requires us to make judicious use of natural resources to minimize our environmental impact.

In order to address environmental challenges, we collaborate with the government and all our stakeholders to protect and conserve our natural resources.

Enriching the Environment

We continue to cultivate and preserve the natural terrain, waters and air in our host communities as part of our commitment to responsible environmental stewardship.

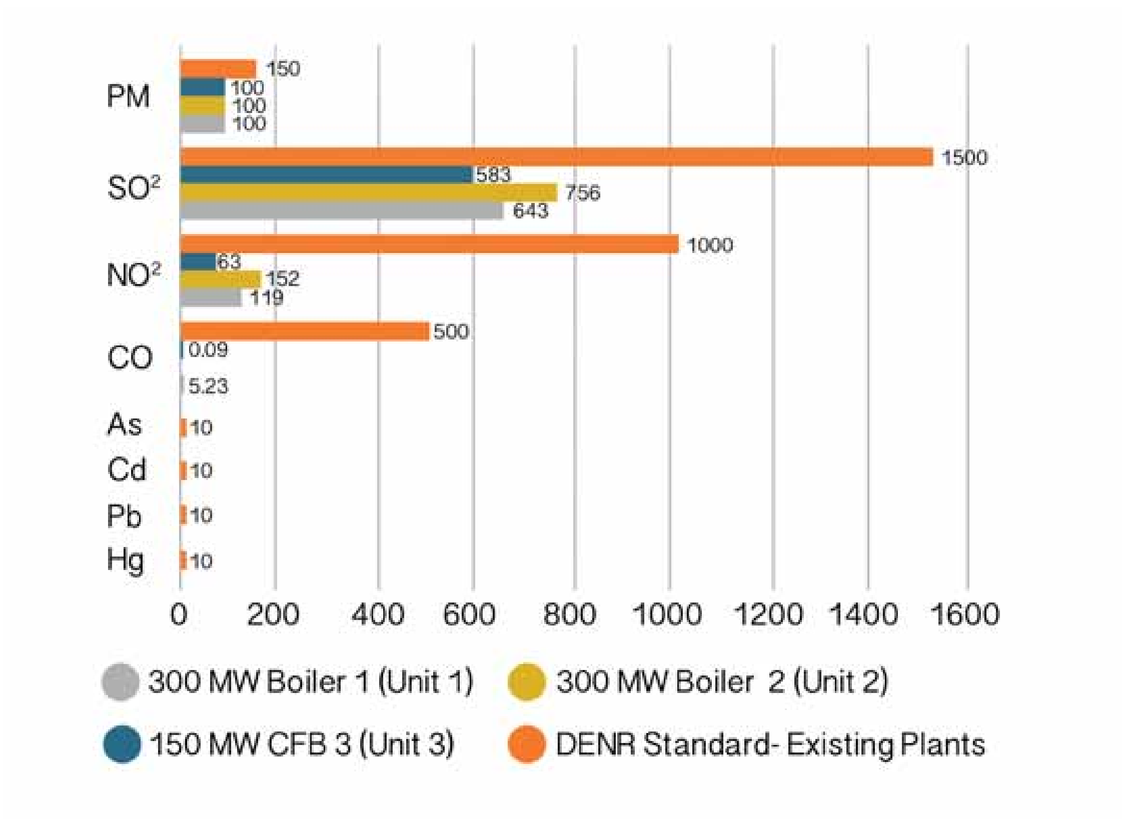
ENVIRONMENTAL MONITORING

Air Monitoring - Mine Site

Mine Site Power Plant	Mine Site Operation
• Installation of Continous Emisison Monitoring Sytem (CEMS) of 15 MW Power Plant • Installation of closed-circuit television camera of 15 MW Plant • Monitoring equipment for ambient air quality for PM 10. PM 2.5 and TSP • Monitoring equipment for flue gas quality of diesel plants and 2x7.5 MW Plant • Installation of Multi-cyclone Dust Separator • Installation of Dust Precipitator • Installation of Limestone Desulfurization • Control of Flue Gas Temperature • Control of combustion	• Water spraying (coal stockpile, coal conveyors, haul roads) • Compacting stockpile

Air Monitoring - Power

SCPC	SLPGC
• 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 • Limitation of coal stockpile to 21 days for local coal • 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 • Stock height of 120 meters for Unit 1 and 150 meters for Unit 2 • Electrostatic precipitator	• 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 • Fist –in, first-out (FIFO) coal utilization • Enclosed coarse crusher house and fine crusher house • Use of low furnace temperature



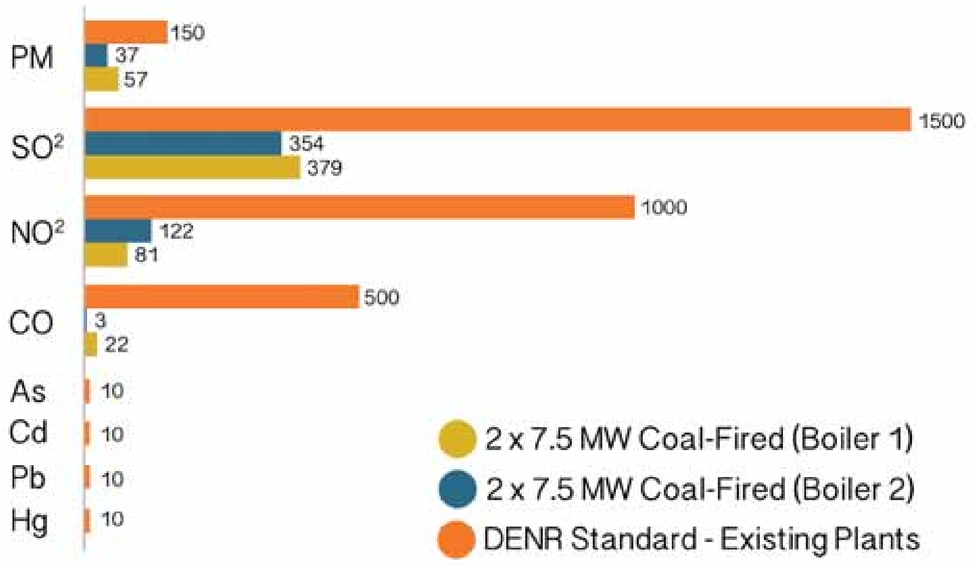
POWER PLANT (SOURCE EMISSION)

Conducted by OMLI on May 22-26, 2017

	Hg	Pb	Cd	As	CO	NO^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	354	37	0
DENR Standard - Existing Plants	10	10	10	10	500	1000	1500	150	10
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	

*Note: * - Parameters were not measured as the chimney of new power plant is not perpendicular (does not pass the Isokinetic sampling as requirements of DENR and USEPA Sampling Method)*

*** - Parameters not required for diesel engine genset*



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	12	5	14	15	16	16	17	7	13	18	19	17
SO2	700	85	36	87	111	186	200	111	47	114	122	137	94
NO	500	163	92	258	213	120	188	211	80	181	200	187	229
CO	500	1	2	17	11	18	18	9	5	24	15	8	12

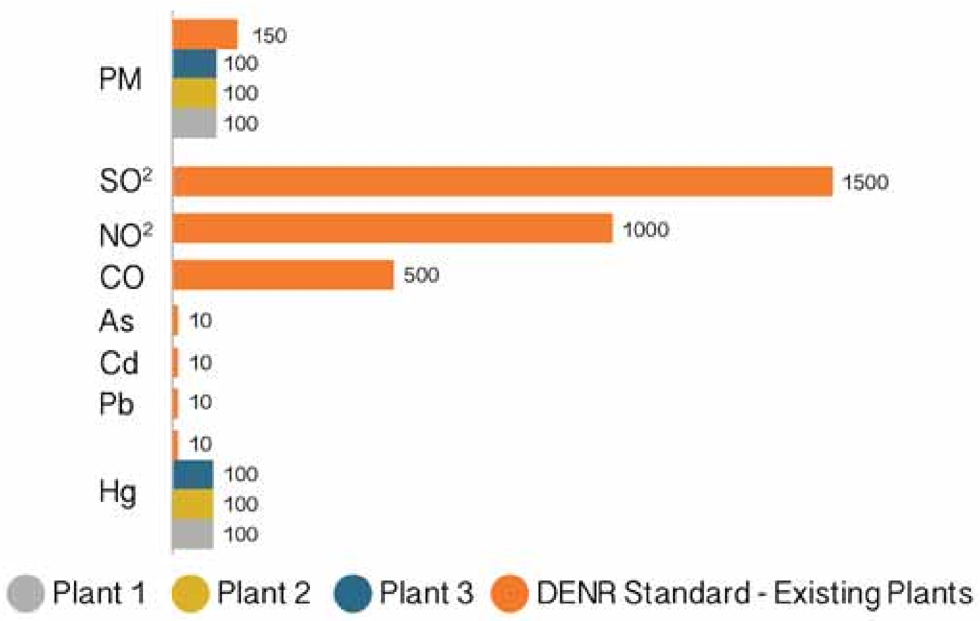
Ambient Air Monitoring

	TSP						**SO^2**						**NO^2**					
	Q1	**Q2**	**Q3**	**OCT**	**NOV**	**DEC**	**Q1**	**Q2**	**Q3**	**OCT**	**NOV**	**DEC**	**Q1**	**Q2**	**Q3**	**OCT**	**NOV**	**DEC**
DMCI	24.13	22.8	11.11	12.68	8.29	12.37	18.33	<18.41	<19.27	<19.45	<19.45	<18.79	5.59	<5.11	8.65	13.76	12.04	<5.16
MOLAVE PHASE 1	5.34	18.82	9.53	13.81	9.68	13.91	18.18	<18.58	<18.88	<19.14	<19.24	<19.23	7.39	<5.11	8.59	6.88	10.32	<5.16
STCI	31.82	33.2	15.15	16.59	11.05	13.71	18.04	<18.32	<19.02	<19.39	<19.14	<18.77	6.42	<5.11	<5.16	10.32	6.88	<5.16
SITIO VILLARESIS	66.69	42.8	15.23	9.71	12.28	41.68	18.37	<18.47	<19.30	<19.03	<18.79	<19.08	6.54	<5.11	8.65	6.88	6.88	<5.16
SITIO SUJA	47.08	39.29	8.24	8.20	21.74	37.06	18.37	<18.66	<19.03	<18.68	<18.61	<18.76	4.67	5.11	15.48	<5.11	12.04	<5.16
STANDARD	300.00	300.00	300.00	300.00	300.00	300.00	340.00	340.00	340.00	340.00	340.00	340.00	260.00	260.00	260.00	260.00	260.00	260.00

PM^{10}				$PM^{2.5}$				As				Cd				Pb			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
*	55	25	**	*	0.41	0.46	**	***	***	***	<0.01	***	***	***	<0.02	***	***	***	<0.33
*	51	<13	**	*	0.25	0.17	**	***	***	***	<0.01	***	***	***	<0.02	***	***	***	<0.33
*	65.26	32	**	*	0.17	0.29	**	***	***	***	<0.01	***	***	***	<0.02	***	***	***	<0.33
*	84.85	<13	**	*	0.29	1.33	**	***	***	***	<0.01	***	***	***	<0.02	***	***	***	<0.34
*	49.49	<13	**	*	0.37	0.17	**	***	***	***	<0.01	***	***	***	<0.02	***	***	***	<0.33
200.00	200.00	200.00	200.00	50.00	50.00	50.00	50.00	20.00	20.00	20.00	20.00	10.00	10.00	10.00	10.00	20.00	20.00	20.00	20.00

Power

	Hg	Pb	Cd	As	CO	NO^2	SO^2	PM	Cd
Plant 1	100							100	
Plant 2	100							100	
Plant 3	100							100	
DENR Standard - Existing Plants	10	10	10	10	500	1,000	1,500	150	
DENR Standard - Existing Plants					500	500	700	150	



PROGRESSIVE REHABILITATION AND MANGROVE REFORESTATION

Panian Pit Rehabilitation

	2015 Rehab Plan		Actual Accomplishment		
Location	**Total Area (has)**	**# of hills to plant**	**Total Area (has)**	**# of hills planted**	**Species**
Panian Beach Slope	30	75,000	31.56	78,900	Beach Agoho
Tunago Point	5	12,500	0.62	2,490	Beach Agoho
Panian Beach Slope	10 (intercrop)	100,000	-	-	
Tunago Point	2 (intercrop)	20,000	-	607	Noni & Bayag Usa
Subtotal	35	207,500	32.18	81,997	
Panian 1	Not included in plan		15.64	38,874	Beach Agoho & Buri
Panian 2	Not included in plan		12.00	30,011	Beach Agoho
Panian 3	Not included in plan		24.76	61,900	Beach Agoho
Subtotal			52.40	130,785	
TOTAL	35	207,500	84.58	212,782	

Panian is one of the open-pit mines in Semirara Island, apart from the Unong Mine which ceased operations in 2000 and is now fully vegetated with a thriving aquatic population in its restored lake. Prior to mining operations, Panian area was characterized by rolling hills of open grasslands and numerous gullies with shrubs and trees.

The Panian pit was closed in October 2016 following the end of its mine life in October 2016, which was certified by the Department of Energy after its visit to Semirara Island in September of the same year. Long before it reached peak production phase in 2014, however, rehabilitation of the rim started in earnest as early as 2011.

SMPC now targets the completion of Panian's rehabilitation as early as 2020 to restore the topography and ecological balance of the open-pit mine. In 2017, almost 210,000 trees covering 84.58 hectares were planted. To date, the total land area covered is at 328.22 hectares with a total of 830,118 trees planted, including the beach aguho, a fast-growing and nitrogen-fixing species of the she-oak that prepares the areas for the final phases of rehabilitation.

Inland Reforestation and Vegetation Accomplishment

	Number of Species	Total Survived Species as of DEC 31, 2016	Planted				Total Inventory Planted Q4 2017	Total Survived Species as of 2017
			Q1 2017	Q2 2017	Q3 2017	Q4 2017		
Native Indigenous Species								
Beach Forest								
Fruit Bearing Trees	5	11,480					0	10,096
Flowering	12	1,276,036			215,013	20,461	235,474	1,378,679
Upland Forest							0	
Fruit Bearing Trees	11	3,818			174		174	7,925
Flowering	23	24,759			607		607	251,821
Introducted Tree Species							0	
Flowering	8	53,212					0	46,615
							0	
Agro-Forestry Tree Species	11	47,077					0	41,773
TOTAL	70	1,640,382			215,794		236,255	1,736,909

SMPC's rehabilitation efforts are not limited to areas affected by mining operations. We have also done reforestation initiatives on areas with sparse vegetation, including landscaping and propagating grass species such as bamboo, ragayray, carabao grass, among others.

Various fruit bearing trees and crops to continue to be planted to ensure food security and promote the terrain's biodiversity on the island. These endemic species rehabilitate the areas that have directly or indirectly affected by company operations. So far, 1,078 hectares have been reforested with 1.74 million trees planted. In 2017 alone, there were 236,500 trees planted.

Along the island's coastal areas, SMPC has planted 11 species of mangroves, coming to a total of 873,070 across 496 hectares, of which 650,412 mangroves survive.

NO	SPECIE	PLANTED AS OF YEAR 2014	TOTAL NO. OF HILL SURVIVED AS OF YEAR 2016	TOTAL REPLANTED AS OF DEC 2017	TOTAL NO. OF HILLS SURVIVED AS OF DEC 2017
1	Api-api	1,200	2,850	450	3,300
2	Bakauan-babae	509,721	271,050	1,297	272,347
3	Bakauan-lalaki	360,509	290,442		290,442
4	Nipa		430		430
5	Pototan	600	600		600
6	Propagules		65,656		65,656
7	Saging-saging		338	300	638
8	Tabao	1,040	2,272	678	2,950
9	Tabigi		14		14
10	Tungog		500		500
11	Wildlings		13,535		13,535
	GRAND TOTAL	873,070	647,687	2,725	650,412

SEMIRARA MARINE HATCHERY LABORATORY

Giant Clam Propagation in 2017

SPECIE	RACEWAY TANKS	OCEAN NURSERY GARDEN	MARINE SANCTUARY (RESEEDED)	BROODSTOCK	TOTAL
Tridacna gigas	7,390	4,172	15,590	142	27,294
Tridacna derasa	52	-	8,190	7	8,249
Tridacna squamosa	3,200	2,830	26,148	44	32,222
Tridacna maxima	3,500	283	439	24	4,246
Tridacna crocea	15,745		138	30	15,913
Tridacna noae	7,500			8	7,508
Hippopus Hippopus	3,000		10,348	60	13,408
Hippopus porcellanus		450	12,762	2	13,214
Crossbreed			287		287
TOTAL	40,387	7,735	73,902	317	122,341

In 2010, SMPC established the Semirara Marine Hatchery Laboratory (SMHL) to lead marine rehabilitation efforts and to develop technology that will improve Semirara Island's coastal environment and long-term fishing viability. Established with the guidance of three (3) National Scientists for Marine Biology (Dr. Edgardo Gomez, Dr. Gavino Trono, and Dr. Angel Alcala), it has since become a center for rearing and reseeding eight (8) species of giant clams or tridacna gigas, which are known to promote marine life and biodiversity.

Giant clams serve as a catalyst for improving marine biodiversity owing to its symbiotic relationship with corals and fishes. These 'filter-feeders' clean the seawaters and attract other species of marine creatures, thereby rehabilitating the reefs. To date, 73,902 were reseeded clams with a total of 122,341 surviving giant clams.

Coral transplantation was also undertaken by the SMHL in 2014 to further preserve the balance of marine ecosystems. Coral transplantation is the attachment of coral fragments to reefs for them to grow and increase coral cover. The fragments, detached from their original reef through natural processes (such as strong waves or typhoons), repopulate the reef through asexual reproduction. So far, there have been 2,024 transplanted corals in Tabunan cove since 2014.

Dr. Ronnie Estrellada works full-time in the marine hatchery together with his staff of around 20. As head and chief marine biologist of the facility, Estrellada oversees the breeding and propagation of giant clams, transplantation of corals and culture of abalones.

It's not an easy task. Estrellada says the hatchery operates round the clock. There are no holidays; otherwise, the clams will go hungry. The right amount of water, algae, sunlight and tender loving care are the requirements for a successful hatchery.

Credit: "Unexpected Treasures at Semirara" by Iris Gonzales for Philippine Star Starweek, 30 April 2017

MARINE PROTECTED AREAS

Marine Protected Areas (MPAs) are created to nurture marine life and to protect the fishermen's livelihood. They help stabilize the coral reef systems and allow the fish stock in the island to recover from years of destructive and excessive fishing.

Based on an extensive survey conducted in collaboration with Siliman University's Angelo King Center for Research and Environmental Management (SUAKCREM), Barangay Alegria and Barangay Tinogboc were identified as the two (2) sites where MPAs may be established. Officials from both barangays approved the establishment of the MPAs in 2017.

About 30 payaos or Fish Attracting Devices (FADs) are to be installed around the shore perimeter of Barangays Alegria, Tinogboc, and Semirara. These are designed to attract fish which will be installed near and outside the MPAs to provide non-motorized fishermen with a greater fish catch.

In partnership with National Scientist Dr. Angel Alcala, who has conducted forums and public discussions with the townsfolk in November 2017, the company endeavors to teach, support and equip the community to ensure that the MPAs and payaos are sustainably community led.

