COVER SHEET

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SEC Registration Number

S E M I R A R A   M I N I N G   A N D   P O W E R

C O R P O R A T I O N

(Company's Full Name)

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2 2 8 1   D O N   C H I N O   R O C E S   A V E N U E

M A K A T I   C I T Y

(Business Address: No. Street City/Town/Province)

Junalina S. Tabor

(Contact Person)

888-3055

(Company Telephone Number)

1 2   3 1

(Fiscal Year)

1 7 - Q

(Form Type)

Month *Day*

(Annual Meeting[1])

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

[1] First Monday of May of each year.

SEC Number : 91447
File Number : _________

SEMIRARA MINING AND POWER CORPORATION
Company's Full Name

2nd Floor, DMCI Plaza
2281 Chino Roces Avenue, Makati City
Company's Address

888-3550 to 888-3565
Telephone Number

For the Period Ending June 30, 2019
Period Ended

QUARTERLY REPORT FORM 17-Q
Form Type

SEC FORM 17-Q

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

1. For the quarter period ended **JUNE 30, 2019**

2. Commission Identification Number **91447**

3. BIR Tax Identification No. **000-190-324-000**

4. Exact Name of issuer as specified in its charter:

   SEMIRARA MINING AND POWER CORPORATION

5. Province, Country or other jurisdiction of incorporation of organization:
   PHILIPPINES

6. Industry Classification Code:___________(SEC use only)

7. Address of issuer's principal office Postal Code

   2nd Floor, DMCI Plaza, 1231
   2281 Chino Roces Avenue, Makati City

8. Registrants telephone Number, including area code:
   +63 2 8883550 to +63 2 8883565

9. Former Address : 7th Floor, Quad Alpha Centrum Bldg., 125 Pioneer St., Mandaluyong City
   Telephone Nos. : 631-8001 to 6318010
   Former name : : Semirara Coal Corporation/Semirara Mining Corp
   No former fiscal year of the registrant.

10. Securities registered pursuant to Section 4 of the RSA.

Title of each class	Number of shares of common Stock Outstanding
Common Stock, P1.00 par value	4,250,547,620 shares

11. 4,264,609,290 shares are listed in the Philippine Stock Exchange

12. The registrant has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11 (a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months.

    Has been subject for such filing requirements for the past 90 days

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Semirara Mining and Power Corporation
Consolidated Statements of Financial Position
As of June 30, 2019 and December 31, 2018

	(Unaudited) 30-Jun-19	(Audited) 31-Dec-18
ASSETS		
Current Assets		
Cash and cash equivalents	4,172,452,917	1,902,951,523
Receivables - net	5,751,966,974	7,300,895,192
Inventories - net	13,482,899,095	12,363,382,880
Investment in joint venture	51,112,153	51,112,153
Other current assets	4,432,924,545	4,120,881,001
Total Current Assets	27,891,355,684	25,739,222,748
Noncurrent Assets		
Property, plant and equipment - net	44,332,339,766	43,519,724,033
Deferred Tax Assets	486,367,565	435,083,949
Other noncurrent assets	1,363,796,620	1,354,907,494
Total Noncurrent Assets	46,182,503,951	45,309,715,476
TOTAL ASSETS	74,073,859,635	71,048,938,224
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables	12,025,431,859	9,946,029,821
Short-term loans	9,794,000,000	5,872,231,984
Current portion of long-term debt	2,583,172,047	4,553,841,940
Total Current Liabilities	24,402,603,906	20,372,103,746
Noncurrent liabilities		
Long-term debt - net of current portion	8,536,211,626	10,042,954,443
Provision for decommissioning and site rehabilitation	423,397,560	423,397,560
Pension liabilities	214,061,438	215,999,554
Deferred Tax Assets	73,633,133	61,796,317
Total Noncurrent Liabilities	9,247,680,848	10,744,147,874
Total Liabilities	33,650,284,754	31,116,251,620
Stockholders' Equity		
Capital Stock	4,264,609,290	4,264,609,290
Additional paid-in capital	6,675,527,411	6,675,527,411
Treasury Shares	(739,526,678)	(739,526,678)
Remeasurement gains (losses) on pension plan	(35,995,822)	(35,995,822)
Retained earnings	30,258,960,680	29,768,072,402
Total Stockholders' Equity	40,423,574,881	39,932,686,604
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	74,073,859,635	71,048,938,224

Semirara Mining and Power Corporation

Consolidated Statements of Comprehensive Income

For the Period Ending 30 June 2019 and 2018

For the Quarter Ending 30 June 2019 and 2018

	(Unaudited) For the Period		(Unaudited) For the Quarter	
	2019	2018	2019	2018
REVENUE				
Coal	15,678,191,848	15,837,650,723	8,691,916,986	7,483,546,961
Power	7,697,630,008	8,121,098,929	4,945,740,716	5,045,300,354
	23,375,821,856	23,958,749,652	13,637,657,702	12,528,847,315
COST OF SALES				
Coal	8,684,789,475	6,595,640,660	4,897,917,479	3,641,970,834
Power	4,943,316,945	3,561,667,570	3,035,005,236	2,528,099,143
	13,628,106,420	10,157,308,230	7,932,922,715	6,170,069,978
GROSS PROFIT	9,747,715,436	13,801,441,422	5,704,734,987	6,358,777,338
OPERATING EXPENSES	(3,475,940,224)	(4,843,631,649)	(1,849,219,651)	(2,302,441,972)
FINANCE INCOME (COSTS)	(432,135,625)	(338,756,666)	(166,547,443)	(161,819,216)
FOREIGN EXCHANGE GAINS (LOSSES)	29,279,791	(344,591,841)	21,687,612	(216,620,252)
OTHER INCOME	(149,471,857)	51,297,709	(200,721,101)	36,544,487
	(4,028,267,915)	(5,475,682,448)	(2,194,800,583)	(2,644,336,953)
INCOME BEFORE INCOME TAX	5,719,447,521	8,325,758,974	3,509,934,404	3,714,440,385
PROVISION FOR INCOME TAX	(289,584,465)	191,021,697	(167,948,787)	154,148,182
NET INCOME	6,009,031,986	8,134,737,277	3,677,883,191	3,560,292,202
OTHER COMPREHENSIVE INCOME	-	-	- -	-
TOTAL COMPREHENSIVE INCOME	6,009,031,986	8,134,737,277	3,677,883,191	3,560,292,202
Basic / Diluted Earnings per Share	1.41	1.91	0.87	0.84

Basis of EPS :

EPS = NET INCOME (LOSS) FOR THE PERIOD/NO. OF OUTSTANDING SHARES

Wherein :

Wtd Average Outstanding Shares 4,250,547,620 (as of 30 June 2019)

Wtd Average Outstanding Shares 4,250,547,620 (as of 30 June 2018)

SEMIRARA MINING AND POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As of June 30, 2019 and 2018

	Common Stock	Additional Paid-In Capital	Remeasurement Losses on Retirement Plan	Unappropriated Retained Earnings	Appropriated Retained Earnings	Total	Cost of Shares Held in Treasury	Grand Total
At January 1, 2019	4,264,609,290	6,675,527,411	(35,995,822)	20,263,113,220	9,300,000,000	40,467,254,100	(739,526,678)	39,727,727,421
Net Income for the period				6,009,031,986		6,009,031,986		6,009,031,986
Cash Dividends				(5,313,184,525)		(5,313,184,525)		(5,313,184,525)
						-		-
At June 30, 2019	4,264,609,290	6,675,527,411	(35,995,822)	20,958,960,681	9,300,000,000	41,163,101,561	(739,526,678)	40,423,574,882
At January 1, 2018	4,264,609,290	6,675,527,411	(86,238,762)	18,013,400,740	9,300,000,000	38,167,298,679	(487,919,538)	37,679,379,141
Net Income for the period				8,134,737,279		8,134,737,279		8,134,737,279
Cost of Shares Held in Treasury						-	(251,607,140)	(251,607,140)
Cash Dividends				(5,320,161,775)		(5,320,161,775)		(5,320,161,775)
At June 30, 2018	4,264,609,290	6,675,527,411	(86,238,762)	20,827,976,243	9,300,000,000	40,981,874,182	(739,526,678)	40,242,347,504

Semirara Mining and Power Corporation
Statement of Cash Flows
For the Period Ending June 30, 2019 and 2018

	UNAUDITED	
	June 30, 2019	June 30, 2018
CASHFLOWS FROM OPERATING ACTIVITIES		
Income before income tax	5,719,469,684	8,211,794,879
Adjustments for:		
Depreciation and Depletion and amortization	3,686,357,981	3,929,408,558
Finance Costs	638,053,555	417,895,330
Gain on disposal of equipment	-	(50,000)
Net unrealized foreign exchange losses (gains)	30,418,034	193,667,003
Interest Income	(206,761,833)	(77,865,541)
Operating Income before working capital changes	9,867,537,421	12,674,850,230
Changes in operating assets and liabilities		
(Increase)decrease in receivables	2,283,421,323	(2,202,807,146)
(Increase)decrease in inventories	(948,037,980)	(1,473,236,755)
(Increase)decrease other current assets	1,141,210,763	(942,338,887)
Inc(dec) in accounts payable and other payables	(117,515,156)	(1,221,958,390)
Cash provided by operations	12,226,616,372	6,834,509,052
Interest Received	206,234,761	77,865,541
Benefits paid	(2,784,864)	(724,137)
Income Tax Paid	(7,900,514)	(29,074,336)
Interest Paid	(636,546,563)	(437,604,027)
Net cash provided by operating activities	11,785,619,191	6,444,972,092
Net cash used in investing activities	(4,673,127,283)	(4,534,490,946)
Loan Availment	14,469,800,000	1,987,616,721
Treasury Shares	-	(251,607,140)
Payment of cash dividends	(5,313,184,522)	(5,320,161,775)
Debt repayment	(13,999,605,991)	(4,491,265,185)
Net cash used in financing activities	(4,842,990,513)	(8,075,417,379)
NET INC(DEC) IN CASH AND CASH EQUIV	2,269,501,396	(6,164,936,233)
CASH AND CASH EQUIV BEG	1,902,951,521	8,470,908,676
CASH AND CASH EQUIV AT ENDING	4,172,452,917	2,305,972,443

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ***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 (FVPL) that have been measured at fair value. The consolidated financial statements are prepared in Philippine Peso (₱), which is also the Group'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 (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries (which are all incorporated in the Philippines) as of June 30, 2019 and December 31, 2018:

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

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

Except for SCPC, SLPGC and SCRC, the other subsidiaries have not yet started commercial operations as of June 30, 2019.