ECOLOGICAL SOLID WASTE MANAGEMENT AND COMPOSTING

Solid Waste Management Program - Garbage Collection as of Dec 2017

Solid Waste Management

QUARTER	BIO-DEGRADABLE	RECYCLABLE	RESIDUAL	GRAND TOTAL
1ST	100.22	37.92	404.35	542.488
2ND	89.64	43.40	403.55	536.59
3RD	89.80	31.00	117.62	238.42
4TH	50.87	15.72	49.08	115.67
GRAND TOTAL	330.53	128.038	974.6	1,433.17

**Note: Unit used for Garbage Collection is Pounds.
Biodegradable goes to composting facility for the in-house production and releasing
(please see on the sheet name Composting for the production and release report)
Recyclable were given to garbage collectors and served as their incentives
Residual were delivered to chute for disposal.
Collected garbages are coming from housing areas (HA1, HA2, HA3, HA4, HA5) and nearby offices only

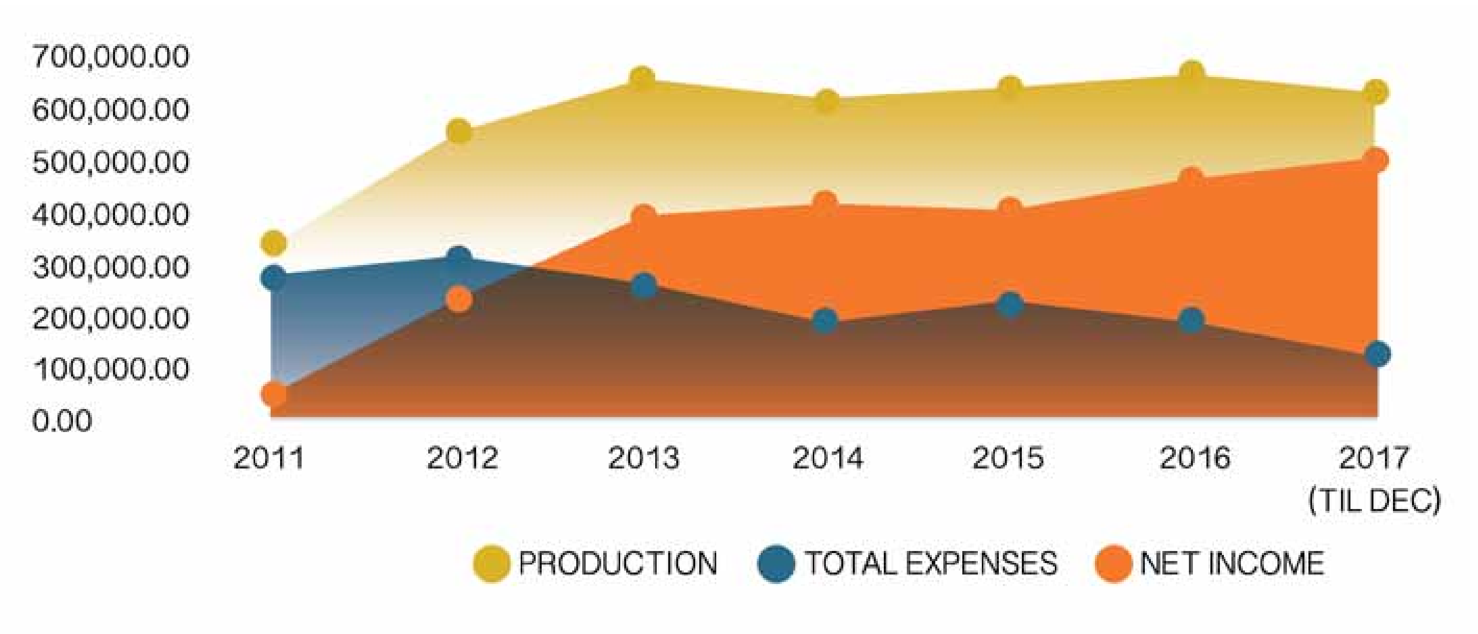
Data Source: SSG

Composting

	SUMMARY PER YEAR						
	2011	2012	2013	2014	2015	2016	2017 (TIL DEC)
PRODUCTION	340,550.00	548,750.00	654,750.00	611,650.00	635,500.00	661,300.00	630,000.00
TOTAL EXPENSES	279,443.75	308,915.62	261,697.25	195,550.50	227,593.50	196,087.90	128,675.50
NET INCOME	61,106.25	239,834.38	393,052.75	416,099.50	407,906.50	465,212.10	501,324.50
Net Income: YoY		392%	164%	106%	98%	114%	108%
Net Income: vs 2011		392.49%	643%	681%	668%	761%	820%

***Note: Expenses includes labor cost, electricity, and others (repair)*
***Data Source: Refo*

Summary Per Year



Hazardous Waste

	Used Batteries	Busted Lamps	Mercury Compounds: Chloride	Inorganic Chemical Waste			Reactive Chemical Waste: Anhydrone	Wasted Oils: Used Oil	Interceptor Sludges (Bunker Sludge)	Oil Contaminated Waste Filers	PCB Wastes
				Sulfate	Zinc	Glasswool					
2016	72,367	725	84	29	52	19	21	273,392	5,600	22,804	560
2017	18,524	1,251	26	18	14	1	12	811,000	4,400	40,535	140
% recycled or treated	83%	81%	100%	85%	81%	98%	0%	100%	0%	91%	0%

Hospital Waste

	Infectious	Pathological	Sharp & Pressurized Container	Pharmaceutical & Drugs	Chemical: X-Ray Developer	Chemical
2016	1,031	892	362	52	30	99
2017	1,108	1,762	182	256	0	47
% recycled or treated	83%	74%	91%	68%	100%	71%

PROGRESS

We believe that we are truly successful only if the communities in which we operate are similarly progressive.

We continue to create lasting social growth by making sure our policies are inclusive and collaborative, and more importantly, can create boundless opportunities for our stakeholders.

Elevating the Quality of Life

We pursue an optimum balance of operational excellence with our social and economic goals. This pursuit 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

The Philippine Statistics Authority shows that the incidence of poverty has drastically reduced in the Province of Antique, going 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

As our mining operations expanded, the number of small business establishments in Semirara Island grew, resulting to additional employment and income opportunities for the residents. A total of 346 business permits were issued in 2017, a 477% increase from the 60 permits issued in 1999.

In 2017, the top businesses registered were sari-sari stores, motor parts/vulcanizing shops, general merchandise shops for dry goods, restaurant/bakeshops, fish dealers and boarding houses.

Year	No. of Registered Establishments	Business Tax/Fixed Tax Collected
1999	60	91,390.00
2000	63	292,980.00
2001	65	293,960.00
2002	68	297,360.00
2003	71	299,265.00
2004	74	300,885.00
2005	76	301,610.00
2006	78	303,015.00
2007	80	303,445.00
2008	83	304,305.00
2009	85	309,385.00
2010	91	313,345.00
2011	92	315,670.00
2012	95	405,640.00
2013	155	785,933.00
2014	263	17,600,598.17
2015	207	23,758,400.80
2016	213	22,967,397.14
2017	346	7,881,983.97
TOTAL	2265	77,126,568.08

We also continue to hire local third-party contractors for various jobs such as construction and maintenance of buildings, roads, housing units, sports and recreation facilities, landscaping, steelwork, fabrication and repair of equipment, and food services. From 2012 to 2017, the total amount paid these contractors reached P447.9 million.

LIVELIHOOD SUPPORT

From 1999 up to the present, we have supported and provided livelihood opportunities to the local fisherfolk via the Semirara Fishing Association (SEMFA) and Community Relations (COMREL) fishing groups, who were the fisherfolk groups most affected by mining operations. Their families were also relocated at Pulang-lupa in Sitio Villaresis (now Pinagpala). We have also donated 2 deep-sea fishing boats to assist in their fishing efforts.

COMMUNITY INFRASTRUCTURE

We have constructed new community infrastructure in the island and vastly improved the existing facilities to advance the community forward. In supporting local suppliers and livelihood development, we have helped create growth and deliver lasting economic benefits to our host communities.

Aside from building a commercial hub, barangay roadways, bridges, piers, SMPC has also established a Church, school buildings, a vocational school, sports facilities, an ice plant, among others.

In Calaca, SCPC and SLPGC supports the installation of various community infrastructure in and around Calaca, such as the rehabilitation of the Dacanlao Water System, construction of footbridges, and the restoration of churches and parishes.

SCPC and SLPGC also provide continuous support to the Concrete Hollow Blocks (CHB) Making Project by ADHIKA Cooperative based in Barangay Dacanlao. They are supplied with bottom ash, a replacement for the river sand component of the CHBs. By using bottom ash, to produce more durable CHBs.

ENTERPRISE RISK MANAGEMENT

Empowering Resilient Connections

Enterprise Risk Management is a strategic imperative. By integrating it into our operations, we are empowered to make informed decisions on various upside and downside factors that emerge from various forces in the operations. Through proper identification and assessment, we forge our connections towards a more risk-resilient operational and corporate culture.

CONTENTS

#MovingTowardsResiliency

We aim to operate within an overall low-risk range in achieving our objectives, with the lowest risk appetite for risks related to operations and zero tolerance for fatality.

Strategic Alignment with Key Risks

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 S RISKS				
Safety	●	●		●
Compliance & Reputation		●	●	●
People & Talent	●	●		
Commodity Price & Supply/Demand Balance		●		
Asset Performance & Cost Efficiency		●		
Natural Catastrophe & Physical Security	●	●	●	●
Procurement & Inventory Management		●		
Information Technology		●		●
Expansion Projects		●		●

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

Our Journey to Resiliency

As we further improve our ERM efforts and initiatives to strengthen risk culture within the company, our established risk architecture sees the company moving towards a resilient standing.

Our 5 Year Risk Management Plan Initiatives

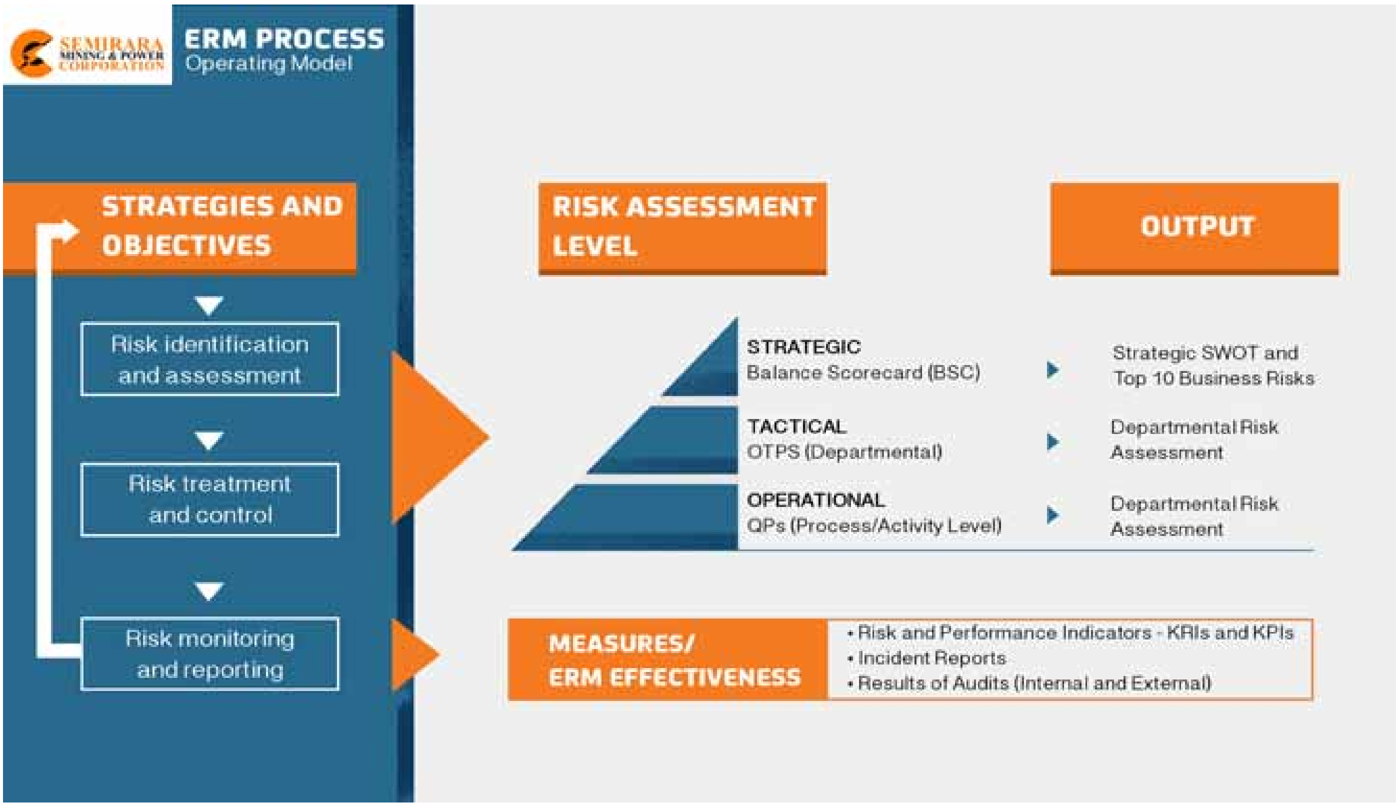
Stronger engagement and accountability through collaborative governance and synergy of risk interdependencies

Knowledge management and benchmarking against business and industry peers and comparables

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

Continual improvement of Business Continuity Management System (BCMS) to align relevance and risk landscape determine its relevance and improvements to be taken.

Our Enterprise Risk Management



Our risk governance structure is derived from the Three Lines of Defense in Effective Risk Management and Control, which focuses on risk ownership, controls, compliance and assurance activities.

RISK GOVERNANCE 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.

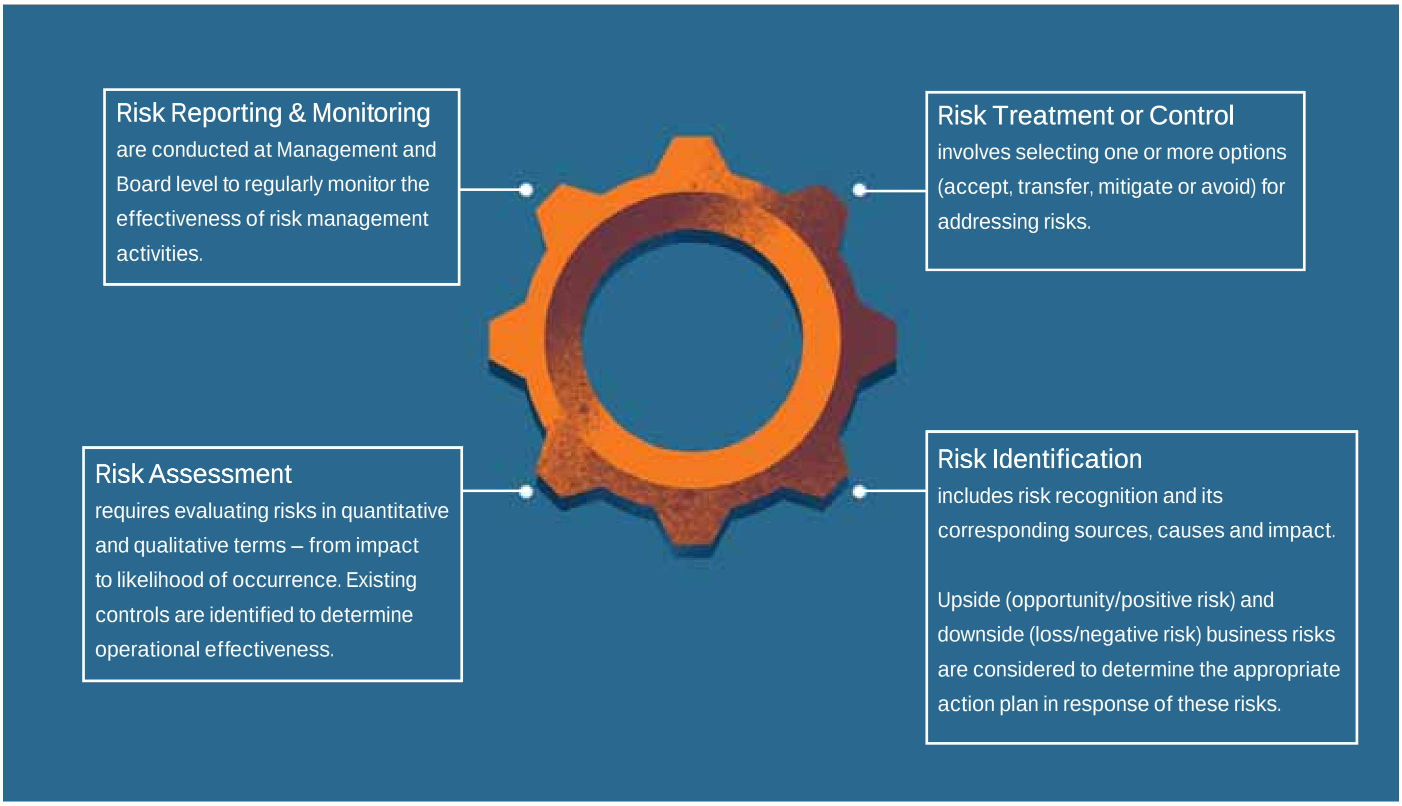
Risk Management Function

Our CEO and concurrent Chief Risk Officer (CRO) 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.

ERM Process

Assessing internal and external environment

SMPC regularly identifies and assesses top strategic business risks and opportunities to adapt and respond to business developments and changes.



Our enterprise risk management process. Emerging and significant risks are considered against overall corporate objectives, with the appropriate risk treatment or responses. This process reports and monitors risk factors, and allows us to proactively address matters if and when they arise.

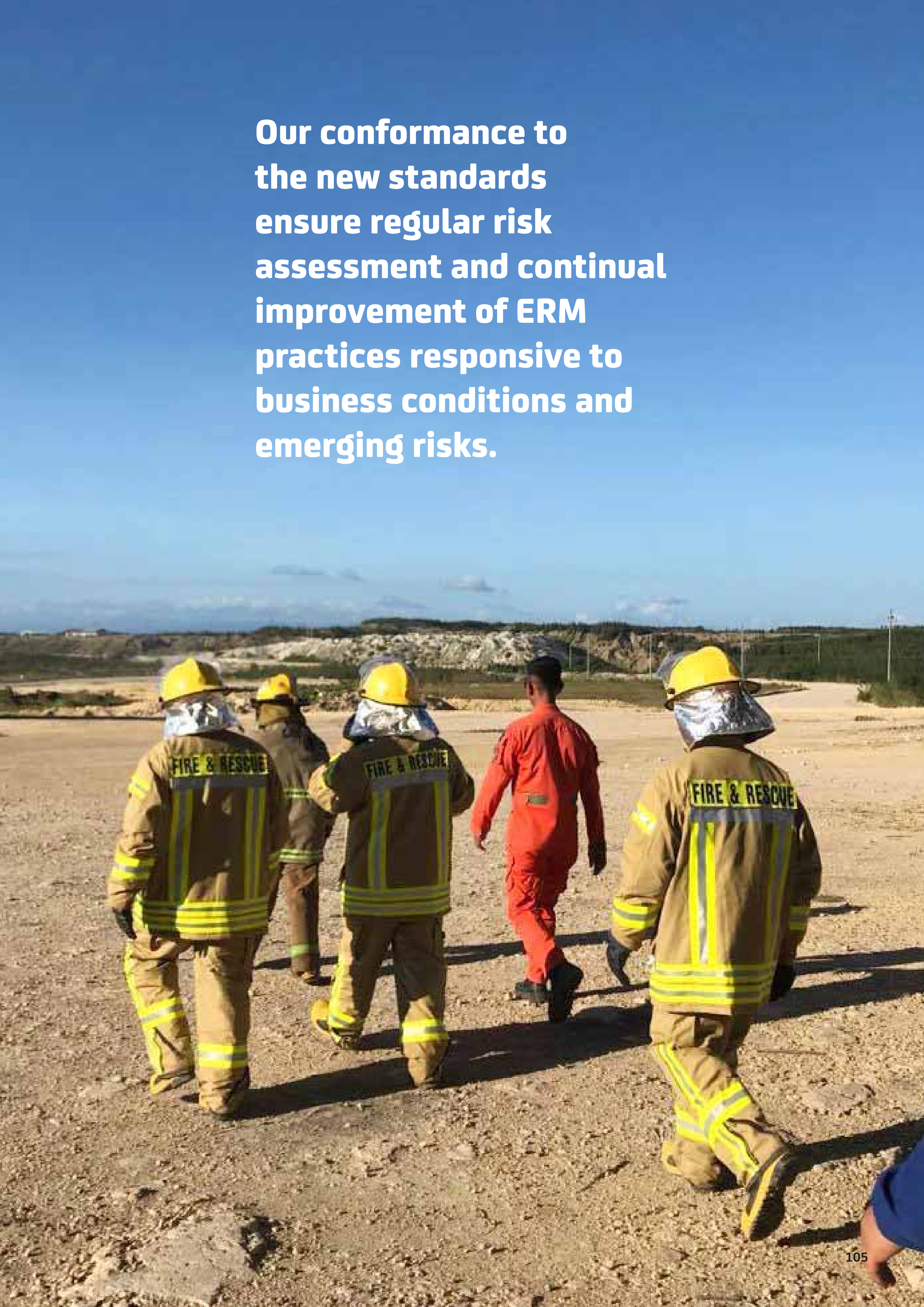
Alignment of departmental objectives to strategies and operational risk assessment

Objectives, Targets, and Programs (OTPs) and Quality Plans (QPs) are directly linked to a Balanced Score Card. Risk interdependencies are shared and cross-functional collaboration is undertaken with appropriate risk treatment and established risk appetite of the Board.

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 conformance to the new standards ensure regular risk assessment and continual improvement of ERM practices responsive to business conditions and emerging risks.



Our 2017 Risk Management Performance

RISK CATEGORY

PROJECT

Refers to risks related to new and major projects established by SMPC Group (i.e., new entities) that include:

- construction timeline
- compliance to regulatory requirements and standards
- start-up operations (e.g., recruitment of personnel quality and installation of required systems and equipment)
- engineering, procurement, construction, cost overruns, opportunity costs and personnel health and safety.

OPERATIONS

Refers to risks related to:

- coal quality, supply chain, slope stability, safety
- operational efficiency and asset performance.

This risk may lead to business interruption if not properly managed.

COMPLIANCE & REPUTATION

Refers to risks related to:

- regulatory compliance,
- environment, workplace health and safety community relations
- contractual obligations
- loss of investor or market confidence and/or reputational damage.

FINANCIAL

Financial risk generally arises due to instability and losses in the financial market caused by movements in market fundamentals:

- stock prices, currencies, commodity
- interest rates, credit risk, liquidity risk, price risk, interest rate risk and foreign currency risk.

STRATEGIC

Refers to risks due to adverse business decisions, improper formulation and implementation of strategy.

Financial Risk Management

Our financial risk management is geared towards sound and prudent allocation of financial resources to fund investments and expansion activities, maintain healthy financial ratios and ensure appropriate returns to shareholders.

We exercise a low-financial risk tolerance in funding sources and managing capital requirements, consistent with the established overall low-risk appetite of the Board.

Our financial risk management objectives and policies to effectively manage our financial assets and liabilities are discussed in Note 31 to Consolidated Financial Statements.

Information Technology Risk Management

Our IT risk management covers matters relating to aspects of governance, cyber security, operational technology, and technology-enabled processes, which are identified, assessed, managed, and reported to the Management and Board.

Our Information Technology (IT) Disaster Recovery Plan (DRP) aims to ensure early restoration of critical IT and communication services and systems with the most up-to-date data available for the Company's business continuity. The DRP includes detailed back-up and recovery procedures, responsibilities of a Disaster Recovery Team, and emergency procurement, among others. We maintain two (2) back-up servers at a designated Disaster Recovery "Cold Site."