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

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

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

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

- The ability to use its power over the investee to affect its returns.

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

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

The entity re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the entity obtains control over the subsidiary and ceases when the entity loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of financial position and consolidated statement of comprehensive income from the date the Group gains control until the date the entity ceases to control the subsidiary.

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 NCI 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 NCI, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

<u>Business Combination and Goodwill</u>
Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments* is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with PAS 39. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

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

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

<u>Changes in Accounting Policies and Disclosures</u>

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

New and Amended Standards and Interpretations

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

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

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.
  The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard only to those contracts not completed as at January 1, 2018. The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18 and related Interpretations.

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

  The adoption of PFRS 15 did not have a significant impact on the consolidated statements of financial position as at June 30, 2019 and December 31, 2018 and the consolidated statements of comprehensive income and cash flows for each period ended June 30, 2019 and 2018. The adoption did not also have a material impact on OCI or the Group's operating, investing and financing cash flows.

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

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

  The impact of adoption of PFRS 9 are described below:

  (a) Classification and measurement

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

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

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

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

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

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

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

For 'trade receivables' presented under receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard & Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

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

Philippine Interpretations Committee (PIC) Q&A 2018-15, PAS 1, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Noncurrent starting January 1, 2018*

This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment). The adoption did not have material impact on the consolidated financial statements.

As a result of adoption, advances to contractors and suppliers amounting to ₱3,076.00 million previously presented under current assets, representing prepayments for the construction of property, plant and equipment was reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based on the timing of application of these advances against billings and timing of delivery of goods and services.

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

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

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

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. 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*s
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the 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 the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

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

- 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.

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

Effective beginning on or after January 1, 2019

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

  These amendments have no impact on the consolidated financial statements of the Group.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.
  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Group expects the standard to impact its operating lease arrangements for land which will require recognition of right of use asset and its related liability in the consolidated financial statements. The Group does not expect significant impact of the standard to its arrangement as lessor.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

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

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

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

  The interpretation specifically addresses the following:

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

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

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

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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

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

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

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

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

Effective beginning on or after January 1, 2020

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

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

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Deferred effectivity

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

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

The Group is currently assessing the impact of these amendments.

Significant Accounting Policies and Disclosures

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

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

Fair Value Measurement
The Group measures financial assets at FVPL at fair value and discloses the fair value of financial instruments measured at amortized cost at each reporting date. Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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

<u>Deferred Financing Costs</u>
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.

<u>Financial Instruments (Initial recognition and subsequent measurement effective January 1, 2018)</u>
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

<u>Financial assets</u>
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through OCI, and fair value through profit or loss.

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

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

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

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

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

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

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

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

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

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
(a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
(b) Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

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

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

Financial assets at FVPL
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

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

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

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

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the 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 its continuing involvement. In that case, the Group also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

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

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.
The Group's financial liabilities are trade and other payables (except statutory payables), short term loans and long-term debt.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:
Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings and trade and other payables
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to short-term loans and long-term debt.

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

<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 offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

<u>Financial Instruments (Initial recognition and subsequent measurement prior to January 1, 2018)</u>

<u>Financial Assets and Financial Liabilities</u>
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.

The Group's financial assets and financial liabilities are of the nature of loans and receivables, financial assets at FVPL, and other financial liabilities.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within 12 months from reporting date otherwise, these are classified as noncurrent assets. This accounting policy relates to the consolidated statement of financial position accounts 'Cash and cash equivalents', 'Receivables', and 'Environmental guarantee fund' under other noncurrent assets.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the 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 included under 'Other current and noncurrent assets' in the consolidated statement of financial position.

Other financial liabilities
Other financial liabilities pertain to issued financial instruments that are not classified or designated as financial liabilities at FVPL and contain contractual obligations to deliver cash or other financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include trade and other payables, short-term loans and long-term debt. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, trade and other payables (except for output VAT payable), short-term loans and long-term debts are subsequently measured at amortized cost using the EIR method. Gains or losses are recognized in consolidated statement of comprehensive income when liabilities are derecognized, as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized under the 'Foreign exchange losses (gains)' in consolidated statement of comprehensive income.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income during the period in which it arises. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery has been realized and all collateral has been realized or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

<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.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to 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'.

<u>Stripping Costs</u>
As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalized as part of the cost of mine properties and subsequently amortized over its useful life using the units-of-production method over the mine life. The capitalization of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.
After the commencement of production further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The costs of such stripping are accounted for in the same way as development stripping (as discussed above). Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the coal body to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a noncurrent asset, referred to as a stripping activity asset, if the following criteria are met:

- Future economic benefits (being improved access to the coal body) are probable;
- The component of the coal body for which access will be improved can be accurately identified; and
- The costs associated with the improved access can be reliably measured.

If all of the criteria are not met, the production stripping costs are charged to the consolidated statement of comprehensive income as operating costs as they are incurred.

In identifying components of the coal body, the Group works closely with the mining operations department for each mining operation to analyze each of the mine plans. Generally, a component will be a subset of the total coal body, and a mine may have several components. The mine plans, and therefore the identification of components, can vary between mines for a number of reasons. These include, but are not limited to: the type of commodity, the geological characteristics of the coal body, the geographical location, and/or financial considerations.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of coal body, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the inventory produced and the stripping activity asset are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the coal body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is included as part of 'Mine properties, mining tools and other equipment' under 'Property, plant and equipment' in the consolidated statement of financial position. This forms part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

The stripping activity asset is subsequently depreciated using the units-of-production method over the life of the identified component of the coal body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the coal body. The stripping activity asset is then carried at cost less amortization and any impairment losses.

Mineable Ore Reserves

Mineable ore reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its mineable ore reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and require complex geological judgments to interpret the data. The estimate on the mineable ore reserve are determined based on the information obtained from activities such as drilling, core logging or geophysical logging, coal sampling, sample database encoding, coal seam correlation and geological modelling. The Group will then estimate the recoverable reserves based upon factors such as estimates of commodity prices, future capital requirements, foreign currency exchange rates, and production costs along with geological assumptions and judgments made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact the amortization of mine properties included as part of 'Mine properties, mining tools and other equipment' under 'Property, plant and equipment'.

Property, Plant and Equipment

Upon completion of exploration, evaluation and development of the mine, the capitalized assets are transferred into property, plant and equipment. Items of property, plant and equipment except land, equipment in transit and construction in progress are carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment also comprises its purchase price or construction cost, including non-refundable import duties, taxes, borrowing costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the year when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, and the costs of these items can be measured reliably, the expenditures are capitalized as an additional cost of the property, plant and equipment. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Equipment in transit and construction in progress, included in property, plant and equipment, are stated at cost. Construction in progress includes the cost of the construction of property, plant and equipment and, for qualifying assets, borrowing cost. Equipment in transit includes the acquisition cost of mining equipment and other direct costs.

Mine properties consists of stripping activity asset and expenditures transferred from ‘Exploration and evaluation asset’ once the work completed supports the future development of the property.
Mine properties are depreciated or amortized on a units-of-production basis over the economically mineable reserves of the mine concerned. Mine properties are included as part of ‘Mine properties, mining tools and other equipment’ under ‘Property, plant and equipment’ in the consolidated statement of financial position.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation of property, plant and equipment commences once the assets are put into operational use.

Depreciation of property, plant and equipment are computed on a straight-line basis over the estimated useful lives (EUL) of the respective assets or over the remaining life of the mine, whichever is shorter, as follows:

	Years
Mining tools and other equipment	2 to 3
Power plant and buildings	10 to 25
Roads and bridges	17

The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Land is stated at historical cost less any accumulated impairment losses. Historical cost includes the purchase price and directly attributable costs.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. When assets are retired, or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts. Any gain or loss arising 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 in joint venture is accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized and is not tested for impairment individually.

Other Assets
Other assets pertain to 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, and property, plant and equipment) may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

Investment in joint venture
The Group determines at each reporting date whether there is any objective evidence that the investment in joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount (i. e. higher between fair value less cost to sell and value in use) and the carrying value of the investee company and recognizes the difference in the consolidated statement of comprehensive income.

Property, plant and equipment
An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

For property, plant and equipment, reversal is recognized in the consolidated statement of comprehensive income, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Current and Noncurrent Classification
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.

Revenue Recognition effective January 1, 2018

Revenue from Contracts with Customers
The Group primarily derives its revenue from the sale of coal and power. Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is acting as principal in all of its significant revenue arrangements since it is the primary obligor in these revenue arrangements.

Sale of` coal
Revenue is recognized when control passes to the customer, which occurs at a point in time when the coal is physically transferred onto a vessel or other delivery mechanism. The revenue is measured at the amount to which the Group expects to be entitled, being the estimate of the price expected to be received upon final billing, and a corresponding trade receivable is recognized.

Revenue from local and export coal sales are denominated in Philippine Peso and US Dollar (US$), respectively.

Contract energy sales
Revenue from contract energy sales are derived from providing and selling electricity to customers of the generated and purchased electricity. The Group recognizes revenue from contract energy sales over time, using an output method measured principally on actual energy delivered each month.

Spot electricity sales
Revenue from spot electricity sales are derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market, also known as Wholesale Electricity Spot Market (WESM), the market where electricity is traded, as mandated by Republic Act (RA) No. 9136 of the Department of Energy (DOE). Revenue from spot electricity sales is recognized over time using an output method measured principally on actual excess generation delivered to WESM.

Revenue Recognition Prior to January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its significant revenue arrangements since it is the primary obligor in these revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of coal
Revenue from coal sales is recognized upon acceptance of the goods delivered when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from local and export coal sales are denominated in Philippine Peso and US$, respectively.

Contract energy sales
Revenue from contract energy sales are derived from providing and selling electricity to customers of the generated and purchased electricity. Revenue is recognized based on the actual energy received or actual energy nominated by the customer, net of adjustments, as agreed upon between parties.

Spot electricity sales
Revenue from spot electricity sales are derived from the sale to the spot market of excess generated electricity over the contracted energy using price determined by the spot market, also known as WESM, the market where electricity is traded, as mandated by RA No. 9136 of the DOE. Revenue is recognized based on the actual excess generation delivered to the WESM.

<u>Cost of Sales</u>
Cost of coal
Cost of coal includes directly related production costs such as materials and supplies, fuel and lubricants, outside services, depreciation and amortization, provision for decommissioning and site rehabilitation, direct labor and other related production overhead. These costs are recognized when the related revenue is recognized.

Cost of power
Cost of power includes costs directly related to the production and sale of electricity such as cost of coal, coal handling expenses, bunker, lube, diesel, depreciation and other related production overhead costs. Cost of power are recognized at the time the related coal, bunker, lube and diesel inventories are consumed for the production of electricity. Cost of power also includes electricity purchased from the spot market and its related market fees. These costs are recognized when the Group receives the electricity and simultaneously sells to its customers.

<u>Contract balances</u>
Trade receivables
Trade receivables represent the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract fulfillment costs
The Group incurs shiploading costs for each coal delivery made under its contracts with customers. The Group has elected to apply the optional practical expedient for costs to fulfill a contract which allows the Group to immediately expense shiploading costs (presented as part of cost of sales under 'Hauling and shiploading costs') because the amortization period of the asset that the Group otherwise would have used is one (1) year or less.

Finance income
Finance income is recognized as it accrues (using the EIR method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets).

Other income
Other income is recognized when receipts of economic benefits are virtually certain and comes in the form of inflows or enhancements of assets or decreases of liabilities that results in increases in equity, other than from those relating to contributions from equity participants.

Operating Expenses

Operating expenses are expenses that arise in the course of the ordinary operations of the Group. These usually take the form of an outflow or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distribution to equity participants. Expenses are recognized in the consolidated statement of comprehensive income as incurred.

Borrowing Costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short term, out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

Pension Cost

The Group has a noncontributory defined benefit plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit liability at the end of reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated statement of comprehensive income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related liabilities). If the fair value of the plan assets is higher than the present value of the defined benefit liability, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee’s employment as a result of either an entity’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

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

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

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

<u>Provisions</u>
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 33 to the consolidated financial statements.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events after Reporting Date
Post year-end events up to the date of the auditors' report that provides additional information about the Group's position at reporting date (adjusting events) are reflected in the consolidated financial statements. Any post year-end event that is not an adjusting event is disclosed when material to the consolidated financial statements.

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2. ***Significant Accounting Judgments, Estimates and Assumptions***

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgment
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations which have the most significant effect on the amounts recognized in the consolidated financial statements:

a. *Revenue recognition effective January 1, 2018*
The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Identification of the enforceable contract*
For coal sales, the Group's primary document for a contract with a customer is a signed coal supply agreement (CSA). It has determined however, that the Group is only obliged to deliver coal based on forecasted coal requirement for each shipment advice received from the customer. Therefore, for these arrangements, the enforceable contract has been determined to be for each shipment advice.

- *Revenue recognition method and measure of progress*
The Group concluded that revenue from coal sales is to be recognized at a point in time as the control transfers to customers at the date of shipment, which is consistent with the point in time when risk and rewards passed under PAS 18.

  On the other hand, the Group's revenue from power sales (both contract energy and spot electricity sales) is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the delivery of power that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance of its obligation to its customers, since the customer obtains the benefit from the Group's performance based on actual energy delivered each month.

b. *Determination of components of ore bodies and allocation measures for stripping cost allocation*
The Group has identified that each of its two active minesites, 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.

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 ₱4,247.85 million and ₱4,410.29 million as of June 30, 2019 and December 31, 2018.

b. *Estimating provision for expected credit losses of trade receivables*
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as inflation and foreign exchange rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

c. *Estimating stock pile inventory quantities*
The Group estimates the coal stock pile inventory by conducting a topographic survey which is performed by in-house surveyors and third-party surveyors. The survey is conducted on a monthly basis. The process of estimation involves a predefined formula which considers an acceptable margin of error of plus or minus five percent (5%). Thus, an increase or decrease in the estimation threshold for any period would differ if the Group utilized different estimates and this would either increase or decrease the cost of sales for the year.

d. Estimating allowance for obsolescence in spare parts and supplies
The Group provides 100% allowance for obsolescence on items that are specifically identified as obsolete. The amount of recorded inventory obsolescence for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for inventory obsolescence would increase the Group's recorded operating expenses and decrease its current assets.

e. Estimating recoverability of capitalized development costs
Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

f. Estimating decommissioning and site rehabilitation costs
The Group is legally required to fulfill certain obligations under its Department of Environment and Natural Resources (DENR) issued Environmental Compliance Certificate when its activities end in the depleted mine pits. The Group also provides for decommissioning cost for the future clean-up of its Power Plant (PP) under Section 8 of the Land Lease Agreement (LLA) upon its termination or cancellation. Significant estimates and assumptions are made in determining the provision for decommissioning and site rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities given the approved decommissioning and site rehabilitation plan, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. An increase in decommissioning and site rehabilitation costs would increase the carrying amount of the related assets and increase noncurrent liabilities. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Assumptions used to compute the decommissioning and site rehabilitation costs are reviewed and updated annually.

g. Estimating useful lives of depreciable property, plant and equipment
The Group estimated the useful lives of its property, plant and equipment (except land, equipment in transit and construction in progress) based on the period over which the assets are expected to be available for use. The Group reviews annually the 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 amounting to ₱315.00 million and ₱630.00 million in 2019 and 2018, respectively. The Group did not expect any salvage values for the parts to be replaced.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

h. *Deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods and in reference to its income tax holiday status in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at reporting date could be impacted. Total deductible temporary differences and NOLCO for which deferred tax assets are not recognized.

i. *Estimating pension and other employee benefits*
The cost of defined benefit pension plan and the present value of the pension liabilities are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These assumptions are described in Note 20 and include among others, the determination of the discount rates and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit liabilities are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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

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

j. *Fair value measurement of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, fair value is measured using valuation techniques using the market data approach (i.e., Monte Carlo simulation). The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PRODUCTION – COMPARATIVE REPORT FOR THE FIRST HALF OF 2019 AND 2018

COAL

Mining operations took advantage of the increased capacity and favorable weather condition during the first half of 2019. As a result, materials moved increased by 30% year-on-year to 107.0 million bank cubic meter (BCM) from 82.4 million BCM against last year. Quarter-on-quarter, materials moved increased by 27% to 53.3 from 41.9 million BCM

With the better strip ratio in the 2nd quarter at 11.3 from 12.8 last year same period, coal production significantly decreased by 42% to 4.1 million tons from 3.1 million tons quarter on quarter. Coal production increased by 18% year-on-year with an aggregate strip ratio of 11.8.

The table below shows the coal segment's comparative production data for H1 2019 and H1 2018.

Production Data	2019 (actual)			2018 (actual)			Variance
	Q1	Q2	H1	Q1	Q2	H1	
Materials Moved	53.7	53.3	**107.0**	40.5	41.9	**82.4**	**30%**
Coal Production	4.1	4.4	**8.5**	4.1	3.1	**7.2**	**18%**
Strip Ratio	12.5	11.3	**11.8**	9.1	12.8	**10.7**	**11%**

POWER

SEM-CALACA POWER GENERATION CORPORATION (SCPC)

The graph below illustrates SCPC's comparative performance data for H1 2019 and H1 2018.

	2019			2018			Variance
	Q1	Q2	H1	Q1	Q2	H1	% Inc (Dec)
Gross Generation, Gwh							
Unit 1	22	-	22	447	481	928	*-98%*
Unit 2	181	393	574	-	383	383	*50%*
Total Plant	**203**	**393**	**595**	**447**	**864**	**1,311**	***-55%***
% Availability							
Unit 1	5%	0%	3%	83%	96%	89%	*-97%*
Unit 2	35%	89%	63%	0%	66%	33%	*88%*
Total Plant	**20%**	**45%**	**33%**	**41%**	**81%**	**61%**	***-47%***
Capacity Factor							
Unit 1	3%	0%	2%	69%	73%	71%	*-98%*
Unit 2	28%	59%	44%	0%	58%	29%	*50%*
Total Plant	**16%**	**30%**	**23%**	**34%**	**65%**	**50%**	***-55%***

Unit 1

Gross Generation	
Q2 2019 vs Q2 2018	The unit is down the whole of Q2 2019. Last year, the Unit ran continuously in the current quarter at an average of 228MW, except for a brief outage in June caused by boiler tube leak.
H1 2019 vs H1 2018	The unit is down the whole of H1 2019. The Unit started shutdown on December 30, 2018. The shutdown is in relation the Life Extension Project (LEP). Last year, the Unit ran at an average capacity of 238MW in H1 2018.
Availability	
Q2 2019 vs Q2 2018	The unit is down the whole of Q2 2019. Last year, the unit ran continuously for 2,110 hours in Q2 2018 except for a brief 4-day outage in June caused by boiler tube leak.
H1 2019 vs H1 2018	The unit is down the whole of H1 2019. The Unit started shutdown on December 30, 2018. The shutdown is in relation the Life Extension Project (LEP) of SCPC. Last year, the unit ran continuously from start of the year, except for a 15-day outage in March due to boiler slagging and a 4-day outage in June due to repair of boiler tube leaks.

Unit 2

Gross Generation	
Q2 2019 vs Q2 2018	The unit has slightly improved versus last year despite running on half condenser with a derated capacity at around 200MW. Last year, the unit was on extended shutdown which lasted until the first week of April 2018.
H1 2019 vs H1 2018	The Unit was down for a total of 75 days during the whole of H1 2019 due to repair of tube leaks and other maintenance activities. Last year, the Unit was down the whole of Q1 2018 for scheduled maintenance and came back in operation only in the second week of April last year.
Availability	
Q2 2019 vs Q2 2018	The unit operated at a total of 1,975 hours this year versus 1,458 hours last year. Last year, the unit underwent an extended shutdown for scheduled maintenance which lasted until the first week of April 2018.
H1 2019 vs H1 2018	The unit operated at a total of 2,738 hours this year versus 1,458 hours last year. Last year, the unit underwent an extended shutdown for scheduled maintenance which lasted until the first week of April 2018.

Significant event/s:

- Unit 1 started shutdown on December 30, 2018. The shutdown is in relation with the Life Extension Project of the SCPC. The LEP activities for Unit 1 is expected to be finished by August 2019. Unit 2, however, encountered tube leaks during the first half that resulted in unit shutdown to give way for repair activities.

SOUTHWEST LUZON POWER GENERATION CORPORATION (SLPGC)

The graph below illustrates SLPGC's comparative production data for H1 2019 and H1 2018.