✓ Targets achieved   ○ Partially achieved/ On-going   ✗ Targets not achieved

TOP BUSINESS RISK	MEASURES	2017	2016	RISK MANAGEMENT
Safety	• Zero Fatality • Reduced Non-Lost Time Injury Frequency	✓	○	• Proactive hazard identification and risk reduction leading to incident reduction • Continuous calibration of health and safety practices • Consistent practice of Industrial hygiene • Health and Wellness Program Monitoring
Compliance and Reputation	• Compliance with legal and community commitments	✓	✓	• Engagement with key stakeholders • Impact assessment and implementation of new rules or regulations
People and Talent	• Attrition Rate • Succession Management	○	○	• Continuous review of the talent management program • Benchmarking of compensation and benefits 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	✓	○	• 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 risk • Competitive pricing for power segment to maximize value
Asset Performance and Production Efficiency	• Availability and Utilization • Total materials moved and BCM/HR • Net Generation (Power Plant) • Cost per MT and KwH * unit 1&2 on a 3-year life extension program	*○	○	• 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 and Physical Security	• Major Physical Security Breach • Effectiveness of Business Continuity Practices	○	✓	• Review the business continuity practices – Response, Recover and Resume Principles • Collaborative governance with key government agencies handling peace & order and disaster management • Regular review of insurance adequacy coverage
Procurement and 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
Information Technology	• Zero digital operational disruption	✓	✓	• Continual enhancement of IT security solutions and upgraded network appliances to protect critical information resources from vulnerabilities. • Upgraded or new operational technologies • Assurance of IT governance
Expansion Projects	• Project Milestone Updates	○	○	• Close coordination of project team to key stakeholders – Partners, Contractor, Regulator

2017 ERM MILESTONES

Successful transition and subsequent certifications to the risk-based 2015 versions of ISO 9001 and ISO 14001 on quality and environmental management systems of our coal mining and power plant operations.

Our conformance to the new standards ensure regular risk assessment and continual improvement of ERM practices responsive to business conditions and emerging risks.

Online risk assessment portal to facilitate timely update of the department's risk register.

Continuing awareness and trainings of risk owners and risk champions through ERM workshop sessions for effective engagement and capacity building on risk management competency.

Continuing education on the aspect of environmental, health and safety to enhance effective management of hazard/aspect & impact/risk in relation to our operations.

Review of potential vulnerabilities in our operational technology and continuing awareness on cybersecurity.

Enhanced emergency preparedness program as a first line mitigation phase for our business continuity management system. Our Emergency Response Team underwent sustainment training as facilitated by Philippine Air Force First Air Wing Reserve 505th Search and Rescue to upgrade required skills and competencies.

OUR INTEGRATED CORPORATE GOVERNANCE

Connected and Empowered Governance

We value the relationships we have forged with people. And our corporate governance standards reflect our passion to uphold a system of accountability, responsibility and stewardship for our shareholders and stakeholders. From our customers, employees, suppliers, creditors, to our business partners and the community, we integrate, connect and enact our shared corporate responsibility, creating long-term value and benefits for them.

CONTENTS

Fostering a culture of ethical conduct, optimum performance, and a system of transparency and accountability are the cornerstones of our corporate governance framework.

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 to 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.

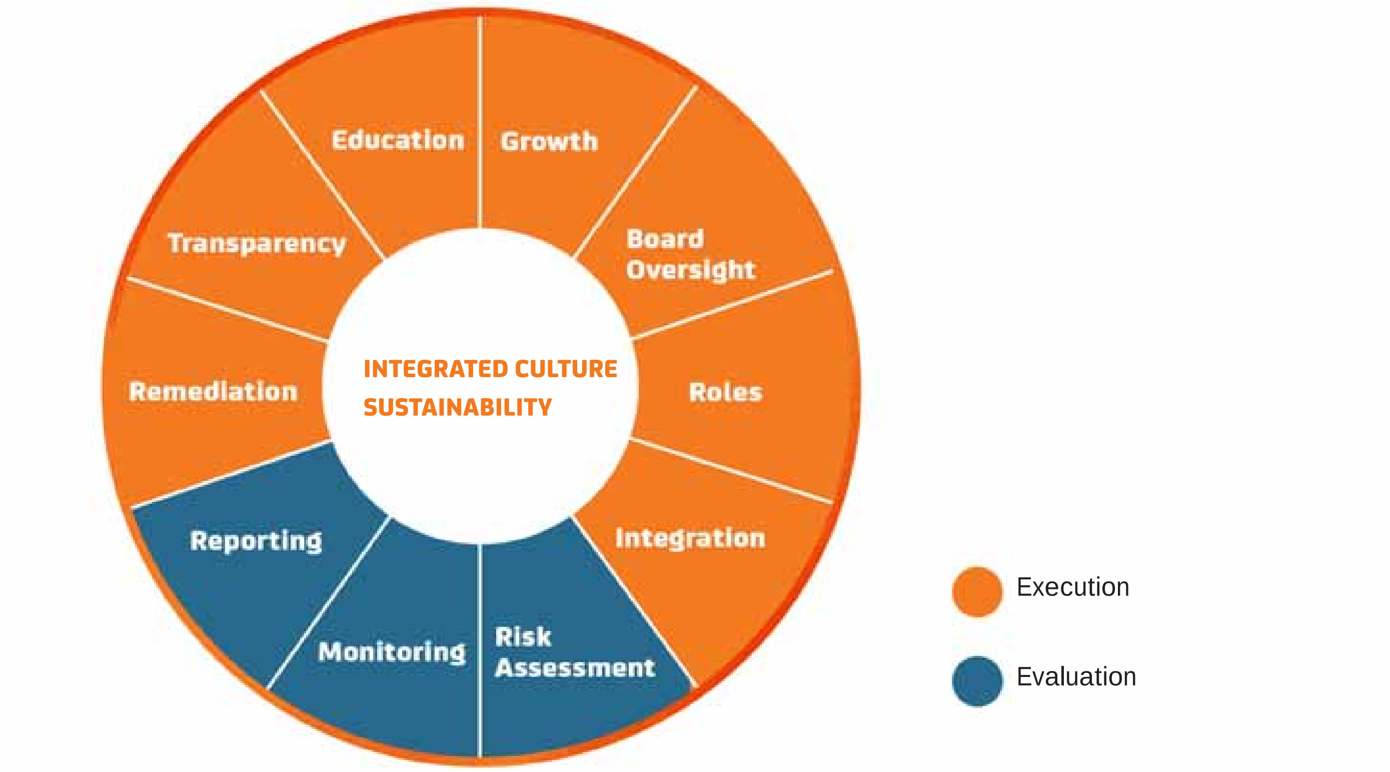
OUR CORPORATE GOVERNANCE FRAMEWORK

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

Fundamental to our long-term success and sustainability is competent leadership through a values-led culture. 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. From our Board to our officers, and to our staff, we provide access and trainings to be familiar with the laws, regulations, policies and procedures applicable to the performance of their work.



Regular monitoring and reinforcement of our governance processes are embedded through our GRC system which involves internal controls, escalation protocols, assurance review and reporting. We pursue continual improvement through periodic dialogues and reviews with process owners and regular GRC trainings, and benchmark these against leading practices.

To ensure our GRC efforts are fully enacted and executed, the Board of Directors has designated a Compliance Officer and Compliance Committee in the oversight of our integrated governance policies and processes.

Compliance reporting to the Senior Management, 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 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.

COMPLIANCE COMMITTEE

Nena D. Arenas
Vice President, Compliance Officer

Maria Cristina C. Gotianun
Executive Vice President

John R. Sadullo
Vice President, Legal

Junalina S. Tabor
Vice President, Chief Finance Officer

Ruben P. Lozada
Vice President, Operations

Environment, Safety and Health

SMPC remains strongly 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 to align 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 the industry standards and with full transparency and through compliance reporting to the regulators and key stakeholders, such as submission of quarterly reports to the Department of Energy and annual report to the Energy Regulatory Commission, among others.

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.

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.

SMPC CONNECTS TO THE WORLD'S BEST INDUSTRY STANDARDS SAFETY AND PRACTICES

Our compliance practices and standards continue to reflect the industry's best practices, leading to recognition in the international stage. This 2017, following our successful transition in our coal mining operations, SMPC has passed conformance and is recommended for certification to the 2015 versions of ISO 9001 and ISO14001 on quality and environmental management systems, and a recertification of OHSAS 18001:2007 on occupational health and safety management system by the external conformity assessment body, Governing Board of Certification International Philippines, Inc.

The new standards versions require an embedded risk-based approach that take 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.

We have been ISO and OHSAS-certified for the past nine years.

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 of ISO 9001:2015, ISO14001:2015 and OHSAS 18001:2007 this year.

"By aligning our operations according to international standards, we believe we can provide our stakeholders with the quality products and services that they deserve"

SMPC President and COO Victor A. Consunji.

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.

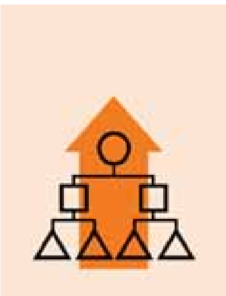
ISO 14001:2015 is the revised management systems standard that responds to latest trends in identifying and managing environmental risks and impact.

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

PRINCIPLES OF CORPORATE GOVERNANCE

Integrated and Empowered Leadership

We fulfill our economic, legal and social obligations to our stakeholders and to communities where we do our business. A compliant and responsible governance is the cornerstone of our core corporate philosophy. This 2017, our governance framework is guided by the new Code of Corporate Governance for Publicly-Listed Companies set by the Securities and Exchange Commission (SEC). 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, and effective governance.



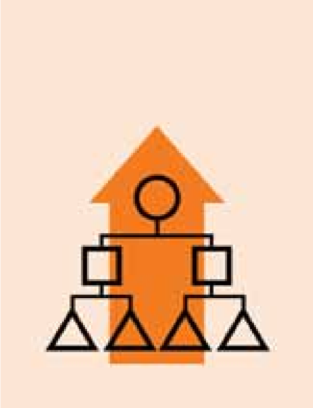
Responsibilities of the Board

Disclosure and Transparency

Equitable Treatment of Shareholders

Rights of Shareholders

Role of Stakeholders



BOARD GOVERNANCE RESPONSIBILITIES

Proper governance is deeply rooted in fostering a culture of open, connected and responsible Board, management and 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 the 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 that are 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. 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, as well as considers 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.

2017 BOARD DIVERSITY

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

by Classification

by Skills

by Gender

by Age

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 and operational and corporate governance aspects of our business.

This year, all Directors have fully complied with the annual corporate governance seminars. Our C-suite level and management team conducted an orientation for our two (2) newly-appointed Non-Executive Directors, Honorio Reyes-Lao and Luz Consuelo Consunji.

PRINCIPLE 2

The fiduciary roles, responsibilities and accountabilities of the Board are clearly made known to all directors as well as to stockholders and 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 others 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 strategy. Quarterly Board meetings ensure regular reporting and monitoring of objectives, targets and performance by management.

It 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 EMPOWERMENT

On its twentieth year, SMPC renews its core corporate vision and mission that will set the tone for our next years of operation. Our strong connection to our people and host communities drives us to seek ways to build long-lasting and sustainable value for them.

Our Vision

Empowering Sustainable Communities through Synergy of Resources

Our Mission

To Create Shared Value and Empower People through Responsible Development and Use of Resources For Sustainable Growth of Communities

Our Values

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

- Commitment that fuels realization of our mission without compromising Environment, Safety and Health of our stakeholders;
- Excellence that drives us to deliver outstanding results;
- Professionalism that embodies our work quality.
- Teamwork that enables us to work towards common goals;
- Integrity that upholds the cornerstone of our business ethics; and
- Loyalty that keeps us steadfast over challenges and time.

Our Corporate Objectives

- Business Sustainability
- Value Maximization

Our Board annually affirms our Vision and Mission Statement. Both were last amended and approved on November 7, 2017.

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

P 240,000 per annum*
Fixed Retainer Fee

P 20,000 / Committee Meeting Attended*
Fixed Meeting Per Diem

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

NON-EXECUTIVE DIRECTOR & INDEPENDENT DIRECTOR
Remuneration Summary

P150,000 per month (P 1,800,000 per annum)**
Fixed Retainer Fee

P 20,000 / Committee Meeting Attended*
Fixed Meeting Per Diem

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

Director compensation are 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.

In 2017, the 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 abovementioned 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 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.

Evaluation results are submitted to and/or discussed with the CEO, COO, Corporate Governance Committee, and Compensation and Remuneration Committee, for proper disposition or action.

FINANCIAL METRICS	NON-FINANCIAL METRICS
Financial Growth and Value Operational Efficiency	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 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 others 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
Rogelio M. Murga (ID) Chairperson	Rogelio M. Murga (ID) Chairperson	Rogelio M. Murga (ID) Chairperson	Honorio O. Reyes-Lao (ID) Chairperson
Members Honorio O. Reyes-Lao (ID) Isidro A. Consunji (ED)	Members Honorio O. Reyes-Lao (ID) Maria Cristina C. Gotianun (ED)	Members Honorio O. Reyes-Lao (ID) Isidro A. Consunji (ED) Victor A. Consunji (ED) Maria Cristina C. Gotianun (ED)	Members Rogelio M. Murga (ID) Herbert M. Consunji (NED)
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 • Internal control environment • External audit • Internal audit function • Legal and regulatory compliance, including the Code of Conduct and Business Ethics

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 Chief Governance Officer provide full support to the Board and good governance committees.

Audit Committee

Qualifications

The Committee is chaired by an Independent Director. All members have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. They also have adequate understanding of the mining business, energy and related industries of the Company.

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.

WORK DONE AND ISSUES ADDRESSED

Financial Reporting Process and Financial Statements

- Review, approval and endorsement to Board the quarterly unaudited and annual audited consolidated financial statements.
- Review of adequacy of financial reporting disclosures, including significant related party transactions.
- Conformance review of financial statements in accordance with required accounting and reporting standards.

External Audit

- Discussion and approval of external audit and non-audit engagements, scope, fees and terms.
- Discussion of significant financial reporting issues, audit observations, and overall quality of the financial reporting process and regulatory updates in financial and tax reporting with SGV & Co. and Management.
- Discussion with the SGV Partner without the presence of Management, related party transactions, SGV performance and fraud, if any, in a private session.
- Recommendation to Board the reappointment of SGV & Co. as external auditor in 2018, based on SGV's performance, independence, qualifications and Management's feedback.
- Review and approval of Management's representation letter before submission to SGV & Co.
- Approval of non-audit services. Discussion and approval 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.

Internal Audit

- Discussion and approval 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.
- Review and discussion of IA's performance evaluation, assurance and advisory work, and ensuring Management has provided adequate resources to support the function and maintain its independence.
- Review of internal and external quality assurance performance of IA function, including the performance evaluation and remuneration of the Chief Audit Executive.

- Approval of promotion of the Chief Audit Executive and the appointment of a new Internal Audit Manager.

- Review and approval of amendments to the IA Charter to align with SEC Code of Corporate Governance for PLCs.

Related Party Transactions (RPT)

- Review of significant RPTs that meet the threshold levels stipulated by regulatory rules and prescribed guidelines per RPT Policy.

Compliance, Risk and Governance

- Discussion and review of significant updates and actions on SEC, PSE, legal, tax, claims, litigations, environmental, safety and other regulatory matters with the Compliance Committee.

- Discussion of results of risk reviews and risk interdependencies in joint meetings with the Risk Committee.

- Review of Committee Charter to align with SEC Code of Corporate Governance for PLCs.

- Self-assessment performance and disclosure of assessment results per SEC's Audit Committee performance guidelines on effectiveness.

Internal Control

- Review and discussion of audit findings, internal control and compliance issues with Management, SGV & Co., Internal Audit and Compliance Committee.

- Review and endorsement of continual improvement of controls and risk management processes to Management.

Committee Meetings are scheduled at appropriate points to address matters in a timely basis.Written agenda and materials are distributed in advance to facilitate meaningful review and discussion during meetings.

The 2017 Audit Committee Annual Report to the Board of Directors is included in the Consolidated Financial Statements section.

Corporate Governance Committee

Our Corporate Governance Committee (previously Nomination and Election Committee) has three (3) members, chaired by an Independent Director (ID), and with majority membership of IDs. It reviews each Director's continuation on the Board every year, taking into account meeting performance, participation and contribution to the Board.

WORK DONE AND ISSUES ADDRESSED

Nomination and Selection

- Review of 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.
- Endorsement for Board approval the interim appointment of Honorio O. Reyes-Lao as new Independent Director and Luz Consuelo A. Consunji as new Non-Executive Director due to Board seats vacancy in 2017.

Board Performance and Development

- Review of annual appraisal of the full Board, Board Committees and individual Board Director performance .
- Oversight of SMPC Group orientation covering the Group's strategic plans, financial and operating performance, significant milestones and corporate governance matters to new Directors.
- Oversight of continuing professional development of Board Directors and key officers through leadership programs, memberships in professional organizations, and participation in governance seminars and fora, among others.

Succession Planning and Leadership

- Review and endorsement of changes in the roles, membership and leadership of the Board and its Committees.
- Discussion and review of organizational development program, executive succession planning and, movement of key officers with senior management.

Corporate Governance

- Oversight and review of corporate governance framework in relation to organization's size, complexity and business strategy, as well as its business and regulatory environments.
- Review and endorsement of Company's Manual on Corporate Governance.
- Renaming of Nomination and Election Committee to Corporate Governance Committee and amendment of related Committee Charter.
- Amendment of Board Charter of Good Governance Guidelines for Directors.
- Attendance and participation of Committee Chair in the Annual Stockholders' Meeting on May 2, 2017 to address possible shareholder queries on Committee matters.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee has three (3) members and with majority membership of IDs, chaired by an Independent Director (ID).

WORK DONE AND ISSUES ADDRESSED

Board and Executive Remuneration

- Review of remuneration levels for Directors.
- Review and discussion of design and implementation of organizational development programs to address attraction and retention risks in a joint meeting with the Risk Committee

CEO & COO Performance Appraisal

- Review of results of Board's evaluations of the CEO's and COO's performance based on Board-approved Balanced Scorecard and key result areas

Corporate Governance

- Review of compensation-related disclosures of Directors and Executives in the Company's annual reports and information statements per regulatory requirements and reporting standards
- Review of Committee Charter for continual improvement.

Risk Committee

The Risk Committee is chaired by an Independent Director and is a mix of five (5) regular and non-regular 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

- Oversight of the effectiveness of the risk management of the top business risks (i.e. operational, market, safety, environmental compliance, reputation, people & talent, and cyber security), risk indicators and the appropriate treatment of such risks.
- Oversight of timely management response and allocation of resources to support risk management efforts and remediation.
- Review and discussion with Management of SMPC Group's enterprise-wide risk management (ERM) framework and roadmap implementation towards a resilient risk management maturity level.
- Attendance of the Committee Chair in the Annual Shareholders' Meeting on May 2, 2017 to address possible shareholder queries on Committee matters.
- Review of the ERM Policy and Risk Committee Charter for continual improvement and alignment with SEC Code of Corporate Governance for PLCs and leading practices.

PRINCIPLE 4

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

Our 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%.

DIRECTOR	BOARD & ORGANIZATIONAL MEETINGS	AUDIT COMMITTEE	COMPENSATION & REMUNERATION COMMITTEE	RISK COMMITTEE	CORPORATE GOVERNANCE COMMITTEE	ANNUAL SHAREHOLDERS' MEETING
Isidro A. Consunji Chairman and CEO *Executive Director*	11/11			5/5		1/1
Victor A. Consunji President and COO *Executive Director*	11/11			5/5		1/1
Ma. Cristina C. Gotianun Exec. Vice President *Executive Director*	10/11		2/2	5/5		1/1
Rogelio M. Murga(1) *Independent Director*	10/11	9/9	2/2	5/5	3/3	1/1
Honorio O. Reyes-Lao(2) *Independent Director*	7/7*	7/7*	1/1*	4/4*	-*	-*
Cesar A. Buenaventura *Non-Executive Director*	11/11					1/1
Jorge A. Consunji *Non-Executive Director*	9/11					1/1
Herbert M. Consunji *Non-Executive Director*	10/11					1/1
Ma. Edwina C. Laperal *Non-Executive Director*	10/11					1/1
Josefa Consuelo C. Reyes *Non-Executive Director*	11/11					1/1
Luz Consuelo A. Consunji *Non-Executive Director*	7/7*					-*

(1) Chairman of the Compensation & Remuneration, Corporate Governance, and Risk Committees eff. May 2, 2017
(2) Chairman of the Audit Committee and Member of Board Committees eff. May 2, 2017
** Appointed eff. May 2, 2017*

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

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 2017, 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 an objective and independent judgment.

Independent Directors

An Independent Director (ID) embodies objectivity and independent 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 of the Board and Chief Executive Officer (CEO)

The Chairman and CEO roles are unified to centralize leadership as at this time. Since our vertical integration as a coal mining and energy enterprise, the need for an equally cohesive leadership is vital to address the strategic challenges and expansion opportunities affecting our Company's operations and sustainability.

Our Company's governance structure ensures a 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.

"We promote the highest standards of openness, probity and accountability throughout the organization through our ethics-related policies, soft controls and assurance activities."

PRINCIPLE 6

The Board proves 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 October 2017, full Board and director performance assessments were undertaken by the Chairman and all members of the Board and administered by the Chief Governance Officer.

PRINCIPLE 7

Board members are duty-bound to apply 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 a disciplinary action, up to and including termination of employment and possible legal action, including referral to law enforcement.

In 2017, the publication of the Code in English and Tagalog versions was undertaken to reinforce guidance in responsible and ethical business conduct of the directors, executive officers, employee workforce of SMPC and its subsidiaries. It was published in both digitized pdf or soft copy format and printed copies to ensure access and distribution to all employees.

Anti-Corruption and Ethics Program

Ethics is a core requirement among our employees and 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 2017, all business units were assessed as to their vulnerability to such risks. Risk review results are evaluated by the Internal Audit (IA) and considered in the annual audit plan, and subsequently reported to the Audit Committee.

DISCLOSURE AND TRANSPARENCY

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

PRINCIPLE 8

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

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.

Securities Reporting

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

SCOPE OF COMPANY DISCLOSURES

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

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.