	2019			2018			Variance
	Q1	Q2	H1	Q1	Q2	H1	% Inc (Dec)
Gross Generation, Gwh							
Unit 1	203	329	532	121	-	121	*340%*
Unit 2	100	261	361	74	247	321	*12%*
Total Plant	**303**	**590**	**893**	**195**	**247**	**442**	***102%***
% Availability							
Unit 1	68%	100%	84%	51%	0%	25%	*236%*
Unit 2	41%	84%	63%	45%	79%	62%	*2%*
Total Plant	**55%**	**92%**	**74%**	**48%**	**40%**	**44%**	***68%***
Capacity Factor							
Unit 1	63%	99%	81%	37%	0%	18%	*350%*
Unit 2	31%	79%	55%	23%	75%	49%	*12%*
Total Plant	**47%**	**89%**	**68%**	**30%**	**37%**	**34%**	***100%***

Unit 3

Gross Generation	
Q2 2019 vs Q2 2018	Higher vs Q2 '18 because of last year's repair of rotor from March to September 2018
H1 2019 vs H1 2018	Higher vs last year yoy - higher availability and capacity
Availability	
Q2 2019 vs Q2 2018	Higher availability vs Q2 '18 due to no outage
H1 2019 vs H1 2018	Higher availability vs LT due to lower forced outage

Unit 4

Gross Generation	
Q2 2019 vs Q2 2018	Slightly higher vs Q2 '18 due to higher availability

H1 2019 vs H1 2018	Slightly higher vs Q2 '18 due to higher availability
Availability	
Q2 2019 vs Q2 2018	Slightly higher vs Q2 '18 due to higher availability
H1 2019 vs H1 2018	Slightly higher vs LY due to higher availability

Significant event/s:

- Certificate of Compliance was issued by the ERC to the 2x25MW Gas Turbine project last March 1, 2018

MARKETING – COMPARATIVE REPORT FOR THE FIRST HALF OF 2019 AND 2018

COAL

The table below shows the coal comparative sales volume data for H1 2019 and H1 2018.

					VOLUME (In 000 MT)					
Customer	Q1	Q2	2019	%	Q1	Q2	2018	%	Diff	%Inc/ (Dec)
Power Plants	1,124	956	2,080	26%	1,348	1,404	2,751	40%	(671)	-24%
Cement	253	203	456	6%	258	236	494	7%	(38)	-8%
Others Plants	142	172	315	4%	178	210	388	6%	(73)	-19%
Local	1,520	1,331	2,851		1,783	1,849	3,633		(782)	-22%
Export	2,034	2,982	5,016	64%	1,634	1,608	3,243	47%	1,773	55%
TOTAL (M MT)	3,554	4,313	7,867	100%	3,418	3,458	6,875	100%	992	14%

Power Plants	
Q2 2019 vs Q2 2018	Other power plant customers undergoing maintenance repairs during the current quarter
H1 2019 vs H1 2018	Other power plant customers undergoing maintenance repairs during the current quarter
Cement Plants	
Q2 2019 vs Q2 2018	Slight decline in demand of existing cement customers
H1 2019 vs H1 2018	Slight decline in demand of existing cement customers
Other Industrial Plants	

Q2 2019 vs Q2 2018	Lower offtake of industrial plants
H1 2019 vs H1 2018	Lower offtake of industrial plants

Export	
Q2 2019 vs Q2 2018	Increased in production for export
H1 2019 vs H1 2018	Increased due to spillover of orders from December 2018 and increase in production for export

Average Selling Price (ASP)	
Q1 2019 vs Q1 2018	Lower NewCastle Index
H1 2019 vs H1 2018	Lower NewCastle Index

POWER

SCPC

The table below shows the comparative marketing data of SCPC for H1 2019 and H1 2018 (In GWh, except ASP).

CUSTOMER	2019			2018			Variance
	Q1	Q2	H1	Q1	Q2	H1	% Inc (Dec)
GWh							
Bilateral Contracts	346	532	878	408	865	1,273	-31%
Spot Sales	16	4	21	3	79	82	-75%
GRAND TOTAL	**362**	**536**	**899**	**410**	**945**	**1,355**	**-34%**
ASP in Php							
Bilateral Contracts	4.33	3.76	3.98	5.08	3.79	4.20	-5%
Spot Sales	7.18	7.39	7.22	12.24	3.89	4.15	74%
Average ASP	**4.46**	**3.79**	**4.06**	**5.13**	**3.80**	**4.20**	**-3%**

Bilateral Contracts	
Q2 2019 vs Q2 2018	Bilateral contract capacity in Q2 2019 is 250MW while 420MW in Q2 2018.
H1 2019 vs H1 2018	Decrease due to lower contracted capacity (from 440.45MW in H1 2018 to 250.45MW in H1 2019). ASP decreased due to decreasing New Castle Index.
Spot Sales	

Q2 2019 vs Q2 2018	Lower spot sales in Q2 2019 due to one unit running at a derated capacity of 200MW.
H1 2019 vs H1 2018	Lower spot sales in H1 2019 due to one unit running at a derated capacity of 200MW.
Bilateral Contracts ASP	
Q2 2019 vs Q2 2018	ASP decreased due to decreasing New Castle Index
H1 2019 vs H1 2018	ASP decreased due to decreasing New Castle Index
Spot Sales ASP	
Q2 2019 vs Q2 2018	Sales to WESM are at higher price intervals
H1 2019 vs H1 2018	Sales to WESM are at higher price intervals

Other Information:

- Of the total energy sold, 60.34% was sourced from own generation, while 39.66% was purchased from the spot market. SCPC procured power from the spot market during hour intervals where power units were down, or when the plants were running at a de-rated capacity, in order to be able to supply committed capacity to some of its customers.

- Existing Bilateral Contracts

SCPC Power Supply Contracts			
Customers	Terms	No. Years / Mos.	Contract Demand (MW)
MPower	December 26, 2018 - June 25, 2019	6 months	250
ECSCO	March 26, 2019 - March 25, 2021	2	0.45
Total			250.45

SLPGC
The table below shows the comparative marketing data of SLPGC for H1 2019 and H1 2018 (In GWh, except ASP).

CUSTOMER	2019			2018			Variance
	Q1	Q2	H1	Q1	Q2	H1	% Inc (Dec)
GWh							
Bilateral Contracts	90	252	342	125	231	356	-4%
Spot Sales	187	327	514	40	56	96	435%
GRAND TOTAL	**277**	**579**	**856**	**165**	**287**	**452**	**89%**
ASP in Php							
Bilateral Contracts	3.54	3.58	3.57	6.87	5.42	5.93	-40%
Spot Sales	4.38	6.15	5.51	2.88	3.61	3.31	66%
Average ASP	**4.10**	**5.03**	**4.73**	**5.90**	**5.07**	**5.37**	**-12%**

Sales Volume

Bilateral Contracts	
Q2 2019 vs Q2 2018	Slightly Higher BCQ for Q2 one-time 3-months MPower/Vantage revenue
H1 2019 vs H1 2018	Lower vs LY due to the expiration of Mpower and VECO contracts
Spot sales	
Q2 2019 vs Q2 2018	Higher excess energy available for the spot sales (WESM)
H1 2019 vs H1 2018	Higher excess energy available for the spot sales (WESM)

Average Selling Price (ASP)

Bilateral Contracts ASP	
Q2 2019 vs Q2 2018	Lower ASP due to expiration of high-priced contracted capacity
H1 2019 vs H1 2018	Lower ASP due to expiration of high-priced contracted capacity
Spot Sales ASP	
Q2 2019 vs Q2 2018	Sales to WESM are at higher price intervals
H1 2019 vs H1 2018	Sales to WESM are at higher price intervals

- Of the total energy sold, 96.14% was sourced from own generation, while 3.86% was purchased from the spot market. SLPGC procured power from the spot market during hour intervals where power units were down, or when the plants were running at a de-rated capacity, in order to be able to supply committed capacity to some of its customers.

- Existing bilateral contracts

Customers	Coverage	Duration	Contract Demand (MW)
Mpower/Vantage	26 Mar 2019 - 25 Jun 2019	3 mos	100.00
SEM-Calaca RES	26 Sep 2018 - 25 Dec 2019	1yr 3mos	4.00
AC Energy Holdings	26 Dec 2018 - 25 Jun 2019	6 mos	50.00
Kratos RES	26 Nov 2018 - 25 Dec 2020	2yrs 1mo	1.80
SNAP Res	26 Mar 2019 - 25 Aug 2019	5mos	87.00

SLPGC Financial Contract			
Customer	Coverage	Duration	Contract Demand (MW)
AC Energy Holdings	04 Feb 2017 - 25 Dec 2021	4yrs 10mos	50

III. FINANCE
A. Sales and Profitability
Revenues *(In million PhP)*

Before Eliminations

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	9,444	9,108	4%	Increase in sales volume by 25% offset by 17% increase in ASP	17,516	18,631	-6%	14% increase in volume sold slightly offset 18% decrease in ASP
SCPC	2,032	3,589	-43%	Decreased in sales volume 34% and by 3% decrease in ASP due to lower NewCastle price index	3,647	5,691	-36%	Decreased in sales volume 34% and by 3% decrease in ASP due to lower NewCastle price index
SLPGC	2,914	1,456	100%	Increase in sales volume of 102 % attributed to both plants running at optimum capacity slightly offset by 1% decrease in ASP. Most of the revenue came from Spot	4,050	2,430	67%	Increase in sales volume 89% offset by 12% decrease in ASP due to expiration of contracts with higher prices.
Total	14,389	14,154	2%		25,214	26,752	-6%	

After Eliminations

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	8,692	7,484	16%	Increase in sales volume by 25% offset by 17% increase in ASP	15,678	15,838	-1%	14% increase in volume sold slightly offset 18% decrease in ASP
SCPC	2,032	3,589	-43%	Decreased in sales volume 34% and by 3% decrease in ASP due to lower NewCastle price index	3,647	5,691	-36%	Decreased in sales volume 34% and by 3% decrease in ASP due to lower NewCastle price index
SLPGC	2,914	1,456	100%	Increase in sales volume of 102 % attributed to both plants running at optimum capacity slightly offset by 1% decrease in ASP. Most of the revenue came from Spot	4,050	2,430	67%	Increase in sales volume 89% offset by 12% decrease in ASP due to expiration of contracts with higher prices.
Total	13,638	12,529	9%		23,376	23,959	-2%	

Cost of Sales *(In million PhP)*

Before Eliminations

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	5,326	4,337	23%	Decreased due to higher volume sold by 25%, higher costs of production and strip ratio	9,665	7,790	24%	Decreased due to higher volume sold by 25%, higher costs of production and strip ratio
SCPC	2,308	2,562	-10%	Though significant purchases of replacement power this year, coal cost last year is higher due to high NCI.	3,853	3,795	2%	Though significant purchases of replacement power this year, coal cost last year is higher due to high NCI.
SLPGC	1,050	896	17%	Higher coal consumption for the quarter attributed to the higher availability and generation of both plants	1,948	1,480	32%	Higher coal consumption for the quarter attributed to the higher availability and generation of both plants
Total	8,685	7,795	11%		15,466	13,064	18%	

After Eliminations

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	4,898	3,642	34%	Decreased due to higher volume sold by 25%, higher costs of production and strip ratio	8,685	6,596	32%	Decreased due to higher volume sold by 25%, higher costs of production and strip ratio
SCPC	2,123	1,735	22%	Though significant purchases of replacement power this year, coal cost last year is higher due to high NCI.	3,400	2,444	39%	Though significant purchases of replacement power this year, coal cost last year is higher due to high NCI.
SLPGC	912	793	15%	Higher coal consumption for the quarter attributed to the higher availability and generation of both plants	1,543	1,117	38%	Higher coal consumption for the quarter attributed to the higher availability and generation of both plants
Total	7,933	6,170	29%		13,628	10,157	34%	

Consolidated Gross Profit *(In million PhP)*

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	3,794	3,842	-1%	Lower in ASP by 17% and higher costs due to unfavorable strip ratio and cost of fuel, parts and supplies offset the 25% increase in sales volume	6,993	9,242	-24%	Lower in ASP by 18% and higher costs due to unfavorable strip ratio and cost of fuel, parts and supplies offset the increase in 14% increase in sales volume
SCPC	(92)	1,854	-105%	Considerable decline in sales volume and the increase in replacement power and lower ASP. Replacement power cost is higher than selling price.	247	3,246	-92%	Considerable decline in sales volume and the increase in replacement power and lower ASP. Replacement power cost is higher than selling price.
SLPGC	2,002	663	202%	Considerable increase (105%) in sales volume due to higher generation slightly offset by increase in fuel cost	2,507	1,313	91%	Considerable increase (89%) in sales volume due to higher generation slightly offset by increase in fuel cost
Total	5,705	6,359	-10%		9,748	13,801	-29%	
GP %	42%	51%	-18%		42%	58%	-28%	

Consolidated OPEX *(In million PhP)*

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	1,170	1,557	-25%	Lower profitablity drove government royalty down	2,130	3,201	-33%	Lower profitablity drove government royalty down
SCPC	444	606	-27%	Accelerated depreciation of Units 1 & 2 amounting to PhP165 million accounted for the decrease. Prior year accelerated depreciation amounted to 315 million.	883	1,294	-32%	Accelerated depreciation of Units 1 & 2 amounting to PhP330 million accounted for the decrease. Prior year accelerated depreciation amounted to 630 million.
SLPGC	230	117	96%	Increase mainly due to increased insurance premium for the plant	452	326	39%	Increase mainly due to increased insurance premium for the plant
Others	5	22	100%	Pre-operating expenses of Southeast Luzon and Claystone Inc	10	22	100%	Pre-operating expenses of Southeast Luzon and Claystone Inc
Total	1,849	2,302	-20%		3,476	4,844	-28%	

Consolidated Finance Income *(In million PhP)*

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	2	23	-91%	Lower temporary cash placements	3	49	-94%	Lower temporary cash placements
SCPC	181	3	6287%	Mainly pertains to the interest income on receivable from PSALM	182	8	2303%	Mainly pertains to the interest income on receivable from PSALM
SLPGC	9	7	25%	Minimal temporary cash placements	22	21	3%	Minimal temporary cash placements
Total	192	33	486%		207	78	166%	

Consolidated Finance Charges *(In million PhP)*

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	136	89	52%	Higher debt level; higher borrowing rates	273	188	46%	Higher debt level; higher borrowing rates
SCPC	93	1	13795%	Higher debt level; higher borrowing rates	153	75	106%	Higher debt level; higher borrowing rates
SLPGC	130	104	24%	Higher applicable rate despite declining loan balance; availment of shortterm loan	212	154	37%	Higher applicable rate despite declining loan balance; availment of shortterm loan
Total	359	195	84%		639	417	53%	
Net	167	162	(4)	-	432	339		

Consolidated Foreign Exchange Gain / (Loss) ***(In million PhP)***

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	21	(199)	-111%	Unrealized and realized Fx loss due to PhP depreciation; start of the quarter FX-PhP51.24:USD1, quarter-end 2018 FX-PhP53.34:USD1	30	(300)	-110%	Unrealized and realized Fx loss due to PhP depreciation; year-end 2018 FX-PhP52.58:USD1, quarter-end Jun 2019 FX-PhP51.24:USD1
SCPC	(0)	(16)	-99%	Realized loss on its foreign currency denominated transactions	(2)	(43)	-95%	Realized loss on its foreign currency denominated transactions
SLPGC	1	(1)	-100%	Realized loss on its foreign currency denominated transactions	1	(1)	-100%	Realized loss on its foreign currency denominated transactions
Total	22	(217)	-110%		29	(345)	-108%	

Consolidated Other Income ***(In million PhP)***

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	1	(0)	-1056%	Booked income from disposal of transportation equipment and insurance recoveries in 2017	22	0	44829%	Pertain to insurance recoveries
SCPC	55	34	65%	Higher fly ash sold	70	43	62%	Higher fly ash sold
SLPGC	(257)	3	-8183%	Mainly realized loss on financial contract offset by sale of fly ass	(242)	8	-3120%	Mainly realized loss on financial contract offset by sale of fly ass
Total	(201)	37	-649%		(149)	51	-391%	

Consolidated NIBT ***(In million PhP)***

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	2,513	2,019	24%	Stronger performance offset by lower price	4,646	5,602	-17%	Lower ASP due to declining Global prices ;Higher costs due to higher strip ratio and fuel cost
SCPC	(393)	1,267	-131%	Weaker plant performance due to Unit 1 shutdown for the LEP, Unit 2 unplanned shutdown due to tubeleaks	(540)	1,885	-129%	Weaker plant performance due to Unit 1 shutdown for the LEP, Unit 2 unplanned shutdown due to tubeleaks
SLPGC	1,395	451	209%	Much improved performance of both plants for the quarter pushed the profitability	1,624	861	89%	Much improved performance of both plants for the quarter pushed the profitability
Others	(5)	(22)	100%	Pre-operating expenses of Southeast Luzon and Claystone Inc	(10)	(22)	100%	Pre-operating expenses of Semirara Claystone Inc
Total	3,510	3,714	-6%		5,719	8,326	-31%	

Consolidated Income Tax Provision ***(In million PhP)***

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	0	4	-92%	Final tax on interest income from placements; With Income Tax Holiday on BOI-registered	1	9	-94%	Lower final tax on interest income from placements; With Income Tax Holiday on
SCPC	(173)	133	-230%	Lower profitability resulted to lower income	(297)	162	-284%	Lower profitability resulted to lower
SLPGC	5	17	-71%	Higher final tax on flyash sales; SLPGC has Income Tax Holiday as a BOI-registered	7	20	-63%	Final tax on interest income from placements and flyash sales; SLPGC has
Total	(168)	154	-209%		(290)	191	-252%	

NIAT (In million PhP)

Before Eliminations (Core Income)

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	2,836	2,944	-4%	Higher production and volume sold but significantly lower ASP; higher costs of sales due to higher strip ratio and production costs	5,503	7,192	-23%	Higher production and volume sold but significantly lower ASP; higher costs of sales due to higher strip ratio and
SCPC	(405)	308	-231%	Weaker plants' performance and recognition of accelerated depreciation in 2019	(695)	373	-286%	Weaker plants' performance and recognition of accelerated depreciation in
SLPGC	1,252	330	279%	Much improved performance of both plants for the quarter pushed the profitability	1,211	478	153%	Much improved performance of both plants for the quarter pushed the
Others	(5)	(22)	-100%	Pre-operating expenses of Southeast Luzon and Claystone Inc	(10)	(22)	-100%	Pre-operating expenses of Semirara Claystone Inc

After Eliminations (Consolidated)

	Q2 2019	Q2 2018	Variance	Remarks	H1 2019	H1 2018	Variance	Remarks
Coal	2,513	2,014	25%	Higher production and volume sold but significantly lower ASP; higher costs of sales due to higher strip ratio and production costs	4,645	5,593	-17%	Higher production and volume sold but significantly lower ASP; higher costs of sales due to higher strip ratio and
SCPC	(220)	1,134	-119%	Weaker plants' performance and recognition of accelerated depreciation in 2019	(242)	1,723	-114%	Weaker plants' performance and recognition of accelerated depreciation in
SLPGC	1,390	434	221%	Much improved performance of both plants for the quarter pushed the profitability	1,616	841	92%	Much improved performance of both plants for the quarter pushed the
Others	(5)	(22)	-100%	Pre-operating expenses of Southeast Luzon and Claystone Inc	(10)	(22)	-100%	Pre-operating expenses of Semirara Claystone Inc
Total	3,678	3,560	3%		6,009	8,135	-26%	

B. Solvency and Liquidity

The company's earnings before interest, taxes depreciation and amortization (EBITDA) reached PhP9.87 billion 21% lower than last year. After deducting working capital requirement, cash provided by operation netted to PhP11.79 billion. With the consolidated loan availments amounted of PHP14.47 billion, representing Coal and SLPGC bridge financing and SCPC's loan to fund CAPEX for the Life Extension Program. Combined with beginning Cash of PHP1.90 billion, total consolidated Cash available during the period stood at PHP28.16 billion.

Of the available cash, PHP4.67 billion was used to fund major CAPEX. The Company also paid debts amounting to PHP14.00 billion. Ending cash closed at PHP4.17 billion, a 119% increase from the beginning cash.

Coal, SCPC, and SLPGC recorded ending cash of PHP1.76 billion, PHP721.78 million, and PHP1.63 billion, respectively. Other pre-operating business closed with a total cash balance of PHP60.99 million.

Consolidated Current ratio decline to 1.14x from 1.26x at the start of the year.