We provide full disclosures and reportorial requirements 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 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.

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.

In 2017, no complaints were received regarding misuse of insider information committed by any Director or Officer.

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 ACCOUNTS

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

SHAREHOLDINGS AND TRADES OF DIRECTORS

Directors and Senior Management	Number of Shares (as of Jan 1, 2017)	Acquired (including stock dividends)	Deposited	Nature of Ownership	Number of Shares (as of Dec 31, 2017)
Isidro A. Consunji Executive Director, Chief Executive Officer	6,036 1,169,918	18,108 3,509,754	-- --	Direct Indirect	24,144 4,679,672
Victor A. Consunji Executive Director, President and Chief Operating Officer	36 2,881,414	108 13,213,262	-- 654,840	Direct Indirect	144 15,439,836
Jorge A. Consunji Non-Executive Director	36 385,639	500,108 1,529,317	-- --	Direct Indirect	500,144 1,914,956
Herbert M. Consunji Non-Executive Director	32,280 --	108,840 --	-- --	Direct Indirect	141,120 --
Cesar A. Buenaventura Non-Executive Director	18,030 --	54,090 --	-- --	Direct Indirect	72,120 --
Josefa Consuelo C. Reyes Non-Executive Director	103,100 346,800	309,300 1,566,800	-- --	Direct Indirect	412,400 1,913,600
Maria Cristina C. Gotianun Executive Director Executive Vice President	357 1,603,643	1,071 6,927,369	-- 2,800	Direct Indirect	1,428 8,528,212
Ma. Edwina C. Laperal Non-Executive Director	1,047 1,355,872	3,141 4,713,656	10,000 --	Direct Indirect	4,188 6,069,528
Luz Consuelo A. Consunji Non-Executive Director	-- --	40 --	-- --	Direct Indirect	40 --
Rogelio M. Murga Independent Director	10,010 --	30,030 --	-- --	Direct Indirect	40,040 --
Honorio O. Reyes-Lao Independent Director	-- --	1,236,040 562,480	-- --	Direct Indirect	1,236,040 562,480

SHAREHOLDINGS AND TRADES OF KEY OFFICERS

Other Key Officers	Number of Shares (as of Jan 1, 2017)	Acquired (including stock dividends)	Deposited	Nature of Ownership	Number of Shares (as of Dec 31, 2017)
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	144,108	432,324	--	Direct	576,432
	--	--	--	Indirect	--
Nena D. Arenas Vice President Chief Governance Officer & Compliance Officer	4,000	12,000	--	Direct	16,000
	--	--	--	Indirect	--
Antonio R. Delos Santos Vice President Treasury	15,000	45,000	--	Direct	60,000
	--	--	--	Indirect	--
Jose Anthony T. Villanueva Vice President Marketing for Coal	750	2,250	--	Direct	3,000
	13,890	41,670	--	Indirect	55,560
Andreo O. Estrellado Vice President Marketing for Power	--	--	--	Direct	--
	--	--	--	Indirect	--
Carla Cristina T. Levina Vice President Chief Audit Executive	--	--	--	Direct	--
	--	--	--	Indirect	--
Sharade E. Padilla Assistant Vice President Investor & Banking Relations	3,600	17,400	--	Direct	21,000
	270	810	--	Indirect	1,080
Ruben P. Lozada Vice President Mining Operations & Resident Manager	118,800	356,400	--	Direct	475,200
	--	--	--	Indirect	--
Karmine Andrea B. San Juan Assistant Vice President Corporate Planning-Power	30	90	--	Direct	120
	--	--	--	Indirect	--

OUR GROUP RELATED PARTY TRANSACTIONS 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.

SIGNIFICANT RELATED PARTY TRANSACTIONS

RELATED PARTY	NATURE	AMOUNT/VOLUME (IN MILLION PESOS)
Wholly-Owned Subsidiaries:		
SEM-Calaca Power Corporation (SCPC)	Coal Supply	4,789
Southwest Luzon Power Generation Corporation (SLPGC)	Coal Supply	1,465
Affiliates		
D.M. Consunji, Inc.	Construction	
	SLPGC Power Plant EPC	794
	Infrastructures	274
DMC Construction Equipment and Resources, Inc.	Coal – Mine Exploration, renal and marine vessel management	405
	Power – Freight on coal purchases	490
St. John Bulk Handlers, Inc.	Power – Coal handling	310
DMCI Power Corporation	Power – Operation and Management	402
Urban Property Developers, Inc.	Coal – Office, parking, warehouse, lot rental	65
Royal Star Aviation	Coal – Aviation services	109

In 2017, the 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 Interests

In compliance with our conflict of interest policy and provisions of our Code of Conduct and Business Ethics, we 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 of an external auditor, and exercises effective oversight of the external auditor's independence and audit quality.

External Audit

An external auditor examines our accounting records to make sure that our financial statements meet government and regulatory requirements.

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.

In 2017, our external auditor is SyCip, Gorres, Velayo & Co. (SGV). Since 2013, Cyril Jasmin B. Valencia has been assigned as the Assurance Partner-In-Charge, in compliance with SEC regulatory policy requiring audit partner rotation every five years to ensure independence.

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
PHP 6.3 M Inclusive of subsidiaries' audit fees of PHP 3.7 M	P2.2 M for SEM-Calaca Power Corporation Operations Technology Cyber security review engagement PHP 123,200 for assurance engagement as an independent party to count and/or validate the votes by poll cast at the 2017 Annual Stockholders' Meeting.

Total fees for audit and non-audit services approved by the Audit Committee and paid to our external auditor in 2017

PRINCIPLE 10

Material and reportable non-financial and sustainability issues are disclosed.

Information Policy

Our goal is to provide the investment community 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

We release announcements on material communication platforms and updates, as needed.

Periodic Reporting

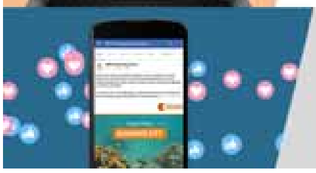
We practice the timely issuance of quarterly and annual structured reports, including financial statements that are prepared in accordance with financial reporting and accounting standards.

Investor Relations

We conduct and/or participate in investor relations activities such as analyst briefings, media briefings, investor conferences, among others.

Company Website

Our 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.



Official Company Facebook CSR Page

We have a Facebook CSR Page (facebook.com/SMPCEmpoweringOthers/) where we post about our health and safety initiatives, environmental programs, community programs and employee empowerment and engagement efforts.

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

We recognize our duty to advance the interests of our shareholders. Our Board established an Investor Relations (IR) unit to ensure constant engagement with our investors. Our Assistant Vice President- Investor and Banking Relations Officer attended the Annual Shareholders' Meeting on May 2, 2017 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

Conference Calls

Regional / international conferences

JP Morgan Philippines
1x1 Forum 2017
6 - 7 February 2017
Makati Shangri-La Hotel
Makati City, Philippines

16th Annual dbAccess Philippines
Corporate Day
14-15 February 2017, Singapore
16-17 February 2017, Hong Kong

Philippine conferences

6th Annual dbAccess
Philippines Conference
4 -6 October 2017
The Peninsula Manila
Makati City, Philippines

- Analyst-Media Briefings
- Reverse Roadshow

Investor Briefing
28 Feb 2017
DMCI Annex
Makati City, Philippines

Joint DMC/SCC Briefing
22 May, 14 Aug, & 8 Nov 2017
DMCI Annex
Makati City, Philippines

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

Investor/Creditor visits at Operational Sites

Minesite
16 May & 22 Sep 2017

Power Plant
16 May 2017

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT FRAMEWORK

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 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 2017 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

Conformity Rating with IIA Standards:

Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (ISPPIA) promulgated by the Institute of Internal Auditors.

2017 External Quality Review by PricewaterhouseCoopers Isla Lipana Philippines

This year, our IA function passed a 100% rating from the 2017 External Quality Review by PricewaterhouseCoopers Isla Lipana Philippines

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 as well as to ensure operating efficiency and effectiveness of its organization and resources. Formal IA policies and procedures ensure adherence to the IIA Standards.

Moreover, our Audit Committee evaluated IA's overall performance based on IA's primary mandate of reassurance and value protection and in providing value-added services through consideration of the Company's strategic focus in their audit engagements.

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 2017. Our IA continuously monitors management action plans and regularly reports status updates to the Audit Committee.

Internal Audit Quality Service Programs

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)

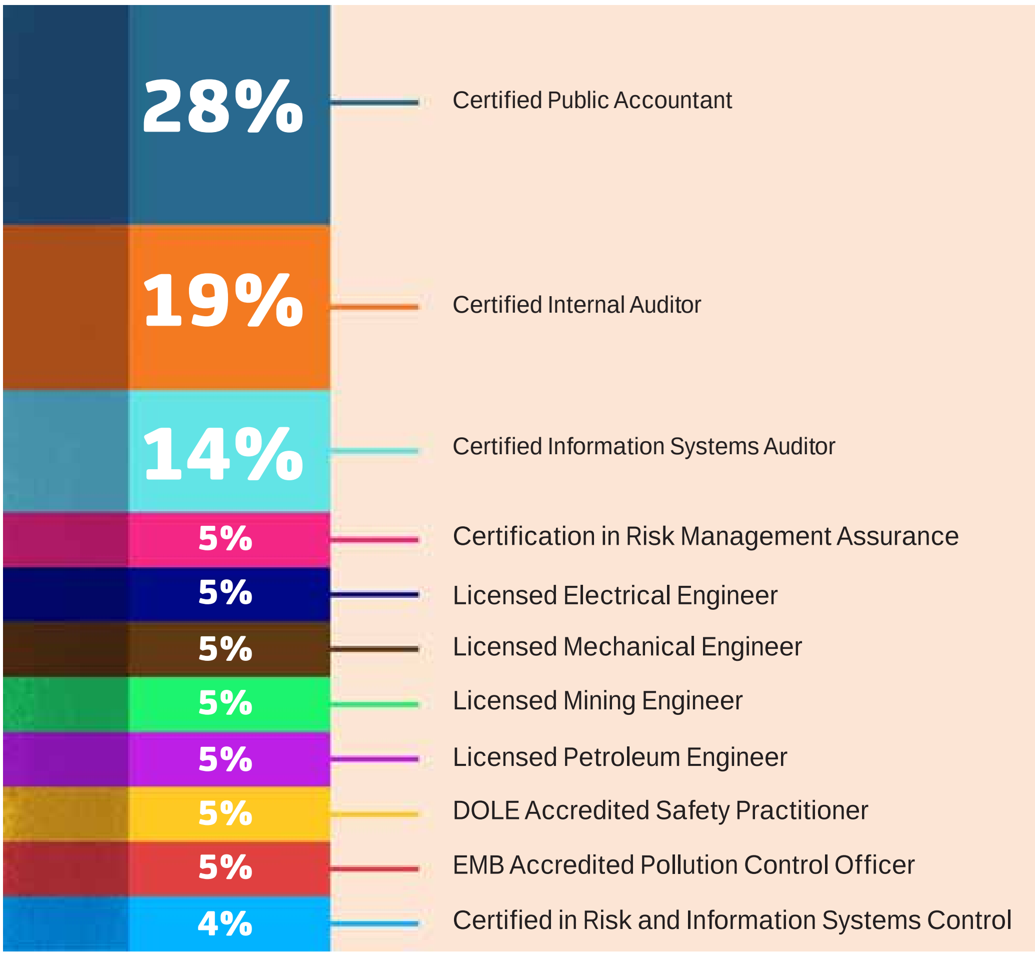
Semi-annual IMS internal audit review

Semi-annual review of IMS internal audit

Semi-annual surveillance audit and external certification audit

Annual Review of Internal Control System

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.

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 empower our minority shareholders with necessary safeguards, pertinent information, and opportunities to exercise their rights as well as to effectively manage their investments.

PRINCIPLE 13

The company treats all shareholders fairly and equitably.

Equitable Treatment of Shareholders

ONE COMMON SHARE, ONE 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 2017, our Company repurchased through the buyback program 2,735,100 treasury shares at P 100,372,510 through the Exchange at prevailing market prices.

2017 SHARE REPURCHASE

2,735,100 treasury shares
at P 100,372,510

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.

We ensure the rights and interests of our retail and institutional investors are protected. Our instituted policies and practices accord equal voting rights, reasonable economic returns and unrestricted access to material information as well as appropriate safeguards against discriminatory and abusive conduct.

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

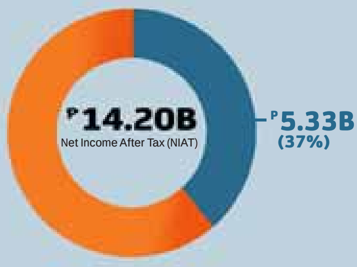
- Amendments to the Company's constitution and similar governing documents
- Appointment and re-appointment of external auditor
- Authorization of additional shares
- Election of Directors, done individually
- Extraordinary transactions, including transfer or sale of all or substantially all of the Company's 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 2017, nomination for Independent Directors by a minority shareholder was disclosed in our Company's SEC 20-IS.

EMPOWERING BENEFITS and VALUE: SMPC CONNECTS TO THEIR SHAREHOLDERS

We owe our continued success in our business to the people that support us. We grow as one, strengthening connections with our shareholders and stakeholders, forging long-lasting and meaningful relationships.



CASH DIVIDENDS

P5.00/share

TOTAL: P 5.33 B of NIAT

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.

On March 27, 2017, the Board approved and declared regular cash dividends of P5.00 per share or P5.33 billion representing 106.5% of our 2016 NIAT. On August 9, 2017, the Board approved and declared special cash dividends of P5.00 per share or P5.33 billion representing 106.5% of our 2016 NIAT.

All shareholders were fully paid the declared regular cash dividends by April 25, 2017 and the declared special cash dividends by September 8, 2017; both dividend payments made within thirty (30) days from the declaration dates.

STOCK DIVIDENDS

300% stock dividends of P 3,195,859,290.00

3,195,859,290 shares at P1.00 per value per share

Our shareholders approved at the 2017 ASM 300% stock dividends of P 3,195,859,290.00, or 3,195,859,290 shares at P1.00 par value per share, or effectively three (3) shares for every one common share held from our unrestricted retained earnings of as of December 31, 2016. SEC approved the issuance of the related shares on August 30, 2017.

Other Shareholder Rights

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 Shareholder's Meeting

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

Notice of the 2017 ASM was given on February 23, 2017, along with Proxy Forms.

On March 23, 2017, 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 2, 2017.

Per Company By-Laws, the Board has the authority to declare cash dividends, and the dividend policy information was disclosed in the Notice of 2017 ASM and in Part II(A) (3), Securities of the Registrant section of the Management Report accompanying the Notice of 2017 ASM.

Our Annual Shareholders' Meeting 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, respective chairpersons of the Compensation and Remuneration Committee, Corporate Governance Committee, and Risk Committee, other 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.

2017 ASM

Agenda

- Voting procedures and methods
- A Proxy Form with detailed instructions on proxy appointment and procedures to facilitate voting by shareholders who are unable to attend and vote
- Approval of the Minutes of previous annual shareholders' meeting held on May 2, 2016 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
- Amendment to the Corporation's Articles of Incorporation (Article VII) increasing the authorized capital stock from PhP3,000,000,000.00 to PhP10,000,000,000.00 and rational thereof
- Approval of 300% stock dividends amounting to PhP3,195,859,290.00 divided 3,195,859,290 shares at the par value of PhP1.00 per share or three (3) shares for every one common share held from the unrestricted retained earnings of the Corporation as of December 31, 2016 and to be issued from the increase in the authorized capital stock of the Corporation with authority to delegate to the President to fix the record and payment dates and rational thereof
- Re-appointment of independent external auditor, with details of name and qualification and rationale thereof; and
- 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.

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 2017 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's website on the same day of disclosure.

The list of Board Directors who attended the 2017 ASM are reported and disclosed in a certification of attendance to PSE and SEC and company website.

Minutes of the 2017 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 2017 ASM.

Venue

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

DUTIES TO STAKEHOLDERS

We protect the rights and interests of our stakeholders, 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.

We acknowledge our duties to our stakeholders and their roles in our Company's sustainable business.

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 protecting the welfare and rights of our employees.

Culture

We empower our employees by creating a culture of integrity and excellence where they can prosper and achieve their full potential.

Our talent development programs and performance management mechanisms are 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 calibre 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 on our behalf, including our visitors and stakeholders, to protect our Company's best assets and maximize their potentials.

In this regard, 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

We provide quality coal that meets our customers' stringent specifications. Excellent 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.

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.

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 • 0 Customer Data Privacy Violation Complaints in 2017	• 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. • Customer visits at our mine site provide access to our coal handling, testing and loading operations so they can inspect and monitor their orders.	• Timely resolution of concerns and complaints • 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; and 3) proper business ethics and professionalism in our communications. • 75 Customer visits conducted at the Mine Site in 2017

Quality

Our Quality Policy aims to keep on increasing 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

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.

Testing

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.

Inspection and Safety

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.

Product Reliability

We are capable of continuously supplying the agreed upon energy requirements of our customers.

Feedback

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 information could include, but are 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 that they respect the same, including 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 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.

Even among our power subsidiaries, 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 prevent, reduce or mitigate the impact of our operations and activities to the environment and to contribute to sustainable economic development through environmental best practices.

Social Development

Our Social Development Policy aims to provide lasting and positive contribution to the communities in which we operate through the establishment of mutually beneficial partnerships based on open, honest and constructive engagements.

Our Social Development Program (SDP) together with public private partnerships seek to empower communities in Semirara Island towards sustainable growth and self-sufficiency.

Our SDP programs 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

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)

- Control of spontaneous combustion on Coal Stockpiles through stockpile temperature monitoring and coal compaction
- Inspection of stockpiles every start and middle of the operation shift
- Road watering by six water trucks during dry season and hauling operation
- Setting truck speed limits at the mine site to reduce road dust emission
- Ambient air quality monitoring
- Regular water spraying during product transfers
- Preventive maintenance program of mobile and air-conditioning equipment
- Use of Euro 4 fuel for mobile equipment to reduce SO2 emission

Land Resources Management

- Reforestation
- Rehabilitation of depleted Unong and Panian mines

Water Resources Management

- Water management including Desalination Plant for industrial and domestic use
- Rehabilitation of depleted Unong and Panian mines
- Effluent monitoring
- Freshwater and seawater monitoring

Climate Change

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

We support our commitment to continuously improve our environmental performance and practices by:

- Allocating funds to programs and projects that support climate change research, mitigation, adaptation, preparedness and resilience;
- Enhancing the knowledge, capacities and readiness of our employees and other relevant stakeholders on climate change adaptation and mitigation;
- Encouraging our subsidiary companies to develop and implement environmental stewardship programs in their host communities;
- Adopting energy-efficient technologies and energy conservation practices across the SMPC group; and
- Partnering with stakeholders who can 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.

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.

Alternative Dispute Resolution Policy

We promote the use of alternative dispute resolution (ADR) options and processes in the settlement of corporate governance related disputes or differences with shareholders and key stakeholders.

Our active engagement and partnerships with the community, regulators and local government units encourage open communication of issues or concerns, if any, with affected stakeholder groups.

Such matters are discussed and readily resolved during community activities or raised during quarterly monitoring meetings with the Multi-Partite Monitoring Team.

Serious Offense

We consider violations of our country's commercial and competition laws as a serious and grievous offense.

Directors, Officers, employees, consultants, suppliers and contractors found to be responsible for such violations shall be dealt with, in accordance with our relevant policies.

Striking a Balance

While we put a premium on profit maximization and shareholder value optimization, we also recognize our duty to strike a proper balance between short-term financial performance and longer-term overall corporate performance.

OUR BOARD OF DIRECTORS

Isidro A. Consunji
Chairman and
Executive Director

Victor A. Consunji
Vice Chairman and
Executive Director

Josefa Consuelo C. Reyes
Non-Executive Director

Luz Consuelo A. Consunji
Non-Executive Director

Rogelio M. Murga
Independent Director

Maria Cristina C. Gotianun
Executive Director

Jorge A. Consunji
Non-Executive Director

Maria Edwina C. Laperal
Non-Executive Director

Honorio O. Reyes- Lao	Cesar A. Buenaventura	Herbert M. Consunji
Independent Director	Non-Executive Director	Non-Executive Director

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

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, 2017 and 2016, in accordance with prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the 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 22nd day of February 2018.

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.

February 22, 2018

Isidro A. Consunji
Chairman of the Board & Chief Executive Officer

Victor A. Consunji
Vice Chairman and President

AUDIT COMMITTEE REPORT TO THE BOARD OF DIRECTORS

For the Year Ended December 31, 2017

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.

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).

In 2017, the Audit Committee had nine (9) meetings which were presided by the Committee Chairman with full attendance by its Members, except in December 8, 2017 when said meeting was held with a quorum.

The Management Committee officers, external auditor SGV & Co., Internal Audit, Chief Governance Officer/Compliance Officer and the Compliance Committee are regularly invited to Committee Meetings to discuss, report and review financial results, as well as updates in regulatory developments, financial reporting, taxation and compliance.

In compliance with its Charter, 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, 2017. 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 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 scope, plan and audit and non-audit services, fees and terms of engagements. It discussed with the SGV Partner without the presence of Management related party transactions, 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 2018 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 reviewed the effectiveness of the internal audit function, including the performance review, remuneration and approved the promotion of Carla T. Levina as Chief Audit Executive;*

- *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, in joint meetings with the Risk Committee, discussed with Management and Internal Audit the results of risk reviews, and interdependencies of such risks to the Committee's oversight responsibilities. The oversight is done in the context that Management has the primary responsibility for the risk management process;*

- *The Committee reviewed and discussed with the Compliance Committee significant updates and Management actions 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 reviewed its Charter to align with SEC Code of Corporate Governance for Publicly Listed Companies. It conducted an assessment of its own performance which indicated an overall compliance level in consonance with SEC's Audit Committee performance assessment guidelines for PLCs; and*

- *The Committee continued to support the Company's governance framework through oversight of the Code of Conduct and Business Ethics and endorsement to the Board of good governance policies such as Climate Change and Data Privacy Act policies.*

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, 2017 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

February 22, 2018

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, 2017 and 2016, 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, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the 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 has recognized provision for decommissioning and site rehabilitation for the open pit mines of its coal mining activities totaling to P=1,687 million as of December 31, 2017. 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 17 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 performed tests of controls on the management processes and controls. We evaluated the competence, capabilities and objectivity of the engineers and reviewed the latest comprehensive mine rehabilitation plans prepared by the Group's Environmental Department Head. We obtained an understanding from the 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 external data.