C. Financial Condition

ASSETS

Cash

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	1,763	864	104%	Higher cash generated from operations
SCPC	722	304	137%	Timing of cash proceeds from financing related to Life Extension Project
SLPGC	1,627	674	141%	Higher cash generated from operations due to better plant performance
Others	61	61	0%	No change
Total	**4,172**	**1,903**	**119%**	

Consolidated Receivables

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	2,004	2,445	-18%	Mainly due to lower revenue due to lower prices and timing of collection of receivables vis-à-vis increase in cash
SCPC	2,093	3,913	-47%	Timing of collection of November 2018 billing, collection due date falls on a weekend. Collection took place in January 2019. Bilateral contract and generation are also lower resulting to lower receivables.
SLPGC	1,652	940	76%	Timing of collection of November 2018 billing, collection due date falls on a weekend. Collection took place in January 2019.
Others	3	3	0%	Electricity trading receivable
Total	**5,752**	**7,301**	**-21%**	

Consolidated Inventories

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	8,177	7,799	5%	Increase mainly due to higher cost of coal inventory of 3.5 million tons (1.7 million ton high grade coal and 1.8 million ton low grade coal) valued at PhP3.17 billion; higher cost of materials, spare parts, major equipment components of PhP 4.35 billion and fuel and lubricants of
SCPC	3,497	3,349	4%	Mainly comprised of spare parts inventory for corrective, preventive and predictive maintenance program and for on going Life extension project amounting to PhP3.2 billion; coal inventory costs PhP282.1 million.
SLPGC	1,809	1,215	49%	Increase mainly due Coal at PhP1.15 billion and insurance spares; comprised of spare parts inventory for corrective, preventive and predictive maintenance program amounting to PhP383.6 million; Diesel at PhP104.9 million, other supplies at PhP406 million, Limestone at PhP80.9
Total	**13,483**	**12,363**	**9%**	

Investment in JV

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	51	51	0%	Additional contribution to the Joint Venture
Total	**51**	**51**	**0%**	

Consolidated Other Current Assets

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	1,683	1,443	17%	Mainly comprised of prepaid income taxes and advances to contractors and suppliers of spare parts and equipment amounting to Php458.00 million and Php1.22 billion, respectively
SCPC	1,994	1,405	42%	Mainly comprised of advances to suppliers for Equipment and materials requirement for the life extension of PhP1.7 billion and prepaid, rentals, insurance and other expense amounting to Php244.4 million
SLPGC	756	1,272	-41%	Mainly comprised of advances to suppliers for equipment, materialsand prepaid rent and insurance of PhP355.59 million and PhP354.80 billion deferred input tax
Total	**4,433**	**4,121**	**8%**	

Consolidated Total Current Assets

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	13,677	12,602	10%	
SCPC	8,305	8,972	29%	
SLPGC	5,844	4,101	9%	Please refer to above explanation
Others	64	64	10%	
Total	**27,891**	**25,739**	**15%**	

Consolidated PPE

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	10,031	11,898	-16%	Minimal capex offset by the depreciation of PhP2.07 billion
SCPC	18,009	14,908	21%	Capex of PhP4.1 billion for the LEP, offset by depreciation of PhP958.46 million
SLPGC	16,275	16,699	-3%	Additional Capex of PhP231 million, offset by depreciation of PhP326.15
Others	17	14	19%	PPE of pre-operating subsidiary
Total	**44,332**	**43,520**	**2%**	

Consolidated Other Non-Current Assets

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	205	602	-66%	Comprised of VAT receivable from BIR and Software cost
SCPC	68	568	-88%	Mainly consists of prepaid leases; The 620.1 million input tax was applied / offset against output tax.
SLPGC	1,091	184	492%	Mainly input tax on capitalized asset not currently realizable PhP 1.05 billion
Total	**1,364**	**1,355**	**1%**	

Consolidated Deferred Tax Assets

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	104	67	55%	Mainly related to remeasurement losses on Pension Plan
SCPC	371	368	1%	Mainly related to provision for doubtful account and deferred revenue
Total	**486**	**435**	**12%**	

Consolidated Total Assets

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	24,017	25,169	-5%	Please refer to above explanation
SCPC	26,753	24,816	8%	
SLPGC	23,222	20,985	11%	
Others	82	79	4%	
Total	**74,074**	**71,049**	**4%**	

LIABILITIES

Accounts and Other Payables

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	7,122	7,130	0%	Slight decrease
SCPC	3,095	2,066	50%	Increase in trade payables due to higher volume of parts purchases for the life extension project
SLPGC	1,803	745	142%	Increase in trade payables due to higher volume of coal purchases. Also includes output VAT
Others	5	5	1%	Accounts Payables of pre-operating subsidiary
Total	**12,026**	**9,946**	**21%**	

Short-term Loans

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	4,350	2,250	93%	Availment of bridge financing
SCPC	5,184	3,622	43%	Availment of bridge financing
Total	**9,794**	**5,872**	**100%**	

Current Portion of Long-term Debt

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	879	2,850	-69%	Payment of maturing LTD during the year
SLPGC	1,704	1,704	0%	Comprised of maturing LTD within a year
Total	**2,583**	**4,554**	**-43%**	

Total Current Liabilities

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	12,352	12,230	1%	Please refer to above explanation
SCPC	8,279	5,688	46%	
SLPGC	3,767	2,449	54%	
Others	5	5	1%	
Total	**24,403**	**20,372**	**20%**	

Long-Term Debt - Net of Current Portion

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	2,150	2,806	-23%	Loans maturing within a year reclassified to current portion
SCPC	2,989	2,988	0%	No change
SLPGC	3,397	4,249	-20%	Payment of quarterly amortization
Total	**8,536**	**10,043**	**-15%**	Decrease due to debt repayments

Pension Liability

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	153	156	-2%	Accrual of pension obligation
SCPC	22	22	4%	Accrual of pension obligation
SLPGC	39	39	0%	Accrual of pension obligation
Total	**214**	**216**	**-1%**	

Provision for Site Rehabilitation

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	402	402	0%	Panian rehabilitation commenced, costs applied against the provision
SCPC	16	16	0%	Additional provision for plant decommissioning
SLPGC	5	5	0%	No movement
Total	**423**	**423**	**0%**	

Deferred Tax Liabilities

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
SLPGC	74	62	19%	Deferred Tax Liabilities arising from unrealized income from financial contract
Total	**74**	**62**	**19%**	

Total Non-Current Liabilities

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	2,705	3,364	-20%	Please refer to above explanation
SCPC	3,028	3,026	0%	
SLPGC	3,515	4,354	-19%	
Total	**9,248**	**10,744**	**-14%**	

Total Liabilities

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	15,057	15,595	-3%	Please refer to above explanation
SCPC	11,307	8,713	30%	
SLPGC	7,282	6,803	7%	
Others	5	5	1%	
Total	**33,651**	**31,116**	**8%**	

EQUITY

Capital Stock

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal (Parent)	4,265	4,265	0%	No movement

Additional Paid-in Capital

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal (Parent)	6,676	6,676	0%	No movement

Treasury Shares

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal (Parent)	740	740	0%	Purchase of 3.46 million SCC shares in 2016, 2.7 million shares in 2017 and 7.8 million shares in H1 2018

Remeasurement Gain / (Losses) on Pension Plan

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	(38)	(38)	0%	No Movement
SCPC	4	4	0%	Some employees retired during the year
SLPGC	(2)	(2)	0%	Due to increase in number of employees
Total	**(36)**	**(36)**	**0%**	

Retained Earnings / (Losses)

	30 June 2019 (Unaudited)	31 Dec 2018 (Audited)	Variance	Remarks
Coal	16,977	13,936	22%	Better profitability partially offset by the cash dividend paid
SCPC	6,577	10,091	-35%	Income for the period offset by payment of cash dividend
SLPGC	6,912	5,938	16%	Income for the period offset by payment of cash dividend
Others	(207)	(197)	5%	Expenses of pre-operating subsidiaries
Total	**30,259**	**29,768**	**2%**	

IV. PERFORMANCE INDICATORS:

1. **Net Income After Tax** – The Company weaken for the interim showing decline in operating and financial performance. Net income decrease by 26% YoY.

2. **Dividend Payout** – Strong profitability and high liquidity the Company declared regular cash dividend of PhP1.25 per share on 18 March 2019 paid on 26 April 2019.

3. **Debt-to-Equity Ratio** –DE slightly declined to 0.83x from 0.78x at the start of the year due debt repayment and cash dividend declaration.

4. **Net Profit Margin** – Net profit margin dropped to 26% due to weakening coal prices.

5. **Current Ratio** – Cash position remains healthy despite cash dividend payment on April 26, 2019. The Company's internal current ratio threshold is at least 1.00, end-of-the-period current ratio is 1.14:1.

PART II OTHER INFORMATION

Other disclosures:

a. The Group's operation is not cyclical in nature or seasonal. Mining activities is continuous throughout the year;

b. There were no issuances, repurchases, and repayments of debt in equity securities which transpired during the quarter;

c. There are no subsequent events, that came to our knowledge, which are material enough to warrant an adjustment in the consolidated financial statements;

d. The Group has no contingent assets nor liabilities known as of financial position date. The case on the wholesale electricity supply market (WESM) prices for November and December 2013 is still pending before the Supreme Court (SC) and the Energy Regulatory Commission (ERC).