Estimation of Mineable Ore Reserves

As discussed in Notes 3 and 10 to the consolidated financial statements, the Group's mining properties and stripping activity asset totaling to P4,957 million as of December 31, 2017 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 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 significant estimation from management's specialist.

Audit response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20 IS, SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 Cyril Jasmin B. Valencia.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1229-AR-1 (Group A),
May 12, 2015, valid until May 11, 2018
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621337, January 9, 2018, Makati City

February 22, 2018

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 31, 32 and 33)	P 8,470,908,677	P 6,993,039,850
Receivables (Notes 5, 20, 31 and 32)	6,475,048,571	5,685,581,598
Inventories (Notes 7 and 10)	5,914,112,470	5,386,460,570
Investment in joint venture (Note 8)	50,731,694	52,385,054
Investment in sinking fund (Notes 11, 15, 31 and 32)	-	68,716,379
Other current assets (Notes 6, 9 and 30)	3,422,844,965	2,968,146,401
Total Current Assets	24,333,646,377	21,154,329,852
Noncurrent Assets		
Property, plant and equipment (Notes 10 and 12)	43,014,048,021	43,352,166,628
Deferred tax assets - net (Note 27)	450,223,386	519,747,909
Other noncurrent assets (Notes 6, 13, 30, 31 and 32)	798,487,905	735,463,043
Total Noncurrent Assets	44,262,759,312	44,607,377,580
	P 68,596,405,689	P 65,761,707,432
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 16, 20, 31 and 32)	P 10,851,312,129	P 12,220,953,070
Short-term loans (Notes 14, 31 and 32)	-	1,600,000,000
Current portion of long-term debt (Notes 15, 31 and 32)	3,555,960,317	1,831,583,887
Total Current Liabilities	14,407,272,446	15,652,536,957
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 15, 31 and 32)	14,468,517,855	13,258,162,966
Provision for decommissioning and site rehabilitation (Note 17)	1,705,802,078	1,606,287,759
Pension liabilities (Note 21)	234,211,910	114,034,778
Deferred tax liability - net (Note 27)	54,990,685	1,230,930
Other noncurrent liabilities (Notes 13 and 20)	46,231,575	843,142,793
Total Noncurrent Liabilities	16,509,754,103	15,822,859,226
Total Liabilities	30,917,026,549	31,475,396,183
EQUITY		
Capital stock (Notes 18 and 31)	4,264,609,290	1,068,750,000
Additional paid-in capital (Notes 18 and 31)	6,675,527,411	6,675,527,411
Retained earnings (Notes 19 and 31):		
Unappropriated	18,013,400,740	19,152,984,511
Appropriated	9,300,000,000	7,800,000,000
Remeasurement losses on pension plan (Notes 21 and 31)	(86,238,763)	(23,403,645)
Treasury shares (Notes 18 and 31)	(487,919,538)	(387,547,028)
Total Equity	37,679,379,140	34,286,311,249
	P 68,596,405,689	P 65,761,707,432

See accompanying Notes to Consolidated Financial Statements.

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUE (Note 34)			
Coal	P 23,489,590,552	P 20,079,462,056	P 11,781,825,168
Power	20,453,898,667	16,504,913,084	12,898,346,411
	43,943,489,219	36,584,375,140	24,680,171,579
COSTS OF SALES (Notes 22 and 34)			
Coal	11,910,436,213	11,013,499,805	6,387,819,465
Power	8,423,045,908	7,687,521,521	4,154,272,904
	20,333,482,121	18,701,021,326	10,542,092,369
GROSS PROFIT	23,610,007,098	17,883,353,814	14,138,079,210
OPERATING EXPENSES (Notes 23 and 34)	(8,207,029,328)	(4,998,866,240)	(4,389,084,485)
INCOME FROM OPERATIONS	15,402,977,770	12,884,487,574	9,748,994,725
OTHER INCOME (CHARGES) - Net			
Finance income (Notes 25 and 34)	96,396,798	83,238,696	57,563,749
Finance costs (Notes 24 and 34)	(718,068,456)	(598,992,706)	(278,187,914)
Foreign exchange losses - net (Note 34)	(392,452,957)	(403,425,989)	(300,056,178)
Other income - net (Notes 26 and 34)	1,075,615,087	938,441,998	440,678,630
	61,490,472	19,261,999	(80,001,713)
INCOME BEFORE INCOME TAX	15,464,468,242	12,903,749,573	9,668,993,012
PROVISION FOR INCOME TAX (Notes 27 and 34)	1,255,328,423	863,079,585	1,182,083,931
NET INCOME	14,209,139,819	12,040,669,988	8,486,909,081
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on pension plan (Note 21)	(89,764,454)	10,151,614	(24,340,625)
Income tax effect	26,929,336	(3,045,484)	7,302,187
	(62,835,118)	7,106,130	(17,038,438)
TOTAL COMPREHENSIVE INCOME	P 14,146,304,701	P 12,047,776,118	P 8,469,870,643
Basic/Diluted Earnings per Share (Note 28)	P 3.33	P 2.82	P 1.99

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 18)	Additional Paid in Capital (Note 18)
		FOR THE YEAR ENDED
Balances as of January 1, 2017	P 1,068,750,000	P 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	P 4,264,609,290	P 6,675,527,411
		FOR THE YEAR ENDED
Balances as of January 1, 2016	P 1,068,750,000	P 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	P 1,068,750,000	P 6,675,527,411
		FOR THE YEAR ENDED
Balances as of January 1, 2015	P 1,068,750,000	P 6,675,527,411
Comprehensive income		
Net income	-	-
Other comprehensive loss	-	-
Total comprehensive income	-	-
Cash dividends declared	-	-
Appropriations	-	-
Balances as of December 31, 2015	P 1,068,750,000	P 6,675,527,411

See accompanying Notes to Consolidated Financial Statements.

Retained Earnings Unappropriated (Note 19)	Appropriated (Note 19)	Remeasurement Losses on Pension Plan (Note 21)	Treasury Shares (Note 18)	Total
DECEMBER 31, 2017				
P 19,152,984,511	P 7,800,000,000	(P 23,403,645)	(P 387,547,028)	P 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	-	-	-
P 18,013,400,740	P 9,300,000,000	(P 86,238,763)	(P 487,919,538)	P 37,679,379,140
DECEMBER 31, 2016				
P 13,887,314,523	P 5,300,000,000	(P 30,509,775)	P -	P 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	-	-	-
P 19,152,984,511	P 7,800,000,000	(P 23,403,645)	(P 387,547,028)	P 34,286,311,249
DECEMBER 31, 2015				
P 12,675,405,442	P 2,300,000,000	(P 13,471,337)	P -	P 22,706,211,516
8,486,909,081	-	-	-	8,486,909,081
-	-	(17,038,438)	-	(17,038,438)
8,486,909,081	-	(17,038,438)	-	8,469,870,643
(4,275,000,000)	-	-	-	(4,275,000,000)
(3,000,000,000)	3,000,000,000	-	-	-
P 13,887,314,523	P 5,300,000,000	(P 30,509,775)	P -	P 26,901,082,159

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P 15,464,468,242	P 12,903,749,573	P 9,668,993,012
Adjustments for:			
Depreciation and amortization (Notes 10, 13, 22 and 23)	6,570,624,945	3,680,181,127	1,742,035,951
Finance costs (Note 24)	718,068,456	598,992,706	278,187,914
Pension expense (Note 21)	51,148,930	45,927,827	19,392,265
Provision for doubtful accounts (Notes 5 and 23)	151,885	149,533,034	925,151,744
Equity in net loss of a joint venture		1,653,360	-
Loss (gain) on sale of equipment (Notes 10 and 26)	(126,227,184)	174,667	(76,461,975)
Finance income (Note 25)	(96,396,798)	(83,238,696)	(57,563,749)
Net unrealized foreign exchange losses (gain)	(52,477,164)	(47,305,303)	331,743,560
Provision for allowance for inventory obsolescence (Note 23)	-	1,239,090	20,902,458
Loss on disposal and write-down of property, plant and equipment (Notes 10 and 23)	-	-	16,087,500
Reversal of impairment losses (Note 26)	-	-	(10,683,653)
Operating income before changes in operating assets and liabilities	22,531,014,672	17,249,254,025	12,857,785,027
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(789,618,858)	(3,054,344,271)	421,890,473
Other current assets	(629,458,125)	(258,648,262)	(427,040,042)
Inventories	(129,404,465)	(847,783,647)	(1,499,056,144)
Increase (decrease) in trade and other payables	(943,267,084)	4,744,643,151	386,149,582
Cash generated from operations	20,039,266,140	17,833,120,996	11,739,728,896
Interest received	96,396,798	83,238,696	57,472,448
Income taxes paid	(1,303,057,213)	(790,821,132)	(842,987,927)
Interest paid	(604,901,388)	(696,337,575)	(264,564,378)
Pension settlement (Note 21)	(20,736,252)	(8,724,213)	(5,780,005)

Net cash provided by operating activities	18,206,968,085	16,420,476,772	10,683,869,034
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (including borrowing cost) (Notes 10 and 33)	(6,314,128,690)	(5,302,606,832)	(4,467,465,139)
Exploration and evaluation asset (Notes 10 and 12)	-	(1,932,281,360)	(566,470,643)
Investment in joint venture (Note 8)	-	(52,385,054)	-
Computer software (Note 13)	(9,948,827)	(7,220,424)	(2,803,293)
Proceeds from sale of equipment (Note 10)	126,227,184	3,000,000	76,461,975
Decrease (increase) in:			-
Investment in sinking fund (Note 11)	68,716,379	391,517,638	61,546,856
Other noncurrent assets (Note 13)	(58,366,748)	1,039,651,801	(223,135,347)
Increase (decrease) in other noncurrent liabilities (Note 13)	(1,094,351,764)	(829,158,729)	6,237,623
Net cash used in investing activities	(7,281,852,466)	(6,689,482,960)	(5,115,627,968)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 14, 15 and 33)	6,535,000,000	10,823,782,102	9,884,196,533
Acquisition of treasury shares (Notes 18 and 33)	(100,372,510)	(387,547,028)	-
Payments of:			
Loans (Notes 14, 15 and 33)	(5,223,502,036)	(13,478,092,863)	(10,076,979,391)
Dividends (Notes 19 and 33)	(10,651,501,099)	(4,275,000,000)	(4,275,000,000)
Net cash used in financing activities	(9,440,375,645)	(7,316,857,789)	(4,467,782,858)
Effect of exchange rate changes on cash and cash equivalents	(6,871,147)	(166,704,552)	(37,975,373)
Net increase in cash and cash equivalents	1,477,868,827	2,247,431,471	1,062,482,835
Cash and cash equivalents at beginning of year	6,993,039,850	4,745,608,379	3,683,125,544
Cash and cash equivalents at end of year (Note 4)	P 8,470,908,677	P 6,993,039,850	P 4,745,608,379

1. Corporate Information

Semirara Mining and Power Corporation (the Parent Company) is a corporation incorporated in the Philippines on February 26, 1980 with a corporate life of 50 years from and after 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 56.54% 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 will be collectively referred 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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issue by the Executive Committee of the Board of Directors (BOD) on February 22, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

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 that have been measured at fair value. The consolidated financial statements are prepared in Philippine Peso (P=), which is also the Parent Company's functional currency. All amounts are rounded off the nearest peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017.

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 members of the Group are eliminated in full on consolidation.

Control is achieved when the Group 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 Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support the presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group 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 rights and potential voting rights

The Group 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group 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 comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests (NCI) pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. NCI represent the portion of profit or loss and net assets in subsidiaries not owned by the Group and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from equity holders' of the Parent Company.

Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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 Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any result in gain or loss is recognized in profit or loss. Any investment retained is measured at fair value.

The consolidated financial statements include the financial statements of the Parent Company and the following wholly owned subsidiaries (which are all incorporated in the Philippines):

	Effective Percentages of Ownership		
	2017	2016	2015
SUBSIDIARIES			
Sem-Calaca Power Corporation (SCPC)	100.00%	100.00%	100.00%
Sem-Calaca RES Corporation (SCRC)*	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)	100.00	100.00	100.00
St. Raphael Power Generation Corporation (SRPGC)	-	-	100.00

**Wholly owned subsidiary of SCPC*

Except for SCPC and SLPGC, the Parent Company's subsidiaries have not yet started commercial operations as of December 31, 2017.

Southeast Luzon Power Generation Corporation (SELPGC) was formerly named as SEM-Balayan Power Generation Corporation (SBPGC).

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

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 noncontrolling 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 Philippine Accounting Standards (PAS) 39, Financial Instrument - Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with PAS 39. Other contingent consideration that is not within the scope of PAS 39 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 adoption of the following amended standards and improvements to PFRS which the Group has adopted starting January 1, 2017.

- 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 Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 33 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the years ended December 31, 2016 and 2015.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The adoption of this amendment has no effect on the Group's financial position and performance.

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, 2018

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

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

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

  The Group has assessed that the adoption of these amendments will not have impact to its consolidated financial statements because it does not have share-based payment arrangements.

- PFRS 9, *Financial Instruments*

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

  The Group plans to adopt the new standard on the mandatory effective date.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption is expected to impact the assessment of the Group's credit losses amount.

- PFRS 15, *Revenue from Contracts with Customers*

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

  The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. The Group made a preliminary assessment of the potential impact of PFRS 15 and has concluded that it has no material impact to the Group given that the accounting for the identified performance obligations and the related transaction prices, as well as manner and method of revenue recognition in its existing accounting policy is already consistent with PFRS 15.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

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

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Group is currently assessing the impact of the adoption of the interpretation in its consolidated financial statements.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will 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, building and mining equipment 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 arrangement as lessor.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more 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.

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.

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 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, net of outstanding bank overdrafts.

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 fair value through profit or loss (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.

As of December 31, 2017 and 2016, 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', 'Investment in sinking fund' and 'Environmental guarantee fund' under other noncurrent assets.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (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 'Net 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 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 fair value through profit or loss 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.

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 EIR method over the term of the related debt.

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 such as loans and receivables and other financial liabilities 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 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 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.

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.

<u>Derecognition of Financial Instruments</u>

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 derecognised (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.

Inventories

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.

Exploration and Evaluation Asset

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 mining 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 mine construction, the assets are transferred into property, plant and equipment. Items of property, plant and equipment except land 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 on the 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.

Intangible Assets

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 expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of 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 comprehensive income. During the period of development, the asset is tested for impairment annually.

Input Value-Added Taxes (VAT)
Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT on sale of goods and services subjected to VAT. 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 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 resources controlled by the Group as a result of past events and from which future economic benefits are expected 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, exploration and evaluation asset 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 investments 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:

- 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 assets and liabilities.

Revenue Recognition

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 Dollar, 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 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 is recognized based on the actual excess generation delivered to the WESM.

Cost of Sales

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 incurred.

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.

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 twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of reporting date.

Income Tax
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 statement of profit or loss. 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 statements 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 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 Group’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 34 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. *Exploration and evaluation expenditure*
The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

In 2016, the Group has assessed that it has completed all the activities necessary to commence commercial operations, including the appropriate regulatory approvals, for the Narra and Molave minesites and has reclassified all the exploration and evaluation expenditure to 'Property, plant and equipment' (see Notes 10 and 12).

b. *Determination of components of ore bodies and allocation measures for stripping cost allocation*
The Group has identified that each of its two active mine pits, Narra and Molave, is a whole separate ore component 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 30).

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 by using estimates provided by the Group's professionally qualified internal mining engineers and geologist. 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 P 4,957.33 million and P 5,183.44 million as of December 31, 2017 and 2016, respectively (see Note 10).

b. *Revenue recognition*

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of the revenues and receivables.

The Group's coal sales arrangement with its customers includes reductions of invoice price to take into consideration charges for penalties and upward adjustments due to quality of coal. These price adjustments may arise from the actual quantity and quality of delivered coal. There is no assurance that the use of estimates may not result in material adjustments in future periods.

c. *Estimating allowance for doubtful accounts*

The Group maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to debtors' ability to pay all amounts due according to the contractual terms of the receivables being evaluated, historical experience and any regulatory actions. The Group regularly performs a review of the age and status of receivables and identifies accounts that are to be provided with allowance.

The amount and timing of recorded impairment loss for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts would increase the recorded operating expenses and decrease the current assets.

The above assessment resulted to an additional allowance of P=0.15 million and P=140.42 million in 2017 and 2016, respectively.

The allowance for doubtful accounts for receivables is disclosed in Note 5.

d. *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 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.

e. *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.

f. *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.

In 2017, the Group impaired its capitalized development cost for clay business amounting to P 156.07 million since management assessed that the feasibility of putting the clay production into commercial scale is not feasible (see Note 13). The impairment loss is recorded under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 23).

g. *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 under Section 8 of the Land Lease Agreement 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 17.

h. *Estimating useful lives of property, plant and equipment (except land)*

The Group estimated the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives 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 of P=840.08 million during the year. 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.

i. *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 27.

j. *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 21 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.

k. *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:

	2017	2016
Cash on hand and in banks	P 2,509,307,762	P 2,586,289,267
Cash equivalents	5,961,600,915	4,406,750,583
	P 8,470,908,677	P 6,993,039,850

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of up to three 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 4.10% and 0.25% to 2.50% in 2017 and 2016, respectively.

In 2017, 2016 and 2015, total interest income earned from cash and cash equivalents amounted to P 95.32 million, P 78.49 million and P 47.89 million, respectively (see Note 25).

5. Receivables

This account consists of:

	2017	2016
Trade receivables - outside parties	P 7,661,303,437	P 7,021,032,378
Trade receivables - related parties (Note 20)	241,052,373	76,578,145
Others	117,616,237	132,742,665
	8,019,972,047	7,230,353,188
Less allowance for doubtful accounts	1,544,923,476	1,544,771,590
	P 6,475,048,571	P 5,685,581,598

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 P 674.00 million as of December 31, 2017 and 2016. 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 Dollar and local sales for coal sold to domestic market which are priced in Philippine Peso.

As of December 31, 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 after the Supreme Court has issued an Entry of Judgement in favor of the Group (see Notes 26 and 30).

Trade receivables - related parties

Receivables from related parties are noninterest-bearing and collectible over a period of one year. These are generally settled in cash.

Others

Others include advances to officers, employees and receivables from sale of fly ashes. These are generally non-interest 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 doubtful accounts are as follows:

	2017		
	Trade receivables - outside parties	Others	Total
At January 1	P 1,538,956,231	P 5,815,359	P 1,544,771,590
Provision (Note 23)	151,886	-	151,886
At December 31	P 1,539,108,117	P 5,815,359	P 1,544,923,476

	2016		
	Trade receivables - outside parties	Others	Total
At January 1	P 1,422,325,627	P 5,815,359	P 1,428,140,986
Provision (Note 23)	140,417,501	-	140,417,501
Reversal	(23,786,897)	-	(23,786,897)
At December 31	P 1,538,956,231	P 5,815,359	P 1,544,771,590

In 2016, the Group has directly written off trade receivables amounting to P=32.90 million which is also included in 'Provision for doubtful accounts' (see Note 23).

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 Wholesale Electricity Spot Market (WESM) which 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. The derivative is not designated as a hedging instrument against the Group's exposure in the WESM.

Significant inputs to the valuation includes WESM prices ranging from P 2.67 to P 3.58 per kilowatt hour (KWH), foreign currency exchange rates of Philippine peso to US dollar ranging from P 43.28 to P 51.80 consumer price and coal price index based on a four - year historical data and discount rate using Philippine Dealing System Treasury Reference Rate (PDST - R2) as of reporting date. 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. As of December 31, 2017, the Group recognized derivative asset amounting to P 219.67 million under separately classified under 'Other current and noncurrent assets' (see Notes 9 and 13) and recorded realized and unrealized gain on financial contract amounting to P 36.60 million and P 219.67 million, respectively, under 'Other income' for the year ended December 31, 2017 (see Note 26).

7. Inventories

This account consists of:

	2017	2016
Spare parts and supplies - at NRV	P 4,590,347,389	P 3,564,480,064
Coal pile inventory - at cost	1,323,765,081	1,821,980,506
	P 5,914,112,470	P 5,386,460,570

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 P 11,746.47 million, P 10,564.12 million and P 6,184.99 million in 2017, 2016 and 2015, respectively (see Note 22).

Coal pile inventory at cost includes capitalized depreciation of P 273.41 million, P 157.31 million and P 112.12 million in 2017, 2016 and 2015, respectively (see Note 10).

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, including facilities to purchase, manufacture, develop or process fuel for the generation of such electricity, to sell electricity to any person or entity through electricity markets, by trading, or by contract, to administer, conserve and manage the electricity generated by power-generating plants, owned by SRPGC or by a third party, to invest in or acquire corporations or entities engaged in any of the foregoing activities.