PART III SIGNATURES

Pursuant to the requirement of the Revised Securities **Code**, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **SEMIRARA MINING AND POWER CORPORATION**

Signature and Title:

MARIA CRISTINA C. GOTIANUN
President & Chief Operating Officer
(Principal Executive and Operating Officer)
Date: August 13, 2019

JUNALINA S. TABOR
Chief Finance Officer
(Principal Financial Officer)
Date: August 13, 2019

LEANDRO D. COSTALES
Comptroller
(Principal Accounting Officer)
Date: August 13, 2019

PART IV
ANNEX A

AGING OF ACCOUNTS RECEIVABLE
AS OF 30 JUNE 2019

	TOTAL	Current	2 - 3 Mon	4 - 6 Mon	7 Mon - 1 Yr	Allow for DA
A. AR TRADE RECEIVABLES						
COAL						
EXPORT	972,251	941,691	-	-	30,560	36,113
SLTEC	89,141	-	88,827	-	313	-
HOLCIM	84,001	-	79,535	4,190	276	-
CEDC	26,350	-	26,350	-	-	-
ECC	95,198	62,652	32,546	-	-	-
RCC	80,439	58,247	22,193	-	-	-
PEDC	155,047	108,329	46,718	-	-	-
TPC	76,980	31,078	45,902	-	-	-
JPC	164,453	111,819	47,893	4,741	-	-
CCC	99,977	31,550	68,427	-	-	-
FDC	77,448	-	77,448	-	-	-
MPC	31,988	-	31,988	-	-	-
VTPI	19,657	19,657	-	-	-	-
APO	29,000	12,924	16,076	-	-	-
SLM	15,447	10,947	4,500	-	-	-
GASA	16,282	16,282	-	-	-	-
KCCI	49,730	36,059	13,671	-	-	-
POWER						
MERALCO	1,900,180	1,529,507	-	-	370,673	828,992
IEMOP	1,166,593	1,089,744	18,463	777	57,610	-
PEMC	819,479	-	-	-	819,479	-
SNAP	204,678	204,678	-	-	-	-
AC ENERGY	129,066	129,066	-	-	-	-
VANTAGE	98,242	98,242	-	-	-	-
PSALM	56,180	-	-	-	56,180	-
POZZOLANIC	40,621	22,227	18,252	-	142	-
TRANSPACIFIC	38,274	24,985	7,839	-	5,450	-
ECSCO	4,952	2,952	843	1,051	106	-
KRATOS	3,983	3,983	-	-	-	-
MERIDIANX	2,742	2,475	-	-	268	-
	6,548,380	**4,549,093**	**647,471**	**10,759**	**1,341,057**	**865,104**
Less: Allowance for doubtful account	865,104					
	5,683,276					
B. NON - TRADE RECEIVABLES						
COAL	-	-				
Advances-Contractors	18,832	18,832				
Advances-For liquidation	11,126	11,126				
others	6,200	6,200				
POWER		-				
Advances - officers & employees	-	-				
Advances-For liquidation	857	857				
Advances-SSS Claims	14	14				
Other receivables	1,309	1,309				
	38,339	**38,339**				
Less: Allowance for D/A-AR Others	5,815					
Net NON - TRADE RECEIVABLE	**32,524**					
C. DUE FROM AFFILIATED CO.	36,167					
NET RECEIVABLES (A + B + C))	**5,751,967**					

in 000

ANNEX B

SEMIRARA MINING AND POWER CORPORATION
FINANCIAL RISK MANAGEMENT DISCLOSURES
As of June 30, 2019

The Group has various financial assets such as cash and cash equivalents, receivables, and environmental guarantee fund, which arise directly from operations.

The Group's financial liabilities comprise trade and other payables, short-term loans, long-term debt and other noncurrent liabilities. The main purpose of these financial liabilities is to raise finance for the Group's operations. The main risks arising from the Group's financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and approves policies for managing each of these risks which are summarized below.

The sensitivity analyses have been prepared on the following basis:

- Price risk - movement in one-year historical coal prices
- WESM price risk - movement of WESM price for energy
- Interest rate risk - market interest rate on loans
- Foreign currency risk - yearly movement in the foreign exchange rates

The assumption used in calculating the sensitivity analyses of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at June 30, 2019 and December 31, 2018.

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The price that the Group can charge for its coal is directly and indirectly related to the price of coal in the world coal market. In addition, as the Group is not subject to domestic competition in the Philippines, the pricing of all of its coal sales is linked to the price of imported coal. World thermal coal prices are affected by numerous factors outside the Group's control, including the demand from customers which is influenced by their overall performance and demand for electricity. Prices are also affected by changes in the world supply of coal and may be affected by the price of alternative fuel supplies, availability of shipping vessels as well as shipping costs.

As the coal price is reset on a periodic basis under coal supply agreements, this may increase its exposure to short-term coal price volatility.

There can be no assurance that world coal prices will be sustained or that domestic and international competitors will not seek to replace the Group in its relationship with its key customers by offering higher quality, better prices or larger guaranteed supply volumes, any of which would have a materially adverse effect on the Group's profits.

To mitigate this risk, the Group continues to improve the quality of its coal and diversify its market from power industry, cement industry, other local industries and export market. This will allow flexibility in the distribution of coal to its target customers in such manner that minimum target average price of its coal sales across all its customers will still be achieved (i.e., domestic versus export). Also, in order to mitigate any negative impact resulting from price changes, it is the Group's policy to set minimum contracted volume for customers with long-term supply contracts for each given period (within the duration of the contract) and pricing is negotiated on a monthly basis to even out the impact of any fluctuation in coal prices, thus, protecting its target margin.

The excess volumes are allocated to spot sales which may command different price than those contracted already since the latter shall follow pricing formula per contract.

Nevertheless, on certain cases temporary adjustments on coal prices with reference to customers following a certain pricing formula are requested in order to recover at least the cost of coal if the resulting price is abnormally low vis-à-vis cost of production (i.e., abnormal rise in cost of fuel, foreign exchange).

Below are the details of the Group's coal sales to the domestic market and to the export market (as a percentage of total coal sales volume):

	06/30/2019	12/31/2018
Domestic Market	36.24%	33.51%
Export Market	63.76%	66.49%
as a percentage of total coal sales volume		

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 June 30, 2019 and December 31, 2018 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 1-year historical price movements in 2019 and 2018.

Based on ending coal inventory	Effect on income before income tax	
Change in coal price	06/30/2019	12/31/2018
Increase by 41% in 2019 and 21% in 2018	3,717,797,036	394,954,633
Decrease by 41% in 2019 and 21% in 2018	(3,717,797,036)	(394,954,633)

Based on coal sales volume	Effect on income Before income tax	
Change in coal price	03/31/2019	12/31/2017
Increase by 41% in 2019 and 21% in 2018	8,420,768,604	1,835,205,392
Decrease by 41% in 2019 and 21% in 2018	(8,420,768,604)	(1,835,205,392)

Price Risk

This is the risk relating to the movement of WESM and its impact to the derivatives arising from the contract of differences.

The following table demonstrates the sensitivity to a reasonably possible change in WESM prices compared to the strike price of P4.33 and P3.35 in 2019 and 2018, respectively, with all variables held constant of the Group's income before taxes.

	Movement in average WESM price	Increase (decrease) in financial assets at FVPL
2019	**+2%**	**(₱481,800)**
	-2%	**219,000**
2018	+4%	(77,381)
	-4%	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 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.

The following table demonstrates the sensitivity of the Group's income before tax to a reasonably possible change in interest rates on June 30, 2019 and December 31, 2018, with all variables held constant, through the impact on floating rate borrowings.

	June 30, 2019						
	Interest	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**More than 4 years**	**Carrying Value**
				(In Thousands)			
Cash in banks and cash equivalents	1.1% to 4.1%	4,172,453	-	-	-	-	4,172,453
Shorterm Loan							
4,350 million loan (PHP)	5.4-6.0%	9,794,000					9,794,000
Foreign long-term debt at floating rate							
a. $17.16 million loan (US$)	Floating rate to be reprice every 3 months based on 3 months LIBOR plus a spread of 0.86%	879,468	-	-	-	-	879,468
Peso long-term debt at floating rate							
b. 1,400.00 million loan (PHP)	Floating rate to be repriced every 3 months	-	1,400,000	-	-	-	1,400,000
c. 750.00 million loan (PHP)	Floating rate to be repriced every 3 months	-	750,000	-	-	-	750,000
d. 11,500.00 million loan (PHP)	Floating rate to be repriced every 3 months	1,699,179	1,701,608	1,702,731		-	5,103,518
e. 3,000.00 million loan (PHP)	Fixed annual interest rate of 4.9% per annum	-	-	741,872	748,115	1,499,744	2,989,731
		12,372,647	**3,851,608**	**2,444,603**	**748,115**	**1,499,744**	**20,916,718**

	Interest	Within 1 year	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
		2018					
Cash in banks and cash equivalents	1.10% to 7.50%	1,897,142	-	-	-	-	1,897,142
Foreign long-term debt at floating rate							
a. $27.06 million loan (US$)	Floating rate to be repriced every 3 months	1,422,671	-	-	-	-	1,422,671
b. $17.16 million loan (US$)	Floating rate to be reprice every 3 months based on 3 months LIBOR plus a spread of 0.86%	902,468	-	-	-	-	902,468
Peso long-term debt at floating rate							
c. 2,100 million loan (PHP)	Floating rate to be repriced every 3 months based on 3-months PDST-R2 plus a spread of one percent (1%)	525,000	525,000	131,250	-	-	1,181,250
d. 1,400.00 million loan (PHP)	Floating rate to be repriced every 3 months	-	1,400,000	-	-	-	1,400,000
e. 750.00 million loan (PHP)	Floating rate to be repriced every 3 months	-	750,000	-	-	-	750,000
f. 11,500.00 million loan (PHP)	Floating rate to be repriced every 3 months	1,703,704	1,700,208	1,700,427	846,338	-	5,950,677
g. 3,000.00 million loan (PHP)	Fixed annual interest rate of 4.9% per annum	-	-	741,872	748,115	1,499,744	2,989,731
(in 000)		4,553,842	4,375,208	2,573,549	1,594,454	1,499,744	14,596,796

The following table demonstrates the sensitivity of the Group's income before tax to a reasonably possible change in interest rates on June 30 and December 31, 2018, with all variables held constant, through the impact on floating rate borrowings.

	Effect on income before income tax Increase (decrease)	
Basis points (in thousands)	**30.06.2019**	31.12.2018
+100	**(₱209,167)**	(₱7,287)
-100	**209,167**	7,287

The assumed movement in basis points for interest rate sensitivity analysis is based on the Group's historical changes in market interest rates on bank loans.

There was no effect on the equity other than those affecting the income before tax.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through a mix of suppliers' credit, letters of credit, trust receipts and long-term debt, while operating expenses and working capital requirements are funded through cash collections. A significant part of the Group's financial assets that are held to meet the cash outflows include cash equivalents and trade receivables. Although trade receivables are contractually collectible on a short-term basis, the Group expects continuous cash inflows through continuous production and sale of coal and power generation. In addition, although the Group's short-term deposits are collectible at a short notice, the deposit base is stable over the long term as deposit rollovers and new deposits can offset cash outflows.

Moreover, the Group considers the following as mitigating factors for liquidity risk:

- It has available lines of credit that it can access to answer anticipated shortfall in sales and collection of receivables resulting from timing differences in programmed inflows and outflows.
- It has very diverse funding sources.
- It has internal control processes and contingency plans for managing liquidity risk. Cash flow reports and forecasts are reviewed on a weekly basis in order to quickly address liquidity concerns. Outstanding trade receivables are closely monitored.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans.