SRPGC has authorized capital stock of P50.00 million divided into 50.00 million shares with a par value of P 1.00 per share, to which the Parent Company has subscribed 12.50 million shares of the authorized capital stock and paid P 3.12 million of said subscription. On October 11, 2016, SRPGC increased its authorized capital stock from 50.00 million shares with a par value of P 1.00 per share to 1,100.00 million shares with a par value of P 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 a separate legal entity, SRPGC, an incorporated entity with the purpose of constructing, owning and operating a 2x350 MW sub-critical boiler power plant project and marketing the power output of the power plant. 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. The management assessed that SRPGC is jointly controlled by the Parent Company and MGen and accounted 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 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 P 9.38 million of the previously subscribed 12.50 million shares of stock with a par value of P 1.00 per share.

On May 27, 2016, the Parent Company paid a total of P 46.00 million as additional investment in SRPGC.

As of December 31, 2017, SRPGC has not yet started commercial operations.

9. Other Current Assets

This account consists of:

	2017	2016
Advances to suppliers (Note 20)	P 1,711,614,715	P 819,358,241
Input VAT	1,059,342,697	1,635,147,559
Creditable withholding tax	532,950,076	434,767,144
Financial assets at FVPL (Note 6)	82,163,633	-
Prepaid insurance	8,440,713	37,414,993
Prepaid rent (Notes 13 and 30)	7,499,183	7,553,004
Others	20,833,948	33,905,460
	P 3,422,844,965	P 2,968,146,401

Advances to suppliers

Advances to suppliers account represent payments made in advance for the construction in progress and acquisition of materials and supplies. These advances are applied against supplier monthly billings and portion are applied within one year from the date the advances have been made.

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. Non-current portion of input VAT is included in 'Other noncurrent assets' (see Note 13).

Financial asset at FVPL

Financial asset at FVPL pertain to an option agreement entered into by the Group during the year classified as derivative that is not designated as a hedging instrument (see Note 6).

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.

Others

Others include prepayments on real property taxes and other charges.

10. Property, Plant and Equipment

The rollforward of this account follows:

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	P 376,811,469	P 26,313,579,059	P 42,400,863,709	P 827,359,725	P 1,746,116,926	P 71,664,730,888
Additions (Note 17)	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 (Note 26)	-	(3,607,042,476)	(3,499,538,816)	(1,933,675)	-	(7,108,514,967)
Adjustment (Note 17)	-	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, 22 and 23)	-	3,564,723,545	3,219,186,209	54,829,713	-	6,838,739,467
Disposals (Notes 26)	-	(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	P 386,884,790	P 9,171,188,130	P 30,981,391,205	P 308,334,908	P 2,166,248,988	P 43,014,048,021

2016

	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	P 376,811,469	P 18,277,631,300	P 22,343,024,066	P 827,359,725	P 19,302,295,902	P 61,127,122,462
Additions (Note 17)	-	3,048,827,993	263,418,735	-	2,854,023,863	6,166,270,591
Reclassifications	-	5,009,565,376	20,176,641,568	-	(20,238,460,625)	4,947,746,319
Disposals (Note 26)	-	(13,675,439)	(382,220,660)	-	-	(395,896,099)
Adjustment (Note 17)	-	(8,770,171)	-	-	(171,742,214)	(180,512,385)
At December 31	376,811,469	26,313,579,059	42,400,863,709	827,359,725	1,746,116,926	71,664,730,888
Accumulated Depreciation						
At January 1	-	15,968,478,768	8,006,621,961	409,365,390	-	24,384,466,119
Depreciation and amortization						
(Notes 3, 7, 22 and 23)	-	1,960,073,095	2,305,916,765	54,829,714	-	4,320,819,574
Disposals (Notes 26)	-	(10,500,773)	(382,220,660)	-	-	(392,721,433)
At December 31	-	17,918,051,090	9,930,318,066	464,195,104	-	28,312,564,260
Net Book Value	P 376,811,469	P 8,395,527,969	P 32,470,545,643	P 363,164,621	P 1,746,116,926	P 43,352,166,628

'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 17).

'Mine properties, mining tools and other equipment' also includes the stripping activity asset. In 2016, the amount of P 4,947.75 million was reclassified from exploration and evaluation assets due to completion of development phase of Narra and Molave mines (see Note 12).

As of December 31, 2017 and 2016, mine properties included in 'Mine properties, mining tools and other equipment' amounted to P 4,957.23 million and P 5,183.44 million, respectively.

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, 2017 and 2016.

In 2016, there is a reclassification from construction in progress to power plant and building in the amount of P 20,176.64 million for the completion of construction of 2x150MW coal-fired thermal power plant of SLPGC which started commercial operations on April 1, 2016; 1x15MW power plant of the Parent Company which started commercial operations in August 2016 and rehabilitation of Unit 2 power plant of SCPC from November 2015 to April 2016.

In 2017, there were reclassifications from construction in progress to power plant and building in the amount of P 854.81 million 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 P 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 in 2017 since the 2x150MW coal-fired thermal power plant of SLPGC already started commercial operation. In 2017, 2016 and 2015, the Group sold various equipment at a gain (loss) amounting to P 126.23 million, (P 0.17) million and P 76.46 million, respectively (see Note 26).

The Group incurred a loss from property, plant and equipment write-down due to the replacement of generation units and retirement of mining equipment amounted to nil in 2017 and 2016 and P 16.09 million in 2015 (see Note 23).

The cost of fully depreciated assets that are still in use amounted to P 10,911.15 million and P 12,906.73 million as of December 31, 2017 and 2016, 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 (SLPGC in 2017, SCPC and SLPGC in 2016) amounted to P 17,983.44 million and P 33,131.66 million as of December 31, 2017 and 2016, respectively.

Depreciation and amortization follow:

	2017	2016	2015
Included under:			
Inventories (Note 7)	P 273,405,238	P 157,309,090	P 112,122,124
Mine properties, mining tools and other equipment	-	486,097,525	382,953,462
Cost of coal sales (Note 22):			
Depreciation and amortization	2,775,248,241	1,157,006,529	519,842,448
Hauling and shiploading costs	57,125,284	26,830,788	32,253,172
Cost of power sales (Note 22):			
Cost of coal			
Depreciation and amortization	672,061,538	268,925,354	291,951,404
Depreciation	2,164,203,384	2,170,627,728	1,006,345,938
Operating expenses (Note 23)	901,986,496	56,790,728	43,246,105
	P 6,844,030,181	P 4,323,587,742	P 2,388,714,653
Depreciation and amortization of:			
Property, plant and equipment	P 6,838,739,467	P 4,320,819,574	P 2,386,461,836
Computer software (Note 13)	5,290,714	2,768,168	2,252,917
	P 6,844,030,181	P 4,323,587,742	P 2,388,714,753

Depreciation and amortization 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 P 7.86 million, P 22.68 million and nil in 2017, 2016 and 2015 respectively.

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 (see Note 15) provided that the Security Trustee shall invest and reinvest the monies on deposit in Collateral Accounts. 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 nil and P 68.72 million as of December 31, 2017 and 2016, respectively. Such security agreement was released in 2017 as discussed in Note 15.

Interest from sinking fund amounted to P 0.69 million, P 4.31 million and P 8.99 million in 2017, 2016 and 2015, respectively (see Note 25).

12. Exploration and Evaluation Asset

The rollforward of this account for the year ended December 31, 2016 follows:

At January 1, 2016	P 3,015,464,959
Addition	1,932,281,360
Transfer to property, plant and equipment (Note 10)	(4,947,746,319)
At December 31, 2016	P-

These costs are related to exploratory drilling and activities in Narra and Molave minesites which have started the development phase in 2013 and 2016, respectively. Both minesites have started commercial operation on the last quarter of the year after the full depletion of Panian minesite in September 2016. The end of the development phase of the Narra and Molave minesite resulted to the reclassification of capitalized cost to 'Mine properties, mining tools and other equipment' which is included in 'Property, plant and equipment' (see Note 10).

13. Other Noncurrent Assets and Other Noncurrent Liabilities

Other Noncurrent Assets

This account consists of:

	2017	2016
Input VAT - net of current portion	P 383,945,378	P 306,323,998
Financial asset at FVPL (Note 6)	219,668,003	-
Claims for refunds and tax credits - net	175,208,925	175,208,925
Prepaid rent (Note 30)	75,645,101	80,869,301
Computer software - net	13,886,622	9,228,509
Environmental guarantee fund (Notes 31 and 32)	3,520,000	3,520,000
Capitalized development costs for clay business - net	-	156,068,623
Others	13,245,944	8,765,942
	885,119,973	739,985,298
Less current portion of :		
Financial asset at FVPL (Note 6)	82,163,633	-
Prepaid rent (Note 9)	4,468,435	4,522,255
	P 798,487,905	P 735,463,043

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 lower. The balance is recoverable in future periods.

Claims for refunds and tax credits

This amount pertains 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, 2017 and 2016 is presented net of allowance for impairment losses amounting to P 15.29 million.

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. Development activities are not yet completed as of December 31, 2017.

In 2017, the Group recognized impairment loss amounting to P 156.07 million due to the management's assessment 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 23).

Prepaid rent

Prepaid rent under other noncurrent assets pertain 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 P 71.23 million and P 76.35 million in 2017 and 2016, respectively (see Note 30).

Computer software

Movements in computer software account follow:

	2017	2016
At Cost		
At January 1	P 43,126,803	P 35,906,383
Additions	9,948,827	7,220,420
At December 31	53,075,630	43,126,803
Accumulated Amortization		
At January 1	33,898,294	31,130,126
Amortization (Note 10)	5,290,714	2,768,168
At December 31	39,189,008	33,898,294
Net Book Value	P 13,886,622	P 9,228,509

Environmental guarantee fund

Environmental guarantee fund represents the funds designated to cover all costs attendant to the operation of the Multi-partite Monitoring Team of the Group's environmental unit.

Others

Others include various types of deposits and prepaid taxes which are recoverable over more than one year.

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to the non-current portion of retention contract payment that is being withheld from the contractors as guaranty for any claims against them. As of December 31, 2017 and 2016, retention payable amounted to P=46.23 million and P=843.14 million, respectively (see Note 20).

14. Short-term Loans

Short-term loans represent various unsecured promissory notes from local banks with interest rates ranging from 2.40% to 2.50% in 2016, and are payable within one year. On December 22, 2017, short-term loans amounting to P 1,600.00 million was paid in full.

The carrying amount of these short-term loans amounted to P 1,600.00 million as of December 31, 2016 and none as of December 31, 2017.

The interest expense on these short-term loans recognized under 'Finance cost' amounted to P 56.97 million, P 77.92 million and P 57.99 million in 2017, 2016 and 2015, respectively (see Note 24).

15. Long-term Debt

This account consists of long-term debt availed by the Group as follows:

	2017	2016
Mortgage payable	P 10,633,018,874	P 9,471,439,192
Bank loans	7,391,459,298	5,618,307,661
	18,024,478,172	15,089,746,853
Less current portion of:		
Mortgage payable	1,703,703,704	1,831,583,887
Bank loans	1,852,256,613	-
	3,555,960,317	1,831,583,887
	P 14,468,517,855	P 13,258,162,966

<u>Mortgage Payable</u>

SLPGC

On February 4, 2012, SLPGC entered into an P=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, the 67% of issued and outstanding shares of SLPGC owned by the Parent Company were pledged on this loan. 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	P6,000,000,000
BPI	3,000,000,000
CBC	2,500,000,000
	P 11,500,000,000

Details of the loan follow:

a. Interest: At applicable interest rate, Philippine Dealing System Treasury-Fixing (PDST-F + 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 fourteenth quarter from the initial borrowing date. Final repayment date is ten years after initial borrowing which is on 2022.

As of December 31, 2017 and 2016, outstanding loan payable is P 7,647.95 million and P 9,343.56 million, respectively.

Rollforward of the deferred financing cost follows:

	2017	2016
At January 1	P26,811,361	P 36,959,208
Amortization (Note 24)	(8,099,496)	(10,147,847)
At December 31	P 18,711,865	P 26,811,361

In 2017, 2016 and 2015, SLPGC incurred interest expense on long-term debt amounting to P 295.73 million, P 272.38 million and nil, respectively (see Note 24).

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, 2017 and 2016.

The remaining borrowing facility that can be drawn as of December 31, 2017 and 2016 amounted to P 1,100.00 million and P 1,100.00, respectively.

SCPC

On May 20, 2010, SCPC entered into a P 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. On May 30, 2017, SCPC has paid the last amortization of the Omnibus Agreement.

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. Such security arrangement was released in 2017 (see Note 10).

Breakdown of the original principal of syndicated loan is as follows:

BDO Unibank	P6,000,000,000
BPI	2,000,000,000
PNB	1,500,000,000
	P 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 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 December 22, 2017, SCPC entered into a P 3,000.00 million interest bearing Promissory Note with BDO Unibank, Inc. Interest is payable every three 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 years after initial borrowing.

Rollforward of the deferred financing cost follows:

	2017	2016
At January 1	P119,817	P 6,240,661
Additions	15,000,000	-
Amortization (Note 24)	(183,889)	(6,120,844)
At December 31	P 14,935,928	P 119,817

Amortization of debt finance cost recognized under 'Finance cost' account in the consolidated statements of comprehensive income amounted to P 0.18 million, P 6.12 million and P 10.95 million in 2017, 2016 and 2015, respectively (see Note 24).

In 2017, 2016 and 2015, SCPC incurred interest expense on long-term debt amounting to P 1.53 million, P 22.15 million and P 124.49 million, respectively (see Note 24).

On February 29, 2016, SCPC prepaid the P 1,600.88 million of the long-term portion of the debt.

As of December 31, 2017 and 2016, outstanding loan payable is P 2,985.06 million and P 127.88 million, respectively.

The remaining borrowing facility that can be drawn as of December 31, 2017 and 2016 amounted to P 10,000.00 million and P 6,200.00 million respectively.

<u>Bank Loans - Parent Company</u>

Loan Type	Date of Availment	Outstanding Balance 2017	2016	Maturity	Interest Rate	Payment Terms	Covenants
Peso loan 1	2016	P 1,837,500,000	P 2,100,000,000	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	-	2020	Floating rate to be repriced every 3 months based on 3-months "PDST-R2" plus a spread of one and half 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	-	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	1,350,968,798	1,345,286,774	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	1,319,641,378	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	856,983,887	853,379,509	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
		P 7,391,459,298	P5,618,307,661				

All bank loans are clean and are compliant with loan covenants.

Interest expense on long-term debt recognized under ‘Finance cost’ amounted to P 196.72 million, P 128.85 million and P 44.09 million in 2017, 2016 and 2015, respectively (see Note 24).

The remaining borrowing facility that can be drawn as of December 31, 2017 and 2016 amounted to P 11,300.00 million and P 7,900.00 million, respectively.

The principal maturities of long-term debt as of December 31, 2017 and 2016 follow:

	2017	2016
Due in:		
2017	P -	P 1,831,583,887
2018	3,555,960,317	3,014,411,119
2019	4,429,132,819	3,895,084,530
2020	4,372,889,928	3,798,128,281
2021	2,569,841,688	1,699,902,153
2022	1,598,467,377	-
2023	748,700,005	-
2024	749,486,038	850,636,883
	P 18,024,478,172	P 15,089,746,853

16. Trade and Other Payables

This account consists of:

	2017	2016
Trade:		
Payable to suppliers and contractors	P 6,226,941,975	P 6,218,171,878
Related parties (Note 20)	1,610,123,194	2,983,409,739
Payable to DOE and local government units (LGU) (Note 29)	1,542,238,865	1,647,719,455
Output VAT Payable	1,113,534,421	789,399,098
Accrued expenses and other payables (Note 20)	358,473,674	582,252,900
	P 10,851,312,129	P 12,220,953,070

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 P 593.98 million (US$11.90 million) and P 739.57 million (US$14.87 million) as of December 31, 2017 and 2016, respectively, to various foreign suppliers for open account purchases of equipment and equipment parts and supplies (see Note 31).

Trade payables are noninterest-bearing and are normally settled on 30- to 60-day credit terms.

Payable to DOE and LGU

Payable to DOE and LGU represent the share of DOE and LGU in the gross revenue 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 29).

Output VAT payable

Output VAT pertains to the VAT due on the sale of electricity net of input VAT.

Accrued expenses and other payables

Details of the accrued expenses and other payables account follow:

	2017	2016
Taxes, permits and licenses	P123,395,880	P 343,909,575
Interest	62,200,132	32,812,917
Salaries and wages	62,063,372	33,410,317
Financial benefit payable	17,387,946	17,387,946
Rental (Note 20)	8,684,806	7,187,400
Professional fees	1,782,019	1,782,019
Others	82,959,519	145,762,726
	P 358,473,674	P 582,252,900

Others include accruals on contracted services, utilities, supplies and other administrative expenses.

Accrued expenses and other payables are noninterest-bearing and are normally settled on a 30-to 60-day terms.

17. Provision for Decommissioning and Site Rehabilitation

The rollforward of this account follows:

	2017	2016
At January 1	P 1,606,287,759	P 513,701,432
Additions (Note 22)	147,269,942	1,089,423,459
Effect of change in estimates (Note 10)	159,731,132	(8,770,171)
Usage	(293,107,253)	(13,286,852)
Accretion of interest (Note 24)	85,620,498	25,219,891
At December 31	P 1,705,802,078	P 1,606,287,759

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 provision for decommissioning and site rehabilitation follows:

	2017	2016
Mining	P 1,686,536,073	P 1,592,574,265
Power	19,266,005	13,713,494
At December 31	P 1,705,802,078	P 1,606,287,759

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 4.80% to 7.50% and 3.86% to 8.77% in 2017 and 2016, 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 completed and closed its operations in September 2016. All mine sites 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 minepit.

The addition of P1,089.42 million in 2016 pertains to a significant change in rehabilitation plan of Panian mine pit. The previous plan include partial backfilling of open areas while portion will be converted into a lake. In 2016, the rehabilitation plan of Panian minepit was changed, such that the entire open pit will be covered with overburden from Narra and Molave mine pits. The addition of P 147.27 million in 2017 pertains to a significant change in the timing of the rehabilitation plan of Panian mine pit. The previous plan to complete backfilling of Panian minepit for a period of nine years was accelerated into two years, such that the entire open pit will be covered with overburden from Narra and Molave mine pits. The additional costs represent the incremental cost of moving the overburden from Narra and Molave pits, while the effect of change in estimate is due to the updating of discount rate and inflation rate (see Note 22).

18. Capital Stock

The details of the Parent Company's capital stock as of December 31, 2017 and 2016 are as follows:

	2017	
	Shares	Amount
Authorized - P=1 par value		
Balance at beginning of year	3,000,000,000	P 3,000,000,000
Increase in authorized capital stock	7,000,0000,000	7,000,0000,000
Balance at end of year	10,000,000,000	P 10,000,000,000
Issued and outstanding		
Capital stock		
Balance at beginning of year	1,068,750,000	P 1,068,750,000
Stock dividends declared (Note 19)	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	P 3,776,689,752

	2016	
	Shares	Amount
Authorized - P 1 par value		
Balance at beginning and end of year	3,000,000,000	P=3,000,000,000
Issued and outstanding		
Capital stock		
Balance at beginning and end of year	1,068,750,000	P=1,068,750,000
Treasury shares		
Balance at beginning of year	-	-
Treasury shares acquired	(3,463,570)	(387,547,028)
Balance at end of year	(3,463,570)	(387,547,028)
	1,065,286,430	P 681,202,972

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 P=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 P 36.00 per share.

On August 18, 2014, the SEC approved the increase in authorized capital stock of the Parent Company from P 1,000.00 million to P=3,000.00 million divided into 3,000.00 million common shares with a par value of P 1 per share.

On February 23, 2017, the SEC approved the increase in authorized capital stock of the Parent Company from P 3,000.00 million to P 10,000.00 million divided into 10,000.00 million common shares with a par value of P 1 per share.

Treasury shares

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 P 387.55 million. This is presented as treasury shares in the consolidated financial statements.

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 for a period of 60 days beginning December 8, 2017. As of December 31, 2017, the Parent Company has bought-back a total of 2,735,100 shares for a total consideration of P 100.37 million. This is presented as treasury shares in the consolidated financial statements.

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	P 1/share		
Add (deduct):				
Additional issuance	19,657,388	P 1/share	July 2, 2004	
Conversion of preferred shares to common shares	225,532	P 1/share	July 2, 2004	
Decrease in issued and outstanding common share from capital restructuring	(1,625,852,920)			
Share dividends	225,000,000	P 1/share	July 2, 2004	
Public offering additional issuance	46,875,000	P 36/share	February 4, 2005	
December 31, 2010	296,875,000			632
Add: Share rights offering	59,375,000	P 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

19. Retained Earnings

As of December 31, 2017 and 2016, retained earnings amounted to P 27,313.40 million and P 26,952.98 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.

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, 2017 amounted to P 6,207.09 million.

Cash Dividends

On August 9, 2017, the Parent Company's BOD authorized the Parent Company to declare and distribute cash dividends of P 5.00 per share or P 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 P 5.00 per share or P 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 P 4.00 per share or P=4,275.00 million to stockholders of record as of May 17, 2016. The said cash dividends were paid on May 27, 2016.

On April 22, 2015, the Parent Company's BOD authorized the Parent Company to declare and distribute cash dividends of P 4.00 per share or P 4,275.00 million to stockholders of record as of May 7, 2015. The said cash dividends were paid on May 20, 2015.

Stock Dividends

On February 23, 2017, the stockholders of the Parent Company approved the 300% stock dividends amounting to P 3,195.86 million, divided into 3,195.86 million shares at the par value of P 1.00 per share, or three (3) 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 P 1,600.00 million and P 700.00 million for the power generation and coal mining operations, respectively, are retained for the ongoing activities in the SLPGC 2X25 MW gas turbine and future additional subscription payments to SLPGC and the continuing capital expenditure for the coal mining segment.

On March 27, 2017, in relation to the completion of the SLPGC 2x150 coal-fired thermal power plant, the BOD approved the reversal of previously appropriated retained earnings of P 3,000.00 million.

On February 23, 2017, the BOD approved the appropriation of P 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 on-going power capacity expansion project which are expected to be completed by 2023.