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of June 30, 2019 and December 31, 2018 based on undiscounted contractual payments:

June 30, 2019	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
Cash and cash equivalents	4,172,453					4,172,453
Receivables						
Trade - outside parties	6,548,380		-	-	-	6,548,380
Trade - related parties	36,167					36,167
Others	32,124					32,124
Environmental guarantee fund					3,520	3,520
	10,789,125	-	-	-	3,520	10,792,645
Trade and other payables						
Trade	9,104,210	-	-	-	-	9,104,210
Accrued expenses and other payables	868,828	-	-	-	-	868,828
Due to related parties	515,956	-	-	-	-	515,956
Short term loans	9,794,000	-	-	-	-	9,794,000
Long term debt at floating rate	-	-				-
$17.16 million loan (USD) with interest payable in arrears	893,312					893,312
P1,400 million loan with interest payable in arrears	44,240	1,407,373				1,451,613
P750 million loan with interest payable in arrears	29,625	772,219				801,844
11,500.00 million loan (PHP) PDST-F benchmark yield for three-month	849,371	849,371	1,701,608	1,702,731	-	5,103,082
3,000.00 million loan (PHP) PDST-F benchmark yield for three-month			-	741,872	2,247,859	2,989,731
	22,099,543	3,028,963	1,701,608	2,444,603	2,247,859	31,522,577
(in Php000)	(11,310,418)	(3,028,963)	(1,701,608)	(2,444,603)	(2,244,339)	(20,729,932)

December 31, 2018						
Financial Assets						-
Cash in banks and cash equivalents	1,897,142	-	-	-	-	1,897,142
Receivables	-	-	-	-	-	-
Trade :	-	-	-	-	-	-
Outside parties	5,457,030	-	-	-	1,564,439	7,021,469
Related parties	47,521	-	-	-	-	47,521
Others*	219,912	-	-	-	5,815	225,727
Environmental guarantee fund	-	-	-	-	3,520	3,520
	7,621,605	-	-	-	1,573,774	9,195,380
Trade and other payables						
Trade:						-
Payable to suppliers and contractors	6,504,979	-	-	-	-	6,504,979
Related parties	865,029	-	-	-	-	865,029
Accrued expenses and other payables**	741,812	-	-	-	-	741,812
Long-term debt at floating rate***	-	-	-	-	-	-
$27.06 million loan (US$) with interest payable in arrears	1,422,671	-	-	-	-	1,422,671
$17.16 million loan (US$) with interest payable in arrears	902,468	-	-	-	-	902,468
2,100.00 million loan (PHP) with interest payable in arrears	-	525,000	525,000	131,250	-	1,181,250
1,400.00 million loan (PHP) with interest payable in arrears	-	-	1,400,000	-	-	1,400,000
750.00 million loan (PHP) with interest payable in arrears	-	-	750,000	-	-	750,000
11,500.00 million loan (PHP) PDST-F benchmark yield for three-month	851,852	851,852	1,700,208	1,700,427	846,338	5,950,677
3,000.00 million loan (PHP) PDST-F benchmark yield for three-month			741,872	748,115	1,499,744	2,989,731
	11,288,810	1,376,852	5,117,080	2,579,792	2,346,083	22,708,617
(in Php000)	(3,667,205)	(1,376,852)	(5,117,080)	(2,579,792)	(772,308)	(13,513,237)

Foreign Currency Risk

Majority of the Group's revenue are generated in Philippine peso, however, substantially all of capital expenditures are in US$.

The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately, 49.43% and 56.33% of the Group's sales as of June 30, 2019 and December 31, 2018, respectively, were denominated in US$ whereas approximately 43.69% and 15.93% of debts as of June 30, 2019 and December 31, 2018, respectively, were denominated in US$.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents follow:

	June 30, 2019		December 31, 2018	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	$ **20,314,676**	**1,040,924,011**	3,685,520	193,784,642
Trade receivables	**18,378,039**	**941,690,721**	21,586,627	1,135,024,848
	$ **38,692,715**	**1,982,614,732**	25,272,147	1,328,809,490
Liabilities				
Trade payables	$ **(17,466,363)**	**(894,976,453)**	(63,568,846)	(3,342,449,923)
Long-term debt (including current portion)	**(44,220,963)**	**(2,265,882,144)**	(44,220,963)	(2,325,138,235)
	$ **(78,851,033)**	**(4,040,326,941)**	(107,789,809)	(5,667,588,158)
Net foreign currency denominated assets (liabilities)	$ **117,543,748**	**6,022,941,673**	$ (82,517,662)	(4,338,778,668)

The spot exchange rates used in June 20, 2019 and December 31, 2018 were P51.24 and P52.58 to US$1 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) on June 30, 2019 and December 31, 2018.

Reasonably possible change in the Philippine Peso-US$ exchange rate	Increase (decrease) in income before income tax	
	06.30.2019	12.31.2018
₱2	**(₱235,087,497)**	(₱165,035,324)
(2)	**235,087,497**	165,035,324

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.

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.

The credit risk is concentrated to the following markets:

	06.30.2019	12.31.2018
Trade receivables - outside parties	**98.88%**	96.78%
Trade receivables - related parties	**0.55**	0.54
Others	**0.58**	2.68
	100.00	100.00

As of June 30, 2019 and December 31, 2018, the credit quality per class of financial assets is as follows:

	06.30.2019				
	Neither Past Due nor Impaired		Substandard Grade	Past due and/or Individually Impaired	Total
	Grade A	Grade B			
Cash in banks and cash equivalents	4,172,453	-	-	-	4,172,453
Receivables:					-
Trade receivables - outside parties	4,549,093	658,230	-	1,341,057	6,548,380
Trade receivables - related parties	36,167	-	-	-	36,167
Others	32,524	-	-	5,815	38,339
Environmental guarantee fund	3,520	-	-	-	3,520
Financial asset at FVPL	245,444				245,444
Total	**9,039,200**	**658,230**	**-**	**1,346,872**	**11,044,303**

	12.31.2018				
	Neither Past Due nor Impaired		Substandard	Past due and/or Individually	
	Grade A	Grade B	Grade	Impaired	Total
Cash in banks and cash equivalents	1,897,142				1,897,142
Receivables:					-
Trade receivables - outside parties	6,268,850			2,317,058	8,585,908
Trade receivables - related parties	47,521				47,521
Others	208,698			6,746	215,445
Environmental guarantee fund	3,520				3,520
Financial asset at FVPL	245,444				245,444
Total (000)	**8,671,176**	**-**	**-**	**2,323,804**	**10,994,980**

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 (10) 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 receivable - related parties are considered Grade A due to the Group's positive collection experience. 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 June 30, 2019 and December 31, 2018, the aging analyses of the Group's past due and/or impaired receivables presented per class are as follows:

	06.30.2019			
	Past Due but not Impaired		Impaired Financial	
	<45 days	**45-135 days**	**Assets**	**Total**
Receivables				
Trade receivables - outside parties	658,230	-	1,341,057	1,999,287
Others	-	-	5,815	5,815
Total (000)	**658,230**	**-**	**1,346,872**	**2,005,103**

	12.31.2018			
	Past Due but not Impaired		Impaired Financial	
	<45 days	**45-135 days**	**Assets**	**Total**
Receivables				
Trade receivables - outside parties	112,305	640,313	1,564,439	2,317,058
Others		931	5,815	6,746
Total (000)	**112,305**	**641,244**	**1,570,254**	**2,323,804**

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 June 30, 2019 and December 31, 2018

	06/30/2019	12/31/2018
Interest Bearing Loan	**20,913,383,673**	14,596,796,383
Total equity	**40,423,574,882**	39,932,686,604
Debt to Equity Ratio	**51.74%**	36.55%
EPS	**0.87**	2.83
DE Ratio	**0.83**	0.78

The aggressive expansion and investment strategies of the Group resulted to higher Debt-to-Equity ratios in June 30, 2019 and December 31, 2018. 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 following table shows the component of the Group's capital as of June 30, 2019 and December 31, 2018:

	06/30/2019	12/31/2018
Total paid-up capital	**10,940,136,701**	10,940,136,701
Remeasurement losses on pension plan	**(35,995,822)**	(35,995,822)
Retained earnings - unappropriated	**20,958,960,681**	20,468,072,403
Retained earnings - appropriated	**9,300,000,000**	9,300,000,000
Treasury Shares	**(739,526,678)**	(739,526,678)
	40,423,574,882	39,932,686,604

Fair Values

Fair Value Information

Cash and cash equivalents, receivables, environmental guarantee fund, trade payables, accrued expenses and other payables, and short-term loans carrying amounts approximate fair value. Most of these financial instruments are relatively short-term in nature.

Financial asset at FVPL

The fair value of the derivative was determined using the market data approach, Monte Carlo simulation valuation which is categorized within level 3 of the fair value hierarchy.

Long-term debt

The carrying values approximated the fair value because of recent and regular repricing of interest rates (e.g. monthly, quarterly, semi-annual or annual basis) based on current market conditions. In 2019 and 2018, interest rate ranges from 0.50% to 5.01% and 1.26% to 4.90%, respectively.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

There has been no reclassification from Level 1 to Level 2 or 3 category in 2019 and 2018.

ANNEX C
FINANCIAL SOUNDNESS INDICATORS

SEMIRARA MINING CORPORATION AND SUBSIDIARIES
COMPARATIVE FINANCIAL SOUNDNESS INDICATORS
AS OF JUNE 30, 2019 AND 2018

	2019	2018
i. Liquidity ratios:		
Current ratio	1.14	1.89
Quick ratio	0.59	1.25
ii. Leverage ratios:		
Debt-to-equity ratio (interest bearing loan/equity)	0.52	0.39
Debt-to-equity ratio (total debt/equity)	0.83	0.67
Interest coverage ratio	8.95	19.98
iii. Management ratios:		
Accounts receivable turnover ratio	3.59	3.38
Return on assets ratio	8%	12%
Return on equity ratio	15%	21%
iv. Asset-to-equity ratio	1.83	1.67
v. Profitability ratios:		
Gross margin ratio	0.42	0.58
Net profit margin ratio	0.26	0.34
vi. Solvency ratios		
Current liabilities to net worth ratio	60%	29%
Total liabilities to net worth ratio	83%	67%