On November 8, 2016, the BOD approved the appropriation of P 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 P=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 its wholly-owned subsidiary, SLPGC. The said power plant started commercial operation last 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 P 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 P 700.00 million appropriation to partially cover new capital expenditures for the Group's mine operation.

20. Related Party Transactions

The Group in its regular conduct of business has entered into transactions with Other 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:

	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)	P 153,390,884	P 241,052,373	Non-interest bearing, due and demandable	Unsecured, no impairment
Trade payables (Note 16)					
Entities under common control					
Reimbursement of shared expenses	(a)	32,000	(P 33,500)	30 days, non-interest bearing	Unsecured
Operation and maintenance fees	(c)	326,525,568	(26,468,360)	30 days, non-interest bearing	
Coal handling services	(d)	853,745,798	(153,074,382)	30 days, non-interest bearing	Unsecured
Mine exploration and hauling services	(e)	64,800,000	(64,800,000)	30 days, non-interest bearing	Unsecured
Construction and other outside services	(f)	966,832,736	(928,677,744)	30 days for monthly billings and portion after expiration of, retention period, non-interest bearing	Unsecured
Purchases of office supplies and refreshments	(g)	-	(523,461)	30 days, non-interest bearing	Unsecured
Office, parking and warehouse rental expenses	(h)	64,983,195	(66,885,951)	30 days, non-interest bearing	Unsecured
Aviation services	(i)	103,559,792	(12,241,378)	30 days, non-interest bearing	Unsecured
Arrastre and Cargo Services	(j)	5,685	(1,722,907)	30 days, non-interest bearing	Unsecured
Retention payable	(k)	5,699,192	(355,695,511)	30 days, non-interest bearing	Unsecured
		2,386,183,966	(P 1,610,123,194)		

	2017				
	Reference	Amount/Volume	Receivable (Payable)	Terms	Conditions
Other noncurrent liabilities (Note 13)					
Entities under common control Retention payable	(k)	-	(P 46,231,575)	Non-interest bearing	Unsecured

	Reference	Amount/Volume	Receivable (Payable)	Terms	Conditions
			2016		
Trade receivables (Note 5)					
Entities under common control Sale of materials, services and reimbursement of shared expenses	(a)	P 32,118,987	P 76,578,145	Non-interest bearing, due and demandable	Unsecured, no impairment
Advances to suppliers - current (Note 9)					
Entities under common control Construction and outside services	(b)	P 165,442,477	P 234,206,485	Non-interest bearing, recoupment through monthly and final billings	Unsecured, no impairment
Trade payables (Note 16)					
Entities under common control					
Reimbursement of shared expenses	(a)	P -	(P 44,705)	30 days, non-interest bearing	Unsecured
Operation and maintenance fees	(c)	362,640,742	(21,704,777)	30 days, non-interest bearing	
Coal handling services	(d)	596,877,187	(109,561,084)	30 days, non-interest bearing	Unsecured
Mine exploration and hauling services	(e)	1,437,260,355	(751,942,643)	30 days, non-interest bearing	Unsecured
Construction and other outside services	(f)	971,238,050	(1,640,659,137)	30 days, non-interest bearing 30 days for monthly billings and portion after expiration of, retention period	Unsecured
Purchases of office supplies and refreshments	(g)	-	(1,500)	30 days, non-interest bearing	Unsecured
Office, parking and warehouse rental expenses	(h)	8,485,610	(1,902,754)	30 days, non-interest bearing	Unsecured
Aviation services	(i)	-	(12,725,108)	30 days, non-interest bearing	Unsecured
Arrastre and Cargo Services	(j)	1,905,527	(1,666,049)	30 days, non-interest bearing	Unsecured
Retention payable	(k)	15,780,000	(443,201,982)	30 days, non-interest bearing	Unsecured
		P 3,394,187,471	(P 2,983,409,739)		

	Reference	Amount/Volume	Receivable (Payable)	Terms	Conditions
Other noncurrent liabilities (Note 13)					
Entities under common control Retention payable	(k)	P 152,468,242	(P 423,813,611)	Non-interest 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 2x150MW coal-fired thermal power plant of SLPGC.

   All outstanding balances from affiliates are included in receivables under 'Trade receivable - related parties' and 'Trade payables - related parties' in the consolidated statements of financial position.

b. In 2016, DMCI was engaged by SLPGC in the construction of the 2x150MW coal-fired thermal power plant. Billings of DMCI was charged to 'Construction in progress' account. Advances to contractors amounting to P 234.21 million is classified under 'Advances to suppliers and others' in the consolidated statements of financial position (see Note 9). These advances are recouped through monthly and final billings as the work progresses.

c. 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. The outstanding balances due to DMCI Power are included in the 'Trade payable - related parties' account in the consolidated statements of financial position (see Note 16).

d. SCPC and SLPGC entered into a voyage charter agreement with DMC Construction Equipment and Resources, Inc. (DMC CERI). The outstanding balances due to DMC CERI are included in the 'Trade payable - related parties' account in the consolidated statements of financial position (see Note 16).

   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'. The outstanding balances are included in the 'Trade payable - related parties' account in the consolidated statements of financial position (see Note 16).

e. 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 22).

   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 22).

   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 22).

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.

All outstanding balances to DMC-CERI are included in trade and other payables under 'Trade payable - related parties' in the consolidated statements of financial position (see Note 16).

f. 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 on-going 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. All outstanding balances to DMCI are lodged in trade and other payables under 'Trade payable - related parties' in the consolidated statements of financial position (see Note 16).

g. The Group engaged Sirawai Plywood & Lumber Corp. and South Davao Development Corporation to supply various raw materials, office supplies and refreshments. The outstanding balance to and South Davao Development Corporation is lodged in trade and other payables under 'Trade payable - related parties' in the consolidated statements of financial position (see Note 16).

h. In 2017 and 2016, DMC Urban Property Developers, Inc. (DMC-UPDI) had transactions with the Group representing long-term lease on office space and other transactions rendered to the Parent Company necessary for the coal operations. Office rental expenses are included in cost of sales under 'Outside services' in the consolidated statements of comprehensive income (see Note 22). The outstanding balance to DMC-UPDI is lodged in trade and other payables under 'Trade payable - related parties' in the consolidated statements of financial position (see Note 16).

i. 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 22).

The outstanding balance to Royal Star Aviation, Inc. is lodged in trade and other payables under 'Trade payable - related parties' in the consolidated statements of financial position (see Note 16).

j. In 2017 and 2016, Vincent Arrastre and Cargo Services, Inc. had transactions with the Parent Company for shipsiding services. The outstanding balance to Vincent Arrastre and Cargo Services, Inc. is lodged in trade and other payables under 'Trade payables - related parties' in the consolidated statements of financial position (see Note 16).

k. In 2017 and 2016, 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. Current portion of the retention payable is lodged in trade and other payables under 'Trade payables - related parties' in the consolidated statements of financial position (see Note 16). The remaining noncurrent portion of the retention are lodged under 'Other noncurrent liabilities' in the consolidated statements of financial position (see Note 13).

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, 2017 and 2016, there were no impairment losses recognized on related party balances.

Compensation of key management personnel of the Group amounted to P 208.53 million and P 167.98 million in 2017 and 2016, 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.

21. Pension Plan

The Group has a funded, noncontributory defined benefit plan covering substantially all of its regular employees. The date of the latest actuarial valuation is as of December 31, 2017.

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 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 2017, 2016 and 2015.

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:

	2017	2016	2015
Discount rate	5.77% - 6.22%	5.28% - 5.87%	5.27% - 6.36%
Salary increase rate	3.00%	3.00%	3.00%

The weighted average duration of significant defined benefit obligation per segment are as follows (average number of years) for 2017 and 2016:

Mining	25 years
Power	17-24 years

The following table summarizes the components of pension expense in the consolidated statements of comprehensive income:

	2017	2016	2015
Current service cost	P 44,616,166	P 39,628,111	P 16,657,360
Interest expense related to the defined benefit liability	10,471,117	10,684,019	6,611,027
Interest income related to plan assets	(3,938,353)	(4,384,303)	(3,876,122)
	P 51,148,930	P 45,927,827	P 19,392,265

The above pension expense is included in ‘Personnel costs’ under ‘Operating expenses’ and ‘Direct labor’ under ‘Cost of sales’ in the consolidated statements of comprehensive income (see Notes 22 and 23).

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:

	2017	2016
Defined benefit liability at beginning of year	P 185,609,013	P 155,918,352
Current service cost	44,616,166	39,628,111
Interest expense	10,471,117	10,684,019
Remeasurement of defined benefit liability:		
Arising from changes in financial assumptions	(4,094,013)	3,991,299
Experience gains (losses)	91,582,561	(15,888,555)
Benefits directly paid by the Group	(20,736,252)	(8,724,213)
Benefits paid from plan asset	(4,474,070)	-
Defined benefit liability at end of year	P 302,974,522	P 185,609,013
Fair value of plan assets at beginning of year	P 71,574,235	P 68,935,574
Return on plan assets (excluding amounts included in interest income)	(2,275,906)	(1,745,642)
Interest income	3,938,353	4,384,303
Benefits paid from plan assets	(4,474,070)	-
Fair value of plan assets at end of year	P 68,762,612	P 71,574,235
Net pension liability at beginning of year	P 114,034,778	P 86,982,778
Net periodic pension cost	51,148,930	45,927,827
Amounts recognized in other comprehensive income	89,764,454	(10,151,614)
Benefit payments - paid by the Group	(20,736,252)	(8,724,213)
Net pension liability at end of year	P 234,211,910	P 114,034,778

The Group does not expect any contribution into the pension fund in 2018.

The composition and fair value of plan assets as at the end of reporting date are as follows:

	2017	2016
Cash and cash equivalents	P 3,466,987	P 368,703
Equity instruments		
Financial institutions	5,000	7,209,020
Real Estate	5,260,000	5,430,000
Debt instruments		
Government securities	47,067,174	45,301,117
Unquoted debt securities	11,941,409	12,118,696
Receivables	1,022,042	1,146,699
Fair value of plan assets	P 68,762,612	P 71,574,235

Trust fee in 2017 and 2016 amounted to P 34,059 and P 35,486, 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 debt securities - unquoted - 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 86% of debt instruments, 5% of equity instruments and 1% of others.

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.

	2017		2016	
	Increase (Decrease)	Effect on Defined Benefit Liability	Increase (Decrease)	Effect on Defined Benefit Liability
Discount rates	+0.5% to 1%	(P 20,425,777)	+0.5% to 1%	(P 15,082,880)
	-0.5% to 1%	23,933,523	-0.5% to 1%	18,155,286
Future salary increases	+1%	21,005,802	+1%	16,931,804
	-1%	(18,197,256)	-1%	(14,463,121)

Shown below is the maturity analysis of the undiscounted benefit payment up to 10 years:

	2017	2016
Less than 1 year	P 111,829,531	P 59,302,155
More than 1 year to 5 years	104,675,611	47,215,986
More than 5 years to 10 years	131,707,999	90,918,414
	P 348,213,141	P 197,436,555

The Group has no other transactions with the fund.

22. Cost of Sales

Cost of coal sales consists of:

	2017	2016	2015
Materials and supplies (Note 20)	P 3,397,821,000	P 4,371,052,573	P 3,024,001,394
Depreciation and amortization (Notes 10 and 13)	2,775,248,241	1,157,006,529	519,842,448
Fuel and lubricants	2,653,577,777	1,489,016,376	1,163,408,917
Outside services (Note 20)	1,134,591,537	1,549,788,146	695,999,390
Direct labor (Note 20)	896,317,627	700,275,846	446,316,290
Production overhead (Note 20)	741,646,375	207,552,739	335,423,295
Provision for decommissioning and site rehabilitation (Note 17)	147,269,942	1,089,423,459	-
Cost of coal (Note 7)	11,746,472,499	10,564,115,668	6,184,991,734
Hauling and shiploading costs (Note 20)	163,963,714	449,384,137	202,827,731
	P 11,910,436,213	P 11,013,499,805	P 6,387,819,465

Cost of power sales consists of:

	2017	2016	2015
Coal	P 4,399,206,475	P 2,559,889,904	P 2,679,503,585
Depreciation and amortization (Note 10)	2,164,203,384	2,170,627,728	1,006,345,938
Energy spot purchases	1,252,554,813	2,495,357,262	107,406,243
Coal handling expense (Note 20)	283,495,892	127,518,172	110,269,630
Diesel	133,883,247	43,426,757	38,503,060
Bunker	38,337,893	137,044,067	93,581,560
Market fees	31,173,053	28,091,496	59,041,865
Lube	20,471,045	42,912,606	40,993,979
Others	99,720,106	82,653,529	18,627,044
	P 8,423,045,908	P 7,687,521,521	P 4,154,272,904

The cost of coal on power sales consists of:

	2017	2016	2015
Materials and supplies (Note 20)	P 1,386,306,595	P 1,015,972,538	P 1,268,480,210
Fuel and lubricants	1,082,656,318	346,095,070	488,016,040
Depreciation and amortization (Notes 10 and 13)	672,061,538	268,925,354	291,951,404
Outside services (Note 20)	462,911,887	360,220,375	218,058,715
Direct labor (Note 20)	365,696,439	162,766,523	187,216,640
Hauling and shiploading costs (Note 20)	66,896,984	104,451,259	85,080,306
Production overhead (Note 20)	362,676,714	301,458,785	140,700,270
	P 4,399,206,475	P 2,559,889,904	P 2,679,503,585

23. Operating Expenses

	2017	2016	2015
Government share (Note 29)	P 4,306,810,763	P 2,649,979,160	P 1,796,046,847
Depreciation (Notes 3 and 10)	901,986,496	56,790,728	43,246,105
Taxes and licenses	755,955,043	549,068,101	283,992,995
Repairs and maintenance	435,377,879	330,609,401	121,330,131
Operation and maintenance (Note 20)	419,748,118	411,460,868	324,559,835
Personnel costs (Notes 20 and 21)	417,678,271	362,922,245	295,467,153
Office expenses (Note 20)	286,175,538	146,989,002	133,046,584
Impairment loss (Note 13)	156,068,023	-	-
Insurance and bonds			
149,429,339	116,303,915	92,418,625	
Professional fees	75,318,289	68,321,444	70,634,134
Entertainment, amusement and recreation	67,439,681	32,347,816	56,042,490
Transportation and travel	37,708,369	17,892,216	31,207,300
Marketing	6,919,797	1,990,558	6,315,763
Provision for doubtful accounts - net (Note 5)	151,886	149,533,034	925,151,745
Provision for inventory obsolescence (Note 7)	-	1,239,090	20,902,458
Loss on disposal and write-down of property, plant and equipment (Note 10)	-	-	16,087,500
Others	190,261,836	103,418,662	172,634,820
	P 8,207,029,328	P 4,998,866,240	P 4,389,084,485

Others pertain to various expenses such as advertising and utilities.

24. Finance Costs

	2017	2016	2015
Interest on:			
Long-term debt (Note 15)	P 493,971,277	P 423,378,970	P 168,578,574
Accretion of cost of decommissioning and site rehabilitation (Note 17)	85,620,498	25,219,891	7,395,580
Short-term loans (Note 14)	56,968,000	77,918,662	57,987,231
Amortization of debt issuance cost (Note 15)	8,283,385	13,596,689	10,950,937
Bank charges	73,225,296	58,878,494	33,275,592
	P 718,068,456	P 598,992,706	P 278,187,914

25. Finance Income

	2017	2016	2015
Interest on:			
Cash in banks (Note 4)	P 24,140,288	P 36,767,808	P 22,091,022
Cash equivalents (Note 4)	71,184,403	41,720,476	25,796,786
Investment in sinking fund (Note 11)	687,420	4,313,045	8,992,559
Others	384,687	437,367	683,382
	P 96,396,798	P 83,238,696	P 57,563,749

26. Other Income

	2017	2016	2015
Recoveries from insurance claims and claims from third party settlement (Note 5)	P 514,088,242	P 218,030,806	P 161,195,903
Net gain on financial assets at FVPL (Note 6)	256,269,156	-	-
Sale of fly ash	178,931,960	123,188,392	133,118,624
Gain on sale of equipment (Note 10)	126,227,184	-	76,461,975
Commissioning income	-	595,343,004	58,327,356
Reversal of allowance for impairment losses	-	-	10,683,653
Miscellaneous	98,545	1,879,796	891,119
	P 1,075,615,087	P 938,441,998	P 440,678,630

Recoveries from insurance claims and claims from third parties settlement

Recoveries from insurance claims pertain to the amount reimbursed by the insurer on insured equipment that were damaged. 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 with nature discussed in Note 5.

Net 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 P 36.60 million for the year ended December 31, 2017.

Commissioning income

Commissioning income pertains to net revenue earned by the Group from the testing phase of the 2X150 MW CFB coal-fired thermal power plant during the first quarter of 2016 and for the whole year 2015.

Miscellaneous

Miscellaneous pertains to sample sale of products for its claystone business.

27. Income Tax

The provision for income tax consists of:

	2017	2016	2015
Current	P 1,079,306,693	P 837,219,939	P 995,397,884
Final	19,168,305	13,884,010	10,713,827
Deferred	156,853,425	11,975,636	175,972,220
	P 1,255,328,423	P 863,079,585	P 1,182,083,931

The reconciliation of the effective statutory income tax rate to the effective income tax rate shown in the consolidated statements of comprehensive income follows:

	2017	2016	2015
Statutory income tax rate	30.00 %	30.00 %	30.00 %
Adjustments for:			
Nondeductible expense	0.16	0.18	0.08
Nondeductible interest expense	0.07	0.05	0.05
Unrecognized deferred tax assets	0.48	4.36	7.62
Interest income already subject to final tax at a lower rate	(0.10)	(0.08)	(0.04)
Tax-exempt income	(22.49)	(27.82)	(25.48)
Effective income tax rate	8.12 %	6.69 %	12.23 %

The components of net deferred tax assets as of December 31, 2017 and 2016 follow:

	2017	2016
Deferred tax assets (liabilities) on:		
Allowance for doubtful accounts and impairment losses	P 477,935,385	P 477,889,819
Accrual of pension obligation	62,621,374	29,470,549
Allowance for inventory obsolescence	20,218,166	20,218,166
Provision for decommissioning and site rehabilitation	3,580,981	3,113,659
Various accruals	508,791	2,909,884
NOLCO	125,566	337,422
Unrealized foreign exchange gain - net	(15,743,149)	(14,191,590)
Claims from third party settlement	(99,023,728)	-
	P 450,223,386	P 519,747,909

The components of net deferred tax liabilities as of December 31, 2017 and 2016 follow:

	2017	2016
Deferred tax assets (liabilities) on:		
Unrealized gain from financial contract	(P 65,900,403)	P -
Accrual of pension obligation	10,909,718	(1,230,930)
	(P 54,990,685)	(P 1,230,930)

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:

	2017	2016
NOLCO	P4,265,844,135	P 9,143,159,173
Allowance for impairment losses	156,068,023	-
	P 4,421,912,158	P 9,143,159,173

Rollforward analysis of the Group's NOLCO follows:

	2017	2016
Balance at beginning of year	P 9,144,283,980	P 10,775,473,365
Addition	418,554	1,809,367,892
Expired	(4,878,439,846)	(3,440,557,277)
Balance at the end of year	P 4,266,262,688	P 9,144,283,980

The Group did not recognize deferred tax assets on NOLCO from the following periods:

Year Incurred	Amount	Expiry Year
2017	P 418,554	2020
2016	1,809,367,892	2019
2015	2,456,057,689	2018
	P 4,265,844,135	

Rollforward analysis of the Group's MCIT follows:

	2016
Balance at beginning of year	P 2,042,359
Addition	-
Used	(2,042,359)
Balance at the end of year	P -

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 coal 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 P 2,679.13 million, P 2,747.09 million and P 2,339.37 million in 2017, 2016 and 2015, 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 ten 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 2017 and 2016, SLPGC availed of tax incentive in the form of ITH on its income under registered activities amounting to P 799.28 million and P 842.59 million, respectively.

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

28. Basic/Diluted Earnings Per Share

The following table presents information necessary to calculate earnings per share:

	2017	2016 (As restated)	2015 (As restated)
Net income	P 14,209,139,819	P 12,040,669,988	P 8,486,909,081
Divided by the weighted average number of common shares outstanding*	4,261,034,460	4,270,694,014	4,275,000,000
Basic/diluted earnings per share**	P 3.33	P 2.82	P 1.99

**Retrospectively adjusted for the effect of issuance of stock dividend in 2017.*

*** The effect on earnings per share related to the restatements in 2016 and 2015 was P 8.46 and P 5.95, respectively.*

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.

29. 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 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 P 4,306.81 million, P 2,649.98 million and P 1,796.05 million in 2017, 2016 and 2015, respectively, included under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 23). Payable to DOE and LGU, amounting to P 1,542.24 million and P 1,647.72 million as of December 31, 2017 and 2016 are included under the 'Trade and other payables' account in the consolidated statements of financial position (see Note 16).

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.

30. Contingencies and Commitments

SCPC

a. Provision for billing disputes

On October 20, 2010, SCPC filed a Petition for dispute resolution ("Petition") before the Energy Regulatory Commission (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 P 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' 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 P=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 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 23 June 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 Commission on Audit (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 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.

Subsequently the Supreme 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 Supreme Court granted PSALM's Motion for Extension to File Reply and noted the filing of PSALM's Reply.

On December 16, 2016, the Supreme Court issued a Notice of Decision and Decision dated December 5, 2016. In said Decision, the Supreme 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 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.

On February 7, 2018, SCPC filed with COA a Motion to Declare Respondent Power Sector Assets and Liabilities Management 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. SCPC will prepare a Reply to PSALM's Answer when if the COA admits PSALM's answer.

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 P 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.

b. Operating Lease Commitment - as a Lessee

As discussed in Note 13, SCPC entered into a LLA with PSALM for the lease of land where the Power 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 P=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 P 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 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 (P 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 P 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, a distributor of electric power, which took effect on December 26, 2011 and shall have a term of seven years extendable upon mutual agreement by the parties for another three years.

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 Commission (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 Fee of P=4,785.12/Kw/Year.

d. Dispute Resolution Proceedings with MERALCO (Line Loss Rental)

On August 29, 2013, MERALCO filed a Petition for Dispute Resolution before the Energy Regulatory Commission 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 P 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, 2017, the Joint Motion to Dismiss has yet to be resolved.

e. 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, the SCPC as new owner of the Power Plant and Pozzolanic sealed a new contract valid and effective for a period of fifteen (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

f. 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. The 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 the 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, the 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 the 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, the 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 P=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.

The Court of Appeals is yet to issue an order requiring SCPC to comment on the pleadings filed by Meralco, ERC and third parties.

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 P 133.04 million in 2017 (see Note 20).

SMPC

a. The Parent Company leases land at the minesite and building as office space.

Future minimum rental payables under operating leases follow:

	2017	2016
Within one year	P 26,742,800	P 16,128,213
After one year but not more than five years	44,041,525	10,935,837
	P 70,784,325	P 27,064,050

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.

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.

Please see judgments and estimates in Note 3 and the related disclosures on allowance for doubtful accounts in Note 5.

31. Financial Risk Management Objectives and Policies

The Group has various financial assets such as cash and cash equivalents, receivables, investment in sinking fund 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
- Wholesale Electricity Spot Market (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, 2017 and 2016.

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-a-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):

	2017	2016
Domestic market	33.51%	41.08%
Export market	66.49%	58.92%

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, 2017 and 2016 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 2017 and 2016.

	Effect on income before income tax	
Change in coal price	2017	2016
Based on ending coal inventory		
Increase by 19% in 2017 and 35% in 2016	P 182,728,821	P 555,060,791
Decrease by 19% in 2017 and 35% in 2016	(182,728,821)	(555,060,791)
Based on coal sales volume		
Increase by 19% in 2017 and 35% in 2016	P 2,814,557,292	4,416,543,681
Decrease by 19% in 2017 and 35% in 2016	(2,814,557,292)	(4,416,543,681)

WESM 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 P 4.25, with all variables held constant of the Group's income before taxes.

	2017
Increase by 4% in average WESM price	(P 77,381)
Decrease by 4% in average WESM price	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 debts 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 Peso-denominated and United States Dollar (US$)-denominated debts.

The following table shows the information about the Group's financial instruments that are exposed to cash flow (floating rate instrument) and fair value (fixed rate instrument) interest rate risks and presented by maturity profile:

	2017	
	Interest	Within 1 year
Cash in banks and cash equivalents	`1.10% to 4.10%	P 8,465,849,568
Foreign long-term debt at floating rate		
$27.06 million loan (USD)	Floating rate to be repriced every 3 months	P -
$23.95 million loan (USD)	Floating rate to be repriced every 3 months	1,196,006,613
$17.16 million loan (USD)	Floating rate to be repriced every 3 months	-
Peso long-term debt at floating rate		
P 2,985.06 million loan	PDST-F benchmark yield for 3-month treasury securities + 1.75%. Starting August 2015, PDST-R2 + 1.95%	-
P 1,837.50 million loann	Floating rate to be repriced every 3 month	656,250,000
P 1,400.00 million loan	Floating rate to be repriced every 3 months	-
P 750.00 million loan	Floating rate to be repriced every 3 months	-
Mortgage Payable at floating rate		
	PDST-F + Spread or BSP Overnight Rate, whichever is higher	1,703,703,704
		P 3,555,960,317

	2016	
	Interest	Within 1 year
Cash in banks and cash equivalents	1.38% to 2.75%	P 6,988,169,008
Foreign long-term debt at floating rate		
$27.06 million loan (USD)	Floating rate to be repriced every 3 months	P -
$26.54 million loan (USD)	Floating rate to be repriced every 3 months	-
$17.16 million loan (USD)	Floating rate to be repriced every 3 months	-
Peso long-term debt at floating rate		
P 2,100.00 million loan	Floating rate to be repriced every 3 months	-
Mortgage Payable at floating rate		
P 9,345.56 million loan	PDST-F + Spread or BSP Overnight Rate, whichever is higher	1,703,703,704
P 127.88 million loan	PDST-F benchmark yield for 3-month treasury securities + 1.75%. Starting August 2015, PDST-R2 + 1.95%	127,880,183
		P 1,831,583,887

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
P -	P -	P -	P -	P 8,465,849,568
P 1,350,968,798	P -	P -	P -	P 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
1,696,180,134	1,697,889,928	1,699,663,552	850,517,484	7,647,954,802
P 4,429,132,819	P 4,372,889,928	P 2,569,841,689	P 3,096,653,419	P 18,024,478,172

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
P -	P -	P -	P -	P 6,988,169,008
P -	P 1,345,286,774	P -	P -	P 1,345,286,774
1,319,641,378	-	-	-	1,319,641,378
-	853,379,509	-	-	853,379,509
918,750,000	525,000,000	525,000,000	131,250,000	2,100,000,000
1,694,769,741	1,696,418,247	1,698,128,281	2,550,539,036	9,343,559,009
-	-	-	-	127,880,183
P 3,933,161,119	P 4,420,084,530	P 2,223,128,281	P 2,681,789,036	P 15,089,746,853

The following table demonstrates the sensitivity of the Group's income before tax to a reasonably possible change in interest rates on December 31, 2017 and 2016, with all variables held constant, through the impact on floating rate borrowings.

	Effect on Income Before Tax	
Basis points (in thousands)	2017	2016
+100	(P 180,245)	(P 166,897)
-100	180,245	166,897

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.

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December 31, 2017 and 2016 based on undiscounted contractual payments:

	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
Assets						
Cash in banks and cash equivalents	P 8,465,849,568	P-	P -	P -	P -	P 8,465,849,568
Receivables						
Trade :						
Outside parties	5,573,272,183	545,381,932	-	-	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
Total undiscounted financial assets	14,414,371,373	596,734,203	51,430,195	30,535,524-	62,599,856	15,155,671,151
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	-	46,231,575	-	-	1,656,354,769
Accrued expenses and other payables**	305,551,682	-	-	-	-	305,551,682
Long-term debt at floating rate***						
$27.06 million loan (USD) with interest payable in arrears	11,946,842	11,946,842	1,362,915,640	-	-	1,386,809,324
$23.95 million loan (USD) with interest payable in arrears	1,203,525,518	-	-	-	-	1,203,525,518
$17.16 million loan (USD) with interest payable in arrearss	6,745,035	6,745,035	864,853,094	-	-	878,343,164
P 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
P 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
P 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
PDST-F benchmark yield for 3-month treasury securities + 1.00%	-	-	-	-	3,760,546,354	3,760,546,354
Total undiscounted financial liabilities	10,815,141,202	1,322,617,321	4,836,456,661	4,607,657,388	6,544,478,284	28,126,350,856
Liquidity gap	P 3,599,230,171	(P 725,883,118)	(P 4,785,026,466)	(P 4,577,121,864)	(P 6,481,878,428)	(P 12,970,679,705)

**excludes advances for liquidation*
***excludes statutory liabilities*
****includes interest payable*

	2016					
	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
Assets						
Cash in banks and cash equivalents	P 6,988,169,008	P -	P -	P -	P -	P 6,988,169,008
Receivables						
Trade :						
Outside parties	5,017,276,112	461,258,830	-	-	3,541,205	5,482,076,147
Related parties	76,578,145	-	-	-	-	76,578,145
Others*	119,838,061	-	-	-	-	119,838,061
Environmental guarantee fund	-	-	-	-	3,520,000	3,520,000
Investment in sinking fund	68,716,379	-	-	-	-	68,716,379
Total undiscounted financial assets	12,270,577,705	461,258,830	-	-	7,061,205	12,738,897,740
Liabilities						
Trade and other payables						
Trade:						
Payable to suppliers and contractors	6,218,171,878	-	419,329,182	-	-	6,637,501,060
Related parties	2,983,409,739	-	423,813,611	-	-	3,407,223,350
Accrued expenses and other payables**	538,329,060	-	-	-	-	538,329,060
Short-term loans***	1,606,400,000	-	-	-	-	1,606,400,000
Long-term debt at floating rate***						
$27.06 million loan (USD) with interest payable in arrears	11,066,329	11,066,329	22,132,658	1,356,353,103	-	1,400,618,419
$26.54 million loan (USD) with interest payable in arrears	8,510,382	8,510,382	1,328,051,760	-	-	1,345,072,524
$17.16 million loan (USD) with interest payable in arrearss	6,754,926	6,754,926	13,509,851	861,260,255	-	888,279,958
P 2,100.00 million loan with interest payable in arrears	35,383,950	35,383,950	70,767,900	70,767,900	2,188,459,875	2,400,763,575
PDST-F benchmark yield for 3-month treasury securities + 1.75%	987,698,200	974,985,028	1,747,581,043	1,749,280,919	4,561,833,454	10,021,378,644
PDST-F benchmark yield for 3-month treasury securities + 1.00%	129,639,868	-	-	-	-	129,639,868
Total undiscounted financial liabilities	12,525,364,332	1,036,700,615	4,025,186,005	4,037,662,177	6,750,293,329	28,375,206,458
Liquidity gap	(P 254,786,627)	(P 575,441,785)	(P 4,025,186,005)	(P 4,037,662,177)	(P 6,743,232,124)	(P 15,636,308,718)

**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 are in US$.

The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 66.49% and 56.92% of the Group's sales in 2017 and 2016, respectively, were denominated in US$ whereas approximately 18.98% and 21.08% of debts as of December 31, 2017 and 2016, 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, 2017		December 31, 2016	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	$63,213,830	P 3,156,266,532	$63,213,830	P 3,142,991,628
Trade receivables	16,931,380	845,383,803	17,693,667	879,729,123
Liabilities				
Trade payables	(11,896,169)	(593,975,718)	(14,874,729)	(739,571,526)
Long-term debt (including current portion)	(68,174,630)	(3,403,959,298)	(70,762,423)	(3,518,307,671)
Net exposure	$74,411	P 3,715,319	($4,729,655)	(P 235,158,446)

The exchange rates used were P 49.93 to $1 and P 49.72 to $1 in 2017 and 2016, 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 tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2017 and 2016.

	Increase (decrease) in income before tax	
Reasonably possible change in the Philippine Peso-US dollar exchange rate	2017	2016
P 2	(P 5,026,764)	(P 9,459,310)
(2)	5,026,764	9,459,310

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 P 392.45 million, P 403.43 million and P 300.06 million in 2017, 2016 and 2015, 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:

	2017	2016
Trade receivables - outside parties	95.53%	97.10%
Trade receivables - related parties	3.00	1.06
Others	1.47	1.84
	100.00%	100.00%

As of December 31, 2017 and 2016, the credit quality per class of financial assets is as follows:

	2017				
	Neither Past Due nor Impaired		Substandard Grade	Past due and/or individually Impaired	Total
	Grade A	Grade B			
Cash in banks and cash equivalents	P 8,465,849,568	P -	P -	P -	P 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
Total	P 14,000,975,001	P -	P -	P 2,657,523,954	P 16,658,498,955

**excludes advances to contractors*

	2016				
	Neither Past Due nor Impaired		Substandard Grade	Past due and/or individually Impaired	Total
	Grade A	Grade B			
Cash in banks and cash equivalents	P 6,988,169,008	P -	P -	P -	P 6,988,169,008
Receivables:					
Trade receivables - outside parties	4,382,455,693	-	-	2,638,576,685	7,021,032,378
Trade receivables - related parties	57,826,478	-	-	18,751,667	76,578,145
Others*	76,930,262	-	-	5,815,359	82,745,621
Financial asset at FVPL	3,520,000	-	-	-	3,520,000
Environmental guarantee fund	68,716,379	-	-	-	68,716,379
Total	11,577,617,820	P -	P -	P 2,663,143,711	P 14,240,761,531

**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 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 into 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, 2017 and 2016, the aging analyses of the Group's past due and/individually impaired receivables presented per class are as follows:

	2017			
	Past Due but not Impaired		Impaired Financial Assets	Total
	45 days and less	More than 45 days		
Receivables:				
Trade receivables - outside parties	P 404,573,032	P 689,275,779	P 1,539,108,117	P 2,632,956,928
Trade receivables - related parties	-	18,751,667	-	18,751,667
Others*	-	-	5,815,359	5,815,359
Total	P 404,573,032	P 708,027,446	P 1,544,923,476	P 2,657,523,954

	2016			
	Past Due but not Impaired		Impaired Financial Assets	Total
	45 days and less	More than 45 days		
Receivables:				
Trade receivables - outside parties	P 563,758,478	P 535,861,976	P 1,538,956,231	P 2,638,576,685
Trade receivables - related parties	-	18,751,667	-	18,751,667
Others*	-	-	5,815,359	5,815,359
Total	P 563,758,478	P 554,613,643	P 1,544,771,590	P 2,663,143,711

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, 2017 and 2016.

	2017	2016
Interest-bearing loans	P 18,024,478,172	P 16,689,746,853
Total equity	37,679,379,140	34,286,311,249
Debt-to-equity ratio	47.84%	48.68%
EPS (Note 28)	P 3.33	P 2.82

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-equity ratio.

The following table shows the components of the Group's capital as of December 31, 2017 and 2016:

	2017	2016
Total paid-up capital	P 10,940,136,701	P 7,744,277,411
Acquisition of treasury shares	(487,919,538)	(387,547,028)
Remeasurement losses on pension plan	(86,238,763)	(23,403,645)
Retained earnings - unappropriated	18,013,400,740	19,152,984,511
Retained earnings - appropriated	9,300,000,000	7,800,000,000
	P 37,679,379,140	P 34,286,311,249

32. Fair Values

Fair Value Information

Cash and cash equivalents, receivables, environmental guarantee fund, investment in sinking 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. As of December 31, 2017 and 2016, interest rate ranges from 1.26% to 4.90% and 1.20% to 3.37%, 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

33. Notes to Consolidated Statements of Cash Flow

Supplemental disclosure of noncash investing activities follows:

	2017	2016	2015
Depreciation capitalized as Mine properties, mining tools and other equipment (Note 10)	P -	P 463,416,913	P 382,953,462
Depreciation capitalized as coal inventory (Note 10)	273,405,238	157,309,090	112,122,124
Transfer from Exploration and evaluation asset to Property, plant and equipment	-	4,947,746,319	-

Changes in liabilities and equity arising from financing activities

	January 1, 2017	Cash flows	Foreign exchange movement	Other	December 31, 2017
Short-term loans	P 1,600,000,000	(P 1,600,000,000)	P -	P -	P -
Long-term debt	15,089,746,853	2,911,497,964	15,069,786	8,163,569	18,024,478,172
Dividend payable	614,187	(10,651,501,099)	-	10,652,864,300	1,977,388
Treasury shares	(387,547,028)	(100,372,510)	-	–	(487,919,538)
Total	P 16,302,814,012	(9,440,375,645)	P 15,069,786	P 10,661,027,869	P 17,538,536,022

Other changes in liabilities above includes the amortization of deferred financing costs and cash dividend declared by the Parent Company.

34. 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;
- Power - involved in generation of energy available for sale thru bilateral contracts, wholesale electricity market and trading; and

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.

	2017 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	P 23,489,591	P 20,453,898	P -	P -	P 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)
Provision for income tax	30,028	1,225,283	17	-	1,255,328
Net income	P 11,040,909	P 5,271,030	(P 21,883)	(P 2,080,916)	P 14,209,140
Segment assets	P 42,104,629	P 44,887,733	P 39,884	(P 18,886,063)	P 68,146,183
Deferred tax assets	85,231	364,992	-	-	450,223
	P 42,189,860	P 45,252,725	P 39,884	(P 18,886,063)	P 68,596,406
Segment liabilities	P 8,519,709	P 6,043,241	P 180,135	(P 1,905,527)	P 12,837,558
Deferred tax liability	-	54,991	-	-	54,991
Long-term debt	7,391,459	10,633,019	-	-	18,024,478
	P 15,911,168	P 16,731,251	P 180,135	(P 1,905,527)	P 30,917,027
Cash flows arising from:					
Operating activities	P 12,995,509	P 5,375,103	(P 155,756)	(P 7,888)	P 18,206,968
Investing activities	(2,497,006)	(2,980,558)	156,069	(1,960,357)	(7,281,852)
Financing activities	(8,993,792)	(2,446,704)	31,875	1,968,245	(9,440,376)
Other disclosures					
Capital expenditures	P 4,301,913	P 2,081,671	P -	P -	P 6,383,584

*Excluding depreciation and/or amortization

	2016 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	P 20,079,462	P 16,504,913	P -	P -	P 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)
Provision for (benefit from) income tax	58,214	804,896	(30)	-	863,080
Net income	P 9,995,489	P 4,404,049	P 1,830	(P 2,360,699)	P 12,040,669
Segment assets	P 41,131,197	P 44,531,792	P 163,763	(P 20,584,793)	P 65,241,959
Deferred tax assets	53,816	465,538	394	-	519,748
	P 41,185,013	P 44,997,330	P 164,157	(P 20,584,793)	P 65,761,707
Segment liabilities	P 9,518,662	P 10,439,221	P 157,951	(P 3,731,415)	P 16,384,419
Deferred tax liability	-	1,231	-	-	1,231
Long-term debt	5,618,308	9,471,439	-	-	15,089,747
	P 15,136,970	P 19,911,891	P 157,951	(P 3,731,415)	
Cash flows arising from:					
Operating activities	P 9,585,160	P 6,811,400	P 30,031	(P 6,115)	P 16,420,476
Investing activities	(2,722,806)	(1,949,394)	(27,898)	(1,989,385)	(6,689,483)
Financing activities	(5,037,154)	(4,275,204)	-	1,995,500	(7,316,858)
Other disclosures					
Capital expenditures	P 3,134,107	P 3,032,163	P -	P -	P 6,166,270
Provision for inventory obsolescence	1,239	-	-	-	1,239

*Excluding depreciation and/or amortization

	2015 (In thousands)				
	Mining	Power	Others	Adjustments and Eliminations	Consolidated
Revenue					
Sales to external customers	P 11,781,825	P 12,898,346	P -	P -	P 24,680,171
Inter-segment sales	4,591,200	-	-	(4,591,200)	-
	16,373,025	12,898,346	-	(4,591,200)	24,680,171
Cost of sales*	(7,789,341)	(5,408,565)	-	4,506,207	(8,691,699)
Depreciation and amortization	(844,047)	(1,006,346)	-	-	(1,850,393)
Gross profit	7,739,637	6,483,435	-	(84,993)	14,138,079
Operating expenses*	(2,300,077)	(2,028,726)	(949)	-	(4,329,752)
Loss on property, plant and equipment writedown	(16,088)	-	-	-	(16,088)
Depreciation	(19,964)	(23,282)	-	-	(43,246)
Operating profit	5,403,508	4,431,427	(949)	(84,993)	9,748,993
Other income	1,748,341	192,255	83	(1,500,000)	440,679
Finance income	22,519	35,011	35	-	57,565
Foreign exchange loss	(327,979)	27,923	-	-	(300,056)
Finance costs	(129,647)	(148,541)	-	-	(278,188)
Provision for (benefit from) income tax	(37,781)	1,220,137	(272)	-	1,182,084
Net income	P 6,754,523	P 3,317,938	(P 559)	(P 1,584,993)	P 8,486,909
Segment assets	P 33,060,935	P 41,828,804	P 133,732	(P 18,401,978)	P 56,621,493
Deferred tax assets	109,969	425,225	351	-	535,545
	P 33,170,904	P 42,254,029	P 134,083	(P 18,401,978)	P 57,157,038
Segment liabilities	P 9,248,213	P 6,469,462	P 129,755	(P 2,142,083)	P 13,705,347
Long-term debt	3,215,734	13,334,874	-	-	16,550,608
	P 12,463,947	P 19,804,336	P 129,755	(P 2,142,083)	P 30,255,955
Cash flows arising from:					
Operating activities	P 6,544,367	P 4,623,663	P 29,785	(P 513,946)	P 10,683,869
Investing activities	(2,243,856)	(2,696,035)	(29,684)	(146,053)	(5,115,628)
Financing activities	(3,512,173)	(1,615,610)	-	660,000	(4,467,783)
Other disclosures					
Capital expenditures	P 3,367,945	P 2,430,231	P -	P -	P 5,798,176
Provision for inventory obsolescence	20,902	-	-	-	20,902

*Excluding depreciation and/or amortization

Intersegment revenues, other income, cost and expenses are eliminated in the consolidation under adjustments and eliminations.

Segment assets exclude deferred tax assets amounting to P 450.22 million, P 519.75 million and P 535.54 million in 2017, 2016 and 2015, respectively.

Significant noncash items charged to comprehensive income include loss on property, plant and equipment write-down and depreciation and amortization.

Capital expenditures consist of additions of property, plant and equipment, excluding reclassification of exploration and evaluation asset reclassified to ‘Property, plant and equipment’ in 2016.

All noncurrent assets other than financial instruments are located in the Philippines.

Geographic Information

Revenues from external customers

The financial information about the operation of the Group as of December 31, 2017, 2016 and 2015 reviewed by the management follows:

	2017	2016	2015
Revenue:			
Local coal sales	P 7,871,248,442	P 5,742,358,094	P 5,862,246,658
Export coal sales	15,618,342,110	14,337,103,962	5,919,578,510
	P 23,489,590,552	P 20,079,462,056	P 11,781,825,168

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 revenues from power are derived from the Philippine market.

35. 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, the 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. This 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 kWfor 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 (750kW 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 & POWER
CORPORATION

2/F DMCI PLAZA
2281 Don Chino Roces Avenue Extension
Makati City, Philippines, 1231